2007

ANNUAL REPORT 2007

MKB BANK

Branch Network of the MKB Group

KEY FIGURES OF THE MKB GROUP*

IFRS, EUR million

	MKB Bank	MKB Romexterra Group	MKB Unionbank	Leasing Group**	MKB Group
Total Assets	8 821	525	641	364	9 710
Loans and advances to customers	7 714	454	451	359	8 269
Current and deposit accounts	6 412	549	461	314	7 206
Share capital	56	21	65	5	56
Reserves	767	28	3	34	840
Operating Income	320	20	39	23	399
Operating Expenses	(180)	(14)	(31)	(6)	(233)
Provision Charge	(83)	(2)	(4)	(2)	(91)
PROFIT BEFORE TAXATION	**58**	**3**	**4**	**15**	**75**
PROFIT AFTER TAXATION	**46**	**3**	**4**	**14**	**64**
Pre-tax Return on Average Equity (ROAE)	10,2%	7,9%	6,2%	42,2%	9,6%
Earnings per Average Outstanding Share (EPS)	86,2%	15,1%	7,9%	na	101,8%
Pre-tax Return on Average Assets (ROAA)	0,7%	1,0%	1,2%	4,4%	0,8%
Cost-to-Income ratio	56,2%	72,1%	79,5%	27,7%	58,6%
Capital adequacy ratio	na	16,1%	15,0%	na	11,6%
Corporate clients	40 100	12 500	10 052	13 700	76 352
Personal banking customers	254 000	188 400	62 781	65 200	570 381
Pension Fund members	145 000	–	–	–	145 000
Health Care Fund members	86 000	–	–	–	86 000
Market shares					
Corporate lending	13,4%	1,1%	2,5%	–	–
Corporate deposits	11,2%	1,3%	2,4%	–	–
Retail lending	5,5%	0,6%	0,9%	–	–
Retail deposits	6,2%	0,6%	1,2%	–	–
Investment Funds	3,7%	–	–	–	–
Branches	74	76	59	–	209
ATM	84	172	44	–	300
Staff	1 978	1 007	765	–	3 750

* Strategic business companies only
** Eurocredit, Filease; Client numbers data is based on the MKB-Euroleasing Group as business entity.

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Similarly to recent years, this report can be downloaded from MKB's website (www.mkb.hu)

AWARDS AND PRIZES

MKB Bank was granted several prestigious domestic and international awards at the end of November 2007, which further strengthen the good image of MKB. MKB Bank participated in the following international competitions:

SHORT DESCRIPTION OF THE AWARDS

1. Financial Times – The Banker - Bank of the Year Awards 2007

MKB Bank won the Bank of the Year in Hungary Award in the competition The Banker – Bank of the Year Awards 2007 under the aegis of Financial Times.

The nominees of the Bank of the Year Awards 2007 of Financial Times are banks in 137 countries in several categories and include 8 regional awards, too.

The awards reflect the best performances in the wide range of commercial banking activity.

The judgement system of the „Bank of the Year Awards" is based on detailed questionnaires, statements returned by the banks.

The award can be granted to the one bank in each country that showed the best performance in the recent period in terms of both performance criteria and strategic initiatives. By winning the recognition MKB Bank has become entitled to use the logo given with the award.

2. MasterCard - Bank of the Year

The internationally acknowledged program „MasterCard – Bank of the Year" was introduced in autumn 2006 in Hungary. The awards granted by the independent expert jury represent an extremely high recognition to the participants of the Hungarian financial market.

All main Hungarian commercial banks participated in the competition of banks, this year 29 credit institutions entered the run.

MKB Bank submitted tenders in five categories of the competition, from which was awarded in four areas, and in this way entitled the usage of the logo for the next year.

The main awards of MKB Bank:

Current Account Overdraft product of the year 2007 – 1st rank!

Bank of the Year 2007 – silver prize

Savings product of the year 2007 – silver prize

Direct banking services of the year 2007 – silver prize

3. Superbrands 2007 award to the brand name MKB Bank

Superbrands is an international brand evaluation system with the purpose of communicating the story of the biggest, strongest brand names in addition to the professionals also to the wider public and calling the attention to the importance of brand building.

According to the evaluation of the Expert Committee „Superbrand" is the brand that has an outstanding reputation in its own sector, furthermore, the values connected to the allow emotional and/or material advantages expected and acknowledged by consumers/customers.

Based on the decision of the Committee, MKB Bank was awarded as one of the strongest brands. By reason of its brand communication our Bank has become entitled to use the Superbrands logo.

Chairman's Statement

Head Office of MKB Bank

Despite the generally unfavourable economic environment the MKB Group managed to dynamically expand its portfolios and thereby to further reinforce its positions in the domestic market. Despite a fusion witnessed in the sector the MKB retained its position as the second largest domestic bank in terms of its risk weighted total assets reflecting its business activity.

The achieved particular expansion in retail banking services and in private banking, in the sales of investment funds, in car financing and private health funds, in each of which it was among the top three financial institutions last year in terms of growth rates or portfolio increases. In corporate banking, including project finance, factoring and the Midmarket sector MKB Bank strengthened its market leader position. Nonetheless, the increased exposure of this latter sector to the less favourable economic environment necessitated increased provisioning. The Bank's commitment to progress and to providing customer friendly and high quality services was rewarded by a several of awards by various international and domestic professional forums in 2007.

MKB Romexterra Bank, Romania and by MKB Unionbank, Bulgaria completed the process of introducing the BayernLB-MKB group standards, including the adoption of the required business models and at the same time their dynamic business expansion also got underway.

Depending on the after moth of the cycle the subprime crisis which escalated in the second half of 2007 the growth perspectives of the domestic economy may improve gradually by the second half of 2008.

THE ECONOMY OF HUNGARY IN 2007: ADJUSTMENT OF THE EQUILIBRIUM – WITH SACRIFICES

The measures aimed at improving the economic equilibrium that had been started in 2006 were continued in 2007, where the primary objectives included the launching of long term reforms reaching beyond urgent interventions. At the same time, the economy was heavily affected by external factors including rising prices of processed foodstuff, energy sources as well as the uncertainty originating from the US's property market that had influenced the entire financial sector.

The economic growth rate – in real terms – ended up at 1.3 % in 2007, falling substantially short of the trend of catching up in previous years as well as of performance of the region's new EU member states and candidate countries. At the same time, the composition of growth was favourable, while the added value generated by the state dropped substantially (by 6-8 %), the private sector's added value increased – after slowing down somewhat – by 3-4 %.

In year 2007 the economy of Hungary was faring on a predominantly export-driven path. The export-import gap was almost fully eliminated. The value of exports increased by 16 %, that of imports grew by 12 % (in Euros), thus the foreign trade deficit cropped to less than a fifth of its earlier amount in 2007. Plummeting consumption heavily contributed to the decrease in the dynamic of imports, along with restrictions in state investment projects. The current account deficit is expected to have ended up at a lower level (around 5 %) in 2007 than in 2006.

The primary goal of the package of governmental measures was to improve the general government balance and improvement was, indeed, achieved. The revenue side of the budget was improved by increased tax burdens and extra revenues resulting from the higher than expected rate of inflation, while the expenditures' side was improved by the implementation of consolidation planned for 2007. In this way the central budget's deficit as a percentage of GDP was reduced from the 9.2 % recorded in 2006 to 5.7 %, which is still high, but a lot more favourable even than the originally planned 6.8 %.

In 2007 – partly for internal political reasons – the dynamics of reforms and of the restructuring processes weakened. A compromise solution was adopted in the way of transforming the health sector's financing background. Steps were taken to modify the calculation methodology of pension payments, though the structure remained unchanged. No progress was seen in the education policy reform in 2007 either, the debate on tuition fees continued. Some adjustments are expected in the taxation system as well, instead of a radical reform, and even those only from 2009. From among the infrastructure development projects, required for improving the economy's competitiveness, apart from projects implemented with EU support, state projects were subject to restrictions owing to cost cutting measures introduced as par of the macroeconomic stabilisation programme.

At the beginning of the year inflation was high in line with expectations, owing to increased VAT rates. In contrast to expectations, however, the change of consumer price levels 'got stuck' in the second half of the year primarily as a consequence of the global growth in food and fuel prices. The central bank found it possible to cut the base rate twice during 2007, by a total of 50 basis points, without undermining the long term inflation target. The monetary policy was characterised in 2007 by proportionate and balanced communication. The HUF rate remained close to the strong edge of the exchange rate band throughout the year. The inter-bank money market kept up with the movements of the base rate but as a consequence of the perception of subprime risks liquidity declined somewhat and risk premiums had more pronounced effects.

HUNGARIAN BANKING SECTOR: DECLINING PROFITABILITY, STABLE FUNDAMENTALS

The Hungarian banking sector managed to preserve its stability and strong fundamentals in 2007 again. The economy of Hungary and domestic investors suffered no losses as a direct consequence of the global sub-prime crisis; domestic banks' conservative real estate financing practices and the prudent legal regulatory environment in place guaranteed the sector's protection.

The current uncertainty and the volatility observed in the market reduce predictability of trends and planning. Banks' refinancing have increased substantially in Hungary and the possibility of charging such costs on to customers is highly questionable – even if it is a global phenomenon – which may entail declining profitability in the banking sector. Risk management and risk based pricing continue to grow more and more important.

Nonetheless, growth in the banking sector was hindered by the deceleration of domestic economic growth and investment and by the decline of domestic demand as well as the resulting increase in risks. The corporate business was hit hardest by the above processes through a slump in demand for lending and through the process of decreasing of the originally high credit portfolios as a consequence of companies using up their liquidity.

The dynamic of demand for lending in the retail sector continued to be high in 2007, whereby some of the customers compensated the decline of their real earnings for the time being. The shortage of funds, however, diminished in real terms and diversification towards investment funds continued.

MKB GROUP: DYNAMIC BUSINESS GROWTH IN HUNGARY, IN ROMANIA AND IN BULGARIA

The Bank's favourable business performance in 2007 is reflected in its financial statements. The Bank's total assets according to the International Financial Reporting Standards (IFRS) increased in 2007 by 21.2 %, well above the rate of inflation, to HUF 2,234.9 billion. Lending to customers increased even more dynamically, by 26.9 % to HUF 1,716.9 billion. Within this the net loan portfolio disbursed to its corporate and project customers was increased by MKB in 2007 by 20.9 % to HUF 1,395.0 billion. The Bank's net retail (i.e. household and small businesses) credit portfolio expanded by 64.9 % to HUF 314.8 billion in 2007. Funds from customers expanded less spectacularly (given the adverse economic environment) but still at higher rates than the inflation, increasing by 11.7 % to HUF 1,075.9 billion. Corporate and institutional deposits expanded by 14.8 % by the end of 2007, to HUF 650.9 billion. MKB's retail deposits grew by 7.2 % to HUF 425.0 billion. In addition the dynamically growing off-balance-sheet investment funds, should be emphasized.

Due to its 2007 business performance MKB Bank clearly consolidated, further strengthened its market positions. The Bank's market share in corporate lending as a whole increased to 13.4 % from the 13.0 % of 2006. MKB Bank continued to be the No. 1 financing bank of the non-financial enterprise sector, holding a market share of 14.8 %. At the same time, the Bank managed to increase its share corporate deposits as well, from 11.0 % in 2006 to 11.2 % in 2007. By achieving dynamic progress in retail lending MKB Bank expanded its market share from the 4.1 % recorded in 2006 to 5.5 % last year. At the same time in the segment of retail deposits the Bank managed to increase its market share from 6.0 % in 2006 to 6.2 % in 2007, despite the restructuring effects in the deposit market triggered by the anniversary of interest taxation introduction. The Bank sold significantly higher volume of its investment funds – almost twice as much as in 2006 – as a consequence of which by the end of 2007 assets totalled HUF 114.0 billion (2006: 54.9 billion), raising its market share to 3.7 %. The Bank's dynamics is, however, reflected more truly by its positions in the new transactions in various sub-segments (than by its static market share figures), e.g. by its average of 13 % market share in the case of CHF retail lending or by the 3rd position in the market of guaranteed funds with a 12 % market share.

In addition to the growing product penetration the expansion of the clientele also contributed to the strengthening of market positions. Thanks to the growth of the Midmarket clientele the number of wholesale customers increased from 14,252 to 14,540, the number of small businesses grew from 24,000 to 25,600 while the number of private individual clients jumped from 220,300 to 254,000. At the end of 2007 MKB Bank was offering a complete banking product range through the integrated choice of its various sales channels, to its nearly 300,000 customers.

MKB's consolidated data reflects similar business development – to those of the Bank – characterising the MKB Group in 2007. MKB's consolidated IFRS total assets increased in 2007 by 23.6 % to HUF 2,461.8 billion (from HUF 1,992.4 billion in 2006). On a group level customer lending increased by 30.5 % from HUF 1,457.5 billion to

HUF 1,902.0 billion, while funds from customers expanded by 15.0 % from HUF 1,084.0 billion to HUF 1,247.1 billion by the end of 2007.

The MKB Health Care and Pension Funds (Compulsory and Voluntary) sold their services for more than 230,000 persons at the end of 2007 (2006: 201,000 persons), partnering with more than 2,000 employers and contracted 5,700 health service providers. The Health Fund was the third largest in its sector by number of members, while the Voluntary Pension Fund was the third largest by assets under management at the end of 2007.

The MKB-Euroleasing Group has been a dominant player of the domestic car financing market for 17 years, holding the 6th position in the sector in terms of financed value, with a 9.1 % market share. MKB-Euroleasing provided its services for some 80,000 customers in motor financing and sold its insurance products to about 220,000 customers (through online and offline channels). Furthermore, its fleet services were used by over 400 corporate customers in 2007. In this way, MKB Bank and its domestic group members served some 30,000 wholesale and more than 580,000 retail customers in 2007.

Establishing and launching the MKB Insurers (life and non-life) in the autumn of 2007 – together with VKB and BayernLB, as co-owners – made MKB Group a universal financial group with one stop-shop insurance products sale. The launch was successful.

MKB is laying particular emphasis on continuing to expand the group of its strategic partners and on signing cooperation agreements, opening new perspectives for the Bank and help exploiting additional potentials lying in cross-selling. In the course of year 2007 the group of MKB's strategic partners – including T-Mobile, Deutsche Leasing and Lufthansa – was expanded partnering with Fundamenta Lakástakarékpénztár (home savings cooperative) and the shopping mall owner WestEnd-Trigránit Group. In the wake of these cooperation agreements the Bank's product portfolio was widened by additional co-branded products in 2007.

The already substantial contribution of the Bank's CEE subsidiaries to the Group is growing dynamically. The number of corporate customers of MKB Romexterra Bank, Romania, was up at almost 13,000 (from 10,000 at end-2006) while the number of its retail customers had increased to almost 188,000 by the end of 2007 (from 165,000 at end-2006), supplied through a network of 76 units (2006: 52 units). The number of corporate customers of MKB Unionbank, Bulgaria, grew to nearly 1,000 (2006: 800) and its retail clientele expanded to almost 72,000 (from 53,000 in 2006) last year, providing services through a network of 59 units (2006: 47 units).

In these three countries, with a total population of about 40 million, the members of the MKB Banking Group were supplying almost as many as 850,000 retail and more than 45,000 wholesale customers through a network of 209 units (2006: 166 units).

FINANCIAL REPORT: GROSS PROFIT OF OVER HUF 100 BILLION ON GROUP LEVEL

The Bank's financial results truly reflected the unfavourable economic environment. The gross profit increased by 8.3 % to HUF 81.1 billion, faster than the rate of inflation. The operating expenses rose – partly as a result of strategic projects – by 11.9 %, the operating profit increased by 4 % to HUF 36.2 billion (2006: HUF 34.8 billion). The cost-to-income ratio reached 55.3% at end 2007 (2006: 53.6%). The provisions set aside in 2007 amounted to HUF 20.9 billion (2006: HUF 11.7 billion), definitely in relation to the Midmarket sector (unlike in the preceding year), while the large corporate and the project portfolio preserved its high quality and the retail portfolio even improved. Consequently, the Bank's IFRS-based pre-tax profit amounted in 2007 to HUF 15.3 billion (2006: HUF 23.1 billion) on the basis of which, and in view of the impact of the interim capital increase as well, MKB's shareholders' equity increased to HUF 208.5 billion (from HUF 178.8 billion in 2006).

The high rate of provisioning was also reflected in the profitability ratios as well: in 2007 the average return on equity before taxes excluding invested capital in CEE subsidiaries (ROAE) equalled 10.6 % (2006: 18.6 %) while the average return on assets before taxes (ROAA) was 0.8 % (2006: 1.3 %).

The MKB Banking Group's business dynamics was clearly reflected by the substantial – 20.4 % – increase of the

Group's gross profit: to HUF 101.1 billion, from the 80.5 billion at the end of 2006. Despite the heavy costs of business expansion and network developments the operating profit increased by an impressive rate of 18.3 % to almost HUF 41.9 billion (2006: HUF 36.3 billion). The cost-to-income ratio reached 58.6% at end 2007 (2006: 54.9%).The dynamic expansion of the Group's business revenues and profit was offset by provisioning which increased primarily at MKB Bank as a consequence of the unfavourable economic environment in Hungary, thus the MKB Banking Group's year 2007 IFRS consolidated pre-tax profit amounted to HUF 18.9 billion (2006: HUF 23.4 billion). Based on the profit and the capital increases effected during the year MKB's consolidated shareholders' equity increased to HUF 227.0 billion (from HUF 193.1 billion in 2006), providing the Bank with a 9.6 % average rate of pre-tax return on equity (ROAE) in 2007 (2006: 14.7 %). The average rate of pre-tax return on assets (ROAA) equalled 0.8 % (2006: 1.3 %).

In view of the individual performance of the CEE subsidiary banks, according to non-consolidated IFRS data the total assets of MKB Romexterra Bank, Romania, amounted to RON 1,985.2 million (up 64 % from RON 1,210.4 million in 2006), its shareholders' equity increased to RON 227.9 million by the end of 2007 (up 15.6 % from RON 197.1 million in 2006). The Bank increased its gross operating income by a dynamic 15.5 % to RON 131.2 million while its pre-tax profit dropped to RON 13.2 million by the end of 2007 (down 42.8 % from RON 23.1 million in 2006). The Bank's return on assets (ROAA) dropped to 0.8 % (from the 2.0 % in 2006), while its ROAE equalled 6.2 % along with a 78.8 % cost efficiency (2006: ROAE 12.4 %, COI 68.9 %). MKB Romexterra Bank was operating a total of 76 network units (+ 24 new branch offices) and employed 1007 persons (+202 employees) at the end of 2007.

The IFRS-based consolidated total assets of MKB Unionbank, Bulgaria amounted to BGN 1,026.3 million (up 70% from BGN 602.4 million in 2006), its shareholders' equity equalled BGN 95.3 million at the end of 2007 (up 52% from BGN 62.6 million in 2006). The Bank's gross operating income increased by 52.7% to BGN 42.1 million, its pre-tax profit amounted to BGN 8.4 million at the end of 2007 (up 429.2% from BGN 1.6 million in 2006). The Bank's return on assets (ROAA) equalled 1.0 % (2006: 0.3%), its ROAE stood at 10.6% along with a 76.2% cost efficiency ratio (2006: ROAE 2.6%, COI 80.7 %) MKB Unionbank was operating a total of 59 network units (increased by 12 branches) and employed 765 persons (only 26 more than in 2006, owing to restructuring) at the end of 2007.

MKB Bank's financial ratios according to the Hungarian accounting standards (MSZSZ) reflected similar trends with the exception of profit figures (some revenue and expenditure items). The bank's non-consolidated total assets amounted to HUF 2,278.4 billion (2006: HUF 1,870.1 billion), its non-consolidated pre-tax profit amounted to HUF 28.0 billion (2006: 28.4 billion). MKB Bank's Board of Directors proposes to the Bank's Annual General Meeting that the whole 2007 profit should be accumulated, thus, added to its reserve, no dividend should be paid out in order to support the Bank's and the Banking Group's future business development.

MKB'S AND MKB GROUP'S SOLID CAPITAL STRENGTH

MKB Bank's risk weighted total assets according to the Hungarian Accounting Standard grew from HUF 1,698.6 billion to HUF 1,996.1 billion. MKB's regulatory capital increased during the year under review by 18.8% from the HUF 161.7 billion in 2006 to HUF 192.0 billion in 2007. MKB's capital adequacy according to the Basel I rules equalled 9.6% at end-2007, including the year's profit, (2006: 9.5%). MKB's capital adequacy ratio reflects a sound level, exceeding the regulatory minimum and the BIS requirements by a margin considered by the Bank to be adequate for a banking group operating in countries that have joined the European Union.

Risk-weighted assets increased by 19.5% over 2006 and amounted to HUF 2,142.3 billion (2006: HUF 1,793.5 billion). Market risk positions contributed HUF 84.2 billion to the amount of risk-weighted assets (2006: HUF 114.4 billion). Total amount of collaterals eligible for risk-asset calculations increased by HUF 48,017 million compared to 2006 in which central bank and government guarantees represented the largest proportion. The increase of mortgaged residential property reflected the huge expansion of housing loans. The Group's regulatory capital base increased by 22.2% from HUF 196.8 billion in 2006 to HUF 240.5 billion in 2007 while total risk-weighted assets and the market risk charge altogether grew 20.1%. Thus the capital adequacy ratio of 11.7% at 2006 year-end sustained almost at the same level amounting to 11.6% at December 31, 2007. However, the Group's capital adequacy ratio safely exceeded the minimum legal and BIS requirements.

MKB's both CEE subsidiaries maintained capital adequacy ratios in excess of the 12% regulatory minimum in effect in the countries concerned. MKB Romexterra's ratio decreased to 15.03% at the end of 2007 (2006: 19.9 %), that of MKB Unionbank equalled 16.1% (2006: 12.45%)

MKB GROUP: OUTSTANDING INTERNATIONAL REPUTATION

MKB Bank Group continues to be highly appreciated among both domestic and international market participants despite its operation in a generally unfavourable economic environment in Hungary during the course of the past year rating institutions observing what they consider to be increasing risk potential relating to the high current deficits in Romania and Bulgaria, though these countries are moving on a lot more favourable, dynamic growth path than Hungary. Fitch was the first among large rating agencies to recognise the risk alleviating impact of the stabilisation measures: they changed the BBB+ rating of Hungary's long term stage debt from negative into stable, however, it also pointed out that risks continue to prevail. Though early 2008 both Standard and Poor's and Moody's recognised Hungary's steps towards consolidation, but the rating organisations have not indicated that they would be preparing to upgrade Hungary's sovereign debt rating.

In its latest credit report of 20 December 2007 Moody's kept MKB's rating unchanged, which is considered to be an outstanding achievement, given the adverse economic conditions in Hungary and the uncertainties in the international markets as a consequence partly of the subprime crisis. MKB Bank's rating with Moody's in February 2007 were as follows: long term bank deposits in foreign currencies A2, short term Prime-1; long term bank deposits in domestic currency Aa3, short term Prime-1, C- financial strength with stable outlook, issued (senior unsecured) foreign bonds: Aa3; subordinated foreign bonds and MTN: A1; other short term: P-1.

According to Moody's MKB Bank's rating reflects its weight in the domestic corporate sector, its dominant role in the project finance market, its growth in the midmarket segment and the appropriate internal processes, along with the ownership support given by the majority shareholder BayernLB and its role in the Bank's strategy, including its CEE expansion.

GROUP STRUCTURE: COMPLETE UNIVERSALITY IN HUNGARY, IMPLEMENTATION OF GROUP STANDARDS AT THE SUBSIDIARIES

In the framework of strategic cooperation MKB Bank, together with BayernLB and the also S-Finanz Group member insurer Versicherungskammer Bayern, the largest such institution in Bavaria, has established life and non-life insurance companies with initial share capital of HUF 850-850 million (holding 25%-25%-50% stakes) in Hungary last year. The insurance companies called MKB Általános Biztosító Zrt. (general insurer) and MKB Életbiztosító Zrt. (life insurer) were launched in October 2007. Thereby MKB Bank made a major step towards providing its customers in a one-stop-shop scheme with bank insurance products as well, thus, the Bank has become a fully universal financial service provider in the domestic market.

In the framework of a successfully completed harmonisation project the standards of MKB Bank and the group level standards of BayernLB were adapted to and introduced by MKB Romexterra, MKB Unionbank and the MKB-Euroleasing Group in 2007. These group level fundamental principles, operational norms and the know-how transfers based on best market practices apply – in addition to business divisions – risk management, corporate governance and control, information technology, information supply, controlling and planning, AML and compliance areas alike. The subsidiaries' management structures have been modernised and made more efficient through setting up a central organisational unit performing coordination and implementation tasks and through adequate transformation of the governing bodies. Further goals include GO-to-Market i.e. dynamic business growth and expanding market share after the adaptation in 2007 of MKB's business model,

During the course of 2007 MKB increased its share in MKB Romexterra Bank to 75.9% and together with the minority shareholders it carried out a BGN 40 million capital increase in MKB Unionbank. To bolster the growth of the two foreign subsidiaries MKB Bank provided subordinated loan capital of a total of EUR 37 million during the year.

The MKB Euroleasing Group is making good progress towards implementing its medium term strategy. The Group has managed to strengthen its positions in all of its operations, including motor financing and trading, insurance brokerage and fleet services. As part of MKB Group's CEEU strategy, after the preparations carried out in 2007, the Group will enter the Bulgarian market with its fleet management services.

HUMAN RESOURCES

The total number of employees of the MKB Group – together with the foreign subsidiaries without the MKB Euroleasing car financing group and MKB Insurers – was 3,969 persons on 31st December 2007, after a 10% increase from the 3,605 employees at the beginning of the year, predominantly as a result of the additional headcount required for the opening of new network units and to some extent of the expansion of central units. The headcounts of the foreign subsidiaries grew faster than those of the domestic members of the Group.

The total number of the employees of the domestic members of the MKB Group was 2,197 on 31 December 2007, after a 7% increase in comparison to the headcount of 2,061 at the beginning of the year. Within the Group the headcount of MKB Bank increased to 1,979 (up 131) as a consequence of the expansion of the branch office network and the transformation of business units during the year. At the same time, the foreign subsidiaries (MKB Unionbank, MKB Romexterra Bank) employed 1,772 persons on 31st December 2007 (up 15%).

ECONOMIC OUTLOOK IN 2008: INTERNATIONAL UNCERTAINTY, SLOWLY IMPROVING DOMESTIC ENVIRONMENT?

In 2008 the Hungarian economy will largely be determined by the slowly improving domestic market, still burdened by the growth sacrifices made for restoring economic equilibrium; as well as by the decelerating growth path of the global economic environment and its hectic money market processes. Consequently, forecasts for year 2008 are more uncertain than they were in previous years. At the same time, the domestic economic policy is likely to continue to implement the predictable and consistent consolidation and reform processes based on the convergence path, launched in 2006.

This process will not be supported by the fact that the steadily declining risk appetite may continue in 2008 to negatively affect the economies that are facing equilibrium problems. This has a particularly adverse impact on the group of emerging countries through the capital market, while decelerating growth results in smaller demand for exports. Diminishing economic growth might only moderately affluenced by monetary policy tools as a consequence of high inflatory risks deriving from the oil, raw material, agricultural product and food price growth.

In 2008 the economy of Hungary is expected to grow in real terms by a higher rate than the EU average, however from a very low basis in 2007. Accelerating growth may result – besides an export driven growth path – a modest increase in domestic consumption and the recovery of governmental infrastructural development projects (some of which have been delayed) implemented partly from EU funds. The general government deficit may be reduced in 2008 to 4.3 % as prescribed in the convergence programme, particularly as a consequence of the 'whitening' of the economy (increased revenues) and partly because there will be no large one-off expenditure items such as those accrued in 2008 (Grippen, MÁV consolidation). The external equilibrium will continue to be stabilised in 2008.

THE ENVIRONMENT OF THE FINANCIAL SYSTEM

Risks in both corporate and retail lending must be taken particularly seriously in year 2008. All of the consequences of the stabilisation programme (particularly the increasing burdens, the whitening of the economy), growing food and energy prices as well as the expected decline in demand in foreign markets are signs for the participants of the banking system calling for further caution. There may be a notable upswing in investments in 2008 already. Higher agricultural prices help domestic production and the food processing sector. Winners of application schemes can effectively use EU funds in 2008. The position of the Midmarket sector will improve somewhat but the high 'bankruptcy rate' is not going to plummet in 2008.

While households' real income was substantially lower in 2007 than before, this was only partly reflected in consumption spending. A large segment of households is considered to have regarded their loss of income to be a temporary phenomenon and to have resorted to borrowing to 'smooth out' consumption. The structure of consumption has also shifted, e.g. car sales dropped 2-3 times more than did retail sales turnover on an average. Households' financing capabilities dropped in 2007 to about half of the previous level. In this way the financial sector finds it a lot more difficult to raise funds from and a lot more risky to finance the retail segment. Households' real income is not expected to continue to decline in 2008, which, besides increasing consumption (by about 1 %), may usher in a more balanced period in terms of financing capabilities as well. Employment is expected to practically stagnate in 2008. The energy market liberalisation process may lead to continued increase in consumer prices, along with the high levels of food and oil prices.

In Romania and in Bulgaria the opposite may happen and the economies' potential overheating may need to be cooled down by authorities and economic governance. There continues to be plenty of room for growth and expanding financial penetration in these countries.

MKB BANK'S BUSINESS POLICY OBJECTIVES FOR YEAR 2008

MKB's most important goal in 2008 is, with regard to the uncertainties in the global money and capital market (liquidity, pricing), to strengthen its position of refinancing from both the international and the domestic capital market as well as from primary customer funding sources, and partly depending on these to implement its medium term growth strategy focusing on increasing its revenues and diversifying its income sources.

In 2008 MKB's priority business policy objective is to increase its market shares, with a particular focus on retail segments and on investment services, as well as to retain the market leading position and to improve profitability in the wholesale business line, which is MKB's most important business area. In terms of the planned volume the aggregated net loan portfolio (to domestic and foreign businesses, private individuals, the public sector), will increase to over HUF 1,900 billion, on the basis of which the ratio of customer lending to total assets will stand at 76 %. The plan assumes a 14 % increase in customer lending and a 13.0 % growth in funds from customers.

The Bank's IFRS total assets should exceed HUF 2,500 billion on 31 December 2008. By the end of 2008 the planned customer balances on accounts and deposits will exceed HUF 1,100 billion. The ratio of the total deposits within the balance sheet total should approach 60 % by the end of the period. Continued dynamic expansion should be accomplished in investment funds by the end of 2008.

The substantially increasing profit contribution over a medium term should be enabled by growth in the priority businesses, increase in the number of customers and channelling an increasing proportion of the financial assets of existing customers to MKB. To this end, branch roles and operating processes will be redefined and the Bank's network model will also be reshaped in 2008. The conversion is also necessitated by the expansion of the small business clientele and the need for raising the service standards for household customers. By the end of 2008 MKB will serve its customers through nearly 90 network units. Moreover, the Bank's strategic goal is to increase the penetration of electronic services in the retail, small and midmarket enterprise segments, and to continue to strengthen the standards of these services. In 2008 the Bank will renew its MobilBANKár and NetBankár services, involving the introduction of the Netbróker Light functionality.

Increased emphasis will be laid in 2008 on deepening cross-selling and intensifying product use. In its expansion in the retail, in the small and midmarket enterprise segments the Bank will rely heavily on its strategic partners as well, the combined products will constitute a source for growth partly through the acquisition of new customers. The Bank intends to exploit the medium term business potential lying in lending to retail, small and midmarket enterprise customers. Likewise, investment services should be boosted in the existing clientele and also with the aim of acquiring new customers. Increased emphasis is intended to be laid on channelling Structural Fund aids to customers in relation to Hungary's EU accession and on business opportunities offered in relation to the reform of the health sector. In the CEE countries, particularly in Romania and Bulgaria project financing and the local midmarket and retail business lines are expected to grow dynamically. MKB Bank's aim is to significantly increase its operating incomes and pre-tax profit on the level of the Bank and the Group as well in the wake of the higher provisioning in 2007, thereby to improve its profitability ratios and to continue to increase its contribution to the BayernLB Group.

ACKNOWLEDGEMENTS

The trust and the special attention of owners devoted to the Bank is underlined by the fact, that dr. Michael Kemmer, the new Chairman of Bayerische Landesbank has been elected by the Annual General Meeting of MKB Bank in 2008 as member of our Supervisory Board, and the members of this body have elected him to Chairman of the Supervisory Board. In addition, I would like to welcome Mr. Alois Steinbichler, the member of the Board of Management of BAWAG P.S.K. AG, as a new member of the Supervisory Board. It is my pleasure also to welcome dr. Ralph Schmidt, member of the Board of Directors of MKB Bank, whose mandate was prolonged and I wish Him further successful work. Let me extend a warm welcome to dr. Kraudi Adrienne and dr. Simák Pál as newly elected members of the Board of Directors of MKB Bank.

I would like to express my sincere gratitude to Mr. Werner Schmidt, the former Charmain of BayernLB and the Supervisory Board MKB Bank, who followed our activity with special attention and supported our strategy including expansion in Central and Eastern Europe. I wish quiet and healthy years to dr. Stotz Péter whose mandate in the Board of Directors of MKB Bank was expired due to his retirement. He was fully involved in the history, the restructuring, the privatization and the development of MKB Bank into one of the largest universal banking and financial services group in Hungary. We always warmly remember Him.

And last but not least let me use the opportunity to thank our clients and shareholders for their continuous trust and support. I would like to thank the staff of MKB Bank and the members of the Board of Directors and the Supervisory Board for their committed and successful work during last year.

Tamás Erdei
Chairman & Chief Executive

Business Report

Castle of Vajdahunyad, Budapest

Despite a generally less favourable domestic economic environment MKB Bank and the Banking Group managed to dynamically intensify its activity in all of its business lines. Market positions improved more markedly in strategic business segments. Must be emphasise the development of the investment funds, especially the 'hook product' guaranteed funds a segment in which MKB built up an almost 12percent market share, along with retail mortgage covered lending, where in the segment of the main product category home loans MKB had a share of 15 percent of newly concluded deals in 2007. Just as importantly, MKB delivered one of the highest growth in absolute term in retail deposits last year and it continued to strengthen its Private Banking business line. In the corporate banking the Bank strengthened its position as the largest financing institution despite the continued transformation of the banking sector and at the same time it managed to increase its share in funds from customers, as well. MKB Bank is market leader with its 30 percent market share in factoring, while increased focus is being placed on its trade finance division. Nonetheless, the unfavourable economic environment has necessitated a higher level of specific provisions than in earlier years primarily in the midmarket and small businesses sector.

In addition to continued development of the branch network electronic channels were also developed. The funds' segment has strategic importance for MKB strategic area: this is also indicated by the fact that MKB Health Care Fund has grown to be the third largest fund in the Hungarian market. The MKB-Euroleasing Group accelerated its growth on the basis of strengthened process and risk management and is among the first three in the market in terms of new transactions. The BayernLB-MKB group standards has been introduced by MKB's subsidiaries in the Central and Eastern European region – MKB Unionbank and MKB Romexterra Bank – including the adoption of business models. The local operations of the subsidiary banks and the joint subsidiaries have been growing dynamically.

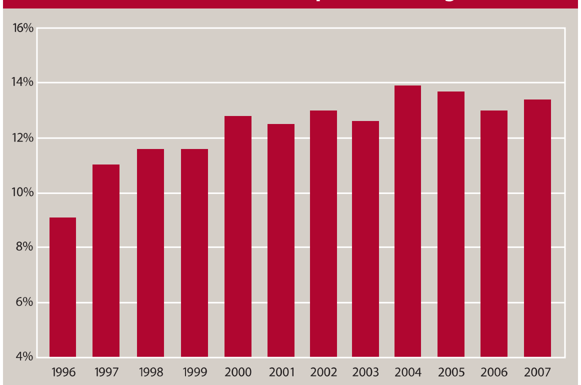
MKB's performance, developments and commitment to high quality service providing for customers have been rewarded by a number of international and domestic professional awards.

THE PERFORMANCE OF THE VARIOUS DIVISIONS

CORPORATE AND INSTITUTIONAL CUSTOMER RELATIONSHIPS[1]

Loans extended to the Bank's large corporate, medium-sized corporate, project, and institutional customers increased by 23.7 % at the end of 2007 amounting to HUF 1,404.7 billion (HUF 1,135.4 billion in 2006). Its structure was modified further in line with the strategy, and while the entire portfolio expanded, there was growth in domestic midmarket and small businesses and foreign corporate and project lending but falls in the share of traditional domestic large company financing. In corporate lending, MKB Bank has a market share of 13.4 % (13.0 % in 2006) and in the financing of non-financial companies MKB covers 14.8 % of the market (14.3 % in 2006), which keeps it in top spot among Hungarian banks, even despite a fusion underway.

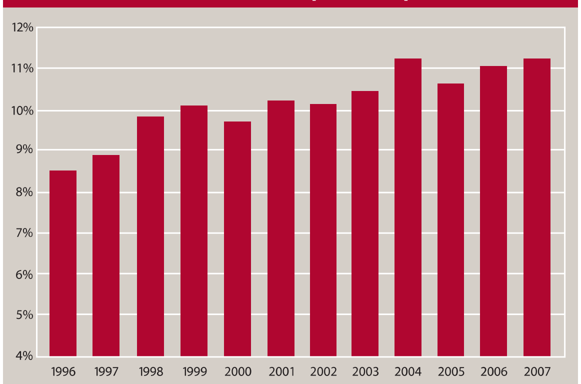
Market shares in corporate lending



The expansion of the credit portfolio as a whole was, in year 2007, driven primarily by real estate transactions implemented in the framework of project financing, accounting for nearly 30 % of the entire credit portfolio. The portfolio still has a good quality and it is adequately diversified among the different sub-segments and geographically. Portfolio involves office buildings, trade centres, hotel and residential park construction projects, energy industry projects, transport development and projects in CEE region. The bank has substantial – about 7-10 % – exposure in trade, and financial services (involving primarily refinancing of MKB-Euroleasing, the Bank's strategic subsidiary) and manufacturing, as well. The remaining portfolio elements include domestic sectors accounting for 1-5 % parts of the portfolio, the most important of which were food industry, telecom and transport in year 2007, though their relative proportions continued to decline.

The corporate and institutional deposits expanded by 17.4 % to HUF 571.7 billion (from HUF 486.7 billion in 2006) by the end of 2007, the Bank's domestic market share grew from 11.0 % to 11.2 %. MKB Bank had an 11.7 % share in deposits placed by non-financial enterprises (2006: 11.2 %), which is expected to be one of the three largest market shares in this particular segment. The evolution in funding was influenced by the fact that during last year the number of corporate account holder customers (including large enterprises and institutional, and midmarket customers) exceeded 14,500 (11,480 medium-sized corporates and 3,060 large enterprises, respectively).

Market shares in corporate deposits



MKB dedicated 2007 to improve service quality in the wholesale business as well. The Bank proactively reached out to its customers, it developed innovative business arrangements and products as well as laying emphasis on keeping up personal contacts all with an aim of providing services for the customers even more efficiently, reaching

1 In MKB's methodology small businesses are part of the retail business line, but this segment's loan and deposit portfolio is included in the corporate portfolio when calculating the market shares.

ever higher quality standards. Development efforts of the electronic services in 2007 as well as some continuous development processes are being aimed at expanding the range of services, at simplifying the usage the available services and at creating an up-to-date layout of those channels to meet today's expectations.

In 2007 the process of transformation and 'fine tuning' of the business organisation launched in 2006 continued, in parallel with restructuring risk processes and rationalising intensive care procedures. More emphasis is going to be laid on risk management and sensitivy approach in business activities as well as in the area of risk management itself. This has been necessitated by a dual trend observed in MKB Bank's wholesale credit portfolio in 2007. The quality of the portfolio continues to be outstanding in the large corporate and in the project segment, even in comparison to portfolios of other participants of the banking sector. However, partly as a consequence of the Bank's opening to the midmarket and small businesses segment that has entailed a natural deterioration of the portfolio quality and partly as a result of the fact that this segment is the most exposed to unfavourable trends in the general economic environment, a significantly larger amount of specific provisions had to be set aside for clients belonging to the midmarket and small businesses segment.

LARGE CORPORATE CUSTOMER RELATIONS

The total loans to large enterprise and project customers amounted to HUF 1,031.5 billion in 2007, up 38.7 % in comparison to HUF 743.5 billion recorded in 2006.

MKB has continued to be the top player of the domestic market in project and commercial real estate financing sub-segments dominating this large corporate market. This lending portfolio increased by almost 50 % in 2007 and exceeded HUF 550 billion (2006: HUF 370.0 billion) and while the number of customers grew to 554. The project portfolio is characterised by excellent geographical diversification. More than 90 % of the expansion came from real estate development projects, which came to account for an increasing – at end-2007 up to 80 % – proportion of the portfolio. An increasing number of projects implemented abroad – primarily shopping centres in Romania and Bulgaria – are financed by MKB Bank. In addition to these the Bank has substantial – though diminishing – exposures to projects in the energy sector. Commercial accommodation and catering is another area of a substantial and increasing proportion within the Bank's project loan portfolio, which itself expanded by an outstanding rate (more than 300 %) last year. In terms of absolute amount construction projects increased significantly last year – besides the above mentioned real estate development projects and the commercial accommodation sector – though they still account for a modest proportion of the portfolio as a whole. By contrast, the Bank's exposure decreased in the segments of agricultural, transportation and storage/warehousing projects. In addition to the above specific sub-segments the Bank's project portfolio comprises a variety of projects in manufacturing, trade, financial operations, public administration and the health sector. In addition to the notable expansion of the portfolio another noteworthy fact is the continuation of the trend – that has been observed for several years now – of diminishing the average transaction size, contributing to the increasing diversification of the portfolio.

The total deposits from large enterprises increased by 17.9 % to HUF 391.2 billion in 2007 (2006: 331.9). Moreover, in line with its objectives the Bank was selling its investment funds to a wider range of its corporate customers. MKB was offering a wide range of products – open-end investment funds, own issued bonds along with government securities – to its customers for both liquidity management and investment purposes. Thanks to these efforts the bank's share in the market of investment funds – for corporate and institutional customers – increased from the 2.3 % recorded at the end of 2006 to 4.3 % by the end of 2007 MKB Bank was offering a wide range of exchange rate and risk management products for its large enterprise customers ranging from the simplest futures transactions to simple and complex option strategies.

MEDIUM-SIZED CORPORATE CUSTOMERS

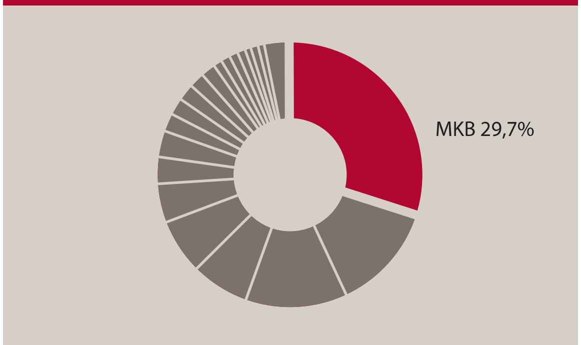
Year 2007 saw the continuation of the fine-tuning – according to financial requirements and business sizes – of the service levels and models for the midmarket business division which was set up in 2006 and of the set up of a suitable organisation structure with a central sales support function. Customer acquisition, quality service provision, product development, sales promotion, risk management, operational processes and marketing are the indispensable pre-requisites for the strategic breakthrough projected by MKB in this business line.

The number of medium-sized corporate clients increased from 11,224 to 11,480 (up 2.3 %) in 2007. Lending to medium-sized customers amounted to HUF 373.2 billion, while accounts and deposits placed by medium-sized customers increased by 16.6 percent from 154.8 billion to HUF 180.5 billion.

One of the Bank's most important goals is to position itself as an institution that is effectively and efficiently channelling state subsidised development lines to midmarket clients, therefore it continued to sell AVHA, MFB, Eximbank and other such products to its clientele. Although in 2007 MKB Bank terminated the management of MFB's agricultural loans as an agent, it is still providing services for a large number of companies in the agriculture sector by pre-financing agricultural subsidies, by factoring services and by financing produce placed in public warehouses.

MKB Bank managed to consolidate its market leading position in the Factoring business, holding a 30 % market share in terms of turnover. The number of customers increased substantially (from 1,000 in 2006 to 1,150 in 2007) as a consequence of factoring services provided for suppliers of the conventional large corporate clientele, the execution of individual and other special arrangements as well as the launching of 'standardised' factoring for the dynamically expanding midmarket clientele. Meanwhile, the total turnover in this segment increased by a lower rate than the number of customers, as a consequence of the adverse economic environment (from HUF 231 billion to HUF 235 billion). The 15 % growth in the number of clients truly reflects the Bank's opening towards the midmarket segment. This division makes a considerable contribution to strengthening the Bank's leading role in the corporate banking sector as a whole.

Market share of MKB in factoring - 2007



In 2006 MKB Bank concluded a strategic agreement with Deutsche Leasing Hungaria Zrt. and Kft. (DLH) concerning the sale of financial leasing and rental products. Selling leasing products on a wide scale got fully under way in 2007: a total of 84 leasing transactions were concluded generating a portfolio of HUF 6.8 billion for DLH, earning commission for MKB Bank. The strategic importance of this cooperation is also underpinned by MKB's 'exporting' this to its subsidiaries abroad, which have also started setting up long term cooperation based on partnership with the local DLH subsidiaries.

During 2007 MKB Bank transformed its services linked to EU funds in accordance with the changed requirements introduced for the programme period between 2007 and 2013, now managing them in a single harmonised framework in a business support organisational unit. In order to fully cater for customers' requirements the Bank continues to provide a complete range of services, from consultancy and advice to those intending to participate in application schemes to financing arrangements linked to different phases of a project implemented. To improve the quality of services linked to application schemes market leader consultancy firms partnering with MKB are assisting customer acquisition working as MKB's agents.

Having created the required organisation and processes in 2007 the Bank launched its structured trade and inventory financing business, whose target clientele are on the one hand enterprises using simpler production technologies and turning out easy to sell mass products in capital intensive sectors (e.g. agriculture, food (grain production, meat processing, canning industry), along with engineering and heavy industry in regard to certain specific products. On the other hand, the target clientele includes entities trading in mass products (commodity type products, such as grains, agro-industrial products, oil derivates, energy, coal metals).

FOREIGN COMPANIES, FINANCIAL INSTITUTIONS AND INSTITUTIONAL CUSTOMERS

At the end of 2007 the total foreign lending portfolio amounted to EUR 811 million (up from EUR 490 million at end-2007), of which 51 % comprised exposures to financial institutions while the remaining 49 % to foreign enterprises, respectively. In accordance with the Central and Eastern European strategy and in cooperation with the subsidiaries in Bulgaria and in Romania, MKB concluded a number of transactions. MKB Bank is present in a number of other countries as well, with the largest portfolios in Russia, Romania, Croatia, Turkey and Bulgaria.

MKB continues to be one of the main banks of domestic institutional clients, with 1,420 such customers at the end of 2007 (2006: 1,359). Substantial funding originate from pension funds, health funds, non-profit organisations, foundations, chambers, federations and associations as well as church institutions. Partly in association with the institutional clientele and with the conventional corporate customers MKB is playing an active role in financing the health care sector as well, primarily in the segment of private health service providers.

BAYERN LB GROUP RELATIONS: THE ACTIVITIES OF BAYERN AND THE G25 DESK

The range of operations of the desk – established in 1996 – continued to expand, contributing to MKB's business performance in 2007 in earlier years as well. These operations are focused on providing local services for Bavarian – mostly medium-sized – corporate clients operating or setting up business relations in this region, producing exportable products, along with assisting other transactions and acquisitions involving Bavarian and other German participants, thus, broadening MKB's client base.

Since 2007 MKB Bank's customers have access to new business opportunities and possibilities through BayernLB's Shanghai branch. It is a major competitive advantage that the Bank can offer its customers high standard local services (opening accounts, opening up representations in China, providing banking information on Chinese partners), and that it generates additional turnover with the help of the parent bank in this dynamically expanding market. New cooperation opportunities are opened up by the expansion of the BayernLB Group with Hypo Alpe Adria Group for the MKB Bank Group as well.

MKB bank has business relationships with some 60 out of the total of 75 Bavarian savings banks. MKB is an active participant of customer meetings and shared stands together with its local subsidiary banks in Hungary, Romania and Bulgaria alike. G25 is a large organisation of German Sparkassen- now comprising as many as 27 members – from among whose members MKB Bank has developed the most intensive cooperation in terms of account opening, partner search and establishment of undertakings/representations, with the savings banks of Würzburg, Dresden and Hannover. Through banking relations in the framework of the – expanding – G25 cooperation MKB reaches customers in Northern Germany, further expanding the range of its operations.

RETAIL BANKING SERVICES

In accordance with its retail (and midmarket and small businesses) strategy MKB Bank introduced, early 2006, a new value offer and service model setting MKB apart from its competitors by its personal advisory service through relationship managers designated personally to every single customer, putting the new slogan 'Personally for You' into practice. By integrating small businesses in the retail business line one-stop-shop selling arrangement has been made available for affluent private customers and their (family) businesses. The consistent implementation of the new model was reflected, in particular, in the spectacular results delivered in 2007: the selling process became faster, its structure shifted towards products of higher added value and the Bank's retail market shares grew dynamically in all markets, while in housing loans and in the market of investment funds MKB Bank delivered the highest growth rate among its main competitors. At the same time the quality of customer service improved substantially.

As a consequence of the above efforts the business line's performance and efficiency improved considerably (by some 50 % in a period of 2 years) and the retail business line is making a growing contribution to the Bank's profit. This achievement is all the more significant in view of the fact that it all took place in an unfavourable environment of declining economic environment and extremely fierce competition. At the end of 2007 the retail deposit portfolio placed by retail customers accounted for 33 % of the total deposits portfolio managed by all of the Bank's business lines. During the year of 2007 the share of retail lending within the total lending portfolio increased from 16 % to 19 %.

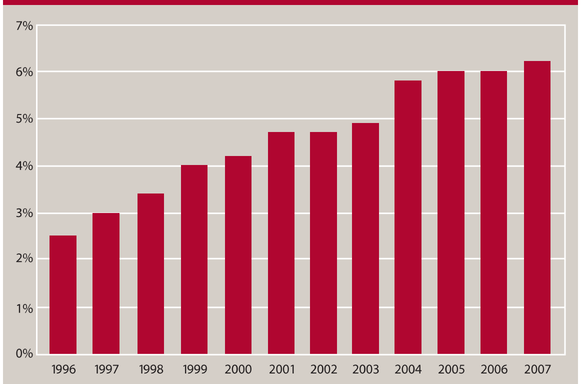
According to Branchmarking Ltd's survey and its standard system evaluating competitors on a comparable basis, which is also published in the press, in MKB reached the highest standards in retail service in 2007 among all Hungarian banks (at the end of 2005 MKB was one of the banks in the lower-midfield category).

RETAIL CUSTOMERS

In 2007 the number of the Bank's retail customers increased by 34,000 to 254,000.

MKB Bank's retail deposits expanded by 8.3 % or almost HUF 32 billion, to HUF 415 billion by the end of the year. The Bank's market share increased from 6.0 % at the end of 2006 to 6.2 % by the end of 2007. At the same time the business line managed to fulfil one of the main business policy goals set for 2007, channelling an increasing proportion of household savings into investment funds and other long term instruments.

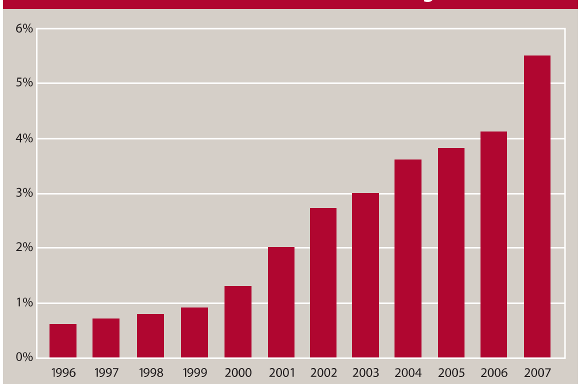
Market shares in retail deposits



The portfolio of MKB Funds more than doubled, up by HUF 59.1 billion or 107.5 %. Consequently, the Bank's market share increased from 2.2 % at end-2006 to 3.7 %. MKB carved out a 9.7 % share of the market increment in investment funds (comprising both new investments and returns on investments). 65 % of the total amount managed by the Bank's investment funds had been invested by retail customers.

During year 2007 the retail lending portfolio increased by almost HUF 130 billion (up 69 %) to HUF 317 billion. The Bank's market share grew from 4.1 % at end-2006 to 5.5 % at end-2007. The Bank's market share in terms of the number of monthly new contracts was over 10 % on an average throughout the year. The Bank was particularly successful in the segment of mortgage-covered loans, – building up a long maturity and low and even declining compared to previous years risk cost portfolio.

Market shares in retail lending



Retail product development processes in 2007 were focused primarily on fine tuning parameters and prices of existing products: the introduction of the Gondoskodó Plusz account product and a new, modified service package structure providing complex account keeping services for retail and small business customers. Another product is Hozamsuli, combining the benefits offered by bank deposits, open-ended and capital protected investment funds and bonds issued by the bank, in HUF, EUR or USD-based versions. The range of MKB's credit card products was expanded by the introduction of the MC Standard credit card and the MKB-WestEnd co-branded card issued together with the WestEnd-Trigránit Group. The range of mortgage-covered loans was also upgraded: it was expanded by loan-replacement credit type product as well as a product called MKB Hitelcsúcs. As a new variety of combined credit types in early 2007 MKB Bank introduced – in cooperation with Fundamenta home savings fund – a combined mortgage covered product called MKB-Fundamenta Közös Kassza. From October 2007, when the Bank's own insurers were launched, the range of combined credit products was expanded by the introduction of new facilities in the form of combined loan Értékmegőrző.

Retail products offered by MKB Bank got several awards in 2007: MKB Kivételes was chosen as the golden prize winner current account product in Hungary while MKB Hozamsuli and MKB NetBankár earned the silver prize.

In 2007 the sales activities of the Bank's retail businees line were bolstered by nine mass media campaigns, focusing on securing a market leading role in home lending, on expanding the Bank's funding sources, boosting its investment services and promoting credit card products.

The Reklamáció Projekt (complaint project) managed to reorganise and renew the organisational unit in charge of complaint management, the complaint managing system and to improve the efficiency of the processes and laid down the groundwork for turning the Bank's entire complaint management process into a transparent and measurable system that can be operated without undue delays.

For the MKB Group one of the most outstanding events in year 2007 was the launching of the MKB Insurers on 1 October. The Bank's branch network is playing a dominant role in selling the Group's insurance products. Sales activity took off successfully. MKB Bank organized a joint credit card sales program with MKB Euroleasing Group. In September 2007 the MKB pension funds and health funds launched a nationwide campaign with the MKB network's active participation.

The range of the Bank's strategic partners was expanded in 2007 by the entry of two new members. Cooperation with Fundamenta in the home savings segment opened up new perspectives for the Bank to take and retain the market leading position in this particular type of house lending segment. The Bank concluded a cooperation agreement with the WestEnd-Trigránit Group (owner of the most successful mall in Budapest) in the third quarter of 2007. In the first phase of their cooperation the partners issued a co-branded credit card in November 2007 amidst an extremely active media campaign. As yet another phase of the Bank's cooperation with the T-Mobile Group a new joint campaign was launched by the partners in the spring of 2007 to promote their co-branded credit card product.

PRIVATE BANKING

The number of MKB's private banking contracted customers from the year-end 294 close to doubled to 593. The assets managed by the business line exceeded HUF 90 billion at the end of 2007 (2006: HUF 53.7 billion), with a HUF 153 million per customer, an outstanding average amount in the domestic private banking market. Years 2006 and 2007 brought about a major change in the business model of private banking services, in that this service, which had been available in Budapest previously, was made available in larger towns in the countryside as well.

SMALL BUSINESSES

The number of small business customers increased from almost 24,000 at the end of 2006 to 25,600 at the end of 2007 (6.7 %). MKB is offering a steadily expanding range of standard products for this group of clients. The Bank is actively participating in offering products with state support, such as the Széchenyi Card, more than 3,000 such cards have been issued so far (2006: 2,300 cards). The loan portfolio of small businesses reached HUF 30.2 billion at end-2007. The small business clientele's deposit portfolio amounted to HUF 70.1 billion at the end of 2007. The Bank introduced its Dinamika service package for its small business clientele, along with the Egyszeregy overdraft credit and the Egyszeregy real estate-covered overdraft credit product. The overdraft credit product without coverage was upgraded and its contractual and collateral background was strengthened in the fourth quarter of 2007 on the basis of experience accumulated during the first six months. MKB Bank began reviewing the business model, processes and risk management practices of its small business division to lay down the groundwork for accelerated future business development and growth.

MONEY AND CAPITAL MARKETS, INVESTMENT SERVICES

The business line managed to substantially step up its activity in 2007 again despite the volatile market and economic environment, complicated by extreme value judgements, and continued to make a major contribution to the Bank's business performance and to the accomplishment of its strategic goals. Besides trading in foreign exchange and securities on its own account the business line's traditional basic tasks, as funding, effective liquidity management and managing market (interest rate and exchange rate) risks, were significantly underlined by impacts of domestic macroeconomic problems on the clientele and the money markets and later on as a consequence of the protracted disturbances in the international credit markets, appearing in the form of dramatically reduced liquidity on the market, lack or shortage of medium term and long term funding from syndicated and capital markets and growing risk premiums.

The Bank managed to significantly increase the number of its customers having adequate knowledge of and effectively using various instruments. The Bank also expanded the volume of its foreign exchange transactions regarding exchange rate risk hedging products despite the fact that the EURHUF exchange rate was fluctuating in a significantly narrower range in the course of year 2007.

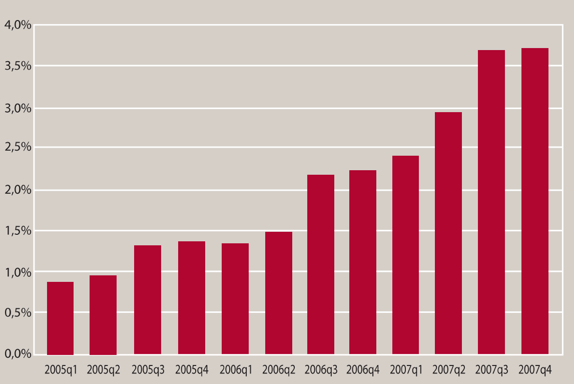
In addition to simple hedging transactions the Bank sold its structured deposit and credit products linked to exchange rate movements to a wide range of customers with good results. These products offered high interest gains for customers even at low volatility. Interest rate risk management came to be considered indispensable by an increasing number of the Bank's partners bearing substantial exposures, particularly in the case of project loans a growing number of customers decide on fixing rates or purchasing interest rate cap.

The Bank retained its position as a dominant participant of the primary market of government securities. At the bond auctions organised by ÁKK (Hungary's debt management agency) the Bank ranked 6th among primary dealers having a share of 7.3 %, while in Discount T-bill trading it ranked 9th with 4.6 % market share. Despite the unfavourable market environment, altogether the Bank steadily met market expectations for PD membership in both segments.

MKB is an active participant of both the domestic and the international capital market as an issuer of bonds. In the domestic market MKB continued to be one of the leading financial institution as issuer: the Bank brought bonds of a total nominal value of HUF 73.3 billion through public offerings to the market. The aggregate nominal value of the nine MKB bond series listed on the Budapest Stock Exchange amounted to HUF 108 billion at the end of 2007. In the framework of an international bond programme MKB issued bonds, besides those denominated in EUR, in regional currencies, such as Romanian leu, Czech crown and Slovak crown. The total volume of bonds sold by the Bank abroad amounted to almost 1 billion Euros at the end of 2007. The Bank repeatedly renewed both its domestic and its international public bond programmes in 2007, thereby providing for the flexibility of continued activities in the capital market, along with the possibility of accessing diversified funding sources in line with business requirements.

In accordance with the strategic goals the market share of MKB investment funds grew dynamically, by almost 1.5 percentage points throughout the year, while the assets under management in these funds by the Bank more than doubled, growing from HUF 54 billion to HUF 114 billion.

Market shares investment funds



The Bank expanded the range of investment funds in line with customers' requirements, introducing as many as 13 new funds during the year. The current 24 funds covers all of the main product types currently available in the domestic market. The real estate fund is the only that is underrepresented in the Bank's portfolio in comparison to the overall market portfolio, and the assets of bond (weighted) funds is still somewhat larger than that of equity (weighted) funds. Among other products, the gap-stop Guaranteed Liquidity Fund was introduced and the Bank made available its capital protected investment funds, offering a low risk investment option, on a continuous basis. In this product segment MKB Fund Manager, with assets of HUF 52 billion, was the third largest participant of the market having a 11.6 % market share. MKB took a 9.7 % of the total market portfolio growth in 2007. In terms of market share MKB Group was the 8th largest player in the investment fund market in 2007, climbing two positions from 2006 (10th).

During 2007 the domestic stock market reached a historical high, after a 10% rise in comparison to the position recorded at the beginning of the year the BUX index exceeded 30,000 points, trading in equities amounted to almost HUF 17,400 billion. In the wake of the credit crisis broke out in the international markets late summer, investors were facing steadily declining share prices in the second half of the year with the index falling back to the opening position recorded in January. Despite the volatile market environment 2007 was outstanding from the aspect of stock exchange activities for the Bank, as it posted the highest turnover and profit contribution in the past five years.

In foreign securities trading MKB Bank continued the marked growth that had stated in 2006 with an ever wider product range, in an increasingly broad clientele. In addition to the expanded palette of Bayern Invest Luxemburg mutual funds registered in Hungary the Bank's product range was widened by adding popular investment funds of a number of renowned foreign fund managers as well. At the same time, trade in foreign equities also increased dynamically.

As a major participant of the custodian services market, in addition to combined securities and customer account management, a basic element of its operations, the Bank is providing services for mandatory and voluntary pension funds, healthcare funds, insurers and investment funds, institutions, corporate and private customers, managing assets of more than HUF 1,100 billion. Custodian services, supplemented with premium service elements, for institutional and other investors with portfolio management is still one of the driving businesses of the Bank in terms of both portfolio and revenues. One of the largest market share in the domestic funds clientele, the personalised services and dedicated personnel and technical facilities of this activity made a substantial contribution to the Bank's performance in 2007.

Total assets managed in portfolio and asset management services stood at HUF 166.2 billion in December 2007, down with HUF 1.2 billion from the HUF 167.4 billion closing portfolio in 2006, though up by 9.17% compared to the HUF 152.5 billion opening portfolio at the beginning of the year. The amount of new funds under portfolio and asset management increased by HUF 14.3 billion, equalling some 90% of the amount recorded in the preceding year. This division was hit by the termination of the asset management services for two large customers (involving HUF 21.1 billion), as a consequence of which the dynamics of the gross income growth also fell short of the usual rate, ending up at 2.7%. Another reason for the decline in growth dynamics was the withdrawal of assets from the voluntary funds that had been expected in 2006 already but only took place in 2007. Assets managed in the voluntary funds' clientele increased by a mere HUF 5 billion, about a third of the growth recorded in 2006. As a consequence the effects of the asset withdrawal could not be offset by acquisitions (mandates obtained in the funds, insurance, corporate and private clienteles). The Bank's positions secured a 13% share in the voluntary funds segment, a 3% share in the mandatory funds, and a 13 % share in the healthcare funds segment, while in the total funds market MKB Bank had a 6 % share.

NETWORK AND ALTERNATIVE SALES CHANNELS

By the end of 2007 the Bank opened new branch units at 7 new locations, bringing the number of its branches comprised in its network to 74, an over 40 % expansion in the past two years. MKB branches were opened e. g. in Érd, Dunakeszi, Gödöllő, Kalocsa, Pápa and Paks. The Bank was been steadily modernising its existing branch network during the year, the branch in Salgótarján was completely renewed and the standards of the services provided by several earlier opened branch offices were upgraded as a result of focused development projects.

The retail bank cards issued by MKB increased by more than 25,000 within a year (up 16 %), while the number of corporate bank cards issued by the Bank also grew by more than 15 %. Dynamic (15 %) growth was achieved in the sale of retail credit cards under the Bank's own logo and in case of co-branded cards, whose number exceeded 28,000 by the end of the year. The number of customers having MobilBANKár contracts jumped up by 50 % to over 105,000. The Bank's Internet baking services – NetBankár – are used by some 30 % of its customers. The number of customers using NetBankár services increased by almost 33,000 during the year. In 2007 the Bank's Internet portal was also renewed: the customer-friendly and sales oriented renewed portal introduced in early August 2007 is a lot more up-to-date than it used to be, it is aligned to the Bank's strategy and modernised image. These developments and services were met with customers' appreciation in 2007 (Mastercard award).

54% of the total calls to Call Center came from retail customers, 23% from corporate customers. Sales activity via telephone is more and more intensive.

According to Branchmarking's mystery shopping across the entire banking sector MKB Bank's Call Center is market leader in terms of sales efficiency and communication.

MKB Bank's External Sales Partner Network comprised a total of 625 contracted partners and 2,850 sales force. The process of building up a regional system of contact persons, which was started back in 2005, was completed last year. Special contacts have been built up with nationwide and effectively performing partners, branch pairs have been set up.

MARKETING AND COMMUNICATION

In 2007 the Bank focused in particular on Quality, thus providing the highest possible quality of services was a top priority. The standards reached in terms of product range and in serving customers earned a number of renowned international awards and prizes.

28 November 2007 was one of the most outstanding days in the Bank's history: the magazine 'The Banker', published by the Financial Times Group in London, awarded MKB the highly esteemed 'Bank of the Year 2007 Hungary' in the framework of its 'Bank of the Year Award' series. MKB Bank managed to earn the honour of being rated as Hungary's best bank in 2007 according to an international panel in a very tough competition.

Quality improvements earned some other highly regarded awards as well for the Bank in 2007. The Bank's strength in its community and working culture is reflected by its outstanding achievements in Master Card's 'Bank of the Year' competition where the Bank took one first and three second places in four different categories.

The retail current account product won a Gold Medal in the 'Current account product of the year' category and MKB may also be rightly proud of the product earned a silver medal in the 'Savings product of the year' category. MKB took the second place in two other categories as well: 'Direct banking service of the year' and 'The bank of the year'.

New perspectives have been opened for MKB Bank by having won the Superbrand status as well, which is granted to brands worthy of holding this title by a panel of unquestionable international authorities of the marketing profession, the media and various fields of sciences.

MKB BANK GROUP IN HUNGARY

VEHICLE FINANCING: THE OPERATIONS OF THE MKB-EUROLEASING GROUP

MKB Euroleasing Group is fully committed in the business areas of automobile sales, financing and insurance brokerage, providing complex services to its customers. The Group has been a dominant participant of the car financing market for some 17 years now.

The Group's total new lending to customers amounted to HUF 63.0 billion in 2007 (2006: HUF 34.5 billion). The number of new customer financing contracts increased to 25,003 in 2007 from 21.199 in 2006 (up 17.9 %). In year 2007 MKB-Euroleasing Autópark Zrt. steadily kept its market positions, financing and managing a total of 8,971 cars, some 40 percent more than in 2006 (2006: 6,451 cars). In its network Carnet Zrt. – MKB-Euroleasing Group's vehicle trading subsidiary – sold a total of 11,221 cars (to be compared to the 9,501 units sold in 2006), achieving a 18.1 % growth in the gradually shrinking market of new and used cars. Insurance brokerage activities are carried out by Eurorisk Kft., leader in the market of conventional insurance brokerage, and by Netrisk Kft., leader in the Internet insurance brokerage segment. In 2007 their combined portfolio comprised a total of 195,034 Casco and mandatory motor third party liability insurance contracts (2006: 103,506 contracts, up 88.4 %).

In response to the growing risks in the vehicle financing market the MKB-Euroleasing Group has been laying particular emphasis on keeping up high quality standards in its portfolio besides working on increasing its turnover, profitability and market share. In addition to continued improvement of the admission systems the efforts aimed at mitigating risks were also bolstered by the division through proactive consumer communication, focusing on timely delivery of information on motor financing to consumers. In year 2007 the Hungarian Leasing Association and the Hungarian Association of Consumer Protectors also joined the programme, besides a number of other market participants.

(The Group's operations will be described in the form of a detailed report including its balance sheet, in the Public Annual Report of MKB Group).

MKB PENSION FUND

The MKB Pension Fund closed a successful business year in 2007. The number of members grew to nearly 145,000 (up 1.5 %), the assets managed increased to HUF 130 billion (up 12 %, from HUF 116 billion in 2006). The number of members is stagnating as a consequence of members quitting upon retirement and of some of the members cancelling their membership after the prescribed 10 year period.

The voluntary line contributed nearly 113,000 members and HUF 90 billion in managed assets, while the compulsory had more than 32,000 members (HP 8.7 pp) and HUF 40.0 billion (up 25 %) in assets managed. MKB's voluntary fund has a market share of 11.5 % according to preliminary calculations of the assets managed by the fund, still the third largest participant of this market in terms of the amount of the assets under management. According to preliminary data the per capita amount of assets managed by the Fund is 40 % and 75 % higher than the national average in the voluntary and in the compulsory line. The net yield on the coverage reserve of the Fund's voluntary and private scheme was about 6 % in 2007 as a consequence of the deterioration of the money market environment towards the end of the year.

MKB HEALTHCARE FUND

Despite austerity measures affecting funds both directly and indirectly year 2007 was a highly successful year for the MKB Healthcare Fund, primarily because it took one of the leading position in the market in terms of the fund's size. The Fund's membership grew by 44 % to 86,000, whereby the Fund advanced to the 3rd position among funds, with a market share of about 12 %.

The spectacular expansion of corporate relations was just as important achievement: at the end of 2007 the Fund had contacts with more than 2,010 employers (end-2006: 1,255). At the same time the number of contracted health service providers exceeds 5,700 (from the 4,584 at end-2006), while the number of card acceptance points grew to 3,400 (from 2,499 in 2006), contributing to the increasingly active use of the already issued almost 80,000 MKB Healthcare Cards.

Under changing usage rules the services paid for by the Fund expanded considerably in 2007 the Fund paid almost HUF 4 billion for services used by its members – settling some 550,000 invoices – more than 200,000 more invoices and by HUF 1.5 billion more than in 2006. As a consequence of all of these processes the assets managed by the Fund exceeded HUF 5 billion by the end of 2007, 1.2 billion more than at the end of 2006

MKB INSURERS

One of the exceptional events for MKB Bank in 2007 was the establishment of a property and life insurer undertaking together with BayernLB and the Versicherungskammer Bayern, which is also a member of the S-Finanz Group. The two insurers – MKB General Insurer and MKB Life Insurer – were launched in October 2007.

In the framework of this new cooperation MKB's branch network, where a total of 133 consultants started selling the products and services at the start-up of the new insurers – is playing an outstanding role.

The following products were brought to the market by the newly founded Insurers during 2007: Értékmegőrző Életbiztosítás (a life insurance product), Lakásbiztosítás (a home insurance product), Védőháló Családi Életbiztosítás (a family life insurance product), Csoportos Kockázati Életbiztosítás (a group risk life insurance product). Experience so far shows a favourable feature of these contracts in that the average premium is higher than the average prevailing in the domestic market.

By establishing insurance companies the Bank managed to implement its one-stop-shop banking and insurance service providing strategy and thus the Bank has become a truly universal financial service provider in the domestic market.

Balaton

Consolidated Financial Statements

KEY FIGURES

Consolidated IFRS

HUF million

	2006	2007
Total Assets	**1 992 388**	**2 461 770**
Share Capital	13 133	14 094
Reserves	165 889	197 591
Operating Income	80 466	101 052
Operating Expenses	(44 168)	(59 176)
Provision Charge	(12 631)	(22 986)
Profit Before Taxation	23 527	19 938
Profit After Taxation	18 352	16 101
Pre-tax Return on Average Equity (ROAE)	15.5%	9.6%
Earnings per Average Outstanding Share (EPS)	139.7%	101.8%
Pre-tax Return on Average Assets (ROAA)	1.3%	0.8%
Cost-to-income ratio	54.9%	58.6%
Capital adequacy ratio	11.8%	11.6%

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This is an English translation of the Independent Auditor's Report on the 2007 statutory Consolidated Annual Report of MKB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete statutory Consolidated Annual Report it refers to.

Independent Auditor's Report

To the shareholders of MKB Bank Zrt.

We have audited the 2007 consolidated financial statements of MKB Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the consolidated balance sheet as at 31 December 2007, which shows total assets of MHUF 2,461,770 and retained profit for the year of MHUF 16,101, and the consolidated income statement, consolidated statement of changes in equity and cash flow statement for the year then ended, and the consolidated supplementary notes including a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are disclosed on pages from 30 to 99 of the Annual Report 2007 of MKB Bank Zrt.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank.

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

Opinion

We have audited the consolidated financial statements of MKB Bank Zrt., its components and elements and their documentary support in accordance with Hungarian National Standards on Auditing and gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MKB Bank Zrt. and its consolidated subsidiaries as of 31 December 2007, and of their consolidated financial performance and of the consolidated result of their operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Budapest, 26 March 2008.

KPMG Hungária Kft.
1139 Budapest, Váci út 99.
Chamber registration number: 000202

Robert Stöllinger

Robert Stöllinger
Partner

Agócs Gábor

Agócs Gábor
Registered Auditor
Identification number: 005600

MKB GROUP BALANCE SHEET AND INCOME STATEMENTS

IFRS

		2007	2006
		HUF million	
	ASSETS		
3	Cash reserves	127,298	82,497
4	Loans and advances to banks	193,005	219,536
5	Trading assets	57,027	54,807
5	Derivative assets held for risk management	802	-
6	Investments in securities	41,866	63,326
7	Loans and advances to customers	1,902,020	1,457,528
8	Other assets	16,063	9,669
9	Goodwill	37,502	30,361
29	Deferred tax assets	3,193	2,711
10	Investments in jointly controlled entities and associates	9,946	7,491
11	Intangibles, property and equipment	73,048	64,462
		2,461,770	**1,992,388**
	LIABILITIES		
12	Amounts due to other banks	578,630	428,208
13	Current and deposit accounts	1,247,136	1,084,096
14	Trading liabilities	10,579	6,894
14	Derivative liabilities held for risk management	2,134	-
15	Other liabilities and provisions	37,576	48,063
29	Deferred tax liability	4,199	5,588
16	Issued debt securities	269,062	160,707
17	Subordinated debt	85,465	65,716
		2,234,781	**1,799,272**
	SHAREHOLDERS' EQUITY		
18	Share capital	14,094	13,133
19	Reserves	197,591	165,889
20	Minority interest	15,304	14,094
		226,989	193,116
		2,461,770	**1,992,388**

The Consolidated Financial Statements include the notes on pages 33 to 99.

Tamás Erdei
Chairman & Chief Executive

Csilla Bolla
Deputy Chief Executive

MKB GROUP BALANCE SHEET AND INCOME STATEMENTS

IFRS

		2007	2006
		HUF million	
21	Interest income	153,340	110,061
22	Interest expense	92,822	62,878
	Net interest income	**60,518**	**47,183**
23	Net income from commissions and fees	12,896	10,670
		73,414	**57,853**
24	Other operating income	27,638	22,613
		101,052	**80,466**
25	Impairments and provisions for losses	22,986	12,631
		78,066	**67,835**
26	Operating expenses	59,176	44,168
		18,890	23,667
	Share of jointly controlled and associated companies' profit / (loss) before taxation	1,048	(140)
	Profit before taxation	**19,938**	**23,527**
28	Taxation	3,837	5,175
	Profit for the period	**16,101**	**18,352**
	As attributable to:		
	Shareholders of the parent	13,820	17,646
	Minority interest	2,281	706
	Net income available to ordinary shareholders (HUF million)	13,820	17,646
	Average number of ordinary shares outstanding (thousands)	13,579	12,099
29	**Earnings per Ordinary Share** (in HUF)		
	- basic	1,018	1,458
	- fully diluted	1,018	1,458
	Dividend per Ordinary Share (in HUF)	1,221	1,284

The Consolidated Financial Statements include the notes on pages 33 to 99.

MKB GROUP BALANCE SHEET AND INCOME STATEMENTS

IFRS

		Attributable to shareholders of the parent						Minority interest	Total equity
		Share capital	Capital reserve	Currency translation reserve	Retained earnings	General risk reserve	Revaluation reserve		
		HUF million							
	At January 1, 2006	**11,521**	**13,219**	**-**	**92,733**	**7,157**	**1,051**	**3,952**	**129,633**
18	Issue of share capital and share premium	1,612	48,034	-	-	-	-	-	49,646
	Foreign exchange movements	-	-	1,469	-	-	-	-	1,469
6	Revaluation of available-for-sale securities								
	portfolio	-	-	-	-	-	(718)	-	(718)
	Change in minority interest during the period	-	-	-	91	-	-	9,436	9,527
	Profit for the period	-	-	-	17,646	-	-	706	18,352
	Appropriation from general risk reserve,								
	net of tax	-	-	-	414	(414)	-	-	-
	Dividend for the year 2005	-	-	-	(14,793)	-	-	-	(14,793)
	At December 31, 2006	**13,133**	**61,253**	**1,469**	**96,091**	**6,743**	**333**	**14,094**	**193,116**
	Restatement due to deferred tax				168				168
18	Issue of share capital and share premium	961	33,199	-	-	-	-	-	34,160
	Foreign exchange movements	-	-	984	-	-	-	-	984
6	Revaluation of available-for-sale securities								
	portfolio	-	-	-	-	-	(391)	-	(391)
	Change in minority interest during the period	-	-	-	(44)	-	-	(1,071)	(1,115)
	Profit for the period	-	-	-	13,820	-	-	2,281	16,101
	Appropriation from general risk reserve,								
	net of tax	-	-	-	968	(968)	-	-	-
	Dividend for the year 2006	-	-	-	(16,035)	-	-		(16,035)
	At December 31, 2007	**14,094**	**94,452**	**2,453**	**94,969**	**5,775**	**(58)**	**15,304**	**226,989**

The Consolidated Financial Statements include the notes on pages 33 to 99.

		2007	2006
		HUF million	
	Cash flow from operating activites		
	Profit for the period	**16,101**	**18,352**
	Adjustments for:		
11	Depreciation and amortisation	5,177	6,275
25	Impairment on non-financial assets	23	(61)
25	Impairment on financial assets	21,797	6,005
28	Deferred tax charge/(income)	(1,924)	1,395
		41,174	31,966
4	Change in loans and advances to banks	26,575	(57,550)
7	Change in loans and advances to customers	(466,300)	(150,477)
5	Change in trading assets	(3,022)	(30,502)
6	Change in AFS securities (without revaluation)	21,253	48,558
8	Change in other assets	(6,414)	(2,381)
12	Change in accounts and deposits from banks	150,423	(29,027)
13	Change in accounts and deposits from customers	163,040	108,118
15,29	Change in other liabilities and provisions	(10,616)	15,764
14	Change in trading liabilities	5,819	3,324
		(119,242)	(94,173)
	Net cash used in operating activities	**(78,068)**	**(62,207)**
	Cash flow from investing activities		
9,10	Investment in group companies	(9,782)	(20,344)
9,10	Disposals of group companies	185	-
11	Purchase of property and equipment	(23,219)	(16,518)
11	Disposals of property and equipment	12,151	6,069
11	Purchase of intangible assets	(11,487)	(5,340)
11	Disposals of intangible assets	8,792	631
	Net cash used in investment activiteis	**(23,360)**	**(35,502)**
	Cash flow from financing activities		
16	Increase in issued securities	108,355	56,112
17	Increase in subordinated liabilities	19,749	(20,946)
18	Issuance of new shares and proceeds from share premium	34,160	49,646
	Dividend paid	(16,035)	(14,794)
	Net cash from financing activites	**146,229**	**70,018**
	Net increase/decrease of cash and cash equivalents	**44,801**	**(27,691)**
	Net increase and decrease in cash and cash equivalents		
3	Cash and cash equivivalents at January 1	82,497	110,188
	Effect of exhange rate	10	148
3	**Cash and cash equivalents at December 31**	**127,298**	**82,497**

The Consolidated Financial Statements include the notes on pages 33 to 99.

MKB Group

Notes to the Consolidated Financial Statements for the year-end December 31, 2007

1 General information and basis of presentation

MKB Bank Zrt. ("MKB" or "the Bank") is a commercial bank domiciled in Hungary, organised under the laws of Hungary and registered under the Hungarian Banking Act. The official name was changed during the year from MKB Bank Nyrt. to MKB Bank Zrt. The change was recorded by the Court of Registry in Budapest on June 26, 2007. The address of MKB is Váci u. 38., 1056 Budapest, Hungary. MKB conducts its domestic and cross-border financial services businesses through banking and non-banking subsidiaries. MKB segregates its operations into four major business sectors. For a discussion of the Bank and its subsidiary companies' business segment information see note 46.

MKB is a member of the BayernLB Group, domiciled in Germany. The address of BayernLB's Head Office is Brienner Str. 18, D-80333 Munich, Germany. BayernLB prepares consolidated IFRS Finacial Statements from 2007. Therefore, MKB's accounting policy was amended on the basis of BayernLB's IFRS accounting policy. The amendments remained in the framework of provisions of IFRS.

The accounting and financial reporting policies and the financial statements of MKB and its subsidiaries are fully in compliance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the EU. Financial statements prepared in conformity with IFRS require management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. These estimates are based on information available as at the date of authorising for issue the financial statements. Therefore, actual results may differ from those estimates.

These financial statements are presented in Hungarian Forint (HUF), rounded to the nearest million.

These financial statements were authorised for issue by the Board of Directors on March 5, 2008.

2 Summary of significant accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the MKB Group (Group) in preparing and presenting the consolidated financial statements. The Group includes all subsidiaries (MKB Unionbank AD, MKB Romexterra Bank S.A., MKB Romexterra Leasing S.A., MKB Romexterra Fond de Pensii S.A., MKB-Euroleasing Autóhitel Zrt, MKB Filease Zrt, Resideal Zrt, MKB Üzemeltetés Kft, MKB Befektetési Alapkezelő Zrt). The following is a description of significant accounting and reporting policies.

In preparing these consolidated financial statements, the Group has adopted IFRS 7 Financial Instruments: Disclosures. The adoption of IFRS 7 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Group has provided full comparative information.

Financial statement presentation

These consolidated financial statements include the accounts of MKB and its subsidiaries, jointly controlled entities and associates ("the Group"). The income, expenses, assets and liabilities of the subsidiaries are included in the respective line items in the consolidated financial statements, after eliminating inter-company balances and transactions.

Principles of consolidation

Enterprises, over which the Group exercises control (subsidiaries), being the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities, other than those excluded because control is assumed to be temporary, are consolidated using the purchase method of accounting. Where an entity began or ceased to be controlled during the financial year, the results are included from the date control commenced or up to the date control ceased. Separate disclosure is made for the minority interests. A list of the Group's significant subsidiary and jointly controlled companies is set out in note 50.

Entities, over which the Group exercises joint control established by contractual agreement (jointly controlled entities) are included in the consolidated financial statements using equity method of accounting, from the date that joint control effectively commences until the date that joint control effectively ceases.

Enterprises, over which the Group exercises significant influence (associates), being the power to participate in the financial and operating policy decisions of the investee, are accounted for under the equity method of accounting except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case it is accounted for under the cost method.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition, if its value is material. Goodwill was amortised over 5 years using the straight-line method till the end of 2004. From 2005, goodwill is not amortised but annually tested for impairment instead.

For the purpose of impairment testing, goodwill is allocated to one or more of the Group's cash-generating units, that are expected to benefit from the synergies of the business combination, irrespective wheather other assets or liabilities are assigned to them. The cash-generating unit to which goodwill has been allocated is tested for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit, where recoverable amount is the higher of the fair value less any costs to sell and the value in use. If the recoverable amount of the unit is less than the carrying amount, an impairment loss is recognised by first reducing the carrying amount of goodwill allocated to the unit and then the other assets of the unit on a pro rata basis. Any impairment loss for goodwill is recognised immediately in profit or loss. Impairment losses recognised for goodwill are not reversed in a subsequent period.
When the fair value of the Group's share of the net identifiable assets of the acquired entity as at the date of acquisition exceeds the cost of acquisition, the Group reassesses the identification and measurement of the acquired assets, liabilities and contigencies, and the cost of the business combination, and recognises any excess remaining after this re-assessment immediately in profit or loss.

The gain or loss on disposal of an entity includes the related oustanding balance of goodwill relating to the entity disposed of.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Financial instruments

Any contract that gives rise to a financial asset, a financial liability or equity is classified as a financial instrument. All financial instruments are initially recognised in the Group's balance sheet when the Group becomes a party to the contractual agreement at cost (at trade date). Initial cost represents given or received consideration and all transaction costs, except assets and liabilities at fair value through profit and loss. 'Regular way' purchases or sales of financial assets are recognised using the trade date accounting with exeption of loans and advances, securities and deposits. These financial assets are recognised at settlement date.

Subsequent to initial recognition, financial instruments are measured by specific valuation principles disclosed for each relevant category of financial assets and financial liabilities below.

Financial assets and financial liabilities are classified as financial instruments at fair value through profit or loss when they are either designated as held for trading, that is they are acquired or incurred for the purpose of selling or repurchasing them in the near term, or they are part of a portfolio with a pattern of short-term profit-taking or they are derivatives, or upon initial recognition they are designated as such by the Bank.

From the year 2007 the Bank designates certain financial assets and liabilities as financial instruments at fair value through profit and loss, where the designation eliminates or significantly reduces measurement inconsistency.

Financial assets are derecognised when no cash flows are the asset, risks and rewards are not held by the group or where the Group loses control of the contractual rights that comprise the financial assets (at trade date). Financial liabilities are removed from the Group's balance sheet when they are extinguished.

Fair value estimation

In assessing the fair value of its financial instruments, the Group uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date.

Quoted market prices, when available, are used to determine fair values. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of instruments with similar characteristics (benchmarking), discounted future cash flows, replacement costs or termination costs, as appropriate. If no fair value can be reliably estimated, financial instruments are stated at cost.

Specific calculation methods used for fair value estimations are disclosed in Note 48.

Trading assets and liabilities

The Group trades debt and equity instruments and derivative financial instruments, as discussed below. These instruments are generally held for the short term in anticipation of market gains and resale, and are carried at their fair value among financial instruments at fair value through profit or loss. Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of other income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

Debt and Equity Instruments

Debt and equity instruments, which include securities, loans (other than those classified as loans and receivables by the Group) and other credit instruments held for trading purposes, are reported as financial assets at fair value through profit or loss. Interest earned on debt securities is reported as trading result among the other operating income when it becomes due. The dividends earned on equity instruments are disclosed separately among the interest income when received.
Included in financial liabilities held for trading are obligations to deliver debt and equity instruments sold but not yet purchased. Interest payable on such debt instruments is reported as other operating expense.

Trading assets and liabilities

Derivative Financial Instruments

The Group deals in interest rate, foreign exchange, equity and other contracts primarily for hedging and also to generate trading revenues. These contracts include futures, forwards, forward rate agreements, swaps and options (including interest rate caps and floors). All derivative financial instruments are carried at fair value in the Bank's balance sheet among financial instruments at fair value through profit or loss. The estimated fair values of these contracts are reported on a gross basis as financial assets at fair value through profit or loss for contracts having a positive fair value and financial liabilities at fair value through profit or loss for contracts with a negative fair value.
The variables of the models used to calculate the fair value of trading assets and trading liabilities include only data from observable markets, therefore any day 1 profit is realised immediately in the income statement.

Hedging

As part of its asset/liability management activities, the Group uses interest rate swaps and cross currency interest rate swaps, to hedge existing foreign currency and interest rate exposures. A hedging relationship qualifies for special hedge accounting if, and only if, all of the following conditions are met: (i) at the inception there is formal documentation of the hedging relationship that includes identification of the hedging instrument and the specific hedged item, the nature of risk being hedged, assessment of hedge effectiveness, (ii) a high level of hedge effectiveness is expected at the inception and the hedge is actually effective throughout the hedge period, (iii) the hedge effectiveness can be reliably measured.

Derivative contracts that meet the above criteria are accounted for as fair value hedges. Hedge effectivness is calculated twice a year.

Fair Value Hedge

A fair value hedge represents a contract that hedges a recognised asset or liability, or an identified portion of such an asset or liability, against exposure to changes in the fair value that is attributable to a particular risk and that will affect reported net income. The gain or loss from re-measuring the hedging instrument at fair value and the loss or gain on the hedged item attributable to the hedged risk are recognised immediately in net profit or loss for the period.

Investments in securities

Investments in securities are classified as either available-for-sale in comformity with the Bank's accounting policy. Interest income on securities is reported separately. Dividend income on securities is taken to interest income when received. Realised gains and losses generated from sales of securities, which are reported on a net basis. The carrying value of individual securities is reduced through write-downs against securities gains to reflect impairment in value.

Available-for-Sale Debt and Equity Instruments

Investments in securities are accounted for as available-for-sale when, in management's judgment, they may be sold in response to or in anticipation of changes in market conditions, unless they are considered to be part of trading-related activities. These securities and the related hedging items are carried on the balance sheet at their fair values. Unrealised gains and losses on these securities are reported as a separate component in shareholders' equity as a revaluation resereve. Equity securities for which no fair values are obtainable are stated at cost.

The held to maturity portfolio is not applied at the Group level.

Loans and receivables, and related impairment losses

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are classified as loans and receivables. Loans are generally reported at amortized cost or, when impairment occurs, at recoverable amounts.

Up-front credit fees are deferred and recognised over the maturity of loans using the effective interest rate method.

A collaterised loan is considered an in-substance foreclosure and is reclassified to other assets (assets held for resale) only, when the Group has taken physical possession of the collateral.

Loans and receivables, and related impairment losses (continued)

Specific impairment losses for loans and receivables are set up against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances and, through the use of allowance

accounts, reduce these loans and advances to their recoverable amounts calculated on the basis of discounted future cash flows using the original effective interest rates of underlying loans and receivables as discount factors. Impairment losses are assessed, on the basis of existing objective evidence of impairment, individually for loans and receivables that are individually significant, and collectively for loans and receivables that are individually not significant.
Any loan meeting the following criteria for individually handling:
– Loans and advanses to financial institutions
– Loans and advanses to corporate clients with turnover more than HUF 2.5 billion
– Project financing loans over HUF 500 million
– Loans under intensive care and workout process

Provisioning of exposures is performed quarterly in strict conformity with the relevant internal rules. All exposures are reviewed quarterly by the Credit Committee, with exposures above a certain limit (currently HUF 50 million) being reviewed on a case by case basis. Credit Committee is in charge to recommend the provision while the approval is the authority of the Board of Management.

Collective impairment is calculated for all those loans that are not individually impaired based upon analyzing the actual historical losses relating to portfolios with similar risk characteristics.

Impairment losses are charged against income for the period. If in a subsequent period the amount of impairment loss decreases, changes in recoverable amounts are recognised through the reversal of impairment.
Provision for guarantees and contingencies
The rating principles of off balance sheet items (contingent and commitments) are identical with the principles applied to the rating of receivables, i.e., the provisioning requirement always primarily depends on the financial position and paying capacity of the debtor.

Finance leases

The Group, as a lessor, recognises assets held under a finance lease in its balance sheet and presents them as receivables at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease. Lease payments relating to the accounting period are applied against the gross investment in the lease to reduce both the principal and unearned finance income.

Investments in jointly controlled entities and associated companies

Investments in jointly controlled entities and associated companies are accounted for under the equity method accounting, whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the investee. Goodwill arising on the business combination is not amortised but tested for impairment instead (see above). The income statement reflects the Group's share of the results of operations of the investee.

A list of the Group's significant jointly controlled and associated companies is set out in note 10.

Property and equipment

Property and equipment, including leasehold improvements, are carried at historical cost less accumulated depreciation and amortisation. Depreciation and amortisation of property and equipment are included in occupancy costs. Depreciation and amortisation are computed using the straight-line method for office equipments (useful life is between 4 and 7 years), fixtures and fittings (useful life is between 5 and 20 years) and for properties and buildings (useful life is17 years). The estimated residual value of some of the buildings is higher than the book value and therefore not depreciated. Freehold land is not depreciated. Maintenance and repairs are charged to expense as incurred, while major improvements are capitalised. Net gains and losses on disposal or retirement of property and equipment are included in other income, in the year of disposal or retirement.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for supply of services, or for administration purposes. They are measured initially at costs and subsequently carried at costs less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their estimated useful lives not exceeding 15 years from the date when the asset is available for use, applying the straight-line method. Intangible assets are tested for impairment at each financial year end.

General risk reserve

Hungarian legislation allows the Group to set aside amounts for general banking risks, including future losses and other unforeseeable risks or contingencies, in addition to those losses which have been specifically identified and those potential losses which experience indicates are present in the credit portfolio. Prior to 2003, the Group set aside the allowed maximum of 1.25% of risk-weighted assets and off-balance sheet exposures as at balance sheet date. From 2003 onwards, the Group has not set aside such reserves but utilises the outstanding amount for uncovered loan and investment losses. Such amounts are separately disclosed as appropriation of retained earnings and are not included in the determination of net profit or loss for the period. For further explanations, see note 19.

Deposits, debt securities issued and subordinated liabilities

"Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding. When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.The Group carries some deposits, debt securities and subordinated liabilities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy.

Taxation

Tax expense is calculated on net profit adjusted for permanent differences between taxable and accounting income. Tax effects of temporary differences, being the difference between the tax base of an asset or liability and its carrying amount in the balance sheet, are carried in the balance sheet as deferred tax debits or credits. Such deferred tax balances are calculated using the balance sheet liability method, taking into account the estimated tax that will be paid or recovered when temporary differences reverse.

A deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future.

Revenues

Interest income and expense presented in the income statement include:

– interest on financial assets and liabilities at amortised cost on an effective interest rate basis
– interest on available-for-sale investment securities on an effective interest basis
– the effective portion of qualifying hedge derivatives if the hedged item is recorded in interest income / expense

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in other operating income carried at fair value in the income statement.

Other income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

Foreign currency translation

Income and expenditure arising in foreign currencies are translated at rates of exchange ruling at the transaction dates. Monetary assets and monetary liabilities denominated in foreign currencies are translated at rates of exchange ruling at the end of the year. Resulting exchange differences are recognised in the income statement. Non-monetary assets stated at cost are not revalued.

Assets and liabilities of those foreign entities whose financial statements are not prepared in Hungarian Forints are translated at the closing rates of exchange. Income and expenditure items of foreign entities are translated at the average rates for the period. Differences arising on translation of the financial statements of foreign entities are taken directly to reserves. On disposal of the foreign entity, such translation differences are recognised in the income statement as part of the gain or loss on sale.

Retirement benefit costs

The Group operates a defined contribution retirement scheme. Contributions are charged to the income statement as they fall due. For further discussion, see note 27.

Trust activities

In the normal course of business, the Group acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, pension funds and other institutions. These assets are not assets of the Group and, therefore, not included in its balance sheet.

Segment reporting

Based on its organisational and management structure, and internal financial reporting system, the Group uses business segments, being a distinguishable component of the Group that provides a similar type or class of customers with a group of related products and services subject to substantially similar risks and returns, as its primary segment reporting format and geographical segments, being a particular economic and political environment subject to substantially similar risks and returns, as its secondary segment reporting format.

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Group allocates segment revenue and segment expense through an inter-segment pricing process.

Statement of cash flows

The Group uses the indirect method, which reports cash flows from operating activities by adjusting net income to reconcile to net cash flows from operating activities. Cash and cash equivalents comprise balances with less than 3 months of maturity from the date of acquisition, including cash and balances with central banks. Cash flows from loans and deposits are each reported on a net basis for the year.

Related parties

The party is related when it controls or is under direct or undirect control of the Group, has an interest of significant influence or joint control in the Group or is controlled jointly or significantly by the Group, is an associate, a key management personnel of the Group or its parent, or a close member of the family of the key personnel. Management disclosures include balances and items related to the members of the Board of Directors and the Supervisory Board.

Reclassification

Where appropriate, certain amounts in prior periods have been reclassified to conform to the current presentation.

Expected changes in accounting policies from 2008

During 2007 the Group accounting policy was changed according to BayernLB Group provisions (see note 53.)
No changes is expected in the accounting policies in 2008.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:
IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Board of Directors in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments.

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

3 Cash reserves

	2007	2006
	HUF million	
Cash and balances with Central Banks	86,481	72,332
Treasury bills and bills eligible for refinancing by Central Banks	40,817	10,165
	127,298	**82,497**

The Group is required to maintain reserves with the National Bank equivalent to 5% (2006: 5%) of certain deposits. The required balance based on the period end position amounted to HUF 58,523 million (2006: HUF 49,149 million). At December 31, 2007 cash amounted to HUF 53.2 million (2006: HUF 26.5 million) and included in the cash reserves were Treasury bills, belogning to the available-for-sale securities portfolio, amounting to HUF 734.5 million (2006: Nil) that were pledged as collaterall for stock exchange and credit card transactions.

4 Loans and advances to banks

	2007	2006
	HUF million	
Current and clearing accounts	10,357	7,222
Money market placements	120,623	119,764
Loans and advances	62,044	92,613
	193,024	219,599
Impairment losses (see note 25)	(19)	(63)
	193,005	**219,536**

At period end, included in current and clearing accounts was HUF 796 million (2006: HUF 101 million) which was due from a shareholder with significant influence at market interest rates.

5 Trading and risk management assets

	2007			2006		
	Cost	Unrelised gain/(closs)	Book value	Cost	Unrealised gain/(closs)	Book value
	HUF million					
Financial assets held for trading purposes						
Debt and equity instruments						
Government Treasury bills	254	-	254	4,121	-	4,121
Government bonds	20,221	(80)	20,141	17,217	49	17,266
Corporate sector bonds	10,838	(23)	10,815	16,945	(54)	16,891
Foreign corporate sector bonds	2,063	(161)	1,902	-	-	-
Hungarian equities	51	-	51	-	-	-
Foreign equities	583	-	583	-	-	-
Total debt and equity instruments	**34,010**	**(264)**	**33,746**	**38,283**	**(5)**	**38,278**
Derivative instruments						
FX based derivatives instruments	-	16,602	16,602	-	6,623	6,623
Share based derivatives instruments	-	-	-	-	2	2
Interest based derivative instruments	-	5,955	5,955		9,231	9,231
Options	461	263	724	176	497	673
Total derivative instruments	461	22,820	23,281	176	16,353	16,529
Total trading assets	**34,471**	**22,556**	**57,027**	**38,459**	**16,348**	**54,807**
Derivatives held for risk management purposes						
FX-based derivatives instruments	-	795	795	-	-	-
Interest-based derivative instruments	-	7	7	-	-	-
Derivatives held for risk management	-	802	802	-	-	-
Total derivative financial instruments	**461**	**23,622**	**24,083**	**176**	**16,353**	**16,529**
TOTAL	**34,471**	**23,358**	**57,829**	**38,459**	**16,348**	**54,807**

Option transactions comprise FX options in the amount of HUF 194.9 million (2006: HUF 687 million) and CAP/FLOOR options in the amount of HUF 520.4 million (2006: Nil)
The hedged items are disclosed under relevant notes. (See notes: 7,13,16)"

6 Investments in securities

				2007				2006
	Cost	Unrealised gain/(loss)	Impairment	Book value	Cost	Unrealised gain/(loss)	Impairment	Book value
				HUF million				
Available-for-sale								
Government bonds	37,164	(376)	-	36,788	52,471	(60)	-	52,411
Investment funds	2,801	212	-	3,013	3,653	448	-	4,101
Hungarian corporate sector bonds	781	14	-	795	2,211	(7)	(1)	2,203
Foreign corporate sector bonds	1,039	1	-	1,040	2,863	(2)	-	2,861
Hungarian equities	-	-	-	-	830	-	(15)	815
Foreign equities	189	41	-	230	924	11	-	935
Total AFS securities	**41,974**	**(108)**	**-**	**41,866**	**62,952**	**390**	**(16)**	**63,326**
TOTAL INVESTMENTS IN SECURITIES	**41,974**	**(108)**	**-**	**41,866**	**62,952**	**390**	**(16)**	**63,326**

Hungarian Government bonds include 20 year bonds, maturing in years 2013 and 2014, in the amount of HUF 14,929 million (2006: HUF 14,960 million). These bonds earn interest at floating market rates.

Investments in securities are considered impaired if their carrying amount is greater than the estimated recoverable amount assessed at each balance sheet date on the basis of objective evidence such as significant financial difficulty of the issuer, actual breaches of contracts, high probability of bankruptcy or other financial reorganisation of the issuer.

Included in the Group's investments in securities were available-for-sale portfolio securities amounting to HUF 22,083 million (2006: HUF 37,758 million) that were pledged as collateral for stock exchange and credit card transactions in the ordinary course of business.

The total effect in the equity comprises HUF 108 million loss (2006: HUF 390 million gain) and HUF 50 million deferred tax income (2006: HUF 57 million deferred tax expense).

7 Loans and advances to customers

	Performing loans	Classified loans	Specific impairment losses	Collectively assessed impairments	2007 Net Loans	2006 Net Loans
			HUF million			
Corporate						
Overdrafts	43,688	821	(709)	(53)	43,747	38,465
Trading and industrial	442,643	8,034	(3,761)	(239)	446,677	433,571
Real estate	425,559	6,391	(966)	(78)	430,906	273,498
Total corporate	**911,890**	**15,246**	**(5,436)**	**(370)**	**921,330**	**745,534**
Small- and medium sized enterprises (SME)						
Overdrafts	48,221	3,768	(2,088)	(71)	49,830	35,250
Trading and industrial	322,360	50,193	(18,633)	(250)	353,670	302,558
Real estate	30,139	3,071	(1,785)	(10)	31,415	29,717
Credit card	5,967	300	-	(136)	6,131	5,682
Total SME	**406,687**	**57,332**	**(22,506)**	**(467)**	**441,046**	**373,207**
Retail						
Overdrafts	14,602	6,240	(3,493)	(21)	17,328	9,194
Residental mortgage	301,569	9,976	(114)	(1,073)	310,358	192,689
Credit card	12,413	1,521	-	(512)	13,422	13,647
Personal	147,975	9,046	(7,131)	(1,183)	148,707	53,126
Employees	8,382	193	(16)	(66)	8,493	3,232
Trading and industrial	37,344	5,198	(1,196)	(10)	41,336	66,899
Total retail	**522,285**	**32,174**	**(11,950)**	**(2,865)**	**539,644**	**338,787**
TOTAL LOANS AND ADVANCES	**1,840,862**	**104,752**	**(39,892)**	**(3,702)**	**1,902,020**	**1,457,528**

7 Loans and advances to customers

The breakdown of the Group's loans and advances by main industrial sectors was as follows:

2007 Sectors	Performing loans	Classified loans	Specific impairment losses	Collectively assessed impairments	Net Loans	2006 Net Loans
	HUF million					
Real Estate	500,242	14,330	(4,961)	(119)	509,492	368,261
Food + Beverages	151,380	18,924	(8,176)	(131)	161,997	152,686
Financial services	94,235	948	(546)	(35)	94,602	16,140
Construction	84,922	8,363	(4,687)	(230)	88,368	56,158
Trade and sevices	103,900	11,824	(3,411)	(106)	112,207	73,536
Logistics	59,472	2,306	(829)	(48)	60,901	63,751
Utilities	40,057	566	(399)	(12)	40,212	85,253
Automotive	53,655	2,506	(1,747)	(38)	54,376	46,743
Oil and gas	19,259	237	(143)	(6)	19,347	34,113
Technology	46,431	5,904	(3,269)	(31)	49,035	33,333
Metals +Mining	22,719	2,093	(1,020)	(24)	23,768	30,730
Hotels	34,691	2,467	(827)	(7)	36,324	26,721
Non profit organizations	26,026	9	(14)	(3)	26,018	30,022
Chemicals	25,145	618	(339)	(16)	25,408	23,618
Manufactoring and Engineering	26,653	2,620	(1,261)	(53)	27,959	23,098
Sovereigns	14,315	45	(32)	(28)	14,300	30,751
Consumer Durables	23,810	1,336	(631)	(83)	24,432	21,091
Media	9,477	450	(294)	(16)	9,617	18,268
Telecom	9,899	367	(173)	(2)	10,091	11,187
Pharmaceuticals	12,665	67	(50)	(5)	12,677	7,525
Textiles + Apparel	10,368	1,312	(934)	(36)	10,710	6,577
Pulp + paper	5,953	612	(290)	(8)	6,267	5,503
Other	21,779	963	(734)	(22)	21,986	14,140
Private	443,809	25,885	(5,125)	(2,643)	461,926	278,323
TOTAL LOANS AND ADVANCES	**1,840,862**	**104,752**	**(39,892)**	**(3,702)**	**1,902,020**	**1,457,528**

In 2007, the Group has written off loans and advances amounting to HUF 8,963 million (2006: HUF 7,599 million).
Classified loans are those graded by management as "substandard", "doubtful" and "bad".
In 2007, estimated credit losses amounted to HUF 43,594 million (2006: HUF 30,864 million), equal to 2.2% (2006: 2.1%) of gross outstanding loans.
At December 31, 2007 the carrying amount of hedged loans and advances amounted to HUF 47,532.6 million and their cost totalled at HUF 47,423.8 million (2006: Nil).

7 Loans and advances to customers (continued) – Finance leases as lessor

As part of its financing activities, the Group enters into finance lease transactions as a lessor. At December 31, 2007 and 2006, the reconciliation of the Group's gross investment in the lease, and the net present value of minimum lease payments receivable by relevant remaining maturity periods was the following.

				2007	2006
	up to 1 year	1 year to 5 years	over 5 years	Total	Total
			HUF million		
Gross investment in the lease	8,075	19,736	3,873	31,684	2,522
Unearned finance income	(1,916)	(3,539)	(587)	(6,042)	(544)
Present value of minimum lease payments	6,159	16,197	3,286	25,642	1,978
Accumulated allowance for uncollectible minimum lease payments	-	-	(84)	(84)	-
Finance leases as per balance sheet date	**6,159**	**16,197**	**3,202**	**25,558**	**1,978**

In 2007, HUF 6.8 million contingent rents were recognized in finance income (2006: HUF 1 million), and the unguaranteed residual value amounting to HUF 223.1 million existed (2006: HUF 143 million). At December 31, 2007, the accumulated allowance for uncollectible minimum lease payments amounted to HUF 83.7 million (2006: Nil).
Contracts original maturity ranges 1 year up to 10 years. The contracted interest rates are valiable and can be changed if LIBOR, BUBOR, or CHF exchange rates changes. No guaranteed residual value exists.

8 Other assets

	2007	2006
	HUF million	
Prepayments and other debtors	13,127	6,895
Stock and other tradable assets	916	522
Corporate income tax recoverable	832	2,145
Other taxes recoverable	1,251	147
	16,126	9,709
Impairment losses (see note 25)	(63)	(40)
Total other assets	**16,063**	**9,669**

9 Goodwill

	2007	2006
	HUF million	
Opening balance at January 1	**30,361**	**851**
Minority interest transaction	7,181	29,510
Sale of subsidiaries	(40)	-
Closing balance at December 31	**37,502**	**30,361**

In 2007, goodwill arose on the acquisition of further stakes in MKB-Romexterra Bank while decresed through the disposal of Unionleasing.

Impairment testing for cash-generating units:
For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to three main cash generating units are as follows:
MKB Unionbank AD HUF 16.4 billion
MKB Romexterra Bank S.A. HUF 19.7 billion
MKB Euroleasing Zrt. 2.1 HUF billion

The recoverable amount of the cash-generating units was based on its value in use and was determined with the assistance of independent valuers. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

MKB Unionbank AD

Cash flows were projected based on actual operating results and the 8-year business plan. Cash flows for a further periods were extrapolated using a constant growth rate of 5 percent. Revenue was projected at about HUF 1,444 thousand in the first year of the business plan. The forecasted plans to achieve annual revenue of HUF 6,232 million by the eighth year of the business.

We have prepared a detailed BS&PL forecast until 2015, We consider this 8 year forecast period to be justifiable due to high growth of the Bulgarian banking market.

Continuous decrease in net interest margin from 4.4% in 2008 is expected down to 3.48% by 2015
Rate of non-interest incomes are growing up to 34% by 2015 from 23% in 2008.
The termination value consists of two different periods: 2016-2020 period with a decreasing growth rate and the period after 2020 with a stable 5% nominal growth (growth of total assets reaching 5% in 2020)

MKB Unionbank has a value in use more than carrying amount.

MKB Romexterra Bank S.A.

Cash flows were projected based on actual operating results and the 8-year business plan. Cash flows for a further periods were extrapolated using a constant growth rate of 5 percent. Revenue was projected at about HUF 1,190 thousand in the first year of the business plan. The forecasted plan to achieve annual revenue of HUF 14,161 million by the eighth year of the business. We have prepared a detailed BS & PL forecast until 2015. We consider this 8 year forecast period to be justifiable due to high growth of the Romanian banking market (25% growth of total banking assets 2006-2007).

Continuous decrease in net interest margin from 4.28% in 2008 is expected to 3.36% by 2015
Slightly increasing provision per average loans, from 1.3% in 2008 reaching 1.5% by 2015.
Rate of non-interest incomes are decreasing from 45% in 2008 down to 32.7% by 2015.
The termination value consists of two different periods: 2016-2020 period with a decreasing growth rate and the period after 2020 with a stable 5% nominal growth (growth of total assets reaching 5% in 2020)

MKB Romexterra Bank has a value in use more than carrying amount.

MKB Euroleasing Ltd.

Cash flows were projected based on actual operating results and the 5-year business plan. Cash flows for a further periods were extrapolated using a constant growth rate of 5 percent.Revenue was projected at about HUF 800 thousand in the first year of the business plan. The forecasted plan to achieve annual revenue of HUF 895 million by the fifth year of the business. We have prepared a detailed BS & PL forecast until 2012. We consider this 5 year forecast period to be justifiable due to remain the leader of Hungarian market.
Continuous decrease in net interest margin from 9% in 2008 is expected to 6.6% by 2012.
The termination value consists of two different periods: 2008 period with a decreasing growth rate and the period betwee 2009-2012 with a stable 4% nominal growth.

MKB Euroleasing Ltd. has a value in use more than carrying amount.

10 Investments in participations

	2007	2006
	HUF million	
Cost	7,867	6,130
Goodwill arising on acquisition	1,528	1,605
Share of post acquisition reserves	551	(244)
	9,946	**7,491**

At December 31, 2007, the investments in jointly controlled and associated companies represented the following equity stakes:

Company	% Equity owned	Country of incorporation	Brief description of activities	Nature of the relationship
Ercorner Kft	50.00	Hungary	Property investments	jointly controlled entity
GIRO Zrt	22.19	Hungary	Central payment services	associate
MKB-Euroleasing Zrt	50.00	Hungary	Finance leasing activity	jointly controlled entity
MKB-Euroleasing Autópark Zrt	50.00	Hungary	Fleet finance	jointly contolled entity
Pannonhalmi Borház Kft	45.50	Hungary	Wine producing	associate
Euro Ingatlan Group	60.00	Hungary	Construction	jointly controlled entity

Investmens and participations that are not consolidated are measured at cost because their fair value cannot be reliably measured. These investments are not listed and they do not have active market. The Group conducts an annual impairment test in order to assess whether these invesments shall be impaired.

Summary financial information 2006	Ercorner Kft.	GIRO Zrt	MKB-Euroleasing Zrt.	MKB-Euroleasing Autópark Zrt.	Pannonhalmi Borház Kft.	Euro Ingatlan Group
Ownership (%)	50.0	22.2	50.0	75.0	45.5	60.0
Current assets	288	3,866	1,031	365	85	3,806
Non-current assets	3,874	3,878	10,080	12,154	899	1,637
Total assets	4,162	7,744	11,112	12,519	984	5,443
Current liabilities	4,383	2,541	4,073	3,127	76	1,725
Non-current liabilities	-	92	1,338	8,779	359	3,569
Equity	(221)	5,111	5,701	613	549	149
Total liabilities	4,162	7,744	11,112	12,519	984	5,443
Revenues	362	5,461	504	11,070	136	855
Expenses	628	5,076	561	10,935	186	804
Profit/Loss	(266)	385	(57)	135	(50)	51

Summary financial information 2007	Ercorner Kft.	GIRO Zrt	MKB-Euroleasing Zrt.	MKB-Euroleasing Autópark Zrt.	Pannonhalmi Borház Kft.	Euro Ingatlan Group
Ownership (%)	50.00	22.19	50.00	74.97	45.50	60.00
Current assets	131	4,200	1,334	578	111	8,472
Non-current assets	3,875	3,720	9,011	12,013	913	4,323
Total assets	4,006	7,920	10,345	12,592	1,024	12,795
Current liabilities	4,220	2,707	2,756	1,745	193	2,506
Non-current liabilities	298	53	946	10,214	250	9,459
Equity	(513)	5,160	6,643	633	581	830
Total liabilities	4,006	7,920	10,345	12,592	1,024	12,795
Revenues	10	5,524	835	10,861	153	2,566
Expenses	302	5,475	581	10,706	204	1,538
Profit/Loss	(292)	49	254	155	(51)	1,028

11 Movements in intangibles, property and equipment

	Intangibles	Property Freehold	Leasehold	Equipment	Total
			HUF million		
Cost					
At January 1, 2007	25,808	24,741	5,328	23,974	79,851
Additions	11,552	8,019	-	17,115	36,686
Disposals and charge-offs	(8,820)	(206)	(5,328)	(8,780)	(23,134)
Other	962	423	-	4,709	6,094
At December 31, 2007	**29,502**	**32,977**	**-**	**37,018**	**99,497**
Depreciation					
At January 1, 2007	4,479	3,008	939	6,963	15,389
Charge for the year	1,982	1,013	-	4,373	7,368
Eliminated on disposals	(28)	(95)	(939)	(1,129)	(2,191)
Other	999	121	-	4,763	5,883
At December 31, 2007	**7,432**	**4,047**	**-**	**14,970**	**26,449**
Net book value as at December 31, 2007	**22,070**	**28,930**	**-**	**22,048**	**73,048**

The movements in intangibles, property and equipment in 2006 were as follows:

	Intangibles	Property Freehold	Leasehold	Equipment	Total
			HUF million		
Cost					
At January 1, 2006	21,251	19,821	3,510	19,236	63,818
Additions	5,340	7,509	1,818	7,048	21,715
Disposals and charge-offs	(631)	(610)	-	(1,683)	(2,924)
Other	(152)	(1,979)	-	(627)	(2,758)
At December 31, 2006	**25,808**	**24,741**	**5,328**	**23,974**	**79,851**
Depreciation					
At January 1, 2006	3,737	1,474	572	6,736	12,519
Charge for the year	1,915	878	274	3,208	6,275
Eliminated on disposals	(1,173)	(238)	-	(448)	(1,859)
Other	-	894	93	(2,533)	(1,546)
At December 31, 2006	**4,479**	**3,008**	**939**	**6,963**	**15,389**
Net book value as at December 31, 2006	**21,329**	**21,733**	**4,389**	**17,011**	**64,462**

At the period end, there were no fixed assets of the Group (2006: Nil) burdened by mortage charges.
Other movements include reclassifications between asset categories.

12 Amounts due to other banks

	2007	2006
	HUF million	
Current and clearing accounts	7,579	16,292
Money market placements	199,190	75,621
Borrowings	371,861	336,295
	578,630	**428,208**

At period-end, included in borrowings from other banks was HUF 85,005 million (2006: HUF 19,951 million) with original maturity of more than five years.

13 Current and deposit accounts

	2007	2006
	HUF million	
Domestic corporate customers	594,815	512,173
Foreign corporate customers	180,915	124,970
Private individuals	471,406	446,953
	1,247,136	**1,084,096**

At December 31, 2007, the Group had a stock of Certifivcate of deposit named Europa deposits of HUF 1,313 million issued (2006: HUF 2,411 million). The Group also had fixed income deposits of HUF 6,261 million (2006: Nil) measured at fair value through profit or loss. Beside these facts the group had HUF 33,065.2 million their cost HUF 33,131.4 million (2006: NIL) hedged depostis for managment risk porposes.

14 Trading and risk management liablities

	2007	2006
	HUF million	
Negative value of derivatives instruments	12,713	6,894
Total trading liabilities	**12,713**	**6,894**

Financial liabilities at fair value through profit or loss represent derivative financial instruments with negative fair values at year-end.

			2007			2006
	Cost	Unrealised profit (loss)	Book value	Cost	Unrealised profit (loss)	Book value
			HUF million			
Derivative financial instruments held for trading purposes						
FX-based derivatives instruments	-	7,032	7,032	-	4,048	4,048
Interest-based derivative instruments	-	-	-	-	2,090	2,090
Share-based derivatives instruments	-	2,817	2,817	-	-	-
Credit default swap	52	(41)	11	-	-	-
Options	552	167	719	259	497	756
Total trading liabilities	**604**	**9,975**	**10,579**	**259**	**6,635**	**6,894**
Derivatives held for risk management purposes						
FX-based derivatives instruments	-	28	28	-	-	-
Interest-based derivative instruments	-	2,106	2,106	-	-	-
Total derivatives held for risk management	**-**	**2,134**	**2,134**	**-**	**-**	**-**
Total derivative financial instruments	**604**	**12,109**	**12,713**	**259**	**6,635**	**6,894**

The hedged items are disclosed under relevant notes. (See notes: 7,13,16)

15 Other liabilities and provisions

	2007	2006
	HUF million	
Accruals and other creditors	33,953	44,098
Corporate income tax payable	29	-
Other taxes payable	2,062	2,476
Provision for guarantees and contingencies (see note 25)	1,532	1,489
	37,576	**48,063**

As part of its business activities, the Group enters into finance lease transactions as a lessee. At December 31, 2007 and 2006, the reconciliation of the Group's future minimum lease payments at the balance sheet date and their present value by relevant remaining maturity periods was the following:

	up to 1 year	1 year to 5 years	over 5 years	2007 Total	2006 Total
Finance leases as lessee			HUF million		
Future minimum lease payments	167	264	-	431	-
Unearned finance income	(16)	(18)	-	(34)	-
Present value of minimum lease payments	151	246	-	397	-
Finance leases as per balance sheet date	**151**	**246**	**-**	**397**	**-**

In 2007, no contingent rents were recognized in finance income (2006: Nil). No sublease payments are expected to be received at the balance sheet date. The net carrying amount of the leased operational and office equipment amounted to HUF 536.7 million at the balance sheet date (2006: Nil).

The Group leases some of its facilities in the form of operating lease. At December 31, 2007 and 2006, the total of future minimum lease payments under non-cancellable operating leases by relevant remaining period was the following:

	up to 1 year	1 year to 5 years	over 5 years	2007 Total	2006 Total
Non-cancellable operating leases			HUF million		
Minimum lease payments	1,880	4,331	16,996	23,208	2,115

No sublease payments are expected under these non-cancellable leases.

In 2007, lease and sublease payments were recognised as an expense in the period amounted to HUF 1,303 million (2006: HUF 410 million) whereas there were no contingent rents and sublease payments were recognised.
Lease agreements for buildings are used by the reporting entity. Contracts mature from 1 year up to 10 years. The contracted lease payments can be changed if the customer price index changes. There are no purchase option or restrictions.

16 Issued debt securities

	First Issuance	2007	2006
		HUF million	
3M EURIBOR+0.19% EUR 50 million due 2011	27/10/2004	12,656	12,615
3.5% EUR 300 million due 2009	26/11/2004	74,158	75,690
3M EURIBOR+0.18% EUR 50 million due 2010	11/10/2005	12,664	12,615
3M BUBOR+0.15% MKB I. Bond HUF 38,782 million due 2007	06/06/2006	-	25,548
3M BUBOR+0.25% MKB II. Bond HUF 22,320 million due 2009	09/05/2007	22,245	21,482
3M BUBOR+0.25% MKB III. Bond HUF 32,086 million due 2011	19/07/2007	26,837	6,693
6.75% MKB FIX 2008 HUF 3,000 million due 2008	29/10/2007	2,755	2,849
6.75% MKB FIX+ 2010 HUF 3,000 million due 2010	23/11/2007	1,101	790
6.75% MKB FIX 2013 HUF 3,000 million due 2013	19/11/2007	315	334
6.75% MKB FIX+ 2016 HUF 3,000 million due 2016	28/11/2007	106	119
3M EURIBOR+0.17% EUR 100 million due 2009	21/10/2005	15,704	-
3M ROBOR RON 50 million due 2010	21/10/2005	3,516	-
3M EURIBOR+0.34% EUR 200 million due 2009	21/11/2007	39,261	-
Zero Coupon CZK 843 million due 2009	10/09/2004	7,410	-
6M BRIBOR+0.22% SKK 1,000 million due 2010	09/12/2005	7,540	-
4.31% FIX SKK 500 million due 2008	15/02/2006	3,769	-
6.5% 2009/A HUF 1,600 million due 2009	15/02/2006	677	-
Zero Coupon MKB D080213 HUF 27,801 million due 2008	19/09/2007	22,093	-
Zero Coupon MKB D080507 HUF 12,271 million due 2008	21/11/2007	11,681	-
Accrued interest of the bonds		1,764	-
MKB Romexterra Bank S.A. Bonds		207	1,972
MKB Unionbank AD		2,530	-
Accrued interest of the bonds issued by subsidiaries		73	-
		269,062	**160,707**

At December 31, 2006, the Group had HUF 13,234 million (2005: HUF 367 million) nominal value of own bonds repurchased from those MKB I. Bonds maturing in 2007, HUF 838 million (2005: HUF 145 million) nominal value from MKB II. Bonds maturing in 2009, HUF 1,426 million (2005: HUF 488 million) nominal value of MKB III. maturing in 2011, HUF 151 million (2005: HUF 425 million) nominal value of MKB FIX 2008 maturing in 2008, HUF 2,210 million (2005: HUF 2,299 million) nominal value of MKB FIX+ 2010 maturing in 2010, HUF 2,666 million nominal value of MKB FIX 2013 maturing in 2013 and HUF 2,881 million nominal value of MKB FIX 2016 maturing in 2016.

At December 31, 2007, the Group had HUF 36,298 (2006: HUF 13,234 million) million nominal value of own bonds repurchased. These amount has the following components: HUF 74 million nominal value from MKB II. Bonds maturing in 2009, HUF 2,524 million nominal value of MKB III. maturing in 2011, HUF 221 million nominal value of MKB FIX 2008 maturing in 2008, HUF 1,870 million nominal value of MKB FIX+ 2010 maturing in 2010, HUF 2,666 million nominal value of MKB FIX 2013 maturing in 2013 and HUF 2,881 million nominal value of MKB FIX 2016 maturing in 2016. From the own bonds repurchesed portfolio has HUF 5,035 nominal value of Zero Coupon Bond D080213, and HUF 21,028 million nominal value of MKB EUR bond maturing in 2009.

In February 2007, MKB I. Bonds matured in a nominal value of HUF 32,782 million.

In 2007, the Group issued a new domestic bond series (MKB III. Bonds) in three tranches of HUF 10,036 million in January, HUF 4,150 million in June and HUF 7,900 million in August. MKB II. and MKB III. Bonds are listed on the Budapest Stock Exchange.

During 2007, MKB also issued zero coupon bonds in three transactions: on September 19 in a nominal value of HUF 18,197, on November 21 in face value of HUF 17,439 million and further HUF 4,436 million on December 19. In November 2007, MKB issued MKB 2009/A bonds with the nominal amount of HUF 1,600 million maturing in 2009.

During 2007 there were new issued zero coupon bonds in amount of HUF 44,072 million which were due before the end of this year.

On May 9, 2007, MKB Group issued bonds with a nominal value of EUR 100 million under an EUR 1,000 million EMTN program. Under the same EMTN program, on October 29, 2007, MKB Group issued further bonds with a nominal value of EUR 200 million. These bonds are listed on the Luxemburg Stock Exchange.

On July 19, 2007, MKB bonds were issued with a nominal value of RON 50 million which listed on the Luxemburg Stock Exchange.

Under the EMTN program, MKB bonds denominated in CZK and SKK were issued. On November 19, 2007, SKK floating rate bonds were issued in a nominal value of SKK 1,000 million with a three-year maturity, and on November 23, 2007, Zero-Coupon Bonds were issued with a nominal value of CZK 843 million with a maturity of two years. On November 28, 2007, additional SKK bonds were issued with fixed interest rates in a nominal value of SKK 500 million with one-year maturity. All these bonds are listed on the Luxemburg Stock Exchange exeption of the SKK 500 million.

At 31 December, 2007 the hedged own issued bonds amounted to HUF 89,069.8 million their cost HUF 90,975,2 million, (2006: NIL). Interest rate risks and foreign exchange risks are hedged under FV hedge accounting concerning these instruments.

17 Subordinated debt

On October 30, 2002, the Group borrowed EUR 50 million from its shareholder, equivalent to HUF 12,637 million (2004: EUR 50 million equivalent to HUF 12,297 million), which is due 2012 and bears interest rate at 6M EURIBOR+1.2%.

On December 30, 2003, the Group borrowed EUR 40 million from its major shareholders, equivalent to HUF 10,109 million (2004: EUR 40 million equivalent to HUF 9,837 million), which is due 2013 and bears interest rate at 6M EURIBOR+1.5%.

On June 15, 2005, the Group borrowed EUR 50 million from its major shareholders, equivalent to HUF 12,637 million, which are due 2015 and bears interest rate at 6M EURIBOR+1,5%.
On October 4, 2006, the Group issued subordinated debt bonds amounting EUR 120 million, equivalent to HUF 30,276 million, which are due 2016 and bear interest rate at 3M EURIBOR+1.01%. Subordinated debt bonds were issued under the EMTN program. The bonds are quoted on the Luxembourg Stock Exchange.

On July 25, 2007, further subordinated bonds were issued in an amount of EUR 75 million which are due 2017 and bear interest rate at 3M EURIBOR+0.92%.
The above debts are direct, unconditional and unsecured obligations of the Group, and are subordinate to the claims of the Group's depositors and other creditors.

18 Share capital and capital resereve

The Bank's authorised, issued, called up and fully paid share capital comprises 14,094,483 (2006: 13,132,671) ordinary shares of HUF 1,000 (2006: HUF 1,000) each. All shares rank pari passu in the event of a winding up.

During January 2007, the shareholders increased the Bank's share capital by HUF 435 million with nominal amount HUF 1000 per share at the price of HUF 30,800. The premium was accounted for against the capital reserves in an amount of HUF 12,969 million.

During December 2007, the shareholders increased the Bank's share capital by an additional HUF 526.5 million with the same nominal value per share at the price of HUF 39,500. The premium was accounted for against the capital reserves in an amount of HUF 20,273 million.
At December 31, 2007, the Group held no treasury shares in its portfolio (2006: Nil).

19 Reserves

Currency translation resereve comprises all foreign exchange differencies arising from the translation of the financial statements of foreign operations.

Local legislation allows the Group to set aside a general risk reserve up to 1.25% of risk weighted assets and off-balance sheet exposures against inherent risk exposures in addition to those losses which have been specifically identified and those potential losses which experience indicates are present in the portfolio of loans and advances. Such amounts are treated as an expense for statutory purposes and are tax deductible; for IFRS purposes, they form part of retained earnings, net of the related tax effects (see note 28). The Group made a reserve up to the maximum 1.25% allowed until the end of 2002. From 2003, the Group has not set aside such reserves.

Revaluation reserve includes the cumulative net change in the fair value of available - for - sale investments until the investment is derecognised or impared.

20 Minority interest

During 2006, the increase in minority interest arose on the acquisation of two foreign subsidiaries (MKB Unionbank, MKB Romexterra Bank). On May 4, 2006, the Group acquired 60% of the shares of MKB Unionbank AD and a 60% indirect interest in Unionlease EAD for HUF 17,372 million. On October 17, 2006, the Group acquired 55.36% shares of MKB Romexterra Bank. The main profile of the new foreign banks are retail and corporate banking services.
In 2006, the carring amount of MKB Unionbank 's and MKB Romexterra Bank's net assets in the consolidated financial statements was HUF 5,537 million and HUF 8,146 million, respectively. The minority interest arisen on the acquisition amounted to HUF 3,692 million and HUF 6,568 million and the goodwill amounted to HUF 16,438 million and HUF 13,031 million, respectively.
During 2007, minority interest decreased by HUF 1,071 million mainly due to the acquisition of further stakes in MKB Romexterra Bank and by additional increase was due to minority profit by HUF 2,281 million.

21 Interest income

	2007	2006
	HUF million	
Cash reserves	4,769	10,061
Other banks	6,869	5,423
Corporate customers	103,440	81,375
Private individuals	25,892	13,007
Interest income from hedge accounting derivatives	4,087	-
Interest income from lending and money market businesses	145,057	109,866
Interest income from investments	8,283	195
Total interest income	**153,340**	**110,061**

22 Interest expense

	2007	2006
	HUF million	
Other banks	19,548	13,397
Corporate customers	23,850	21,255
Private individuals	22,568	18,065
Borrowed funds and debt securities	13,890	8,050
Other expenses and commision similar to interest expenses	8,717	2,111
Interest expense from hedge accounting derivatives	4,249	-
	92,822	**62,878**

23 Net income from commissions and fees

	2007	2006
	HUF million	
Commission and fee income		
Payment and account services	10,079	8,020
Credit related fees	2,377	1,326
Card services	2,454	2,093
Brokerage fees and other securities business	2,161	2,337
Guarantees and similar obligations	1,135	2,499
Other commission and fee income	3,017	2,884
	21,223	**19,159**
Commission and fee expense		
Payment and account services	3,037	3,667
Deposit protection fees	149	129
Credit related fees	2,844	330
Card services	868	843
Brokerage fees and other securities business	255	766
Fees paid for car dealers	1,146	2,278
Guarantees and similar obligations	6	259
Other commission and fee expense	22	217
	8,327	8,489
Net income from commissions and fees	**12,896**	**10,670**

Revenues from trust business included in Brokerage fees and other securities business amounted to HUF 1,564 million (2006: 1,470 HUF million)

24 Other operating income

	2007	2006
	HUF million	
Realised gains from trading securities	1,944	2,907
Realised gains from available-for-sale securities	1,111	166
Net gains on disposal of group companies	15	356
Net foreign exchange gains / (losses) on spot positions	11,690	(4,028)
Realised gains / (losses) on derivative transactions	8,530	17,887
Unrealised losses on trading securities	(322)	(875)
Unrealised gains on foreign exchange derivative transactions	4,501	8,057
Unrealised gains / (losses) on other derivative financial instruments	(321)	1,170
Other income / (expense)	490	(3,027)
	27,638	**22,613**

25 Impairment losses and provisions for losses

	2007	2006
	HUF million	
Impairment for loans, due from banks and other assets	22,953	13,008
Impairments for investments in securities and group companies	(16)	(14)
Provisions against guarantees and contingencies	49	(363)
Total impairment losses and provisions	**22,986**	**12,631**

At December 31, 2007, the movements in impairment and provisions for losses are analysed below:

	Guarantees contingencies	Due from banks	Securities	Loans and advances	Other assets	Total
			HUF million			
Specific impairments and risk provisions						
At January 1, 2007	1,472	28	15	30,468	40	32,023
Amounts written off	-	-	-	(8,963)	-	(8,963)
Charge / (release) for the period	(338)	(9)	(15)	18,502	23	18,163
Recoveries, net	-	-	-	1,166	-	1,166
Aqiusition of subsidiaries	-	-	-	37	-	37
Fx movement	(6)	-	-	(152)	-	(158)
At December 31, 2007	**1,128**	**19**	**-**	**39,892**	**63**	**41,102**
Collectively assessed impairments and risk provisions						
At January 1, 2007	17	35	1	396	-	449
Amounts written off	-	-	-	-	-	-
Charge / (release) for the period	387	(35)	(1)	3,306	-	3,657
At December 31, 2007	**404**	**-**	**-**	**3,702**	**-**	**4,106**
TOTAL IMPAIRMENTS AND RISK PROVISIONS						
At December 31, 2007	**1,532**	**19**	**-**	**43,594**	**63**	**45,208**

Collectively assessed impairments are set aside on the basis of the incurred loss model, as described in Note 2.

At December 31, 2006 , the movements in impairment and provisions for losses are analysed below:

	Guarantees contingencies	Due from banks	Securities	Loans and advances	Other assets	Total
			HUF million			
Specific impairments and risk provisions						
At January 1, 2006	1,613	32	20	24,462	101	26,228
Amounts written off	-	-	-	(8,252)	(61)	(8,313)
Charge / (release) for the period	(325)	(4)	(5)	11,928	-	11,594
Recoveries, net	-	-	-	888	-	888
Aqiuwition of subsidiaries	205	-	-	2,529	-	2,734
Implementaion of equty method in case of joint controlled subsidiaries	(21)	-	-	(199)	-	(220)
At December 31, 2006	**1,472**	**28**	**15**	**30,468**	**40**	**32,023**
Collectively assessed impairments and risk provisions						
At January 1, 2006	55	65	10	170	-	300
Amounts written off	-	-	-	-	-	-
Charge / (release) for the period	(38)	(30)	(9)	226	-	149
Other movements	-	-	-	-	-	-
At December 31, 2006	**17**	**35**	**1**	**396**	**-**	**449**
TOTAL IMPAIRMENTS AND RISK PROVISIONS						
At December 31, 2006	1,489	63	16	30,864	40	32,472

26 Operating expenses

	2007	2006
	HUF million	
General and administration	11,729	5,264
Salaries and wages	20,058	14,243
Social security and other staff related expenses	7,602	6,328
Occupancy costs	11,239	8,838
Marketing and public relations	3,180	2,814
Communication and data processing	5,368	6,681
	59,176	**44,168**

In 2007, the Group's average statistical number of employees was 3,805 (2006: 2,751).

27 Retirement benefit costs

With effect from 10 October 1995, the Group introduced and has administered a staff pension scheme. All of the Group's employees are entitled to participate and the majority of employees have elected to join. Since foreign entities acquisions, the Group has different contribution plan in each country. In Hungary, the scheme's assets are managed by the MKB Pension Fund, separately from the Group. On the basis of an annually renewed resolution, the Group makes contributions at the rate of 4% per annum of the wage of those employees who participate in the scheme. From 2006 onwards, the limit of contribution from the employer was maximalized (HUF 32,750 per capita per month). Employees may choose to make further contributions without limit.

The pension cost for the period, included in other staff related expenses, was HUF 703 million (2006: HUF 397 million). No contributions were prepaid or accrued as at December 31, 2007 (2006: Nil). No defined benefit scheme exists in the Group.

28 Taxation

	2007	2006
	HUF million	
Statutory corporate income tax charge	5,759	3,711
Share of associated companies' taxation	100	69
Deferred taxation	(2,022)	1,395
	3,837	**5,175**

Provision for current year taxation is made at the rate of 16% (2006: 16%) as a corporate profit tax charge, and there is an extra tax charge at a rate of 4% which is applied from September 1, 2006 and it is part of current tax income. Since the 2 current income taxes have different tax bases, MKB use weighted average tax rate to calculate deferred taxes. The weighted average tax for year 2007 was 20.6% (2006: 27.6%). Therefore, deferred tax is calculated with the average rate of 20.6%. In Romania the current income tax rate is 16% and the deferred tax rate is same. In Bulgaria the current income tax rate is 25% but the deferred tax rate is only 17,5%.

The reconciliation between the average effective tax rate and the applicable tax rate is as follows:

	2007		2006	
	%	HUF million	%	HUF million
Profit before taxation		**19,989**		**23,527**
Applicable tax rate	**20.60**	**4,118**	**27.57**	**6,486**
Tax effects of income/expenses that are/are not deductible for tax purposes:				
Dividends received	(0.34)	(67)	(0.02)	(4)
Charitable donations	1.23	246	(0.80)	(187)
Penalties and fines	0.04	8	0.01	2
Other adjustments, net	(2.38)	(477)	(0.83)	(196)
IFRS adjustments	0.04	9	(4)	(926)
Average effective tax rate	**19.19**	**3,837**	**21.99**	**5,175**

At December 31, 2007, the Group had unused tax losses amounting to HUF 735.6 million (2006: HUF 1,673 million). The breakdown by expiration was the following:

Corporation tax loss carryforwards - none expiration	256
Corporation tax loss carryforwards - expiring < 1 year	107
Corporation tax loss carryforwards - expiring > 1 year, < 2 years	110
Corporation tax loss carryforwards - expiring > 2 years, < 3 years	263
Corporation tax loss carryforwards	**736**

In 2007, the Group accounted for HUF 50 million deferred tax asset (2006: HUF 57 million deferred tax liability) directly against equity.

Local business tax is included in operating expenses (see note 26). Such tax is charged up to 2% on net interest and commission income in Hungary.

29 Earnings per share

Basic net earnings per ordinary share is based upon net income and upon the daily average equivalent of fully paid ordinary shares outstanding. The average number of ordinary shares for 2007 was 13,579,178 (2006: 12,099,395). In 2007, net income applicable to ordinary shares was equivalent to net income reported for the periods amounting to HUF 14,704 million respectively.

The calculation of fully diluted net income per ordinary share reflects the effects on earnings per share of all potentially dilutive securities. In 2007 and 2006, dilution did not occur and net income and the daily average number of ordinary shares outstanding were equivalent to the values used in the basic earnings per share calculation.

30 Contingencies and commitments

	2007	2006
	HUF million	
Contingencies		
Guarantees and similar obligations	234,494	195,540
Obligations under letters of credit and other short term trade related items	29,333	8,514
Other contingent liablities (including litigation)	247	432
Total contingencies	**264,074**	**204,486**
Commitments		
Undrawn commitments to extend credit	419,566	388,757
Total commitments	**419,566**	**388,757**

31 Financial Risk Management - Overview

As its businesses expose MKB Group to risks, risk management is an integral part of the Group's operations and a crucial component of its overall financial performance. MKB Group's risk management framework has been designed to capture and manage all relevant risks and is supported by the strong commitment to a prudent risk management culture both on the executive and business line levels. The main principles and priorities of the Group's risk management function include the ultimate oversight by the Board of Directors, the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, monitoring and reporting of all risks. The effective communication on risk and risk appetite, the on-going initiatives to better identify, measure, monitor and manage risks, the improvement of efficiency, user-friendliness and awareness of key risk processes and practices, and the employment of highly-skilled staff are major aspects in running an effective risk management function in the Group.

The Group's risk strategy was set up in consistence with the business strategy. The tasks of the risk strategy aim at ensuring a balanced risk/return relationship at the Group, the ongoing ability of the bank to bear its risk and the maintenance of its risk cover funds. It defines the targets of the risk management of the main business activities of the entire bank including mid-term planning, thus providing the framework for the annual profit and risk planning. The requirements of risk strategy are detailed in risk policies as well as directives, and operating instructions that must be adhered to in order to keep/achieve the risk strategy goals and targets. The Risk strategy is finalized by the Board of Management and is presented to the Board of Directors for approval.

The Group's quartely Risk reports aim to assess the development of risk taking of the banking group. Main processes, risks and related measures are included in these reports to inform the Board of Directors.

The Credit Committee regularly reviews the policies, standards and limits that control risks and recommends to the Board of Directors any amendments that may be required from time to time. All major credit decisions are referred to the Credit Committee for approval, while larger credits need Board of Directors authorisation as well.

As part of the risk strategy, the Board of Directors approves the maximum amount and scope of market risks incurable by the Bank, ensured by a comprehensive limit structure broken down by relevant portfolios. The Bank's Asset and Liability Management Committee (ALCO) has the overall responsibility for establishing and managing market risk policies for the Bank, within the framework of internal policy documents, covering risk management, assessment of risk and related limits, competence and decision-making mechanism, and regulation for breaches of limits, approved by the Board of Directors. The members of the ALCO are senior executives who have principal decision-making responsibilities for businesses throughout the whole Bank. Market risks are measured and reported by Risk Office (RO). At the operational level, market risks are managed by the Money and Capital Markets Directorate on a group-wide basis.

32 Financial Risk Management - Credit risk management

Credit risk is the possibility of financial loss from the default of a borrower or counterparty to fully perform under the terms of a credit-related contract and includes loan loss risk, pre-settlement risk and settlement risk, and replacement risk. Credit risk arises primarily from the Group's lending activities, as well as from guarantees, commitments to extend credit, securities and derivative financial instruments. It also includes transfer risk, which is the repayment risk that is incurred with transactions subject to potential restrictions on the cross-border movement of funds.

The Group's Risk Office (RO) supervised by the Chief Risk Officer, independently from business units, oversees all credit-related activities and is responsible for managing the Group's overall credit exposure, and for establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk. It also reviews compliance with established credit limits and assesses industry, geographic region or country, product, and individual borrower or counterparty exposure, together with loans under problematic treatment or intensive care. Together with Business Units, it monitors significant developments in the creditworthiness of its portfolio, the majority of which is risk relevant, therefore subject to joint decision by the Business Units and RO. criteria for risk relevant business are established within the Credit Policy and other subordinated regulations of MKB Group.

Managing credit risk within the guidelines established by RO and approved by the Board of Directors is the responsibility of all relationship managers, involved in extending credits to customers, and the dedicated risk managers. The primary focus of managing credit risk is to evaluate the likelihood that a borrower or counterparty will repay a loan from expected cash flows and to follow up with appropriate action should any signs of deterioration occur. Where collateralised transactions are involved, RO is also involved in ensuring the appropriateness and validity of such security.

Impaired loans and securities:
The following subportfolios are rewieved case by case on a quarterly basis: Financial Institutions, Corporates and SME having a yearly turnover of at least EUR 10 million, Project Financing with an exposure in excess of EUR 2 million. Where the monitoring system (or any subjective information) indicates, a detailed discounted cash-flow (DCF) analysis is made in order to estimate potential loss. Retail portfolio is handled on a portfolio basis, with different overall loss ratios for different products. The impairment ratios are estimated by the retail scoring system, based on historical data. Incurred Loss Model is established for sectors, products and customer type, also based on historical loss data.

Past due but not imapired loans:
Regarding wholesale finance, loans past due over 90 days are analysed by Discounted Cash Flow Method. Regarding retail finance, different products have different past due tresholds (30, 45, 60 days) in the retail monitoring system.

33 Exposure to credit risk - Credit risk management (continued)

	2007				2006			
	Performing	Substandard	Doubtful	Bad	Performing	Substandard	Doubtful	Bad
	HUF million							
Banks								
Loans and advances	193,005	-	-	-	207,903	-	-	-
Individually impaired loans	-	-	-	-	-	-	-	-
Collectively impaired loans	-	-	-	-	11,633	-	-	-
Total banks	**193,005**	**-**	**-**	**-**	**219,536**	**-**	**-**	**-**
Bank contingencies and commitments	19,987				17,913			
Corporates								
Loans and advances	118,637	-	16	1,062	700,635	-	-	-
Individually impaired loans	485	9,893	1,413	-	1,699	6,361	1,104	37
Collectively impaired loans	783,691	-	939	-	13,962	-	-	-
Past due items but not impaired	606	-	37	-	917	-	-	-
- up to 30 days	603	-	18	-	877	-	-	-
- 30 days to 90 days	3	-	-	-	13	-	-	-
- over 90 days	-	-	19	-	27	-	-	-
Past due and impaired	217	109	273	3,952	828	14,520	1,907	3,564
Total corporates	**903,636**	**10,002**	**2,678**	**5,014**	**718,041**	**20,881**	**3,011**	**3,601**
Corporate contingencies and commitments	531,324	91	201	13	476,170	82	180	12
Small- and medium sized enterprises (SME)								
Loans and advances	75,326	-	179	36	350,776	-	129	-
Individually impaired loans	2,575	2,283	12,872	302	5,551	3,454	1,033	-
Collectively impaired loans	336,035	135	93	-	5,654	-	-	-
Past due items but not impaired	136	-	29	-	2,282	-	-	-
- up to 30 days	98	-	-	-	1,508	-	-	-
- 30 days to 90 days	38	-	-	-	286	-	-	-
- over 90 days	-	-	29	-	488	-	-	-
Past due and impaired	1,322	1,181	4,404	4,138	167	1,528	1,243	1,390
Total SME	**415,394**	**3,599**	**17,577**	**4,476**	**364,430**	**4,982**	**2,405**	**1,390**
SME contingencies and commitments	90,126	119	326	108	80,771	107	292	97
Retail								
Loans and advances	188,419	16	100	406	313,591	-	129	-
Individually impaired loans	3,072	793	1,660	4,525	7,331	4,055	2,726	5,220
Collectively impaired loans	325,368	4,249	3,972	7	778	-	-	-
Past due items but not impaired	5	-	-	-	1,057	-	-	-
- up to 30 days	5	-	-	-	857	-	-	-
- 30 days to 90 days	-	-	-	-	111	-	-	-
- over 90 days	-	-	-	-	89	-	-	-
Past due and impaired	403	1,394	2,748	2,507	120	1,303	1,656	821
Total retail	**517,267**	**6,452**	**8,480**	**7,445**	**322,877**	**5,358**	**4,511**	**6,041**
Retail contingencies and commitments	41,037	26	29	4	17,129	26	29	4
TOTAL LOANS AND ADVANCES	**2,029,302**	**20,053**	**28,735**	**16,935**	**1,624,884**	**31,221**	**9,927**	**11,032**
TOTAL CONTINGENCIES AND COMMITMENTS	**682,474**	**236**	**556**	**125**	**591,983**	**215**	**501**	**113**

Performing loans are those graded by management as "pass" and "watch".

34 Concentration by location - Credit risk management (continued)

	2007				2006			
	Gross Exposures			Net exposures	Gross Exposures			Net exposures
	Limit	Loans	Credit commit-ments		Limit	Loans	Credit commit-ments	
	HUF million							
Foreign Exposures by region								
Asia	42,689	975	477	1,449	42,260	280	253	533
Central and Eastern European Countries	115,148	45,199	-	45,192	74,302	31,178	3	31,163
Europe	2,478,523	425,445	64,862	489,082	2,668,956	278,816	35,242	312,682
Latin America	2,660	3	1	3	2,649	23	2	25
Near Middle East	29,009	86	4	86	28,888	151	4	154
North America	172,278	2,683	299	2,969	171,564	7,300	1,293	8,589
Other	72,965	9	2	6	71,275	69	-	67
Total foreign exposures	**2,913,272**	**474,400**	**65,645**	**538,787**	**3,059,894**	**317,817**	**36,797**	**353,213**
Hungarian exposures	**-**	**1,664,238**	**354,137**	**1,975,804**		**1,390,174**	**352,113**	**1,712,609**
Total exposures	**2,913,272**	**2,138,638**	**419,782**	**2,514,591**	**3,059,894**	**1,707,991**	**388,910**	**2,065,822**
Exposures by risk classification								
Category I - without country risk	2,039,594	51,078	18,501	69,506	2,031,015	56,555	18,614	74,936
Category II - with low to medium country risk	664,158	335,131	32,316	366,279	790,455	235,126	16,831	250,817
Category III - with medium to high country risk	209,520	88,191	14,828	103,002	238,424	26,135	1,352	27,460
Total exposures	**2,913,272**	**474,400**	**65,645**	**538,787**	**3,059,894**	**317,816**	**36,797**	**353,213**

The overall country risk towards a particular country is defined in line with the EU Capital Directive. The overall risk is the sum of net exposures, i.e., country-risk gross exposures less qualifying collaterals.

Country limits are set up by the Board of Management considering the risk categorization of international rating agencies (Standard&Poor's, Moody's, Fitch), the Hungarian Ministry of Finance and MKB/BayernLB. Based on the internal rating scale consisting 25 rating categories three aggregate risk categories are defined as follows:

• Category I (0 FCR Foreign Country Rating): contains EMU and the risk-free countries (FCR=0);
• Category II (FCR 1-11): contains countries with 1-11 rating category, Category I+II equals with "investment grade";
• Category III (FCR 12-21): are countries with 12-21 rating categories.

35 Concentration by size - Credit risk management (continued)

At December 31, 2007 and 2006, the breakdown of the Group's loans and advances to customers by percentages of its shareholders' equity was as follows:

	2007				2006			
	Number of Clients	Gross exposure	Net exposure	Proportion %	Number of Clients	Gross exposure	Net exposure	Proportion %
	HUF million							
Above 10%	2	80,277	80,277	4.2%	2	80,506	80,506	5.5%
1 to 10%	138	680,510	679,845	35.7%	125	523,960	523,501	35.9%
0,1 to 1%	770	495,870	490,480	25.8%	849	428,666	425,056	29.2%
Below 0,1%	340,630	688,957	651,418	34.2%	319,935	455,300	428,465	29.4%
Total loans and advances	**341,540**	**1,945,614**	**1,902,020**	**100.0%**	**320,911**	**1,488,432**	**1,457,528**	**100.0%**

Net exposures represent gross oustanding amounts less impairments, if any.

36 Fair value of collateral - Credit risk management (continued)

	Due from banks	Loans and advances	Securities-portfolio	Guarantees, contingencies	Letters of credit	Undrawn credits	2007 Total	2006 Total
				HUF million				
Collaterised by								
Cash deposit	-	38,742	-	6,505	139	2,008	47,394	25,475
Debt securities issued by								
Central governments	-	274	-	3,228	-	-	3,502	2,049
Companies	-	14,717	-	549	-	435	15,701	3,632
Others	-	-	-	26,399	-	-	26,399	104
Shares	-	-	-	2,323	-	-	2,323	411
Mortgage								
Building	-	705,895	-	4,205	357	69,701	780,158	528,788
Other	-	196,951	-	3,722	574	13,077	214,324	43,389
Guarantees from								
Central governments	-	52,766	-	13,815	17	14,546	81,144	102,841
Central banks	-	-	-	-	-	-	-	260
Other banks	-	10,833	-	7,235	222	211	18,501	27,695
Companies	-	59,909	-	-	225	2,702	62,836	59,193
Others	-	32,176	-	-	68	9,957	42,201	148,683
Total secured assets and commitments	**-**	**1,112,263**	**-**	**67,981**	**1,602**	**112,637**	**1,294,483**	**942,520**

37 Financial Risk Management - Market risk management

Market risk

Market risk is the potential of loss from adverse changes in market rates and prices, such as interest rates (interest rate risk), foreign currency exchange rates (foreign exchange risk), commodity prices (commodity risk) and prices of equity securities (equity risk), the correlations among them, and their levels of volatility. Financial products that expose the Group to market risk include loans, securities, deposits, debt, and derivative financial instruments.

Market risk includes according to Capital Adequancy Regulation (Basel directives) the risks which derived from the overall open currency positions. Beside this, the interest rate risk position and equity risk position which belong to trading book are also regarded as part of market risk.

There is no commodity in MKB Group's position. The Group does not have significant open position from options therefore there is no volatility VaR calculation.

The Group's market risk management activities are divided into two main types: trading and non-trading. Trading activities include transactions with debt and equity securities, foreign currencies, and derivative financial instruments. The Bank and group companies manage exposure to market risk by establishing and monitoring various limits on trading activities. These limits include product volume, gross and net positions, VaR and PLA limits. Product volume limits define maximum aggregate amounts of trading products and contracts that the Group may hold at any time. Position limits restrict the gross and net amounts of positions that can be held in the trading and investment books. VaR measures the potential loss in future earnings due to market rate movements within the trading portfolio using proprietary models that are based on statistical probability. MKB Group applies parametric VaR method with 1-day holding period at 99% confidence level. PLA limits define maximum amount of loss that the Group is willing to assume.

The Group's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt.

The Group is exposed to foreign exchange risk through its holdings of financial instruments denominated in foreign currencies. Exchange risk management aims to reduce the adverse impact of potential changes in the market value of foreign currency financial instruments induced by exchange rate fluctuations

The operational management of the Group's foreign currency position through setting and monitoring various limits, including net open positions, VaR limits, PLA limits, and through the use of derivative financial instruments is the responsibility of the Money and Capital Markets Directorate.

38 Foreign currency risk - Market risk management

At December 31, 2007 and 2006, the groupings of the carrying amounts of assets, liabilities and off-balance sheet items by significant currencies were as follows:

	Domestic	USD	EUR	Foreign CHF	Other	Total
				HUF million		
At December 31, 2007						
ASSETS	709,311	145,138	881,327	496,750	229,207	2,461,733
LIABILITIES AND SHAREHOLDERS' EQUITY	1,061,734	123,846	970,783	93,035	212,335	2,461,733
Net derivative and spot instruments						
(short) / long position	352,946	(21,201)	73,021	(403,037)	(1,729)	-
Total net currency positions	**523**	**91**	**(16,435)**	**678**	**15,143**	**-**
At December 31, 2006						
ASSETS	835,244	114,969	570,863	327,903	148,204	1,997,183
LIABILITIES AND SHAREHOLDERS' EQUITY	962,223	128,943	746,012	40,931	119,074	1,997,183
Net derivative and spot instruments						
(short) / long position	132,956	13,699	170,395	(286,718)	(30,332)	-
Total net currency positions	**5,977**	**(275)**	**(4,754)**	**254**	**(1,202)**	**-**

In 2007 and 2006, the Group's FX value-at-risk (VaR) positions were as follows:

	2007	2006
	HUF million	
Average	24.75	37.38
Maximum	50.71	332.23
Minimum	14.57	0.83

MKB Group applies parametric VaR according to Riskmetrics methodology (1 day holding period; 99% confidence level; 0.94 decay factor; number of observation: 187 business days).

The table above contains only VaR of the trading book position.

VaR figures as of 2006 are not consolidated due to lack of MKB's subsidiaries data. From the second half of 2007, VaR reports used for risk bearing capacity calculation were used to fill in the table on consolidated level.

39 Trading book position management - Market risk management (continued)

In 2007 and 2006, the Group's Trading book VaR positions were as follows:

	Average	Maximum	Minimum
	HUF million		
2007			
Interest risk positions	221.15	313.40	137.18
Equity risk positions	15.08	26.12	12.25
Total loss	**236.23**	**339.52**	**149.43**
2006			
Interest risk positions	190.27	542.76	14.97
Equity risk positions	10.57	25.44	2.50
Total loss	**200.85**	**568.21**	**17.47**

The Group holds equity securities that are subject to fluctuations in their market prices or values. The potential that these market prices or values may fall exposes the Group to equity risk when conducting these activities. Equity risk is managed by the Money and Capital Markets Directorate through various internal and legal limits, equity forwards, and other derivative financial instruments.

40 Exposure to overall interest rate risk - Market risk management (continued)

At December 31, 2007, the groupings of the carrying amounts of assets, liabilities and off-balance sheet items by the contractual repricing or maturity periods, whichever dates are earlier, were as follows:

	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	non-interest sensitive	Total
				HUF million			
ASSETS							
Cash reserves	127,298	-	-	-	-	-	127,298
Loans and advances to banks	135,905	29,139	24,951	1,726	-	1,284	193,005
Trading assets	57,027	-	-	-	-	-	57,027
Derivative assets held for risk management	4	14	784	-	-	-	802
Investments in securities	16,731	9,688	2,404	7,651	5,392	-	41,866
Loans and advances to customers	816,287	433,784	576,124	37,018	14,309	24,498	1,902,020
Other assets	-	-	-	-	-	16,063	16,063
Goodwill	-	-	-	-	-	37,502	37,502
Deferred tax assets	-	-	-	-	-	3,193	3,193
Investments in jointly controlled entities and associates	-	-	-	-	-	9,946	9,946
Intangibles, property and equipment	-	-	-	-	-	73,048	73,048
Total assets	**1,153,252**	**472,625**	**604,263**	**46,395**	**19,701**	**165,534**	**2,461,770**
LIABILITIES							
Amounts due to other banks	330,903	153,920	77,658	10,879	1,252	4,018	578,630
Current and deposit accounts	866,228	197,357	139,728	36,185	87	7,551	1,247,136
Trading liabilities	-	-	-	-	-	10,579	10,579
Derivative liabilities held for risk management	2,113	21	-	-	-	-	2,134
Other liabilities and provisions	-	-	-	-	-	37,576	37,576
Deferred tax liability	-	-	-	-	-	4,199	4,199
Issued debt securities	56,104	99,550	26,415	84,660	493	1,840	269,062
Subordinated debt	30,378	19,618	35,469	-	-	-	85,465
Share capital & Reserves	-	-	-	-	-	226,989	226,989
Total liabilities and shareholders' equity	**1,285,726**	**470,466**	**279,270**	**131,724**	**1,832**	**292,752**	**2,461,770**
Total interest rate sensitivity position	**(132,474)**	**2,159**	**324,993**	**(85,329)**	**17,869**	**(127,218)**	**-**

At December 31, 2006, the groupings of the carrying amounts of assets, liabilities items by the contractual repricing or maturity periods, whichever dates are earlier, were as follows:

	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	non-interest sensitive	Total
				HUF million			
ASSETS	1,000,406	526,270	195,950	104,137	17,941	152,479	1,997,183
LIABILITIES AND SHAREHOLDERS' EQUITY	1,224,833	260,532	144,968	162,614	569	203,667	1,997,183
TOTAL INTEREST RATE SENSITIVITY POSITION	**(224,427)**	**265,738**	**50,982**	**(58,477)**	**17,372**	**(51,188)**	**-**

41 Sensitivity of interest rate risk (banking book) - Market risk management (continued)

	Net interest income on currency gaps	Change on net interest income		
		200bp parallel increase	200bp parallel decrease	Worst case scenario
	HUF million			
2007				
USD	616	(303)	311	(303)
EUR	1,832	(4,095)	4,305	(4,095)
CHF	2,161	(1,072)	1,094	(1,072)
Other foreign currencies	(277)	(473)	470	(545)
Domestic currency (HUF)	6,014	127	(105)	(105)
TOTAL NET INTEREST INCOME	**10,346**	**(5,816)**	**6,075**	**(6,120)**
2006				
USD	517	(79)	81	(79)
EUR	1,769	(70)	60	(70)
CHF	1,622	(1,127)	1,150	(1,127)
Other foreign currencies	(168)	(47)	46	(104)
Domestic currency (HUF)	16,960	3,207	(3,560)	(3,560)
TOTAL NET INTEREST INCOME	**20,700**	**1,884**	**(2,223)**	**(4,940)**

The purpose of interest rate risk management is to minimise the adverse effects of changing market interest rates on the Group's interest margin, net interest income and the market value of fixed income portfolios. Non-trading interest rate risk is monitored both at a strategic and at an operational level. The ALCO sets and monitors limits on allowable risk, reviews and approves the underlying products and model assumptions. It generally monitors gap mismatches and interest sensitivity. Gap mismatches result from timing differences in the maturities or repricing of assets, liabilities and off-balance sheet instruments. Sensitivity analyses are based on potential interest rate scenarios (200 bp up/down) on the Group's actual repricing profile and a combination of assumptions of market conditions and business developments. The interest rate risk management at an operational level is conducted continuously by the Money and Capital Markets Directorate.

The Group employs interest rate swaps and other derivative interest rate contracts as primary risk management techniques to keep interest rate risk within the approved limits.

42 Financial Risk Management - Liquidity risk

Liquidity risk is the risk that the Group's cash flows may not be adequate to fund operations and meet commitments on a timely and cost-effective basis. The Group's ability to raise funds in money and capital markets provides flexibility in managing liquidity and mitigates the potential for liquidity risk. The ALCO seeks to balance the Group's sources and uses of funds while minimising market exposure through establishing and monitoring various liquidity risk limits, maximum cumulative outflow (MCO), risk control mechanism, and product participation limitations. Liquidity risk exposure is limited by the regulations approved by the Board of Directors that set liquidity ratios and obligatory liquid asset holdings. At the operational level, liquidity risk is managed by the Money and Capital Markets Directorate.

At December 31, 2007, the groupings of the carrying amounts of assets, liabilities by repayment schedule of principals and interests were as follows:

	Carrying amount	Cash-flow of principals and interests				
		up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
				HUF million		
On-balance sheet assets						
Cash reserves	127,298	127,298	679	-	-	-
Loans and advances to banks	193,005	121,165	8,645	40,880	33,438	2,956
Trading assets	57,027	57,027	-	-	-	-
Derivative assets held for risk management	802	802	-	-	-	-
Investments in securities (AFS securities)	41,866	16,752	10,809	4,447	14,303	8,329
Loans and advances to customers	1,902,020	187,092	123,057	494,218	794,459	862,088
Total financial assets	**2,322,018**	**510,136**	**143,190**	**539,545**	**842,200**	**873,373**
Other than financial assets	139,752	-	-	-	-	-
Total inflow	**2.461.770**	**510.136**	**143.190**	**539.545**	842.200	873.373
On-balance sheet liabilities						
Other banks	578,630	43,155	127,326	162,954	244,462	44,206
Current and deposit accounts	1,247,136	387,211	444,812	388,324	45,730	1,031
Trading liabilities & derivative liabilities	10,579	12,692	21	-	-	-
Derivative liabilities held for risk management	2,134	2,134	-	-	-	-
Issued securities	269,062	401	26,339	30,188	242,576	1,126
Suboridnated debt	85,465	529	-	3,582	28,028	86,244
Total financial liabilities	**2,193,006**	**446,122**	**598,498**	**585,048**	**560,796**	**132,607**
Other than financial liabilities	268,764	-	-	-	-	-
Total outflow	**2,461,770**	**446,122**	**598,498**	**585,048**	**560,796**	**132,607**
Derivative financial instruments						
Trading outflow	-	(143,012)	(58,776)	(118,535)	(176,662)	(38,455)
Trading inflow	-	141,065	56,787	119,277	182,695	37,296
Risk managements outflow	-	(965)	(114)	(2,906)	(18,094)	(2,675)
Risk managements inflow	-	-	30	2,826	17,205	2,614
	-	(2,912)	(2,073)	662	5,144	(1,220)
Net cash-flow position	**-**	**61,102**	**(457,381)**	**(44,841)**	**286,548**	**739,546**

At December 31, 2006, the groupings of the carrying amounts of assets, liabilities by repayment schedule of principals and interests:

	Carrying amount	Cash-flow of principals and interests up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
		HUF million				
Financial and other assets						
Financial assets	1,877,695	529,615	147,840	458,174	676,659	524,329
Other than financial assets	114,693	-	-	-	-	-
Total inflow	**1,992,388**	**529,615**	**147,840**	**458,174**	**676,659**	**524,329**
Financial and other liabilities						
Financial liability	1,745,621	383,614	484,223	458,738	388,765	125,887
Other than financial liability	246,767	-	-	-	-	-
Total outflow	**1,992,388**	**383,614**	**484,223**	**458,738**	**388,765**	**125,887**
Derivative financial instruments						
Trading outflow	-	(17,849)	(8,523)	(92,439)	(101,200)	(26,601)
Trading inflow	-	15,537	7,703	89,448	98,243	26,032
Risk managements outflow	-	-	-	-	-	-
Risk managements outflow	-	-	-	-	-	-
	-	**(2,312)**	**(820)**	**(2,991)**	**(2,957)**	**(569)**
Net cash-flow position	**-**	**143,689**	**(337,203)**	**(3,555)**	**284,937**	**397,873**

Positions of trading assets and liabilities comprise the cumulated revaluation, and the nominal cash-flow of principal are disclosed under the derivative financial insturments.

43 Financial Risk Management - Operational risk

Operational risk is the risk that unexpected losses will be incurred due to human error, system failure, fraud, inadequate internal controls and procedures, or external events. Operational risk is inherent in each of the Group's business and internal supporting activities. Mitigating operational risk are standards, systems and procedures to monitor transactions and positions, segregation of duties, documentation of transactions, regulatory compliance review, insurance coverage, and periodic specific and comprehensive reviews of the design and operation of internal control systems, the reliability and integrity of data processing operations by internal auditors. The Group maintains contingency and recovery plans for supporting its operations in the event of natural and other disasters.

44 Core capital - Capital management

The Group's lead regulator Hungarian Banking Supervisor sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.
In implementing current capital requirements Basel1 requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the current exposure method.

In June 2004, the Basel Committee on Banking Supervision released its report entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II). The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing substantive changes in the treatment of credit risk. Moreover, an explicit new capital charge for operational risk has been also been introduced, as well as increased supervisory review and extended public disclosure needs. MKB Bank is committed to completing the necessary tasks and has launched a comprehensive project aiming at being in a position to implement and meet the new regulatory requirements first 1st January, 2008.

	2007	2006
	HUF million	
Share capital	14,094	13,133
Nominal value of repurchased own shares	-	-
Issued, but unpaid	-	-
Outstanding share capital	**14,094**	**13,133**
General reserves	207,177	172,907
Cost of repurchased own shares over nominal value	-	-
Intangible assets	(22,070)	(21,329)
Goodwill	(37,502)	(30,361)
Participations in financial institutions	(9,076)	(10,168)
Tier 1: Net core capital	**152,623**	**124,182**
Considerable subordinated debt	82,338	65,716
Revaluation reserves	(58)	333
Reserve for general banking risk	5,775	6,743
Tier 2: Supplementary capital	**88,055**	**72,792**
Other deductions	(154)	(154)
Regulatory capital	**240,524**	**196,820**
Risk-weighted assets (RWA)	2,070,089	1,679,131
Market risk positions (MR)	6,737	9,154
Total risk weighted assets (RWA +12.5*MR)	**2,154,304**	**1,793,553**
Regulatory capital / Total assets	9.77%	9.88%
Capital adequacy ratio	**11.62%**	**11.72%**
Capital adequacy ratio (including market risk)	**11.16%**	**10.97%**

Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. However the required CAR is 8%, the Group internal limit is 8.5%.

4 5 Risk-weighted assets - Capital management (continued)

	Type of exposures					2007	2006
	Balance	Central banks & governments	Trading portfolio	Due from banks	Other claims and other assets	Risk-weighted assets	Risk-weighted assets
	HUF million						
BALANCE SHEET ASSETS							
Cash resources	127,297	127,297	-	-	-	-	-
Loans and advances to banks and customers	2,095,025	189,989	-	57,791	1,847,246	1,858,804	1,472,745
Bonds and other fixed interest securities	41,002	7,868	29,773	-	3,361	4,225	5,232
Collateralized by		-	-	-	-	-	-
Cash deposits	(38,541)	-	-	-	(38,541)	(38,541)	(20,461)
Guarantees by central banks and governments	(46,694)	-	-	-	(46,694)	(46,694)	(16,756)
Securities issued by central banks and governments	(274)	-	-	-	(274)	(274)	(267)
Guarantees issued by banks in OECD	(17,903)	-	-	-	(17,903)	(3,580)	(3,471)
Securities issued by banks in OECD	(2,754)	-	-	-	(2,754)	(551)	(531)
Fully covered by mortgages on residental propety	(220,496)	-	-	-	(220,496)	(110,247)	(64,776)
Other balance sheet assets		-	-	-	-	-	-
Shares and other non-fixed-interest securities	864	-	-	-	864	864	850
Participations	870	-	-	-	870	870	35,759
Securities and participations in financial institutions	9,076	-	-	-	9,076	-	-
Other assets	165,566	-	31,624	5,675	128,267	129,402	67,680
Intangible fixed assets	22,070	-	-	-	22,070	-	-
Total credit risk assets, net of collaterals	**2,135,108**	**325,155**	**61,397**	**63,466**	**1,685,090**	**1,794,277**	**1,476,004**
TRADITIONAL OFF-BALANCE SHEET ITEMS							
Undrawn commitments to extend credit	254,342	1,004	-	-	253,338	126,669	73,487
Guarantees and similar obligations for credit	93,338	-	-	-	93,338	93,338	70,768
Guarantees and similar obligations	141,156	-	-	-	141,156	70,578	60,617
Obligation under letter of credit	29,388	-	-	-	29,388	5,878	1,314
Contingent litigation and other obligation	247	-	-	-	247	247	432
Collateralized by							-
Cash deposits	(10,212)	-	-	-	(10,212)	(6,937)	(1,658)
Guarantees by central banks and governments	(1,744)	-	-	-	(1,744)	(892)	(2,335)
Securities issued by central banks and governments	(3,228)	-	-	-	(3,228)	(1,988)	(882)
Guarantees issued by banks in OECD	(7,842)	-	-	-	(7,842)	(3,233)	(4,522)
Securities issued by banks in OECD	(195)	-	-	-	(195)	(78)	-
Fully covered by mortgages on residental propety	(48,504)	-	-	-	(48,504)	(13,986)	(1,403)
Total off-balance sheet items, net of collaterals	**446,746**	**1,004**	**0**	**0**	**445,742**	**269,596**	**195,818**
Derivative transactions (credit equivalent)						**6,216**	**7,309**
TOTAL RISK ASSETS						**2,070,089**	**1,679,131**

The Bank's Asset and Liability Management Committee (ALCO) has the overall responsibility for managing capital adequacy ratio of the Group. Besides this the Bank is required to disclose capiatl adequacy ration to the Banking Supervision Authority. The Bank has own capital management system which is able to report on the daily base towards ALCO. The Management report comprises the current Risk Weighted Assets situation and daily forecasted levels for subsequent 2-weeks.

46 Segment information by business divisions

The Group manages its operations through four primary business lines, each with its own distinct market and products. Each business line has its own set of objectives and targets broken down by operating units, which are consistent with the Group's overall strategic direction.

The Group determines its business segment results based on an internal management information system that allocates revenues, expenses, assets, and liabilities to each business. The effects of centrally managed activities that can be directly assigned to the appropriate business sectors are generally allocated through a transfer pricing process.

The information set forth in the following table reflects the condensed balance sheet items and income statements by business lines. It does not necessarily represent the business lines' financial condition and results of operation as if they were independent entities.

At December 31, 2007, the Group's segment information by business divisions was as follows.

	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
			HUF million			
ASSETS						
Cash reserves	9,844	68,602	-	33,213	15,639	127,298
Loans and advances to banks	-	141,968	-	51,037	-	193,005
Trading assets	-	-	-	57,027	-	57,027
Derivative assets held for risk management	-	-	-	802	-	802
Investments in securities	-	-	-	41,866	-	41,866
Loans and advances to customers	1,360,288	363	531,638	9,032	699	1,902,020
Other assets	6,524	1,429	127	-	7,983	16,063
Goodwill	-	-	-	-	37,502	37,502
Deferred tax assets	-	-	-	-	3,193	3,193
Investments in jointly controlled entities and associates	-	-	-	-	9,946	9,946
Intangibles, property and equipment	-	-	-	-	73,048	73,048
	1,376,656	**212,362**	**531,765**	**192,977**	**148,010**	**2,461,770**
LIABILITIES						
Amounts due to other banks	23,817	342,291	-	212,522	-	578,630
Current and deposit accounts	597,639	8,585	598,022	42,890	-	1,247,136
Trading liabilities	-	-	-	10,579	-	10,579
Derivative liabilities held for risk management	-	-	-	2,134	-	2,134
Other liabilities and provisions	-	-	-	-	37,576	37,576
Deferred tax liability	-	-	-	-	4,199	4,199
Issued debt securities	54,613	60,294	30,675	123,480	-	269,062
Subordinated debt	-	85,465	-	-	-	85,465
Shareholders' equity	-	-	-	-	226,989	226,989
	676,069	**496,635**	**628,697**	**391,605**	**268,764**	**2,461,770**
INCOME STATEMENT						
Gross revenue - external customers	97,437	8,338	57,713	34,051	4,662	202,201
Gross revenue - inter-segment	(33,828)	12,631	24,867	(6,654)	2,984	-
Interest and commission expenditure	(15,781)	(22,010)	(42,226)	(16,543)	(4,589)	(101,149)
Impairments and provision for losses	(20,121)	-	(5,074)	(79)	2,288	(22,986)
Operating costs	(9,489)	(844)	(16,021)	(2,707)	(30,115)	(59,176)
Segment result	**18,218**	**(1,885)**	**19,259**	**8,068**	**(24,770)**	**18,890**
OTHER INFORMATION						
Capital expenditure	-	-	-	-	36,686	36,686
Depreciation and amortisation	-	-	-	-	7,368	7,368
Other non-cash expenses	1,648	1,211	1,532	955	655	6,000

At December 31, 2006, the Group's segment information by business divisions was as follows.

	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
			HUF million			
ASSETS						
Cash reserves	8,140	46,773	27,577	7	-	82,497
Loans and advances to banks	13	190,186	-	29,337	-	219,536
Trading assets	-	-	-	54,807	-	54,807
Derivative assets held for risk management	-	-	-	-	-	-
Investments in securities	-	-	-	63,326	-	63,326
Loans and advances to customers	1,171,626	5,120	275,282	5,500	-	1,457,528
Other assets	4,607	4,369	693	-	-	9,669
Goodwill	-	-	-	-	30,361	30,361
Deferred tax assets	-	-	-	-	2,711	2,711
Investments in jointly controlled entities and associates	-	-	-	-	7,491	7,491
Intangibles, property and equipment	-	-	-	-	64,462	64,462
	1,184,386	**246,448**	**303,552**	**152,977**	**105,025**	**1,992,388**
LIABILITIES						
Amounts due to other banks	-	345,065	-	83,143	-	428,208
Current and deposit accounts	628,980	4,320	448,526	2,270	-	1,084,096
Trading liabilities				6,894	-	6,894
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities and provisions	19,697	18,649	3,881	3,934	1,902	48,063
Deferred tax liability	-	-	-	-	5,588	5,588
Issued debt securities	21,282	35,808	19,137	84,480	-	160,707
Subordinated debt	-	65,716	-	-	-	65,716
Shareholders' equity	-	-	-	-	193,116	193,116
	669,959	**469,558**	**471,544**	**180,721**	**200,606**	**1,992,388**
INCOME STATEMENT						
Gross revenue - external customers	96,296	3,719	24,237	23,693	3,888	151,833
Gross revenue - inter-segment	(18,101)	10,668	16,606	(11,707)	2,534	-
Interest and commission expenditure	(33,130)	(13,262)	(19,045)	(4,249)	(1,681)	(71,367)
Impairment and provisions for losses	(11,442)	-	(669)	-	(520)	(12,631)
Operating costs	(14,559)	(171)	(11,917)	(2,019)	(15,502)	(44,168)
Share of associates' profit	(140)	-	-	-	-	(140)
Segment result	**18,924**	**954**	**9,212**	**5,718**	**(11,281)**	**23,527**
OTHER INFORMATION						
Capital expenditure	-	-	-	-	21,715	21,715
Depreciation and amortisation	-	-	-	-	6,275	6,275
Other non-cash expenses	3,259	3,857	5,068	2,613	-	14,797

The following is a brief description of the Group's primary business segments and their main products:

Corporate Banking
The Group provides trade finance, a wide array of credit, account and deposit products, forfeiting and factoring, letters of credit, guarantees, international payments, portfolio management, project and structured finance, investment and financial advisory services to large Hungarian and regional public and private-sector entities through branches and electronic delivery channels.

Institutional Banking
MKB Group serves financial institutions and financial service companies with nostro and vostro account services, international and domestic payments, correspondent banking and participates in bank-to-bank finance, club and syndicated loans.

Retail and Private Banking
The Group provides a wide range of deposit and savings instruments, credit and charge cards, portfolio management, and a limited number of loan products to high-net-worth individuals and entrepreneurs through 213 full-service branches and sub-branches (2006: 101 branches), ATMs, telephone and electronic channels. The groth reflects on the consolidation of MKB Romexterra Bank S.A.

Money and Capital Markets
MKB Group serves large domestic institutions with sophisticated cash management and risk mitigation devices through money market products and derivative financial instruments, and manages the Group's liquidity, interest rate and foreign exchange positions.

The Group provides capital market products, custody and asset management, pension fund and investment fund management, collaterised loan finance, and investment and other financial advisory services to large corporations and institutions, and manages the Group's own equity market positions.

Other
Residual items which can not be directly allocated to business segments (mainly general administration expenses) are included under the heading Other.

Calculation of intersegment revenue
Revenues and expenses on balance sheet items are calculated on market interest method. In the case of refinanced loans, as well as those linked to a deposit, are evaluated against the connected transaction. Revenues and expenses on refinanced loans and loans linked to deposit are calculated with reference to the interest of the underlying transaction.

Intersegment pricing of HUF portfolios:
The 1/2-week or 1, 3, 6, 9, 12-month BUBOR interest rates shall be used as the basis for re-pricing within a year, taking into account the repricing period (time factor internal transfer price).For repricing beyond 12 months, the 2, 3, 4, 5, etc. year swap reference yield will be the internal transfer price (interpolated for intermediate cases).

Intersegment pricing of USD, EUR, and other major foreign exchange (CHF, JPY, GBP, etc.) portfolios:

The 1, 2, 3, 6, 9, 12-month LIBOR, EURIBOR, etc. interest rates have to be taken into account for repricing within a year. The appropriate 2, 3, 4, etc. year swap reference interest rates have to be applied for repricing in a year.

47 Segment information by geographical regions

At December 31, 2007, the allocation of the Group's assets, liabilities and off-balance sheet items defined by the domicile of its customers or counterparties was as follows:

	Hungary	Europe EU	Europe Non-EU	Other	Total
			HUF million		
ASSETS					
Cash reserves	81,488	45,794	-	16	127,298
Loans and advances to banks	8,559	141,503	39,057	3,886	193,005
Trading assets	34,857	18,034	2,563	1,573	57,027
Derivative assets held for risk management	-	802	-	-	802
Investments in securities	34,055	5,107	2,704	-	41,866
Loans and advances to customers	1,708,114	142,429	48,232	3,245	1,902,020
Other assets	12,716	3,347	-	-	16,063
Goodwill	37,502	-	-	-	37,502
Deferred tax assets	3,193	-	-	-	3,193
Investments in jointly controlled entities and associates	9,946	-	-	-	9,946
Intangibles, property and equipment	67,891	5,157	-	-	73,048
	1,998,321	**362,173**	**92,556**	**8,720**	**2,461,770**
LIABILITIES					
Amounts due to other banks	136,176	413,906	74	28,474	578,630
Current and deposit accounts	993,679	204,965	16,715	31,776	1,247,135
Trading liabilities	3,603	6,424	-	551	10,578
Derivative liabilities held for risk management	-	2,103	31	-	2,134
Other liabilities and provisions	37,577	-	-	-	37,577
Deferred tax liability	4,199	-	-	-	4,199
Issued debt securities	90,031	178,985	-	47	269,063
Subordinated debt	-	85,465	-	-	85,465
	1,265,265	891,848	16,820	60,848	2,234,781
SHAREHOLDERS' EQUITY	-	226,989	-	-	226,989
	1,265,265	**1,118,837**	**16,820**	**60,848**	**2,461,770**
OFF-BALANCE SHEET ITEMS					
Undrawn commitments to extend credit	368,899	43,193	6,690	783	419,565
Guarantees and similar obligations	215,709	17,551	173	1,061	234,494
Obligations under letters of credit	9,160	13,951	-	6,222	29,333
Other contingent liabilities	247	-	-	-	247
OTHER INFORMATION					
Segment revenue by location of customers	162,245	36,317	1,798	1,841	202,201
Cost to acquire property and equipment by location of assets	19,017	-	-	-	19,017

At December 31, 2006, the allocation of the Bank's assets, liabilities and off-balance sheet items defined by the domicile of its customers or counterparties was as follows:

		Europe		Other	Total
	Hungary	EU	Non-EU		
			HUF million		
ASSETS					
Cash balances	56,458	-	26,039	-	82,497
Amounts due from other banks	114,297	57,506	20,128	27,605	219,536
Trading assets	31,345	13,274	9,603	585	54,807
Investments in securities	57,043	23	6,260	-	63,326
Loans and advances to customers	1,246,470	72,586	119,968	18,504	1,457,528
Other assets	6,334	-	3,335	-	9,669
Goodwill	30,361	-	-	-	30,361
Deferred tax	2,711	-	-	-	2,711
Investments in consolidated subsidiaries, jointly controlled entities and associates	5,436	-	2,055	-	7,491
Intangibles, property and equipment	60,173	-	4,289	-	64,462
	1,610,628	**143,389**	**191,677**	**46,694**	**1,992,388**
LIABILITIES					
Amounts due to other banks	48,147	329,245	22,081	28,735	428,208
Current and deposit accounts	871,425	26,812	135,418	50,441	1,084,096
Trading liabilities	6,894	-	-	-	6,894
Other liabilities and provisions	41,083	3,953	2,549	478	48,063
Deferred tax liability	5,588	-	-	-	5,588
Issued debt securities	95,946	60,314	4,447	-	160,707
Subordinated debt	-	65,716	-	-	65,716
	1,069,083	486,040	164,495	79,654	1,799,272
SHAREHOLDERS' EQUITY	-	193,116	-	-	193,116
	1,069,083	**679,156**	**164,495**	**79,654**	**1,992,388**
OFF-BALANCE SHEET ITEMS					
Undrawn commitments to extend credit	349,776	23,828	13,603	1,550	388,757
Guarantees and similar obligations	173,808	5,403	16,133	196	195,540
Obligations under letters of credit	8,052	374	55	33	8,514
Other contingent liabilities	432	-	-	-	432
OTHER INFORMATION					
Segment revenue by location of customers	109,535	2,612	7,722	539	120,408
Cost to acquire property and equipment by location of assets	16,548	-	-	-	16,548

Other includes Americas, Asia-Pacific and Africa where the Bank has immaterial exposures. EU includes the 25 countries that are the member states of the European Union.

48 Fair value of financial instruments

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of the estimated future cash flows and discount rates, which reflect varying degrees of risk. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

At December 31, 2007 and 2006, the estimated fair values of the Group's financial assets and financial liabilities were as follows:

			2007			2006
	Book value	Fair value	Difference	Book value	Fair value	Difference
			HUF million			
FINANCIAL ASSETS						
Cash reserves	127,298	127,298	-	82,497	82,497	-
Loans and advances to banks	193,005	194,759	1,754	219,536	219,655	119
Trading assets	57,027	57,027	-	54,807	54,807	-
Derivative assets held for risk management	802	802	-	-	-	-
Investments in securities	41,866	41,866	-	63,326	63,326	-
Loans and advances to customers	1,902,020	1,956,331	54,311	1,457,528	1,493,018	35,490
FINANCIAL LIABILITIES						
Amounts due to other banks	578,630	580,045	1,415	428,208	428,120	(88)
Current and deposit accounts	1,247,136	1,246,715	(421)	1,084,096	1,083,376	(720)
Trading liabilities	10,579	10,579	-	6,894	6,894	-
Derivative liabilities held for risk management	2,134	2,134	-	-	-	-
Issued debt securities	269,062	271,539	2,477	160,707	159,449	(1,258)
Subordinated debt	85,465	86,920	1,455	65,716	65,716	-

The valuation techniques and assumptions used to estimate fair values of financial instruments are the following:

Financial assets valued at historical cost. Due to their short term nature, the fair value of cash balances, amounts due from the National Bank of Hungary and other commercial banks is assumed to approximate the historical cost carrying amount.

Financial assets and financial liabilities are measured at fair value through profit or loss. These financial assets and financial liabilities are carried at their fair values in the balance sheet. (See Note 2)

Investments in securities The fair values of investments in available-for-sale securities are provided in note 6 to the financial statements. These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

Loans and advances to customers The estimated fair value of loans reflects changes in the general level of interest rates compared to the current effective interest rate determined under the loan contract. The particular valuation methods used are as follows:

- For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.
- For fixed rate loans, fair value is determined by discounting the expected future cash flows of these loans at market interest rates applicable at last re-pricing date for loans with similar terms, remaining maturities and risks.
- For certain variable rate loans that reprice frequently, fair value is assumed to be equal to carrying value.

Other assets/liabilities The carrying values of other financial assets and other financial liabilities approximate their fair values.

Financial liabilities valued at historical cost Due to their short term nature, fair values of amounts due to the National Bank of Hungary and other commercial banks are assumed to approximate the historical cost carrying amount.

Customer accounts, deposits and certificates of deposit The fair value of deposits payable on demand or after notice and floating rate deposits payable on a fixed date are assumed to be equal to their carrying values. The estimated fair values of fixed-rate deposits payable on a fixed date are determined by discounting the contractual cash flows, using market interest rates applicable at last re-pricing date for deposits with similar terms and risks.

Debt securities issued and subordinated debt The fair values of securities issued by the Group are based on quoted market prices. The fair value of subordinated debt is determined at current rates offered to the Group for debt of the same remaining maturity.

Derivative financial instruments Derivative financial instruments are carried at their fair values in the balance sheet.

49 Related party transactions

	Parent company and its group		Non-consolidated subsidiaries		Jointly controlled and associated companies		Management	
	2007	2006	2007	2006	2007	2006	2007	2006
	HUF million							
ASSETS								
Amounts due from other banks	5,811	108	-	-	-	-	-	-
Loans and advances to customers	-	-	3,547	3,730	17,550	12,733	447	137
Derivative financial instruments								
(positive FV)	5,228	4,903	-	-	-	-	-	-
Other	1	-	5	106	-	181	-	-
LIABILITIES								
Amounts due to other banks	126,758	29,015	-	-	-	-	-	-
Current and deposit accounts	195	6,599	1,597	1,868	636	1,188	-	-
Borrowed funds and debt securities	19,748	10,774	122	-	-	-	-	-
Subordinated debt	84,848	65,984	-	-	-	-	-	-
Derivative finacial instruments								
(negative FV)	6,712	2,725	-	-	-	-	-	-
Other	-	313	-	-	-	1	-	-
INCOME STATEMENT								
Interest income	147	5	211	257	739	358	7	12
Interest expense	3,435	2,796	63	26	27	38	-	-
Other net income / (expense)	(12)	(10)	22	64	57	46	(62)	(54)
OFF-BALANCE SHEET ITEMS								
Undrawn commitments to extend credit	1,050	1,052	2,006	4,865	4,160	1,743	-	-
Guarantees	-	-	-	-	18	-	-	-

Loans to and deposits from related parties earn and bear interest at normal commercial rates.

Loans to employees amounted to HUF 8,493 million (2006: HUF 3,232 milllion), which include loans to directors which are in part at preferential rates of interest (base rate or half of base rate).

At December 31, 2007, no impairments (2006: Nil) were accounted for against related party exposures.

At December 31, 2007, included in Parent company and its group was HUF 2,280.6 million subordinated debt from the BAWAG P.S.K who is a minority shareholder of MKB.

Current and deposit accounts of related parties bear interest at normal commercial rates.

50 Consolidated subsidiary companies

The subsidiary companies of MKB Group and their activities are listed below:

Company	% Equity owned	% Voting rights	Country of incorporation	Brief description of activities
Filease Rt	67%	67%	Hungary	Car finance activity.
MKB-Euroleasing Autóhitel Zrt.	73%	73%	Hungary	Car and consumer finance activities.
MKB Befektetési Alapkezelő Zrt	100%	100%	Hungary	Investment fund management activity.
MKB Üzemeltetési Kft	100%	100%	Hungary	Property operation and maintenance.
MKB Unionbank AD	60%	60%	Bulgaria	Fully licenced commercial bank.
MKB Romexterra Bank S.A	76%	76%	Romania	Fully licenced commercial bank.
MKB Romexterra Fond de Pensii S.A.	46%	60%	Romania	Retirement Fund
Resideal Zrt.	100%	100%	Hungary	Property investment and valuation.

During 2007, the Group acquired new shares in MKB Romexterra Bank S.A. for HUF 9,782 million and the Group's interest incresed from 55% to 75.94%. The carrying amount of MKB Romexterra's net assets in the consolidated financial statements on the date of the acquisition was HUF 17,789 million. The Group recognised a decrease in minority interests of HUF 2,360 million and an increase in goodwill of HUF 6,700 million. In the course of the year, MKB Romexterra Fond de Pensii S.A. was founded with a 60% direct interest of MKB Romexterra Bank S.A.

In January 2007, the Group sold its 60% share in its Bulgarian financial services subsidiary, Unionlease EAD.

51 Subsequent events

New seiries of zero coupon bonds were issued on 16 January, 2008 amounted to HUF 1,250 million with a maturity of 07.05.2008..

52 Disposal of consolidated companies

MKB Unionlease EAD were sold February 6, 2007.

	MKB Unionlease EAD
	HUF million
Cash reserves	202
Amounts due from other banks	-
Loans and advances to customers	1,045
Other assets	21
Property and equipment	4
Amounts due to other banks	823
Current and deposit accounts	59
Other liabilities	3
Total net assets sold	387
Less: Minority interest	(145)
Net identifiable assets and liabilities	**242**
Cash received	**388**
Net cash inflow	**185**

53 Change in accounting policies

	2006 closing balance	Accruals and others	Cash reserves	Deferred tax correction	2007 opening balance
			HUF million		
Asset side					
Cash reserves	35,725	193	46,579	-	82,497
Loans and advances to banks	255,370	580	(36,414)	-	219,536
Trading assets	51,283	3,524	-	-	54,807
Investments in securities	71,443	2,048	(10,165)	-	63,326
Loans and advances to customers	1,447,602	9,926	-	-	1,457,528
Other assets	25,915	(16,245)	-	-	9,670
Goodwill	30,360	-	-	-	30,360
Deferred tax assets	7,506	-	-	(4,795)	2,711
Investments in jointly controlled and associated companies	7,517	(26)	-	-	7,491
Change on total assets		**-**	**-**	**(4,795)**	

	2006 closing balance	Accruals and others	Long term deposits due to banks	Deferred tax correction	2007 opening balance
Liability side					
Amounts due to other banks	371,212	9,500	47,496	-	428,208
Current and deposit accounts	1,078,707	5,389	-	-	1,084,096
Certificate of deposits	2,411	(2,411)	-	-	-
Trading liabilities	6,894	-	-	-	6,894
Derivative liabilities held for risk management	-	-	-	-	-
Other liabilities and provisions	62,463	(14,568)	-	-	48,063
Deferred tax liability	10,551	-	-	(4,963)	5,588
Issued debt securities	206,231	1,972	(47,496)	-	160,707
Subordinated debt	65,598	118	-	-	65,716
Shareholders equity	193,116			168	193,284
Change on total liabilities		**0**	**0**	**(4,795)**	

	2006 closing balance	Interest	Commission and fees	Dividends	2006 reclassified
Net Interest Income	57,134	(17,478)	7,512	15	47,183
Net income from commissions and fees	18,182	-	(7,512)	-	10,670
Other operating income	5,150	17,478	-	(15)	22,613
Change on total Profit and Loss statement		**-**	**-**	**-**	

Accruals and others comprises all reclassification effect that derived from implementation of BayernLB accounting policy. The main factor was the disclosure of accruals belong to asset and liabilities items

Cash reserves includes all reclassifications due to enlarging meaning of this category. The cash reserves comprise cash, treasury bills and deposits due from banks with original maturity less than 3 months.

Deferred tax correction represents the change of temporary differences in connection with repurchased own bonds.

Long term deposits due to banks represents the deposit with remaining maturity more than 5 years. Earlier these items were disclosed among the long term borrowings which was terminated. Thus the introduction issued securities category comprises only the debt issued instruments.
Net interest income reclassification is manly due to the reclassification of net interest income from derivative instruments and dealing securities, which is disclosed from January 1, 2007 as traiding result among the other income.

Commission and fees similar to interest are disclosed now among net interest income in line with BLB group accounting policy.
Dividends income are disclosed as current income from affiliated companies among net interest income from January 1, 2007.

Management's Discussion & Analysis

Castle of Buda, Budapest

The following section of the Annual Report provides a discussion and analysis of the Group's financial condition and results of operations so as to help the reader to assess any changes in the financial condition and profits for the year 2007. The forthcoming analyses are based on figures reported in MKB Bank's consolidated financial statements prepared under International Financial Reporting Standards ("IFRS") as at, and for the financial year ended, December 31, 2007 and audited by KPMG Hungária Ltd. chartered accountants. On this basis, the discussion focuses on the performance of the Group as an entity. The consolidated financial statements prepared under IFRS are presented separately.

OVERVIEW

The Group business activities appear in three separate units and territories, such as Hungarian domestic - MKB, Bulgarian – Union Bank, and Romanian. – Romexterra Group.

DOMESTIC BUSINESS AREA

In 2007 the domestic business area reflected negative impacts of the macroeconomic environment. The continuation of the rate cut cycle of the Central Bank was one of the most important macroeconomic decisions having an impact on the operation of MKB Bank in this business year. Besides the rate decisions, the other major influential factor was that there was no decline in the borrowing intentions of the retail market, although inflation was above 8-8.5% as a result of the Convergence Programme and the tightening measures of the Government. Because of the issues related to the inflation curve, the market set a practically decelerating rate falling curve. The main challenges for decision-makers were the high energy prices, high agricultural prices and the impact of those on inflation on a short and mid-term. The economic growth was only 0,9% in the third quarter of 2007 which meant a very poor performance but GDP is expected to rebound in 2008 after the restrictive measures for 2007 aimed at a more balanced budget and current account. Measures to cut budget deficit were successful (budget deficit was approximately 6% of GDP in 2007). The GDP real growth could reach almost 2.4% in 2008. Investment activity is expected to rebound in 2008 - after the 2007 slow-down -supported by the increasing availability of EU funds and PPP projects secured the planned reform measures (e.g. the healthcare reform).

BULGARIAN BUSINESS AREA

During the first year of EU membership, Bulgaria kept on maintaining a high pace of economic development. At the end of 2007, GDP reached BGN 40.1 billion in line, with expectations for a nearly 6% real growth year-over-year. A key factor to the successful development of Bulgarian economy in 2007 was the large volume of foreign investments, achieving a record amount of approximately EUR 5 billion at the year-end and resulting in an annual increase of 14.57 %. The trend of an increasing current account deficit went on during the past year, with the expectations for the deficit to run about 20% of GDP based on the final data for 2007. From one side, this imbalance is mainly due to the negative balance of trade (21.6 % of GDP). From another view, the gross external debt kept on growing to reach EUR 25.55 billion (95.6 % of GDP) in October. This rise is almost totally due to the increase in the private unwarranted debt (80.6 % of GDP as of October), growing by 38.08 % within the first ten months of 2007. The second half of 2007 was marked by a significant increase of inflation, which went up to 12.5 % in December on an annual base. In 2007 the banking system kept pace with the high development. At the end of the year the corporate lending reached a 76.1 % rise correlated to the end of the year 2006. Slightly lower but still significant was the 58.8 % increase in retail lending. The client deposits with the banking system showed a 40.4 % increase since the beginning of the year.

ROMANIAN BUSINESS AREA

During 2007 the growth of GDP was 6.5% in real term which was slightly lower then the previous-year end level (2006: 7.7%).

The current account deficit reached 14% of GDP in 2007, up from 10.3% one year earlier which was increasingly financed from private external borrowings. The deficit was persistent during the business year, which was caused by the salary increase and RON depreciation. These effects led to a trend change in terms of the inflation development and it was more than 21% at the end of the year. Standard & Poor's revised, twice in 2007, the Romanian economy development perspective from positive to stable, in April and from stable to negative in November, due to the tighter fiscal policy. The inflation pressure is expected to be intensified in the forthcoming months. The consumption prices will grow as a consequence of food product price rise and of Romania aligning the electricity and natural gas prices gradually, so as those will reach the EU levels in 2009. The building sector increased by 33.6%, which notifies that in 2008 the building sector could reach a higher level, supported by the massive demand in the residential and non-residential building segment.

Financial investors experienced that Hungary and the Central and Eastern Europe region were not directly affected by the sub-prime crisis, but the banks' positions became more difficult amidst the increasing lack of trust and the increase of cost of funds coming from abroad. From the aspects of investors, the Central and Eastern Europe region remained stable, as a result of which the government securities market has been slowly improving since August, accompanied with stronger exchange rates.

In 2007 MKB Group's principal long-term financial priorities aiming at growing and diversified revenues focused cost discipline, high credit quality and effective balance sheet and capital management were again manifested in strong business developments and financial performance. In the year 2007, MKB Group successfully continued executing its major strategic and business policy targets and kept strengthening further its market presence.

FINANCIAL PERFORMANCE

In 2007 MKB Group seized business opportunities of domestic and foreign business areas but also faced the negative impacts of the domestic macroeconomic environment. The Group's total operating income (net interest income plus non-interest income), continued growing in 2007 with a year-over-year increased by 25.6% to HUF 101,052 million (2006: HUF 80,466 million). The main factor of this growth relates to interest bearing items. Net interest income's share showed a slight increase compared to the previous year (2007: 59.9%, 2006: 58.6%). The dynamic increase of the net interest income derived from the expanding business volume of subsidiaries relates to foreign business and domestic leasing areas.

In 2007 the share of net commission and fee income from the total operating income in percentage decreased slightly from 13.3% in 2006 to 12.8%, while the total operating income grew by 20.9% to HUF 12,896 million. This decrease of net commission and fee income was due to the moderate growth, a result of a lower income from payment and account maintenance fees, while the agent commission expenses had higher increase than planned.

In 2007 other operating income reflected a 22.2% rise from HUF 22.6 billion in 2006 to HUF 27.6 billion, mainly due to high gains on foreign exchange transactions. Meanwhile, the pre-provision net operating profit after deducting costs was HUF 41,876 million in 2007, which meant an increase by 15.4% of HUF 36,298 million in 2006.

The profit before taxation of HUF 19,938 million for 2007 was behind the 2006 profit of HUF 23,527 million, as extreme increase of net provision charges could not be counterbalanced by higher pre provision business income. The pre-tax return on average equity ratio (ROAE) was 9.6% for 2007 (2006: 14.7%) including the effect of capital rises while the pre-tax return on average assets ratio (ROAA) was 0.8% in 2007 (2006: 1.3%). The significant lag of pre-tax ROAE is attributable to the fact that the equity was expanded significantly during 2007 in order to enable the MKB Group to finance the acquisition of Unionbank and Romexterra. At the same time the net provision charge became extremely high due to deteriorating exposure of loans and advances, which had a material disadvantage to profit before tax. This reflected in the significant rise of relative net provision charge, which was at 1.13% for 2007 compared to the 0.68% figure of 2006. Prudent risk management process provided a strong coverage to non-performing loans of small and medium type corporate in the domestic business area.

Despite the higher level of impairments, the MKB Group was able to improve its own operating profitability regarding the business income, which is reflected in the gross operating margin (gross operating income to average assets) of 4.96% for 2007, having the 4.34% of 2006, whereas the relative operating costs represented 2.91% in 2007 (2006: 2.38%).

Tax charges decreased to HUF 3,837 million (2006: HUF 5,175 million), which consisted of HUF 5,859 current income tax and HUF 2,022 deferred tax income.

On the grounds of profit after taxation of HUF 16,101 million for 2007, the Board of Directors proposes nil dividend payment.

KEY FIGURES

IFRS

HUF million

	MKB Bank	MKB Unionbank	MKB Romexterra Group	Leasing Group*	Auxiliaries**
Total Assets	2 234 920	132 912	162 443	92 237	61 357
Share Capital	14 094	5 235	16 590	1 293	59 042
Reserves	194 408	7 082	852	8 649	42
Operating Income	81 097	4 955	9 870	5 849	10 179
Operating Expenses	(45 537)	(3 575)	(7 848)	(1 620)	(10 000)
Provision Charge	(20 927)	(526)	(1 019)	(512)	(1)
Profit Before Taxation	14 633	855	1 003	3 717	178
Profit After Taxation	11 706	788	1 105	3 467	175
Pre-tax Return on Average Equity (ROAE)	10,2%	7,9%	6,2%	42,2%	na
Earnings per Average Outstanding Share (EPS)	86,2%	15,1%	7,9%	na	na
Pre-tax Return on Average Assets (ROAA)	0,7%	1,0%	1,2%	4,4%	na
Cost-to-income ratio	56,2%	72,1%	79,5%	27,7%	98,2%
Capital adequacy ratio	9,6%	16,1%	15,0%	na	na

* Eurocredit, Filease
**Resideal, MKB Üzemeltetési

The pre-tax return on average equity of the bank subsidiaries remained below the average consolidated level of 9.6%. The Unionbank was able to increase ROAE, which amounted up to 7.9% compared to 6.45 % of the previous year-end. During the business year there was a capital increase in, an amount of BGN 15 million, that was financed from the surplus of the profit earned from the expansion of the business activities. This expansion was reflected in a significant increase (279.9%) of pre provision net operating profit amounting HUF 1,381 million (2006: HUF 493 million). The decrease of ROAA reflected a high growth of business activity in the last quarter of the year, which enlarged the average assets in a larger scale than the income effect was able to be appeared. Cost to income ratio was over the consolidated level (58.6%) but decreased to 72.1% from the 84.21% for 2006 as a consequence of applying prudent cost controlling principles.

Regarding Romexterra Group's ROAE, there was a slight decrease (2006: 12.3%) that could be explained by the shrinking of pre provision net operating profit. The pre provision profit significantly decreased to HUF 2,022 million by 23.4% due to the growth (34.9%) of operating expenses. This could be explained by macroeconomic environment, which comprised a considerable growth of consumption price index. This reflected in CIR increasing to 79.5% from 68.9% for 2006.

The leasing group showed better key figures than the banking activity profitability and cost efficiency. This segment was able to improve every key figure due to considerable growth of its business activity in 2007. The ROAE reached 42.2% (2006: 23.6%) and the CIR was 27.7%, which was a significant advance compared to the previous year level (42.5%).

NET INTEREST INCOME

Net interest income, the most important component of revenue, amounted to HUF 60,518 million, 28.3% in excess of HUF 47,183 million in 2006. The average interest earning assets significantly increased (by HUF 226.8 billion), while the total average loans and advances grew by HUF

250.3 billion. This growth reflected the intensive expand of foreign business exposures. The net margin increased to 2.77% from 2.54%, which was explained by higher interest rate environment and more intensive retail business of both foreign business areas.

The average interest earning assets, which were denominated in domestic currency, remained on the previous years' level. This also reflected in the domestic market business trend characterized by the customers preferring foreign currency loans due to the lower level of interest rates. Considering the business customer's exposures, the most significant growth was experienced in the retail sector (59.3% increase). This enormous growth derived from business expansion of foreign retail banking and leasing activity. The most significant product was the residential mortgage loan, which increased to an amount of HUF 310 billion from HUF 192.6 billion for 2006. Additionally, this considerable growth related to personal loans, which reached the double of the previous year amount (HUF 107 billion). This huge increase was in connection with business growth of leasing activity, which represented additional customer exposures of HUF 30.2 billion.

The average interest earning liabilities increased by HUF 251 billion, that gave coverage for business extension. The growth of customer deposit was lagging behind expand of customer's loans and advances which caused the significant decrease (HUF 109 billion) of the average level of money market placements on the asset side.

The interest income from debt securities significantly increased (by HUF 7,792 million) due to the change of the bank's policy in connection with compulsory deposit. During the year 2007 MKB Bank took the compulsory deposit in form of AFS securities that was reflected by growth of securities among the cash reserves.

AVERAGE INTEREST ASSET/LIABILITIES BY BUSINESS AREAS

HUF million

	MKB Bank		MKB Unionbank		MKB Romexterra Bank	
	2007	2006	2007	2006	2007	2006
Average Loans and advances	1 745 090	1 614 270	65 666	38 723	73 849	54 878
Average securities	43 532	76 813	5 027	6 924	11 829	4 390
Average interest earning assets	**1 788 622**	**1 691 083**	**70 693**	**47 652**	**85 678**	**59 267**
Average interest rate%	6,92	6,24	12,18	11,00	16,52	15,50
Average customer and deposit accounts	1 422 544	1 351 658	77 048	57 205	86 951	72 763
Average issued securities	261 599	181 800	2 533	3 026	789	1 387
Average interest earning liabilities	**1 684 143**	**1 533 458**	**79 582**	**60 231**	**87 740**	**74 150**
Average interest rate%	4,78	4,03	3,40	3,66	5,61	5,26
Difference between average rate %	**2,14**	**2,21**	**8,78**	**7,34**	**10,91**	**10,24**

In 2007 **MKB Bank reported** a HUF 44,372 million net interest income, a positive result compared to the HUF 38,287 million in the previous year. This moderated increase of net interest income was related to a reserved growth of average interest bearing assets (HUF 145.2 billion). This was caused primarily by the concentration of the growth of business portfolios in the last 6 months of the year. Due to the growing tension of private deposit market, the bank had to give a special premium to private customers in order to preserve the previous exposure level. The deposit promotions generated significant additional interest expenses. At the same time, the increase of the business portfolios was financed from funds raised on the inter-bank market. This also caused a slight slowdown on the increase of the net interest income.

In 2007 the average portfolio of interest-bearing assets grew from HUF 1,691.1 billion in 2006 by 8.6% due to a robust 20.4% increase in the currency-based portfolio. The portfolio increase partly resulted from new transactions, and partly from the weakening of the HUF, which was reflected both in the portfolio and the income figure. At the same time, interest-bearing assets denominated in domestic currency reflected a relative decrease (5.7%) caused by shrinking of average inter-bank's exposures in domestic currency and stagnating level of average corporate exposures.

The customer loans increased primarily in the large corporate segment, where the return is less effective (HUF 169 billion average portfolio growth). A considerable increase was observed in the average portfolio of private loans, which are very effective in terms of return (HUF 86 billion) but the average portfolio of SME customers, which is another high profitability customer segment, dropped by HUF 58 billion.

The above mentioned factors caused the considerable decrease of net interest margin that dropped to 2.22% from previous year level (2.61%).

In 2007 the average portfolio of interest bearing assets of MKB Unionbank increased from HUF 45.6 billion in 2006 by 54.8% to HUF 70.7 billion. Increase of the average portfolio was resulted from new transactions significantly in private segment (121. 8%). The considerable growth has appeared in corporate (14, 6%) and financial institutions (HUF 16.6 billion) portfolios. At the same time average portfolio of securities decreased by 27.4% (HUF 1. 8 billion).

The vivid increase of average portfolio related to private individuals was mainly denominated in domestic currency (BGN) and at higher average interest rate (11%). Structure of corporate segment has slightly changed in 2007. In 2006 the main segments of corporate portfolio were only SME and micro enterprises amounted to HUF 34.3 billion, but in 2007 the remaining measure of the two segments, the large corporate segment has appeared in amount of HUF 5.3 billion.

The average portfolio of interest bearing liabilities increased from HUF 60.2 billion by 40% to 84.7 billion, that gave the coverage for the growth of lending business extension. In 2007 the average deposit portfolio increased by HUF 19.8 billion (34.69%): on one hand term deposits increased by HUF 9.2 billion and reached HUF 49, 6 billion level (2006: HUF 40.3 billion), on the other view sight deposits also sharply increased by HUF 10.5 billion and obtained to HUF 27.4 level (2006: HUF 16.8 billion). Main customer segments of increase were large corporate (6 billion), private individuals (HUF 5.37 billion) and Treasury (HUF 5.24 billion). The other two components of average portfolio of interest bearing liabilities changed by HUF 4.6 billion: issued securities slightly decreased by HUF 0.5 billion (16 %) and Unionbank received HUF 5.1 billion subordinated debt. On account of the above mentioned factors net interest margin increase to 3.09% in excess of 2.12% in 2006.

In 2007 average portfolio of **interest bearing assets of MKB Romexterra Bank** was over 30% (HUF 77,3 billion) the total amount of HUF 59.2 billion in 2006. The growth could be explained by significant increasing average balance of loan portfolio mainly due to SME and micro enterprises (HUF 17.6 billion) and private customers (HUF 11.3 billion).

Meanwhile, the average portfolio of interest-bearing liabilities grew from HUF 65.2 billion in 2006 by 34% in relation to a dynamic increase (47%) in the term deposits. A considerable increase was experienced in the average portfolio of retail segment (HUF 27 billion), and Treasury transactions (HUF 11 billion), while HUF 17.7 billion decreasing occurred in connection with deposits of large corporate customers. The bank received HUF 3.3 billion subordinated debt during the year for the coverage of lending business expansion.

During the business year the macroeconomic environment was bearing high inflationary pressure. Thus the average interest rate related to loans and advances was 16.5 %

and average deposit rate was 5.6% which seemed to be higher than in CEU region.

The above mentioned reasons caused the considerable increase of net interest margin that reached 6.1% level from the measure of 5.7% in the previous year.

NON-INTEREST INCOME

For 2007, the total non-interest income increased by 21.8% and amounted to HUF 40,534 million (2006: HUF 33,283 million), representing 40.1% of gross operating income compared to 41.4% in 2006. The rise in the nominal amount of such income was the net result of different factors as detailed below.

Total net commission and fee income of HUF 12,896 million, the lesser part of non-interest income grew by 20.9% from HUF 10,670 million in 2006, reflecting the moderated expansion of the Bank's fee-generating activities. However all fee-income elements grew compared to 2006, the income on payment and card services was slightly below the planned level in the domestic business area. The growth rates of commission income elements represented 47.5% in payment services, 11.2% in credit related fees and 11.6% in card services, thus the total increase was amount of HUF 2,063 million.

Meanwhile, fees expenses showed a slight decrease (1.9%) compared to previous years and dropped to HUF 8,326 million from 2006 year-end figure of HUF 8,489 million. The reason of shrinking of fee expense was the implementation of amortized fee accounting method among the fees paid for car dealers, which meant HUF 1,132 million decrease. At the same time, credit fees increased by HUF 2,514 billion that belonged to paid agent fees in domestic credit business area.

On this basis, the proportion of net commission and fees decreased to 12.76% from 13.26% that represented the previous-year level.

Other operating income of HUF 27,683 million for 2007 was 22.2% over the total amount of HUF 22,613 million for 2006. The growth derived from revaluation and realized result from spot currency and derivative positions related to the Romanian business area and amounted to HUF 2,136 million. The operating income from securities business showed a determined decrease amounted to HUF 3,070 million compared to previous-year level of HUF 3,429 million. This decrease is related to the previous-year end additional gain (HUF 356 million) that derived from the change in the accounting method of MKB Euroleasing Zrt and MKB Autopark Zrt (instead of proportion method the Group applied equity method). Disregarding this effect the Group earned almost the same gain as in the previous year (2006: HUF 3,073 million).

Within **MKB's non-interest-type income,** the HUF 12,216 million net fee and commission income in 2007 was 5.7% higher than the HUF 11,588 million income earned last year. This growth significantly lagged behind the Group's increase.

The reserved growth is explained primarily with the rise in payment commissions and deposit accounting fees lower than expected. The impact of the higher agent commission expenses generated additional commission expenditure, which could not be offset with the commission surplus from investment services and lending (outstanding figure in December).

According to operating income the MKB Bank realized HUF 1,300 million additional gains on securities business. This consisted of extend of trading business activity in foreign and domestic government bond market. The net gains from trading of government bonds amounted to HUF 1,087 million and additional HUF 519 million gains derived from sale of MKB funds.

Another important factor in other operating income is the net amount of foreign exchange gains and derivative revaluations, which significantly decreased mainly because of revaluation and realised gain on derivative and spot fx transactions. The net income dropped to HUF 21,755 million from HUF 23,424 million, which was counterbalanced at the Group level.

MKB Unionbank's net commission and fee income was up 77% from HUF 515 million in 2006. Significant increasing eventuated due to extension of payment services (HUF 0.9 billion) and as a consequence of that, the total amount reached HUF 0.9 billion at the end of this year. While income from FX based transaction was HUF 0.1 billion losses in 2006, for the year of 2007 Unionbank disclosed HUF 0.2 billion profits mainly due to revaluation of currency related transactions.

MKB Romexterra Group's net commission and fee income sharply decreased from 2.6 billion in 2006 to HUF 1.2 billion in this year, recognizing less commission and fee income from payment services. In the previous year Romexterra Group had not realized significant profit in connection with FX based transactions, but in this year the currency related transactions were resulted HUF 2.1 billion profit.

OPERATING COSTS

Cost discipline remained a priority in 2007 as well, although the Group continued to investing in revenue growth initiatives. During 2007 operating costs totalled HUF 59,176 million, 34.0% higher than HUF 44,168 million 1 year earlier. The nominal growth in operating expenses was driven by the extra expenses of running the Group's extended sales capacities and the additional costs of newly launched strategic projects. Meanwhile, the significant IT projects aiming at the implementation of more advanced systems all over the Group to promote customers' services, also continued in 2007.

In nominal terms general and administrative costs increased by 122.8% over 2006, reflecting the impact of Romexterra Group that was not considered in 2006, due to the consolidation with year-end acquisition date. The significant increase of salaries and wages (40.8%) also included the effect of Romexterra Group. This type of cost comprised 33.9% (2006: 32.2%) of total expenses, which can be explained by the growth in the total number of full-time equivalent staff in consequence of the Group's organic growth abroad and surplus of bonus for 2006 and severance pays that appeared during 2007 in MKB Bank.

The considerable increase of 13.0% in marketing and public relation costs reflected the intensive support of sales initiatives and the promotion of newly opened delivery units.

Due primarily to the costs of the enlarged branch network as well as the move into a new office building resulted in a growth in gas, electricity and property rental expenditures. The Group opened more than forty new branches in 2007. As a consequence of the above mentioned factors, occupancy and rental costs increased by 27.2% from HUF 8,838 million in 2006 to HUF 11,239 million. Simultaneously, communication and data processing expenses decreased by HUF 1,312 million due to the strict budget of IT developments.

The recognized benchmark to measure efficiency in the banking industry, the cost-to-income ratio for the year 2007 was 58.6%, 3.7 percentage points below the 54.9% figure of 2006. This decrease compared to last year's figure reflected enlarging sales capacities, revenue growth initiatives and unfavourable inflation situation.

MKB Bank's operating costs amounted to HUF 45,537 million with a 13.5% nominal increase compared to the HUF 40,117 million total costs in 2006. In relation to the organic growth of MKB Bank in 2007, the headcount figure increased by 152 employees during the year. The salaries, wages and other staff-related expenses grew by 13.1% and reached HUF 20,055 million. This increase was related to the opening of new branches and 8-8.5% of the increase was related to the inflationary environment.

The general administration expenses grew by HUF 2,014 million, which mostly derived from increase of other tax items and other office costs. Moreover the legal advices cost decreased by HUF 403 million.

The growth in communication and data processing costs (8.1%) was due primarily to the additional costs of new strategic projects launched during the year. Meanwhile, the significant IT projects aimed at the implementation of more advanced systems to support customers' services also continued. In this context, the costs of capacity increase required for organic expansion, more specifically, IT development and the costs of opening new branches, were the most important items.

The occupancy cost increased significantly by 59% (by HUF 537 million) due to the additional depreciation expenses. This latter category increased with the depreciation accounted on the activated intangible assets.

The Bank's 56.2% cost to income ratio indicated some declined in comparison to the 53.6 % in 2006, which is the result of growth of salaries and wages and other tax expenses. The Bank's efforts to contain costs in line with business growth are clearly illustrated by the 2.28% operating expenses to average total assets ratio, which sustained almost at the same level of 2.25% measured in 2006.

General and administrative cost of MKB Unionbank increased by HUF 2 billion from 2006 (HUF 1.54 billion) to 2007 (HUF 3, 6 billion). Significant component of increasing salaries and wages from HUF 0, 7 billion 2006 to 1.9 billion

(174% increasing) and other administrative expenses from HUF 0.2 billion 2006 to HUF 0.8 billion 2007 (270% increasing).Related to administrative expenses rising could be explained by a higher amount of building cost (HUF 0.5 billion). The above mentioned cost increase was indicated by extension of branch network which caused relative high CIR 72.1%.

General and administrative cost of MKB Romexterra Bank grew by 22.4 % from HUF 6.3 billion in the previous year. Increasing eventuated due to salaries and social security expenses (by HUF 0.9 billion, by 30.5%) and general administration expenses (by HUF 0.4 billion, by 20.8%) and reached HUF 7.7 billion level for 2007. The continued inflationary pressure (more then 21%) caused the high CIR represented 79.5%.

BALANCE SHEET MANAGEMENT

In 2007, with the execution of its primary business policy objectives the Group continued to expand its customer base with asset and deposit growth in most of the strategic business lines. At the end of 2007, the Group's total assets were up 23.6% from HUF 1,992.4 billion at previous year-end to HUF 2,461.8 billion at 31st December, 2007. The share of customer asset balances was over the previous year-end level 73% and reached to 77.3% in the total. In 2007, average interest-earning assets amounted to HUF 2,019.5 billion, up from HUF 1,792.7 billion of total average assets, in 2006.

In 2007 growth in total assets was primarily driven by customer lending whose net volume was up 30.5% from HUF 1,457.5 billion in 2006 to HUF 1,902 billion. The bulk of the nominal growth came from three main sources. Expansion of long-term, foreign exchange denominated loans to domestic large enterprises played a major role in the growth of the portfolio. This was reflected on increase of corporate segment which was 23.6%. The largest indicator of increase (HUF 157 million) was additional project financing loans that was given to real estate sector at the second half of the business year at domestic market.

Besides large corporate exposures, lending to the SME clientele increased to a moderate extent on the annual basis, which amounted to HUF 67,839 million. The customers of leasing and foreign banking activity represented the small part of this sector in the Group and the intra-group items of leasing finance concentrated to this type of customer. Thus MKB Bank increased own exposures in this sector by HUF 90,529 million, which included the growth of intra-group leasing exposures.

The loans and advances to retail sector were prominent due to the increase of residential property and consumption loans in foreign currency at both domestic and foreign business areas. The increase was HUF 200,857 million that derived from the growth of residential mortgage (HUF 117,688 million) focusing on domestic market. The financing loan to retail clients showed a considerable growth (HUF 95,580), which concentrated to the leasing and bank subsidiary's business activity.

The Bank's business policy continued placing strong emphasis on retaining and expanding the customer deposit base in order to fund constantly growing credit volumes. Total volume of current and deposit accounts held at MKB Bank by corporate and private customers have grown, aggregately by 15.0% to HUF 1,247.1 billion (2006: HUF 1084.1 billion).

However, during the year, the Group had to pay a lot of attention to keeping its customer deposits in the strong competition for the shrinking domestic resources on the Hungarian market. Both foreign bank subsidiaries had to be financed by subordinated loan from MKB Bank in order that they were able to manage the growth of credit volume. During the business year the additional subordinated loan was HUF 8,486 million within the Group. Beside this, Unionbank needed capital increase in an amount of BGN 15 million.

The average level of inter-bank deposits (HUF 463.9 billion) grew by HUF 52.7 billion in 2007 since the end of the previous year, mainly as a result of currency deposits from the inter-bank market. This increase of the inter-bank deposits significantly exceeded the budget, and reflected mainly the stagnation of the Hungarian savings market and provided a short-term response to the shortage of funds on the international equity markets. The financing raised on the inter-bank markets increased from 21.5% in 2006 to 23.5% in 2007.

In order to finance the increasing lending activities MKB Bank issued a large volume of bonds (HUF 124.2 billion), as a result of which the total portfolio reached HUF 306.4 billion.

The majority of this increase related to bond issues abroad (HUF 99.3 billion) and significant part of increase was regarded as subordinated bonds in the amount of HUF 19,132 million. Additionally, the foreign bank subsidiaries also issued bonds in the amount of HUF 2,811 million. The financing raised on the issued securities increased from 8.1% in 2006 to 10.9% in 2007 while the financing from subordinated loans sustained app 3.5% level.

At the end of 2007 **the total assets of MKB Bank** were HUF 2,234.9 billion, 21.3% higher than HUF 1,843.2 billion for 2006. This organic growth was significantly faster than in the previous year, resulting primarily from the extensive business policy strategy applied primarily to project financing and retail loans.

Among the assets, the customer loan portfolio grew by 26.9% in the year, due to the significant efforts taken by the Bank for retaining the good credit quality of the portfolio. In terms of customer segments, we can conclude that in corporate lending both the portfolio and the income figures were slightly below the budget in the large corporate and SME segments. At the same time, project loans performed above the budget both in terms of portfolio and income in the first 3 quarters of the year. There is a permanent growth tendency among retail loans, which are increasing continuously.

The dominance of the loans denominated in foreign currency to corporate customers remained significant in the portfolio, representing 69% (typically EUR loans). Similarly to corporate loans, currency loans dominated in the retail customer segment throughout the year, as a result of which currency loans represent approximately 78% of the total retail loan portfolio of the Bank. The majority of the new retail currency loans were taken in CHF, mainly in the form of new transactions dominated by real property and consumption loans. Fund raising and supporting of the continuous increase of lending continued to be a priority in the business policy of MKB Bank.

However, during the year, the Bank had to pay a lot of attention to keeping its customer deposits in the strong competition for the shrinking domestic resources on the market. Another factor contributing to competition on the market was the one-year deposits collected in the previous year in order to avoid the interest tax matured in the third quarter. MKB developed and advanced its HOZAMSULI product in order to retain these funds. With the help of this new product, the Bank managed to increase its retail deposits.

As an overall result, customer deposits grew by 11.7% from HUF 963.1 billion in the previous year to HUF 1,075.9 billion. The growth was slower than in the previous year, which was also reflected in the declining share of the customer deposit portfolio (2007: 48.1% 2006: 52.3%).

The average portfolio of corporate deposits was HUF 569 billion in the year, which almost did not change since the previous year (HUF 567 billion). Looking at the composition of corporate deposits, we can observe a significant increase in the SME segment (13.3% increase in deposits), which was offset with the 17.8 % decrease in the deposits of micro enterprises.

Looking at the dates related to corporate deposits, approximately HUF 79 billion rise may be observed in the last quarter.

The deposits placed by other financial intermediaries exceeded HUF 83.5 billion.

The average portfolio of retail deposits grew to HUF 402 billion from HUF 389 billion in the previous year. In terms of timing of the retail deposits, a major increase was observed in the fourth quarter (HUF 19 billion) - primarily in relation to an increase in demand deposits. While the current deposit portfolio grew primarily due to an increase in the HUF stock (HUF 14.8 billion), in terms of term deposits a similar growth was generated by the currency deposits (HUF 15.3 billion). This was caused, among others, by the weaker HUF exchange rate and the fact that the short-term and long-term deposits collected in the previous year free of any interest tax, have matured. In relation to the introduction of the interest tax last year and for the purposes of retaining the deposits maturing in August 2007 and raising new funds, in August MKB introduced a multi-component investment product, MKB Hozamsuli combining the advantages of a term deposit, an investment fund and bonds. Based on the success of this product in the Bank's fund-raising activities, the product was extended during the last quarter.

In line with the requirements and opportunities, the Bank reached HUF 97.7 billion in its domestic bond programme and HUF 172.9 billion in the issue of bonds abroad.

In 2007, MKB Bank issued discount securities for HUF 40 billion within the framework of a domestic public bond scheme, 87.5% of which was subscribed by the market. Most of the bonds were subscribed by Hungarian institutional investors with the money market benchmark yield + a few bp expenses. Within the framework of a domestic scheme, a 2-year fixed-interest series was issued in the amount of HUF 1.6 billion in the fourth quarter. The total amount was subscribed.

In the business year MKB Bank issued EUR 300 million 2-year senior, unsecured bonds in the framework of the EMTN programme. The issue was organised by BayernLB, in the form of a private placement. The securities were launched to the market at all in 3-month euribor + 35 bp pricing, which was approximately 15 bp higher than the similar types of securities.

A senior, unsecured zero coupon private placement of CZK 843 million was issued within the framework of the EMTN programme in the fourth quarter of the business year with a 2-year maturity and 3-month benchmark + approximately 30 bp interest. Two further SKK issues within the framework of the EMTN programme assisted further diversification of the capital market fund base. 1-year, SKK 500 FRN and 2-year SKK 1 billion bonds with a fixed coupon.

The shareholders increased the registered capital of the Bank by HUF 20.8 billion, equivalent to EUR 80 million, in October 2007. The capital increase was implemented as described below:

- the subscibed capital was raised from HUF 13,568 billion to HUF 14,094 million,
- the capital reserve premium rose from HUF 71,567 million to HUF 91,840 million.

With the additional capital, the Bank soundly complied with the supervisory requirements and it also improved its liquidity position.

At the end of 2007 MKB Unionbank's total assets increased to 58.67% from HUF 78 billion at previous year-end to HUF 132 billion. During the 2007 was a sensible increase in the net loan investments which grew more than twice. Lending activity was carried out at a high quality of the loan portfolio which reflected on proportion of standard credit exposures reached 97.49 % of the portfolio.

The client segmentation which started since early 2007 differentiated two main client sub-groups in Retail Banking namely: small companies & individual clients and households. The loan portfolio amounted to HUF 94.1 billion compared to HUF 45.2 billion.

At the end of the year, the volume of the loans extended to small companies amounted to HUF 31.3 billion and increased by HUF 15 billion.

As a result of the efforts for increasing the deposit base in 2007, the customer deposit rose by 45.8 % with a net increase of HUF 29.3 billion. The deposit from small companies at the end of the year amounted to HUF 21.5 billion. The deposit from individuals and micro enterprises rose by 30 % to reach HUF 43.3 billion. During the year a 40 % increase was reported for the issued debit cards, and number of card holders ran to 50,900. The international cards sales became also more important - 2,107 international Visa Electron debit cards were sold out in 2007 and the number of international Visa Classic credit cards rose nearly thrice.

During the reporting period the Bank kept on extending its client base, with its active clients increasing by 33.4 % to number 72,833. The corporate clients' number rose by 21.2 %, and the number of the individual clients increased by 35.6 %.

In this **financial year total assets of MKB Romexterra Bank** increased from HUF 90, 3 billion to 138, 3 billion. In 2007 the loan gross portfolio of MKB Romexterra Bank reached HUF 88,11 billion and the current account and deposit balances reached HUF 83 billion.

During 2007 the lending activity strongly continued, loans portfolio increased by 69.6% comparative to 2006. MKB Romexterra has created specialist business divisions focused on particular customer segments in order to achieve its objective of being the leading bank in terms of customer satisfaction, quality and services profitability. The customer-s' segmentation was finalised in MKB Romexterra, thus the bank was able to apply for the client segmentation and diversification sectors, industries and value segments. These measures focused on customized packages of products for middle and elite classes of retail customers segment.

Price competition in the Romanian market has sharpened within last years. MKB Romexterra Bank has relied mainly on expensive short-term sources, such as customer deposits. The high cost of attracted funds determines a higher interest rate for granted loans, thus, representing a competitive burden for the bank.

CAPITAL MANAGEMENT

MKB Bank's strong capital base contributes to its safety, promotes customer confidence, supports its high credit rating and enables it to take advantage of growth opportunities. MKB Bank's policy is to remain well capitalised in order to provide adequate business flexibility and to support risks associated with its activities. As capital is a critical resource, it is actively managed by the Bank. The capital management processes take into account the changes in balance sheet and risk-adjusted assets, the capital structure and the costs and availability of various types of capital, investment plans and shareholder returns, while satisfying the requirements of regulators, rating agencies, financial markets and depositors. It requires active management of both risk-weighted assets and the capital base.

Domestic and international guidelines require the Bank to maintain certain minimum capital-to-asset ratios. These risk-based ratios are determined by allocating assets and specified off-balance sheet instruments into 4 weighted categories, with higher levels of capital being required for categories perceived as representing greater risk. Regulatory capital is divided into Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Bank may raise regulatory capital by issuing several types of financial instruments to the public. These financial instruments are then classified as either Tier 1 or Tier 2, depending on the types of conditions or covenants they place upon the issuer.

In June 2004, the Basel Committee on Banking Supervision released its report entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II). The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing substantive changes in the treatment of credit risk. Moreover, an explicit new capital charge for operational risk has been also been introduced, as well as increased supervisory review and extended public disclosure needs. MKB Bank is committed to completing the necessary tasks and has launched a comprehensive project aiming at being in a position to implement and meet the new regulatory requirements first 1st January, 2008.

Tier 1 Capital includes securities with no fixed maturity date, such as ordinary shares. At December 31, 2007, the Group had HUF 150.7 million (2006: HUF 124.2 billion) Tier 1 Capital. In 2007, two new share issuances with share premiums contributed to the growth in this capital element. The growth in equity elements covered the increase of goodwill that derived from the consolidation of investments in financial institutions (2006: HUF 37.5 billion, 2006: HUF 30.3 billion). Meanwhile, the growth of intangible assets was not considerable, which reduced Tier 1 capital by HUF 0.7 billion (2006: HUF 3,815 million).

Tier 2 Capital may include subordinated long-term debt and similar instruments and qualified loan loss reserves. The amount of subordinated long-term debt may not exceed 50% of the issuer's Tier 1 Capital and, in addition, the capital treatment accorded subordinated debt is reduced as it approaches maturity. Qualified general loan loss reserves may be included in Tier 2 Capital up to 1.25% of risk-weighted assets. Total Tier 2 Capital is limited to 100% of Tier 1 Capital.

In 2007, Tier 2 capital element increased to HUF 89,991 million (2006: HUF 72,792 million), principally due to the additionally borrowed subordinated debt of EUR 75 million. Another significant part of Tier 2 Capital is the general risk reserve amounting to HUF 7,711 million (2006: HUF 6,743 million), net of deferred tax, which is allowed to be set aside for anticipated, yet not identified losses inherent in the asset portfolio and calculated in accordance with Hungarian banking regulations and amounts up to 1.25% of the Bank's risk weighted assets. In 2006, general risk reserve declined HUF 414 million through utilisations for loan losses.

Risk-weighted assets increased by 19.5% over 2006 and amounted to HUF 2,142.3 billion (2006: HUF 1,793.5 billion). Market risk positions contributed HUF 84.2 billion to the amount of risk-weighted assets (2006: HUF 114.4 billion). The decrease can be related to improvement of currency position management in both foreign subsidiaries banks. Total amount of collaterals eligible for risk-asset calculations increased by HUF 48,017 million compared to 2006 in which central bank and government guarantees represented the largest proportion. The increase of mortgaged residential property reflected the huge expansion of housing loans.

At 2006 year-end, the Group's level of capital remained strong, with capital ratios in excess of regulatory minimum requirements. The Group's regulatory capital base increased by 22.2% from HUF 196.8 billion in 2006 to HUF 240.5 billion in 2007 while total risk-weighted assets and the market risk charge altogether grew 20.1%. Thus the capital adequacy ratio of 11.7% at 2006 year-end sustained almost at the same level amounting to 11.6% at December 31, 2007. However, the Group's capital adequacy ratio safely exceeded the minimum legal and BIS requirements.

In the reporting year, mainly the capital reserve increased as a result of the capital increases raised the primary elements of the regulatory **capital of MKB Bank.** In July 2007, EUR 75 million bonds were issued in the form of a subordinated debt funding the organic growth of the business and the capital increases envisaged in the subsidiary banks. As the capital markets shrank, the majority of the bank loans were converted into customer loans and in parallel with this, the capital demand grew although the balance sheet total did not change. At the same time, project financing business and the expansion of the subsidiaries were higher than the planned level. As a result of the impacts indicated above, the Bank reached an unfavourable capital position in August 2007 when the capital adequacy ratio dropped to the very low 8.3%. The Bank managed this problem daily by introducing RWA monitoring, and the problem was solved with the EUR 80 million capital increase in October. On the other hand, the regulatory capital of MKB Bank was reduced during the year by an increase in the investments in financial enterprises and the subordinated loans provided by it, which amounted to HUF 69,772 million at the end of the year (2006: HUF 49,847 million). The intangible assets were recorded at HUF 8,139 million at the end of 2007 (2006: HUF 8,266 million). The capital adequacy ratio calculated at the end of 2007 in compliance with the Hungarian regulations, not containing the unaudited retained earnings of the reporting period yet, was 9.62% (2006: 9.52%). The ratio complied with the expectations and was higher than the minimum figure defined in the legislation.

The CAR of MKB Unionbank increased to 16.1% from 12.45% of previous year level versus 12% statutory ratio of Bulgaria. The core capital was HUF 17,151 which was significantly higher than the previous year-end figure (HUF 7,900 million) due to the additional subordinated loans derived from MKB Bank HUF 5,145 million and capital increase in amount of HUF 5,233 million. Meanwhile the risk asset increased by 118.1% amounted to HUF 106,467.9 million and capital charge for market risk position decreased by 62.2% from HUF 1,667 in 2006. This was explained by the significant decrease of capital charge for overall currency position. The overall ratio including the total market risk was 15%.

The CAR of MKB Romexterra Bank significantly decreased to (15.0%) from the previous year-end level (19.9%). The core capital was HUF 15,028 which was higher than the previous year-end figure (HUF 8,286 million) due to the additional subordinated loans derived from MKB Bank. Meanwhile the risk asset increased by 50.1% amounted to HUF 100,998.6 million and capital charge for market risk position decreased by 80% from HUF 20,132 in 2006. This was explained by the significant decrease of capital charge for overall currency position. The overall ratio including the total market risk was 14.5%.

RISK MANAGEMENT

OVERVIEW

As its businesses expose MKB Group to risks, risk management is an integral part of the Group's operations and a crucial component of its overall financial performance. The Group's risk management framework has been designed to capture and manage all relevant risks and is supported by the strong commitment to a prudent risk management culture both on the executive and business line levels. The main principles and priorities of the Group's risk management function include the ultimate oversight by the Board of Directors, the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, monitoring and reporting of all risks. The effective communication on risk and risk appetite, the on-going initiatives to better identify, measure, monitor and manage risks, the improvement of efficiency, user-friendliness and awareness of key risk processes and practices, and the employment of highly-skilled staff are major aspects in running an effective risk management function in the Bank.

The foundation of effective risk management is a strong risk management culture, which was established by risk management professionals, business areas and functional units. The common work is aimed at business, risk and resource issues in order to identify risks, which are to be measured, monitored and managed. Numerous analytical techniques support to define and optimise the risk-reward profile. Policies and limits are in place to ensure that risks are well diversified, while processes are tailored to ensure a proper risk assessment at the transaction, customer and portfolio levels.

The top level of the organizational perspective of risk management is the Board of Directors. Its main responsibilities include shaping, influencing and communicating the Group's risk culture by defining the organizational structure and by determining the direction and the limits of the Group's risk-taking willingness with respect to different activities. It reviews and approves policies for controlling risks, monitors major risks and ensures sufficient and appropriate risk management resources. Key risk strategies, policies and limits are always subject to Board of Directors review and approval.

The Group's Risk strategy was set up in consistence with the business strategy. The tasks of the risk strategy aim at ensuring a balanced risk/return relationship at the MKB Group, the ongoing ability of the group to bear its risk and the maintenance of its risk cover funds. It defines the targets of the risk management of the main business activities of the entire group including mid-term planning, thus providing the framework for the annual profit and risk planning. The requirements of Risk strategy are detailed in special risk strategies, risk policies as well as directives, and operating instructions that must be adhered to in order to keep/achieve the risk strategy goals and targets. The Risk strategy is finalized by the BoM and is presented to the Board of Directors for approval.

The Group's quartely Risk reports aim to assess the development of risk taking of the Group. The main process, risks and related measures are included in these reports to inform the Board of Directors.

The middle level of the risk management organization comprises the Board of Management and various risk committees, including Credit Committee and Asset and Liability Management Committee (ALCO), comprising senior executives. At this level, primary responsibilities are the implementation and maintenance of an integrated group-wide risk measurement, management and reporting framework and the establishment of a comprehensive risk assessment and approval process, including policies and practices, guidelines and risk limits that ensure appropriate risk diversification and risk-returns both on a portfolio and transactional basis.

The bottom line of the risk management structure comprises individual customer relationship managers and risk managers whose main responsibilities are managing, monitoring and controlling risks within the established guidelines, policies and limits. All activities that expose the Group to risks are subject to independent reviews separate from business units that initiate the transaction. Risk profiles of individual transactions, customers and portfolios are subject to on-going reviews and are reported to executives and to higher organizational levels of risk management.

The Group applies comprehensive risk management tools and policies to mitigate the main risks it is exposed to, namely credit, market, liquidity and operational risk. They are discussed in more details in the following sections.

CREDIT RISK

Credit risk is the possibility of financial loss from the default or non-performance of a borrower or counterparty under the terms of a credit-related contract and includes loan loss risk, pre-settlement risk and settlement risk, and replacement risk. Credit risk arises primarily from the lending activities, as well as from guarantees, commitments to extend credit, securities and derivative financial instruments. It also includes transfer risk, which is the repayment risk that is incurred with transactions subject to potential restrictions on the cross-border movement of funds. Overall, the Group's credit risk exposures amounted to HUF 3,145.4 billion at 2007 year-end (2006: HUF 2,585.6 billion).

The Group's approach to credit risk management is based on the independence and integrity of risk evaluation while also being integrated into business management processes. Strategies, policies, procedures and limits are to steer the daily management of credit risk as a vital part of own strong credit culture.

The Credit Committee regularly reviews the policies, standards and limits that control risks and recommends to the Board of Directors any amendments that may be required from time to time. All major credit decisions are referred to the Credit Committee for approval, while larger credits need Board of Directors authorisation as well.

Risk Office (RO) is supervised by the Chief Risk Officer, and is independently responsible for controlling the Bank's overall credit exposure, and for establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk. It also reviews compliance with established credit limits and assesses industry, geographic region or country, product, and individual borrower or counterparty exposure, together with loans under problematic treatment or intensive care. Together with Business Units, it monitors significant developments in the creditworthiness of its portfolio, the majority of which is risk relevant, therefore subject to joint decision by the Business Units and RO. The criteria for risk relevant business is established within the Credit Policy and other subordinated regulations of Group.

Managing credit risk within the guidelines established by RO and approved by the Board of Directors is the responsibility of all relationship managers, involved in extending credits to customers, and the dedicated risk managers. The primary focus of managing credit risk is to evaluate the likelihood that a borrower or counterparty will repay a loan from expected cash flows and to follow up with appropriate actions which notify in case of visible deterioration in customer's financial performance. Where collateralised transactions are involved, RO is also involved in ensuring the appropriateness and validity of such security.

Provisioning of exposures is performed quarterly in strict conformity with the relevant internal rules. All exposures are reviewed quarterly by the Credit Committee, with exposures above a certain limit (currently HUF 50 million) being reviewed on a case by case basis. Credit Committee is in charge to recommend the provision while the approval is the authority of the Board of Management.

The Group continuously develops those analytical tools it uses to analyse and manage credit risk. This comprises the elaboration and employment of certain models and management information systems.

INTERNAL RISK RATINGS

All corporations, financial institutions and any other borrowers are assigned an internal risk rating based on a detailed examination of the relevant borrower. This examination considers, amongst others, financial strength, market position and competitiveness, industry sector trends, overall company strategy, future outlooks, management record and skills. The Group's internal rating system is under change according to the IRB-F method and BayernLB's standards.

The standardised retail risk model was added to the business model – transparent, simplified decision-making competencies, standardised risk assumption (introduction of override), dominance of non-risk office relevant decisions - which is evaluated by credit scoring models. The models are on-going reviews in order to enhance their predictive power. The reviews cover portfolio analysis and analytical scorecard buildings are based on statistical bases which are supported by increasingly reliable database.

The internal risk ratings and credit scores are assessed and updated on a regular basis by RO.

INTERNAL LIMITS AND DIVERSIFICATION

Concentration risk exists if a number of customers are engaged in comparable activities, are operating in the same geographic region or have similar economic characteristics or are under joint ownership such that their ability to meet contractual obligations are affected by changes in economic, political and other conditions in the same way. Portfolio diversification is one of the Group's paramount principles. The Credit Policy, the overall Risk Strategy and the sector specific credit risk strategies, together with the client/group/sector limits are set to ensure the necessary diversification across different industries and types of credit risks and to guarantee that MKB Group is not overexposed to any given client, industry sector or geographic area.

As a response to macro-economic situation the Group's Risk Strategy for 2008-2010 define different growth possibility in different sectors.

To avoid excessive losses if any particular counterparty is unable to honour its financial or contractual obligations, the Bank establishes limits for individual borrowers that are set according to internal risk assumption procedures. In addition, limits are in place to manage exposure to any particular country. Each country is assigned a risk preference that considers factors common to all entities in a given country yet outside the control of individual entity. Limits are determined on the basis of risk ratings, historical loss experiences and the Bank's overall strategy.

The Bank has a well-diversified commercial loan portfolio. In 2007, the largest nominal growth occurred in loans to the real estate, trade and services, and private whose net volumes were up by HUF 141.2 billion, HUF 78.4 billion, HUF 183.6 billion over 2006, respectively. The breakdown reflects a relatively even industry-wide distribution without excessive exposures to any single sector with the largest concentration in real estate, private, food and beverages, and financial services that represented 26.8%, 24.3%, 8.5%, 5.0% respectively (2006: 25.3%, 19.1%, 10.5%, 1.1% respectively), in the total customer portfolio. Despite its significant share in the entire loan portfolio of the Group, the real estate portfolio is well diversified across its segments. The significant increase was in private portfolio (by HUF 183.6 billon) which reflects dynamic expansion of residential mortgage and personal loans during the business year. The above mentioned sectors were determined according to the RIBS code, used by the BayernLB Group.

The composition of the loan portfolio as a percentage of shareholders' equity shows that the share of loans above 10% of shareholders' equity in the total has decreased to 4.2% in 2007 from 5.5% at 2006 year-end. The cause of the setback is that shareholder's equity increased by 17.5% from 2006 to 2007 year-end. Simultaneously, the share of loans in the 1-10% category almost sustained at the same level of 35.9% in 2007, while customer numbers in the class increased. The share of the two bottom categories altogether slightly increased and their customer number of clients significantly increased. Thus their share in the total portfolio was up by 1.4 percentage points. This development reflects the successful execution of MKB Bank's two-pronged medium-term strategy aimed at the acquisition of better quality, small- and medium-sized enterprises.

At December 31, 2007, Group's total cross-border net exposures (including banks exposures) amounted to HUF 2,095 million, represented more than 85.1% of total exposures. Exposures toward large corporates, banks and the Bank's subsidiaries (in Romania and Bulgaria) in CEE countries have increased. In the meantime, the Group has significantly increased its exposures to EU member-states by HUF 218.7 billion due to expanding business activity of foreign subsidiary banks. While the share of other foreign outstandings outside Europe and Former Soviet Union in the total remained immaterial. These shifts were part of the strategy to expand exposures to regional countries as a result of their EU accession, the Group's market experience and the consequently improving risk profile of these markets. At these levels of risk, the Group is committed to these markets.

COLLATERALS

MKB Bank's lending practice is based upon the principle that loans should be repaid primarily from the operating cash flow of the debtor. Therefore, the assessment and monitoring of the clients' financial health is considered highly important. Pledged collateral, however, can mitigate credit risk and secure repayment in case of financial difficulties, therefore MKB Bank obviously prefers security that can be easily realised. Generally, the credit portfolio of MKB Bank is well collateralised. Among collaterals, mortgages on property and equipment, government guarantees and cash deposits represent the most significant part.

Total collaterals for on-balance sheet and off-balance sheet items increased by 37.3% over 2006 year-end and amounted to HUF 1,294.5 billion, at a conservatively estimated realisable value, representing an overall collateral coverage of 50.1% (2005: 45.9%). Both in 2006 and 2007, the largest component was collaterals pledged for customer loans totalling HUF 780.2 billion (2006: HUF 528.8 billion), respectively, representing a 60.3% (2006: 56.1%) share in the total. Cash equivalent collaterals amounted to HUF 47.4 billion, that increased from HUF 25.5 billion in 2006, taking up a 3.7% (2005: 2.7%) share in the total. During the assessment of CAR the amount of considerable collateral was HUF 227 billion (2006: HUF 117 billion) that reflected the growth of residential mortgage loans and the applying of more prudent collateral policy.

MARKET RISK

Market risk is the potential of loss from adverse changes in market rates and prices, such as interest rates (interest rate risk), foreign currency exchange rates (foreign exchange risk), commodity prices (commodity risk), prices of equity securities (equity risk) and fixed income securities risk (spread risk), the correlations among them, and their levels of volatility. Financial products that expose the Bank to market risk include loans, securities, deposits, debt, and derivative financial instruments.

As part of the annual plan, the Board of Directors sets the maximum amount and scope of market risks incurable by the Bank, ensured by a comprehensive limit structure broken down by relevant portfolios. The Bank's Asset and Liability Management Committee (ALCO) has the overall responsibility for establishing and managing market risk policies for the Bank, within the framework of internal policy documents, covering risk management, assessment of risk and related limits, competence and decision-making mechanism, and regulation for breaches of limits, approved by the Board of Directors. The members of the ALCO are senior executives who have principal decision-making responsibilities for businesses throughout the whole Bank. At the operational level, market risks are managed by the Money and Capital Markets Directorate on a group-wide basis.

RO supports the activity of ALCO, performs regulatory tasks and is responsible for market risk controlling. It ensures compliance with regulations and decrees in the area of market and portfolio risk management, establishes general market risk management policies for market and portfolio risk, monitors the limit system, including volume, potential loss amounts (PLA) and value-at-risk (VaR) limits. RO is also responsible for operating and developing risk management systems to measure interest rate, foreign exchange, equity risk and, on a daily basis, analysing and identifying stress situations, to quantify the effects of potential negative market events due to e.g. unusual price movements, and illiquidity. RO provides reports to the ALCO and the Board of Management on the risk position of the Bank and the Group.

The MKB Bank group's market risk management activities are divided into two main types: trading and non-trading. Trading activities include transactions with debt and equity securities, foreign currencies, and derivative financial instruments. The Bank and group companies manage exposure to market risk by establishing and monitoring various limits on trading activities. These limits include product volume, net positions, VaR and PLA limits. Product volume limits define maximum aggregate amounts of trading products and contracts that the Bank may hold at any time. Position limits restrict the net amounts of positions that can be held in the trading and investment books. VaR measures the potential loss in future earnings due to market rate movements within the trading portfolio using proprietary models that are based on statistical probability. VaR is calculated on the basis of 1-day holding period at 99% confidence level. PLA limits define maximum amount of loss that the Bank is willing to assume.

The Bank's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, investing in securities (although the latter has been ceased in January 2006 with all securities falling under trading book activity), accepting deposits, and issuing debt.

Besides VaR calculations, the Bank runs stress-tests to simulate the potential effects of extreme market developments on its positions and income on a daily basis.

The pricing of daily trading transactions for the Bank's own account are controlled and monitored continuously through the market conformity method. Market positions are re-valued daily on the basis of market prices and market rates.

INTEREST RATE RISK

The management of interest rate risk is aimed at minimising the adverse effects of changing market interest rates on the Bank's interest margin, net interest income and the market value of fixed income portfolios. Non-trading interest rate risk is monitored both at a strategic and at an operational level. The ALCO sets and monitors limits on allowable risk, reviews and approves the underlying products and model assumptions. It generally monitors gap mismatches, and interest sensitivity. Gap mismatches result from timing differences in the maturities or re-pricing of assets, liabilities and off-balance sheet instruments. Sensitivity analyses are based on potential interest rate scenarios (200 bp up/down) on the Bank's actual re-pricing profile and a combination of assumptions of market conditions and business developments. At the operational level, the Money and Capital Markets Directorate conducts interest rate risk management.

The Bank employs interest rate swaps, investment portfolio purchases or sales, and other derivative interest rate contracts as primary risk management techniques to keep interest rate risk within the approved limits.

At the end of 2007, the Bank's trading and liquidity portfolio of bonds, primarily Hungarian government bonds, incurred a regulatory capital charge of HUF 2,522 million (2006: HUF 3,260 million).

From profitability point of view, a 200 bp abrupt upward movement in market interest rates through the full spectrum of re-pricing periods would have resulted in a HUF 1,768 million (2006: HUF 1,137 million) loss, while a 200 bp downward movement in such rates would have meant a HUF 1,743 million (2006: HUF 1,153 million) gain in the Bank's net interest income at year-end. Based on the above shock-scenarios, the full impact of the simulated change in market terms was less than 1% of the regulatory capital even in the unfavourable case.

FOREIGN EXCHANGE RISK

The Bank is exposed to foreign exchange risk through its holdings of financial instruments denominated in foreign currencies. Exchange risk management aims to reduce the adverse impact of potential changes in the market value of foreign currency financial instruments induced by exchange rate fluctuations.

The operational management of the Bank's foreign currency position through setting and monitoring various limits, including net open positions, PLA and VaR limits, and through the use of derivative financial instruments is the responsibility of the Money and Capital Markets Directorate.

At 2007 year-end, the Bank had a practically closed net foreign exchange position of HUF -223 million (2006: HUF 1171 million), in its trading portfolio incurring VaR of HUF 13.6 million (2006: HUF 9.1 million).

MKB Bank had two acquisitions in 2006: MKB Unionbank in Bulgaria and Romexterra Bank in Romania. The long BGN foreign exchange position coming from MKB Unionbank acquisition is hedged with subordinated loan capital of EUR. Because of the fact, that BGN is fixed to EUR, this position is hedged from market risk point of view. The only risk that the Bulgarian Currency Board may devaluate BGN against EUR is monitored regularly by MKB Unionbank. Long RON foreign exchange position is hedged with short RON/HUF foreign exchange forward position. Hungarian banking regulation does not allow netting between two different currencies, therefore the BGN hedging requires HUF 1.768 million regulatory capital charge (2006: 1.638).

EQUITY RISK

According to the current policy of Bank, there is no equity with speculative purposes in its security portfolio.

LIQUIDITY RISK

Liquidity risk is the possibility that the Bank's cash flows may not be adequate to fund operations and meet commitments on a timely and cost-effective basis. While capital is held to absorb potential losses over time, liquidity is managed to provide the Bank with the ability to generate or obtain sufficient cash or its equivalents in order to meet its known and unanticipated cash funding needs as they fall due. It is essential in protecting MKB Bank's capital, sustaining market confidence and expanding into profitable business opportunities.

Within the above framework, MKB Bank continues to preserve its large core client deposits, ensuring the ongoing access to different sources of wholesale funding and maintaining a dedicated pool of assets that provide ready access to cash needed for operations, to meet payment demands on borrowings and to make new loans and investments as opportunities arise. The Bank manages its liquidity on a daily basis, taking into account the various limitations, to maintain cost efficiency.

Liquidity risk exposure is limited by the regulations approved by the Board of Directors that approves the Bank's overall liquidity management and funding policies and sets liquidity ratios and obligatory core liquid asset holdings. The Board of Directors delegates the responsibility for liquidity risk management to senior executives through the ALCO. The ALCO meets weekly to analyse the Bank's liquidity profile and discuss strategic and operative issues. The ALCO seeks to balance the Bank's sources and uses of funds while minimising market exposure through establishing and monitoring various liquidity risk limits, maximum cumulative outflow (MCO), risk control mechanism, and product participation limitations. At the operational level, the Money and Capital Markets Directorate manages liquidity risk.

The Bank's management of liquidity risk comprises structural, tactical and contingent perspectives. Structural liquidity risk management assesses and analyses liquidity exposures inherent in current balance sheet compositions due to mismatches in maturities of assets and liabilities. These exposures are measured and monitored through stress testing. Tactical liquidity risk management handles normal day-to-day funding issues by setting limits on net fund outflows for specified periods, especially for crucial short-term time horizons. Scenario analyses are performed periodically on the assumed behaviour of cash flows under varying conditions to assess funding requirements and, as required, to update assumptions and limits. Although MKB Bank can routinely access liquidity in the public markets, contingency plans exist that could be implemented on a timely basis to minimise liquidity risks. Contingent liquidity risk management identifies comprehensive strategies and procedures in cash flow shortfalls due to general market disruptions or adverse economic developments that may put pressure on the Bank's ability to honour its commitments and highlights potential liquidity exposures based on different market scenarios. These plans are updated annually.

The Bank relies on a wide range of funding sources, primarily capital, retail and commercial deposits, and money and capital market funding. Liquidity management provides for the appropriate mix of core and non-core deposits. Stable funds fully cover the Bank's equity holdings, loans and invested assets.

MKB Bank holds marketable securities and other short-term investment that can be readily converted to cash to support its operations. These liquid assets can be sold or pledged in the sort run to meet the Bank's obligations. Cash, short-term deposits with the central bank and readily marketable government securities (liquid assets) amounted to HUF 315.5 billion at 2007 year-end, up from HUF 285.2 billion in 2006, and represented only the MKB's liquidity reserves.

MKB Bank's liquidity position was stable and well-balanced throughout 2007. Grundsatz II. ratio, calculated and employed according to the German regulatory requirements, is used as a primary measure of group-wide operational liquidity. The ratio expresses the requirement that liabilities falling due within one month should be covered by liquid assets, i.e. those maturing within the same time band or readily convertible to known amount of cash, and should meet a minimum level of 1. During 2007, the ratio was at an average of 1.08 (2006: 1.05), showing that the Bank could manage its liquidity at a continuously safe level and at more reasonable costs.

Compared to 2006, the Group's net cash-flow position position in the up to 1 month category slightly shrunk amounted to HUF 86.2 billion net inflow (HUF 143.7 billion). Considering the up to 3 months the net cash-flow position reached HUF 381.4 million compared to HUF 193.5 million net outflow. At the same time the loan deposit gap widened to 152.5 % in the balance sheet, reflecting a major increase compared to the 134.5% in the previous year. The limited additional fund-raising options associated with the strongly reserved investors' activities on the money and capital markets put a temporary burden on the short-term money market position of the Group.

OPERATIONAL RISK

Operational risk is the risk that unexpected losses will be incurred due to human error, system failure, fraud, inadequate internal controls and procedures, or external events. Operational risk is inherent in each of the Bank's business and internal supporting activities. Mitigating operational risk are standards, systems and procedures to monitor transactions and positions, segregation of duties, documentation of transactions, regulatory compliance review, insurance coverage, and periodic specific and comprehensive reviews of the design and operation of internal control systems, the reliability and integrity of data processing operations by internal auditors. The Bank also employs dedicated professionals within the RO who are proactive in developing and implementing new methodologies for the identification, assessment, monitoring and management of operational risk working in close co-operation with the Operational Risk Control unit of BayernLB. This ensures a better understanding of operational losses and improved risk mitigation strategies. In addition, the Bank maintains contingency and recovery plans for supporting its operations in the event of natural and other disasters.

Parallel with other Basel II initiatives, the Bank has also started to implement best-practice quantification methodologies and key risk indicators on operational risk.

The Bank set up a Complaint Management Quality Assurance Group in order to enable early reaction upon operational risks identified from the customer complaints. The Group monitors all complaints that are registered in the Complaint Management System, prepares management reports and statistics to identify trends and provide early warnings on relevant issues.

CREDIT QUALITY

In 2007 the Bank retained the good quality of its loan portfolio in a less favourable market environment with a considerable amount of provisions. MKB Bank's loan approval and portfolio management practices, which fully comply with the basic principles and requirements of customer oriented and risk management ensure consistent high credit quality and early recognition of any programmes associated with loans. The impairment and provisions accounted on loan losses should be considered reserves set aside for the estimated future losses of loan and related other receivables.

The impairment and provisions related to individual, collectively assessed risks are accounted on the basis of quarterly ratings against profit before taxation in the reporting year. In the course of rating the Group takes into account the estimated future losses, the average economic processes, changes in the concentration of the credit portfolio, the quality of collateral and changes in its conditions, the international credit risk, the loan losses in the past, any change in the size, maturity structure and composition of the portfolio, defaulted and overdue payment obligations. In compliance with the relevant IFRS regulations, the management determines the provisions to be made for loan losses at sufficient levels to absorb estimated losses in the loan and off balance sheet portfolios.

The additional individual and collectively assessment impairment and provisions and provisioning requirements established during the course of rating process and amounted to HUF 22,986 million in 2007, reflecting a major increase compared to the HUF 12,631 million for 2006. The accounted loan losses provisions set aside for the loan portfolio came up to HUF 22,974 million, involving 76.2% increase from 2006.

The total impairments set up in the reporting year belonged to mid-corporate segment (SME) which occupied 76% of total charge amounted nearly HUF 16 billion. Meanwhile the provision charge in the other corporate segments remained within 10%.

Despite the outstanding increase in the retail sector, it only represents nearly 6% of the provisions set aside in the reporting year in the amount of nearly HUF 1.2 billion.

The increase in provisions reflects a prudent risk management practice, which takes into account all potential risks, while the quality composition of the loan portfolio was slightly restructured since the base year.

Category	2007	2006
Performing	96,54%	96,42%
Substandard	1,05%	2,14%
Doubtful	1,51%	0,68%
Bad	0,89%	0,76%
Total	**100.0%**	**100.0%**

The breakdown of the loan portfolio by quality reflects the lending and risk management processes of the year. The new loans generated from the Group's extensive lending activities in the second half of the year increased the performing category and reduced the other categories. The performing category concludes the performing and special watch ratings. There was a decline in the special watch category, thus the proportions shifted towards the bad and doubtful categories at the same time due to the individual rating supervision. The most part of significant shift in the doubtful and bad categories, concentrated mainly on the SME segment. On the other hand, looking at the composition of the special watch category in terms of domestic companies, we can conclude that 97.8% of the portfolio does not involve any payment delays at all; therefore the use of the special watch category indicated the Group's prudent operation and conservative transaction rating practices.

The Group decided to introduce the automatic (simplified) rating procedure. The automatic rating is based on the customer's payment delay. 94% of the retail loan portfolio is based on automatic rating. The average payment delay of the retail loans dropped to 9.31 days from the 12.24 days despite that fact that the Bank still takes into account the delay in interest payment when it calculates the payment delays. This is the result of the more intensive collecting activities.

In its internal regulations the Bank set the threshold for manual rating (HUF 50 million) for both retail and corporate loans. In the corporate loan portfolio 96% is still individually rated. Customers are reviewed quarterly. The review is approved by the Credit Committee quarterly and is also communicated to the management in the form of a report. The year-end provision figures are approved and modifications are imposed in relation to provisioning by the Executive Board.

The rating criteria applied in 2007 complied with the categories used in the previous years, therefore the collectively assessed impairment introduced disregarding rating category. The Group accounts this type of impairments in that case if the individual impairments did not exist. The Group set up collectively assessed impairment in amount of HUF 3,657 million.

Since 2003, enjoying the opportunities upstanding in the low, the Bank has not set aside general risk provisions which accounted directly against the reserve. It uses its provisions created in the previous years for loan and investment losses not covered with impairment. Thus in 2007 in total HUF 968 million (2006: HUF 521 million) general risk provisions were used to cover the losses accounted for the write-off and sale of a few minor loans.

The rating principles of off balance sheet items (contingent and commitments) are identical with the principles applied to the rating of receivables, i.e., the provisioning requirement always depends primarily on the financial position and paying capacity of the debtor. The provisions set aside for contingent liabilities dropped by HUF 338 million while significant increase was visible under the collectively assessed method (HUF 387 million).

While rating its assets and off balance sheet items were taken into account all for measurable risks, the total required impairment and provisions were accounted based on prudent rating both for the assets and off balance sheet items. All in all, the quality of the total exposures is good compared to other institutions in Hungary and Central Eastern Europe, and the exposures are properly covered with provisions.

KEY FIGURES

Unconsolidated, HAR

HUF million

	2006	2007
Total Assets	**1 847 953**	**2 278 387**
Share Capital	13 133	14 094
Reserves	135 068	170 899
Operating Income	63 907	91 761
Operating Expenses	37 543	41 611
Provision Charge	(10 946)	(22 093)
Profit Before Taxation	14 539	28 026
Profit After Taxation	11 344	22 864
Pre-tax Return on Average Equity (ROAE)	12.0%	15.2%
Pre-tax Return on Average Assets (ROAA)	0.8%	1.4%
Capital adequacy ratio	9.5%	9.6%

UNCONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

Data: in HUF million

		Item	31.12.2006.	31.12.2007.
		ASSETS:		
1	**1.**	**Cash in hand, balances with central banks**	**139,835**	**97,158**
2	**2.**	**Treasury bills**	**73,822**	**80,554**
3		a) held for dealing	73,822	80,642
4		b) held for investment		
5	2/A	Revaluation difference on treasury bills		-88
6	**3.**	**Loans and advances to credit institutions**	**104,776**	**149,823**
7		a) due on demand	8,962	9,266
8		b) other receivables from financial services	95,790	140,413
9		ba) maturity up to one year	61,522	95,578
10		Of which: – to affiliated undertakings		15,581
11		– to other undertakings with participating interest		
12		– to the National Bank of Hungary		
13		– clearing house	5	15
14		bb) maturity over one year	34,268	44,835
15		Of which: – to affiliated undertakings		16,087
16		– to other undertakings with participating interest		
17		– to the National Bank of Hungary		
18		– clearing house		
19		c) receivables from investment services	24	144
20		Of which: – to affiliated undertakings		
21		– to other undertakings with participating interest		
22		– clearing house	22	143
23	3/A	Revaluation difference on receivables due from credit institutions		
24	**4.**	**Loans and advances to customers**	**1,349,910**	**1,715,266**
25		a) receivables from financial services	1,349,733	1,715,190
26		aa) maturity up to one year	584,043	605,493
27		Of which: – to affiliated undertakings	35,494	35,689
28		– to other undertakings with participating interest	0	
29		ab) maturity over one year	765,690	1,109,697
30		Of which: – to affiliated undertakings	40,776	72,128
31		– to other undertakings with participating interest		
32		b) receivables from investment services	177	12
33		Of which: – to affiliated undertakings		
34		– to other undertakings with participating interest		
35		ba) receivables from investment service activities on the stock exchange		
36		bb) receivables from over-the-counter investment service activities		
37		bc) receivables from investment services to customers	177	12
38		bd) receivables from clearing houses		
39		be) other receivables from investment services		
40	4/A	Revaluation difference on receivables due from customers		64

UNCONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

Data: in HUF million

		Item	31.12.2006.	31.12.2007.
		ASSETS:		
41	**5.**	**Debt securities including fixed-income securities**	**41,144**	**51,334**
42		a) securities issued by local authorities and by other public entities (excluding Treasury bills issued by Hungarian state and securities issued by the National Bank of Hungary)	0	0
43		aa) held for dealing		
44		ab) held for investment		
45		b) securities issued by other entities	41,144	51,474
46		ba) held for dealing	41,144	51,474
47		Of which: – to affiliated undertakings		1
48		– to other undertakings with participating interest		
49		– repurchased own debt securities	23,279	36,168
50		bb) held for investment		
51		Of which: – to affiliated undertakings		
52		– to other undertakings with participating interest		
53	5/A	Revaluation difference on debt securities and fixed-income securities		-140
54	**6.**	**Shares and other variable-yield securities**	**3,627**	**3,121**
55		a) shares and equity stakes held for dealing	106	106
56		Of which: – to affiliated undertakings	106	106
57		– to other undertakings with participating interest		
58		b) other variable-yield securities	3,521	2,749
59		aa) held for dealing	3,521	2,749
60		bb) held for investment		
61	6/A	Revaluation difference on shares and other variable-yield securities		266
62	**7.**	**Shares and participating interests held for investment purposes**	**353**	**256**
63		a) shares and participating interests	353	256
64		Of which: – shares and participating interests in credit institutions		
65		b) revaluation surplus on shares and participating interests		
66		Of which: – shares and participating interests in credit institutions		
67	7/A	Revaluation difference on shares and participating interests held for investment purposes		
68	**8.**	**Shares and participating interests in affiliated undertakings**	**103,734**	**121,242**
69		a) shares and participating interests in affiliated undertakings	103,734	121,242
70		Of which: – shares and participating interests in credit institutions	40,620	50,434
71		b) revaluation surplus on shares and participating interests in affiliated undertakings		
72		Of which: – shares and participating interests in credit institutions		
73	**9.**	**Intangible assets**	**9,028**	**11,470**
74		a) intangible assets	9,028	11,470
75		b) revaluation surplus on intangible assets		
76	**10.**	**Tangible fixed assets**	**2,085**	**2,126**
77		a) tangible fixed assets for financial and investment services	1,662	1,674
78		aa) land and buildings	491	445
79		ab) technical equipment, fittings and vehicles	1,145	1,229

UNCONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

Data: in HUF million

		Item	31.12.2006.	31.12.2007.
		ASSETS:		
80		ac) fixed assets in the course of construction	26	
81		ad) advance payments on constructions		
82		b) tangible fixed assets servicing non-financial and non-investment activities	423	452
83		ba) land and buildings	15	44
84		bb) technical equipment, fittings and vehicles	408	408
85		bc) fixed assets in the course of construction		
86		bd) advance payments on constructions		
87		c) revaluation surplus on tangible fixed assets		
88	**11.**	**Own shares**		
89	**12.**	**Other assets**	**2,924**	**21,997**
90		a) stocks (inventories)	35	44
91		b) other receivables (from non-financial and non-investment securities)	2,889	1,542
92		Of which: – to affiliated undertakings	185	398
93		– to other undertakings with participating interest		
94	12/A	Revaluation difference on other receivables		
95	12/B	Positive revaluation difference on derivative transactions		20,411
96	**13.**	**Prepayments and accrued income**	**16,715**	**24,040**
97		a) accrued income	16,063	21,512
98		b) prepayments	652	2,528
99		c) deferred charges		
100		**TOTAL ASSETS**	**1,847,953**	**2,278,387**
101		From this: - CURRENT ASSETS		
		(1+2/a+3/c+3/a+3/ba+4/aa+4/b+5/aa+5/ba+6/a+6/ba+11+12)	916,080	985,132
102		- FIXED ASSETS		
		(2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10)	915,158	1,289,626

		Item	31.12.2006.	31.12.2007.
103		**LIABILITIES:**		
104	**1.**	**Liabilities to credit instiutions**	**403,414**	**544,721**
105		a) due on demand	4,695	6,111
106		b) liabilities from financial services with agreed maturity dates or periods of notice	398,708	538,485
107		ba) maturity up to one year	145,772	277,328
108		Of which: – to affiliated undertakings	17,429	69,739
109		– to other undertakings with participating interest		
110		– to the National Bank of Hungary		
111		– clearing house		
112		bb) maturity over one year	252,936	261,157
113		Of which: – to affiliated undertakings	23,843	60,800
114		– to other undertakings with participating interest		
115		– to the National Bank of Hungary		

UNCONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

Data: in HUF million

		Item	31.12.2006.	31.12.2007.
		LIABILITIES:		
116		– clearing house		
117		c) liabilities from investment services	11	130
118		Of which: – to affiliated undertakings		0
119		– to other undertakings with participating interest		
120		– clearing house	5	22
121	1/A	Revaluation difference on liabilities due to credit institutions		-5
122	**2.**	**Liabilities to customers**	**971,538**	**1,068,504**
123		a) saving deposits	2,411	1,314
124		aa) due on demand		
125		ab) maturity up to one year	2,411	1,307
126		ac) maturity over one year		7
127		b) other liabilities from financial services	968,495	1,066,986
128		ba) due on demand	332,031	373,296
129		Of which: – to affiliated undertakings	4,671	2,687
130		– to other undertakings with participating interest	60	81
131		bb) maturity up to one year	596,373	670,626
132		Of which: – to affiliated undertakings	3,455	5,991
133		– to other undertakings with participating interest	871	989
134		bc) maturity over one year	40,091	23,064
135		Of which: – to affiliated undertakings		
136		– to other undertakings with participating interest		
137		c) liabilities from investment services	632	264
138		Of which: – to affiliated undertakings		0
139		– to other undertakings with participating interest		3
140		ca) liabilities from investment service activities on the stock exchange	30	3
141		cb) liabilities from over-the-counter investment service activities		
142		cc) liabilities to customers from investment services	602	261
143		cd) liabilities from clearing houses		
144		ce) other liabilities from investment services		
145	2/A	Revaluation difference on liabilities due to customers		-60
146	**3.**	**Liabilities from issued debt securities**	**184,021**	**306,393**
147		a) issued bonds	184,021	308,274
148		aa) maturity up to one year	38,782	46,842
149		Of which: – to affiliated undertakings		3,000
150		– to other undertakings with participating interest	3,155	736
151		ab) maturity over one year	145,239	261,432
152		Of which: – to affiliated undertakings	1,990	3,801
153		– to other undertakings with participating interest	0	3,216
154		b) other debt securities	0	0
155		ba) maturity up to one year		

UNCONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

Data: in HUF million

		Item	31.12.2006.	31.12.2007.
		LIABILITIES:		
156		Of which: – to affiliated undertakings		
157		– to other undertakings with participating interest		
158		bb) maturity over one year		
159		Of which: – to affiliated undertakings		
160		– to other undertakings with participating interest		
161		c) Certificates (qualified as securities according to the Act on Accounting but not definied as such by the Act on Securities)	0	0
162		ca) maturity up to one year		
163		Of which: – to affiliated undertakings		
164		– to other undertakings with participating interest		
165		cb) maturity over one year		
166		Of which: – to affiliated undertakings		
167		– to other undertakings with participating interest		
168	3/A	Revaluation difference on issued debt securities		-1,881
169	**4.**	**Other liabilities**	**47,167**	**39,500**
170		a) maturity up to one year	47,167	26,614
171		Of which: – to affiliated undertakings	159	116
172		– to other undertakings with participating interest	14	2
173		– pecuniary contribution of members at credit cooperatives		
174		b) maturity over one year		
175		Of which: – to affiliated undertakings		
176		– to other undertakings with participating interest		
177	4/A	Negative revaluation difference on derivative transactions		12,886
178	**5.**	**Accruals and deferred income**	**14,526**	**20,796**
179		a) accrued liabilities	324	143
180		b) accrued costs and expenses	14,179	20,630
181		c) deferred income	23	23
182	**6.**	**Provisions**	**13,488**	**8,030**
183		a) provisions for pensions and similar obligations	52	20
184		b) risk provisions for off-balance sheet items (for contingent and future labilities)	1,232	784
185		c) general risk provision	8,194	7,226
186		d) other provisions	4,010	
187	**7.**	**Subordinated liabilities**	**65,598**	**84,872**
188		a) subordinated borrowings	65,598	84,872
189		Of which: – to affiliated undertakings	63,327	82,592
190		– to other undertakings with participating interest		
191		b) pecuniary contribution of members at credit cooperatives		
192		c) other subordinated liabilities		
193		Of which: – to affiliated undertakings		
194		– to other undertakings with participating interest		

UNCONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

Data: in HUF million

		Item	31.12.2006.	31.12.2007.
		LIABILITIES:		
195	**8.**	**Subsribed capital**	**13,133**	**14,094**
196		Of which: repurchased own shares at face value		
197	**9.**	**Subsribed but unpaid capital (-)**		
198	**10.**	**Capital reserves**	**58,658**	**91,901**
199		a) share premium	58,597	91,840
200		b) other	61	61
201	**11.**	**General reserve**	**15,463**	**17,749**
202	**12.**	**Retained earnings (accumulated profit reserve) (±)**	**60,186**	**57,616**
203	**13.**	**Legal reserves**	**761**	**3,331**
204	**14.**	**Revaluation reserve**		**302**
205		Value-adjusted reserves		
206		Revaluation reserves		302
207	**15.**	**Profit or loss for the financial year (±)**	**0**	**20,578**
208		TOTAL LIABILITIES	1,847,953	2,278,387
209		Of which: - SHORT TERM LIABILITIES		
		(1/a+1/ba+1/c+2/aa+2/ab+2/ba+2/bb+2/c+3/aa+3/ba+3/ca +4/a)	1,167,874	1,415,339
210		- LONG-TERM LIABILITIES		
		(1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)	503,864	630,532
211		- EQUITY (CAPITAL AND RESERVES)		
		(8-9+10+11+12+13+14+15)"	148,201	205,571

UNCONSOLIDATED INCOME STATEMENT

Hungarian Accounting Rules

Data: in HUF million

	No.	Item	31.12.2006.	31.12.2007.
1	**1.**	**Interest receivable and similar income (2+5)**	**130,063**	**125,812**
2		a) interest income (receivable) from fixed-income securities	6,084	8,689
3		Of which: – from affiliated undertakings		
4		– from other undertakings with participating interest		
5		b) other interest and similar income	123,979	117,123
6		Of which: – from affiliated undertakings	3,092	4,421
7		– from other undertakings with participating interest	54	
8	**2.**	**Interest payable and similar charges**	**76,902**	**80,659**
9		Of which: – to affiliated undertakings	3,510	12,541
10		– from other undertakings with participating interest	18	62
11		NET INTEREST INCOME (1-8)	53,161	45,153
12	**3.**	**Income from securities (13+14+15)**	**1,810**	**1,529**
13		a) income from shares held for dealing (dividend, profit-sharing)	1	0
14		b) income from shares in affiliated undertakings (dividend, profit-sharing)	1,682	1,403
15		c) income from other shares and participating interests	127	126
16	**4.**	**Commission and fees income (17+20)**	**17,590**	**19,276**
17		a) from other financial services	16,241	17,451
18		Of which: – from affiliated undertakings	63	121
19		– from other undertakings with participating interest	2	3
20		b) from investment services (except for income from trading activities)	1,349	1,825
21		Of which: – from affiliated undertakings	480	1,026
22		– from other undertakings with participating interest	4	4
23	**5.**	**Commission and fee expense (24+27)**	**5,160**	**6,225**
24		a) from other financial services	4,499	5,975
25		Of which: – to affiliated undertakings	214	206
26		– from other undertakings with participating interest	259	
27		b) from investment services (except for charges of trading activities)	661	250
28		Of which: – to affiliated undertakings		2
29		– from other undertakings with participating interest	16	
30	**6.**	**Net profit or net loss on financial operations (31-34+37-41)**	**2,350**	**32,478**
31		a) income from other financial services	117	17,740
32		Of which: – from affiliated undertakings		
33		– from other undertakings with participating interest		
34		– valuation difference		
35		b) expenses from other financial services	1,372	891
36		Of which: – to affiliated undertakings	13	6
37		– from other undertakings with participating interest		
38		– valuation difference		
39		c) income from investment services (income from trading activities)	9,128	76,412
40		Of which: – from affiliated undertakings		
41		– from other undertakings with participating interest		

UNCONSOLIDATED INCOME STATEMENT

Hungarian Accounting Rules

Data: in HUF million

	No.	Item	31.12.2006.	31.12.2007.
42		– value re-adjustment (increase) of securities for trade (not more than acquisition value)	90	330
43		– valuation difference		18,330
44		d) expenses from investment services (expenses from trading activities)	5,523	60,783
45		Of which: – to affiliated undertakings		
46		– from other undertakings with participating interest		
47		– value adjustment (decrease) of securities for trade	501	26
48		– valuation difference		10,667
49	**7.**	**Other operating income(46+49)**	**13,582**	**12,426**
50		a) incomes from non-financial and non-investment services	3,263	5,122
51		Of which: – from affiliated undertakings	38	175
52		– from other undertakings with participating interest		
53		b) other income	10,319	7,304
54		Of which: – from affiliated undertakings	191	11
55		– from other undertakings with participating interest		
56		– value re-adjustment (increase) of stocks (inventories) (not more than acquisition value)	98	
57	**8.**	**General and administrative expenses (54+62)**	**36,126**	**39,216**
58		a) Staff costs (55+56+59)	18,445	20,926
59		aa) wages and salaries	11,966	13,552
60		ab) other staff costs	2,141	2,460
61		Of which: – social security contributions	642	783
62		= pension costs	388	403
63		ac) contributions on wages	4,338	4,914
64		Of which: – social security contributions	3,771	4,264
65		= pension costs	2,266	2,979
66		b) Other administrative expenses (material-type expenses)	17,681	18,290
67	**9.**	**Depreciation (value adjustments in respect of assets items 9 and 10)**	**1,417**	**2,395**
68	**10.**	**Other operating expenses (65+68)**	**20,167**	**13,843**
69		a) expenses from non-financial and non-investment services	3,200	5,145
70		Of which: – to affiliated undertakings	2	1
71		– to other undertakings with participating interest	130	352
72		b) other expenses	16,967	8,698
73		Of which: – to affiliated undertakings	4	6
74		– to other undertakings with participating interest		
75		– value adjustment (decrease) of stocks (inventories)		
76	**11.**	**Value adjustments in respect of loans and advances and provisions for contigent liabilities and for commitments (73+74)**	**24,636**	**30,326**
77		a) value adjustments (decrease) in respect of loans and advances	23,883	29,666
78		b) provisions for contingent liabilities and commitments	753	660
79	**12.**	**Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments (76+77)**	**13,690**	**8,233**

UNCONSOLIDATED INCOME STATEMENT

Hungarian Accounting Rules

Data: in HUF million

	No.	Item	31.12.2006.	31.12.2007.
80		a) value re-adjustments (increase) in respect of loans and advances	12,874	7,125
81		b) use of provisions for contingent liabilities and commitments	816	1,108
82	12/A.	General risk provision and use	521	968
83	**13.**	**Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**		
84	**14.**	**Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**	**10**	
85	**15.**	**Profit or loss on ordinary activities**	**15,208**	**28,058**
86		Of which:		
		– PROFIT OR LOSS OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5+ 6+7/b-8-9-10/b-11+12+12/A-13+14)	15,145	28,081
87		– PROFIT OR LOSS OF NON-FINANCIAL AND NON-INVESTMENT SERVICES (7/a -10/a)	63	-23
88	**16.**	**Extraordinary income**	**2,710**	**6**
89	**17.**	**Extraordinary expense**	**3,379**	**38**
90	**18.**	**Extraordinary profit or loss (16-17)**	**-669**	**-32**
91	**19.**	**Profit or loss before taxation (±15±18)**	**14,539**	**28,026**
92	**20.**	**Tax payable**	**3,195**	**5,162**
93	**21.**	**Profit or loss after taxation (±19-20)**	**11,344**	**22,864**
94	**22.**	**Addition to and use of general reserve (±)**	**-1,134**	**-2,286**
95	**23.**	**Retained earnings allocated for dividends**	**5,825**	
96	**24.**	**Dividends and profit-shares approved**	**16,035**	
97		Of which: – to affiliated undertakings	14,370	
98		– to other undertakings with participating interest	1,664	
99	**25.**	**Profit or loss for the financial year (±21±22+23-24)**	**0**	**20,578**

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Independent Auditors' report

To the management of MKB Bank Ltd.

We have audited the unconsolidated Financial Statements of MKB Bank Ltd. (hereinafter: "the Bank"), prepared under the Hungarian Accounting Rules as at 31 December 2007 and for the year then ended, from which the Unconsolidated Balance Sheet and the Unconsolidated Income Statement were derived. We conducted our audit in accordance with Hungarian Standards on Auditing issued by the Hungarian Chamber of Auditors, which are substantially consistent with International Standards on Auditing, and applicable law and regulations in Hungary. In our independent auditor's report dated 26 March 2008 we expressed an unqualified opinion on the unconsolidated Financial Statements from which the Unconsolidated Balance Sheet and the Unconsolidated Income Statement were derived.

In our opinion the Unconsolidated Balance Sheet and the Unconsolidated Income Statement disclosed on pages from 124 to 132 of the Annual Report 2007 of MKB Bank Ltd. are consistent, in all material respects, with the audited unconsolidated Financial Statements they were derived from.

For a better understanding of the Bank's financial position, the results of its operations for the period and of the scope of our audit, the Unconsolidated Balance Sheet and the Unconsolidated Income Statement should be read in conjunction with the underlying unconsolidated Financial Statements issued in Hungarian and our audit opinion thereon.

Budapest, 16 July 2008

KPMG Hungária Kft.
H-1139 Budapest, Váci út 99.
Chamber registration number: 000202

Robert Stöllinger
Partner

Agócs Gábor
Registered Auditor
Identification number: 005600

MKB Group

Vineyard in Pannonhalma

MKB-Euroleasing Group is involved in automobile sales financing and insurance brokerage thus providing complex services to its customers in a unique way in Hungary.

The Group has been a dominant participant of the vehicle financing market for 17 years now.

The total volume of new cars sales in the domestic market continued to decline in 2007 with the market shrinking by 4.5%. Even so after the portfolio improvement programme carried out in 2006 the Group's financing division was the only market player succeed in increasing dynamically its market share while its portfolio is still of an outstanding quality in this sector.

Financing activity is centralised in the MKB-Euroleasing Autóhitel Zrt and affiliated companies. Fleet management is performed through MKB Euroleasing Autópark Zrt and insurance brokerage is undertaken by Eurorisk Kft. and Netrisk Kft. Car dealers are managed within the group by Carnet Zrt.

The strategic ownership alliance formed in 2001 has proved to be wholly justified and the business co-operation between MKB Bank and MKB-Euroleasing has become a great success in numerous fields.

Market share of MKB-Euroleasing in car financing in terms of financial value – 2007

VEHICLE FINANCING

The Group's customer financing division has continued to be a dominant participant of the domestic vehicle financing market. In a shrinking market the division managed – quite uniquely in Hungary – to increase its market share by two percent in 2007.

In addition to continued improvement of the admission systems the efforts aimed at mitigating risks were also bolstered by proactive consumer communication focusing on timely information delivery on car financing to consumers. In 2007 the Hungarian Leasing Association and the Hungarian Association of Consumer Protectors also joined the programme besides a number of other market participants.

The Group's total new lending – to customers – amounted to HUF 63.0 billion in 2007 (2006: HUF 34.5 billion). The number of new customer financing contracts increased to 25 003 in 2007 from 21 199 in 2006. The impressive performance was enabled by a very tight admission policy which guaranteed that the portfolio's risk costs do not increase even during dynamic portfolio expansion.

In 2007 the division financed almost as many as 80 000 customers.

Co-operation with strategic partners – TFSH (Toyota) and PSAFH (Peugeot Citroën) – continues to be important in the activity of the business line.

FLEET MANAGEMENT

In year 2007 MKB-Euroleasing Autópark Zrt. steadily kept its market positions financing and managing a total of 8 971 cars 40 % more than in 2006 (2006: 6 451 cars). The T-Com tender awarded to the Company made a great contribution in strengthening the Company's market position since it brought nearly 2 500 cars under the Company's management.

CAR TRADING

In the domestic market MKB-Euroleasing Group has a unique commercial network comprising more than 20 points of sale across the country selling 11 brands and operating a number of used car lots.

Carnet Zrt. – MKB-Euroleasing Group's vehicle trading subsidiary – closed a highly successful year in 2007. In its network the subsidiary sold a total of 11 221 cars (to be compared to the 9 501 units sold in 2006) achieving 18.1 % growth in the gradually shrinking market of new and used cars.

INSURANCE BROKERAGE

Within the Group vehicle insurance brokerage is performed by the traditionally operating Eurorisk Kft. and by the online intermediary Netrisk Kft. operating solely on the internet. Both companies are leaders in their market segments. In 2007 a total of 195 034 comprehensive and third party liability insurance policies were written (2006: 103 506 contracts). At the end of 2007 Netrisk Kft. had a total of 14 980 corporate and 199 028 private individual customers.

Both insurance brokerage subsidiaries of the Group are also operating in other insurance markets besides providing insurance services for motor vehicles. Both subsidiaries are important participants of the real estate and traveller insurance markets as well.

MKB-EUROLEASING LTD
CONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

HUF thousand

	Description of the item	31.12.2006.	31.12.2007.
	ASSETS		
1.	Cash in hand balances with central banks	154 190	722 781
2.	Treasury bills	24 087	12 820
3.	Loans and advances to credit institutions	0	0
4.	Loans and advances to customers	1 682 529	1 194 737
5.	Debt securities including fixed-income securities	0	0
6.	Shares and other variable-yield securities	0	0
7.	Shares and participating interests held for investment purposes	0	0
8.	Shares and participating interests in affiliated undertaking	4 282 589	4 458 439
9.	Intangible assets	377 425	599 474
10.	Tangible fixed assets	12 387 096	13 454 925
11.	Own shares	0	0
12.	Other assets	8 333 783	9 132 453
13.	Prepayments and accrued income	634 200	951 913
	TOTAL ASSETS:	**27 875 899**	**30 527 542**
	LIABILITIES		
1.	Liabilities to credit institutions	13 395 762	11 250 728
2.	Liabilities to customers	0	8 937
3.	Liabilities from issued debt securities	0	0
4.	Other liabilities	7 126 664	10 943 098
5.	Accruals and deferred income	793 298	836 299
6.	Provisions	43 682	49 000
7.	Subordinated liabilities	4 404	4 404
8.	Registered capital	2 704 000	3 704 000
9.	Reserves	3 220 549	3 360 514
10.	Result for the year	269 640	-193 843
11.	Capital consolidation difference of subsidiaries	84 504	326 568
12.	Difference arising on consolidation	-14 194	-25 051
13.	Minority interest	247 590	262 888
	TOTAL LIABILITIES:	**27 875 899**	**30 527 542**

MKB-EUROLEASING LTD
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED

Hungarian Accounting Rules

HUF thousand

	Description of the items	31.12.2006.	31.12.2007.
1	Interest receivable and similar income	360 471	240 205
2	Interest payable and similar charges	898 500	1 092 961
	NET INTEREST INCOME	**-538 029**	**-852 756**
3	Income from securities	299 405	329 650
4	Commission and fees income	16 048	10 960
5	Commission and fee expense	54 146	33 158
6	Net profit or net loss on financial operations	29 846	85 420
7	Other operating income	30 917 366	35 443 492
8	General and administrative expenses	25 623 816	30 047 847
9	Depreciation	1 898 583	2 139 203
10	Other operating expenses	2 356 461	2 433 769
11	Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	15 198	17 040
12	Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments	40 621	7 824
13	Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests	20 402	35 917
14	Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests		
15	**Profit or loss on ordinary activities**	**796 651**	**317 656**
16	Extraordinary income	83 987	67 587
17	Extraordinary expense	3 555	5 690
18	**Extraordinary profit or loss**	**80 432**	**61 897**
19	**Profit or loss before taxation**	**877 083**	**379 553**
20	Tax payable	158 170	143 494
	a) Calculated tax difference due to consolidation	-869	177
21	**Profit or loss after taxation**	**719 782**	**235 882**
22	Addition to and use of general reserve		
23	Dividends and profit-shares approved	450 142	429 725
24	**Profit or loss for the financial year**	**269 640**	**-193 843**

MKB-EUROLEASING AUTÓHITEL LTD CONSOLIDATED BALANCE SHEET

Hungarian Accounting Rules

HUF thousand

Description of the item	31.12.2006.	31.12.2007.
ASSETS		
Cash in hand, balances with central banks	3 161 069	967 600
Treasury bills	4 368	4 497
Loans and advances to credit institutions	0	0
Loans and advances to customers	56 597 458	58 755 056
Debt securities including fixed-income securities		
Shares and other variable-yield securities	0	0
Shares and participating interests held for investment purposes	0	0
Shares and participating interests in affiliated undertaking	1 570 400	1 717 400
Intangible assets	141 638	113 282
Tangible fixed assets	136 056	103 026
Own shares		
Other assets	1 257 358	2 673 574
Prepayments and accrued income	556 055	543 696
TOTAL ASSETS:	**63 424 402**	**64 878 131**
LIABILITIES		
Liabilities to credit institutions	53 781 886	56 862 928
Liabilities to customers	554 345	301 700
Liabilities from issued debt securities	0	0
Other liabilities	3 046 747	1 496 109
Accruals and deferred income	613 357	789 327
Provisions	0	0
Subordinated liabilities	0	0
Registered capital	411 100	411 100
Reserves	5 016 967	5 016 967
Result for the year		
TOTAL LIABILITIES:	**63 424 402**	**64 878 131**

MKB-EUROLEASING AUTÓHITEL LTD CONSOLIDATED INCOME STATEMENT

Hungarian Accounting Rules

HUF thousand

Description of the item	2006	2007
ASSETS		
Interest receivable and similar income	9 254 346	6 581 659
Interest payable and similar charges	1 639 940	2 012 837
Net interest income	**7 614 406**	**4 568 822**
Income from securities		
Commission and fees income	1 304 546	407 330
Commission and fee expense	2 040 714	2 558 662
Net profit or net loss on financial operations	-1 324 654	1 393 830
Other operating income	1 207 163	638 260
General and administrative expenses	1 180 413	1 225 298
Depreciation	60 714	58 783
Other operating expenses	2 571 023	1 169 481
Value adjustments in respect of loans and advances and provisions		
for contingent liabilities and for commitments	677 299	339 309
Reversals of value adjustments in respect of loans and advances		
and use of provisions for contingent liabilities and commitments	0	0
Value adjustments in respect of debt securities held for investment purposes		
shares in affiliated undertakings and participating interests		
Reversals of value adjustments in respect of debt securities held for investment purposes		
shares in affiliated undertakings and participating interests		
Profit or loss on ordinary activities	**2 271 298**	**1 656 709**
Extraordinary income		
Extraordinary expense	398 222	213 919
Extraordinary profit or loss	**-398 222**	**-213 919**
Profit or loss before taxation	**1 873 076**	**1 442 790**
Tax payable	468 017	247 819
Profit or loss after taxation	**1 405 059**	**1 194 971**
Addition to and use of general reserve		
Dividends and profit-shares approved	1 405 059	1 194 971
Profit or loss for the financial year	**0**	**0**

BUSINESS AND FINANCIAL PERFORMANCE OF MKB ROMEXTERRA BANK

THE ROMANIAN ECONOMY

GDP growth in 2007 reached an impressive 6.5% in real terms, largely fueled by internal demand as real wages grow very dynamically. The current account deficit widened to 14% of GDP, increasingly financed from external borrowing of households. FDI covers less than 50% of the deficit. The rise in world energy, raw material and food prices accompanied by the sharp growth of households' disposable income resulted in a higher than expected inflation rate of 6.6% at year-end 2007.

The widening C/A gap and the depreciation of RON might indicate potential overheating in the economy. Exchange rate at year-end 2007 was 3.61 RON for one EUR. The National Bank of Romania (NBR) increased the policy rate to 9% in early February 2008.

S&P revised its outlook on Romania to negative from stable over limited fiscal response to rapidly deteriorating external balances and increasingly difficult global credit conditions. The rating for Romania's long-term foreign currency debt remains at BBB-, and for the short-term foreign currency at A-3.

THE ROMANIAN BANKING SECTOR

Strong credit expansion, higher competition and narrowing interest rate margins characterized 2007. Lending boom is led by the retail clients, taking loans mainly in foreign currencies (CHF, EUR).

Total loans reached RON 148.2 million in 2007 with an increase of 60% from last year. Forex lending accounts for 54% of this stock. The share of forex lending was 68% in new loans in 2007. The volume of deposits grew by 34% to reach RON 129.1 million. The share of RON deposits is 68%, the same as last year. NBR continues the current strict monetary policy, maintaining the minimum compulsory reserves at the same levels (20% for RON and 40% for foreign currency) and will tighten the provisioning requirements for forex lending.

Although the banks turn up fast lately and there are more and more individuals taking a loan for car and housing, the cards being already a daily instrument, the Romanian banking market is far from reaching a mature development level compared to the European Union. The Romanian banking system will have 20% annual growth rate in the next 3-4 years, if the economic growth rate is maintained at high levels. The product penetration increases in all business lines such as housing- and consumer loans, leasing, investment products, deposits etc.

THE BUSINESS PERFORMANCE OF MKB ROMEXTERRA BANK

MKB Bank increased its ownership in MKB Romexterra Bank from 55.36% to 75.94% as a further sign of its long term strategic commitment in building the MKB Group in the region.

The Bank successfully increased its business activity, the number of clients rose by 15% to reach 201,000 (from 175,200 in 2006). On business line level, the number of retail clients increased by 14% to reach 188,400 (from 165,200 in 2006) and the number of corporate/ institutional clients reached 12,500 (from 10,000 in 2006) increasing by 25% in 2007.

The share of MKB Romexterra Bank's total assets in the sector reached 0.8% in 2007. The market share of the Bank in corporate loans increased from 0.89% in 2006 to 1.07% in 2007. In corporate deposits the market share grew to 1.25% from 1.07% in 2006. The Bank's market share in retail loans decreased slightly from 0.64% to 0.59%, and in retail deposits to 0.61% from 0.7%.

The geographic coverage of the Bank further improved: at the end of 2007, the bank network reached 76 units. In addition the Bank succeeded in strengthening its position in online services. It is now possible to buy all basic products over the Internet conveniently and inexpensively. This helps reinforcing the Bank's customer acquisition strategy and cross-selling activities at all levels.

The Bank created specialized business divisions focusing on particular customer segments in order to achieve the objective of being the leading bank in terms of customer satisfaction, quality and service profitability. Customer segmentation was finalized, hence the sales effort can be better targeted and the client base can be increased with diversification along sectors and industries and across value segments. Acquisition and sales processes and procedures were updated to state of the art banking techniques.

During the year, a major reshuffling process has been implemented and many projects were launched in all divisions to enhance their future growth and finally their profitability.

THE FINANCIAL PERFORMANCE OF MKB ROMEXTERRA BANK

Total assets of MKB Romexterra Bank grew by 64% reaching RON 1,985.1 million at year end 2007 (2006: RON 1,210.4 million). Thanks to the strong lending activity during 2007, the gross loan portfolio of MKB Romexterra Bank increased by 69.6% reaching RON 1,253.1 million and the current account and deposit balances reached RON 1,180.6 million. The shareholders' equity amounted to RON 227.9 million.

Gross operating income reached RON 131.2 million (2006: RON 113.7 million), while the operating expenses amounted to RON 103.4 million in 2007. With the impairments and provision charges of RON 14.6 million the profit before taxation was RON 13.2 million (2006: RON 23.1 million). Thus, the ROAE is 6.2% and the ROAA is 0.8% in 2007. Profit after tax is RON 11.6 million.

At the end of 2007 the staff number totalled at 1,037 employees which is a 21% increase compared to the previous year, due to network and some central function extensions.

S&P long-term counterparty credit rating on MKB Romexterra Bank is BB- with stable outlook. The short-term rating is B.

SYNERGIES AND HARMONISATION WITH MKB BANK

The Harmonization Project with MKB and BayernLB Group standards and the adoption of the principles was successfully concluded in the course of the year 2007. The group standards and principles aim to improve the activity within the bank and they clearly define expectations and respective responsibilities.

The implementation process rolled over on targeting the 8 business models of the Project: Retail, Corporate, Treasury, Planning/Controlling, AML/Compliance, Organization, IT and Risk. The bank focused on the new service model, sales and sales support roles, segmentation of clients, product and pricing process, the CEEU Corporate Customer Service Model, establishment of regional RM Centers, elaboration of the liquidity policy, asset-liability management policy, Investment Fund sales concept and the ALM policy. Both Controlling and Budgeting concepts had been drafted, the Risk Strategy and regulations for the internal activity of the bank. The standardized procedural rules regarding organization were also introduced: the new Organization Chart, Organizational and Operational Rules, Frame Instruction, required policies. The IT harmonization activity continues by carrying out and observing all the group standards. In case of the Risk Subproject, continuity has to be ensured to reach finally IRB compliance by the end of 2008 and the regulatory framework has to be finalized with the implementation of the remaining regulations (finalizations, approvals, trainings, and fine tunings).

OUTLOOK FOR 2008

As far as the macroeconomic situation is concerned, the GDP growth in real terms will be around 6% in the following years. The growth rate of households' disposable income remains strong. Strong internal demand will widen C/A gap further, resulting in the depreciation of the Romanian currency, some structural changes might be needed to avoid further deterioration of the current account balance. Hence, inflationary pressure is growing. Electoral cycle might result in the expansion of central government deficit, further enhancing this pressure. To avoid overheating of the economy and loosening budgetary policy, strict monetary policy is expected. Investment activity is likely to further improve in the following years with a 27% growth rate in 2008. FDI inflow is expected to regain after a minor setback in 2007. Unemployment rate is decreasing gradually, though.

The Romanian banking sector will witness a 20% annual growth rate in the following years, mainly driven by sharp rise of real wages. The assets to GDP ratio of the banking sector is still very low compared to the region, thus there is much room for growth. The growth of lending will rise significantly in 2008, especially in the retail segment. The share of lending in foreign currencies will rise since NBR policy rate is at a record high level since August 2005. Since more than half of the companies do not make use of financial institutions' services and still prefer self-funding, the corporate segment also establishes a huge potential for growth.

Turbulences on the global financial market might affect negatively the Romanian real estate market in 2008, but the consequences of the subprime crisis are still not definite. Funding costs are likely to remain on a higher level.

MKB Romexterra Bank's main focus is on significantly raising its market shares in all business lines. The goal of the Bank is to create a solid and reputable organizational culture with high ethical and professional attitude, 'client first' long term relationship approach. The improvement of advisory banking services, investment services and mutual funds is also a priority in 2008.

In 2008 the Bank intensively develops its branch network to increase mainly its countryside coverage. This would mean a countrywide network of 92 sales units by the end of year 2008. Development of alternative sales channels is also in the focus for MKB Romexterra Bank in 2008.

The business of MKB Romexterra Bank is expected to develop more dynamically than the banking sector in 2008. At the end of 2008 the Bank's assets will likely exceed RON 3,659 million accounting for 0.8% of the banking system assets. Lending will continue to be a major tool for expanding the Bank's market positions and the total amount of loans is to grow to RON 2,343 million. The pre-tax profit is expected to increase by 70.7% versus 2007 and reach RON 22.5 million. Efficiency indicators are to improve: return on assets should be 0.8% and return on equity should reach 8.8 %.

MKB ROMEXTERRA BANK KEY FIGURES

IFRS, unconsolidated

RON thousands

	2006 Actual	2007 Actual
TOTAL ASSETS	**1 210 366**	**1 985 153**
Customer loans (net)	709 793	1 213 022
- retail loans	249 690	418 370
- corporate loans	460 103	794 651
Customer accounts and deposits	889 888	1 180 579
- retail deposits	278 701	394 437
- corporate deposits	611 187	786 142
SHAREHOLDERS´ EQUITY	**197 129**	**227 894**
Net interest income	64 300	59 841
Net fee & comission income	36 000	51 438
Other income	13 360	19 942
Gross operating income	113 660	131 222
Operating expenses	-78 313	-103 393
Impairments and provision charges	-12265	-14 631
Profit before tax	23 083	13 198
Income tax	2 463	1 601
Profit after tax	20 619	11 597
ROAE – (before tax)	12,4	6,2
ROAA – (before tax)	2,0	0,8
Cost-to-income	68,9	78,8
CAR	20,1	14,0
Number of employees	859	1037
CAR according to Basel I (IFRS, cons.)	19,9	15,03

MKB ROMEXTERRA BANK MARKET SHARES

In %	2006 Actual	2007 Actual
Corporates loans	0,89%	1,07%
Corporate deposits	1,07%	1,25%
Retail loans	0,64%	0,59%
Retail deposits	0,70%	0,61%
Total assets	0,71%	0,77%

MKB ROMEXTERRA BANK BALANCE SHEET

IFRS, unconsolidated

RON thousands

	2006 Actual	2007 Actual
ASSETS	**1 210 366**	**1 985 153**
Cash balances	272 681	419 484
Amounts due from the National Bank	19 062	150
Amounts due from other banks	84 685	89 225
Securities	30 143	116 361
Loans and advances to customers	709 793	1 213 022
Retail	249 690	418 370
Corporate	460 103	794 651
Ather assets	14 537	10 749
Participations	34 488	59 053
Property and equipment	44 978	77 109
LIABILITIES	**1 013 237**	**1 757 259**
Amounts due to the National Bank	0	
Amounts due to other banks	114 314	517 199
Current and deposit accounts	889 888	1 180 579
Retaili	278 701	394 437
Corporate	611187	786 142
Certificates of deposit	611 187	786 142
Other liabilities and provisions	6 950	9 278
Deferred tax liability	2 087	2 806
Borrowed funds and debt securities	0	
Subordinated debt	0	47 397
SHAREHOLDERS´ EQUITY	**197 129**	**227 894**
Share capital	199 933	199 969
Reserves	-2 804	27 925

MKB ROMEXTERRA BANK INCOME STATEMENT

IFRS, unconsolidated

RON thousands

	2006 Actual	2007 Actual
Interest income	108 524	142 650
Interest expense	44 224	92 808
Net interest income	64 300	59 841
Net income from comissions and fees	36 000	51 438
Other operating income	13 360	19 942
Impairments and provisions for losses	(12 265)	(14 631)
Operating expenses	(78 313)	(103 393)
Profit before taxation	23 083	13 198
Taxation	2 463	1 601
Profit after taxation	20 619	11 597

PERFORMANCE REPORT OF MKB UNIONBANK AD

THE BULGARIAN ECONOMY

During the first year of its European Union (EU) membership, Bulgaria kept on maintaining a high pace of economic development. At the end of 2007Q3, the Gross Domestic Product (GDP) reached the amount of BGN 40.1 billion. The estimated GDP value for the entire 2007 is BGN 55.9 billion, which constitutes a 5.5% increase, marking the eighth year of the current economic expansion.

A key factor for the successful development of the Bulgarian economy in 2007 was the large volume of foreign investments, achieving a record level of EUR 5.7 billion at the year-end and marking an annual increase of 30.3%. The high investment activity is primarily attributable to the stable macro economic environment based on the existing Currency Board, and the expectations for a high investment profitability owing to the stable growth of the Bulgarian economy, reinforced by its EU membership. Another key success factor was the private sector domestic demand, a reflection of higher wages, lower unemployment and faith in EU accession.

The trend of an increasing current account deficit went on during the year. At the end of 2007 the current account deficit reached 21.6% of GDP based on preliminary data. This is mainly due to the trade deficit (26% of the GDP). The gross external debt kept on growing to reach EUR 26.2 billion (91.8% of the GDP) in November. The rise is almost totally due to the increase in the private indebtedness (77.9% of the GDP as of November), growing by 42.6% within the eleven months of 2007.

The second half of 2007 was marked by a significant rise of inflation, which went up to 12.5 % in December on an annual base. The average annual inflation for 2007 stood at 8.4 % with the key inflation factors being the one-off effects on food prices, higher global energy prices and the process of convergence to EU living standards. The unemployment kept on decreasing down to markedly low levels, which enabled Bulgaria to draw level on this indicator with the other EU member-states. The average unemployment rate for the entire 2007 is 7.75% (287,000 people), which is 1.86% less compared to 2006 figures.

At the beginning of 2008 Fitch Ratings changed the outlook on the country's long-term foreign and local currency issuer default ratings to negative from stable reflecting the country's large current account deficit in the framework of the subprime crisis. The agency assumes the delay of Euro adoption. Moody's rating for the country remained unchanged after review in February 2008. The foreign country debt is A1/P-1, for foreign currency bank deposits is Baa3/P-3, with positive outlook. S&P's ratings for the country are BBB+/Stable/A-2 for foreign and local currency as well.

THE BULGARIAN BANKING SECTOR

In 2007 the banking system retained its high pace of development, with the total amount of commercial banks assets increasing by 40.04% to reach BGN 59.1 billion. At the end of the year the corporate lending marked a 76.5% rise compared to 2006. Non-resident credit institutions, mostly parent banks provide over two-thirds of banks' wholesale funding in the sector. These items are stable in case of an economic downturn. Slightly lower but still significant was the retail lending increase - 58.8%. The client deposits within the banking system marked a 40.9% increase since the beginning of the year.

Despite the declining spreads due to the competition the banks continued to earn high profits, as the average ROA was 2.5%, the ROE was 23.9% in the sector at December 2007. In the past year the equity of the banks increased by 41.5%. The profit for 2007 reached BGN 1.14 billion and marked a 41.6% increase on the previous year.

The currency reserve of the country increased by BGN 5.9 billion compared to the start of the year and went up to BGN 23.35 billion.

THE BUSINESS PERFORMANCE OF MKB UNIONBANK

During the reporting period the Bank kept on extending its client base, with its active clients increasing by 30 % to number 72,833. The corporate clients' number reached 979; the retail clients (private individuals and small businesses) reached 71.854. The corporate clients number rose by 21.2 %, and the number of the individual clients increased by 35.6 %.

In 2007 the expansion of the Bank's branch network continued. Twelve new retail banking financial centres were set up whereby their number totalled 59 banking units. At the same time, four Regional Corporate Centres for operation with mid-market clients were established in Veliko Turnovo, Sofia, Varna, and Plovdiv in accordance with the new model for segmentation and for client business.

During the year a 40% increase was recorded for the issued debit cards to reach 50,900 total. The international cards sales became also more important - 2,107 international Visa Electron debit cards were sold out in 2007 and the number of international Visa Classic credit cards rose nearly three times.

THE FINANCIAL PERFORMANCE OF MKB UNIONBANK

In 2007 MKB Unionbank reportsed an overall business growth which led to an over-fulfilment of the set annual targets. The Bank's total assets increased by 70.4% and exceeded BGN 1,026.3 million (2006: BGN 602.4 million). With this very impressive growth the Bank could enlarge its market share in the Bulgarian market by 0.3% points to 1.7%.

2007 was a period of significant increase in customer loans – during the year the volume of net loans more than doubled and reached BGN 726.2 million (2006: BGN 351,3 million). The credit portfolio has a good quality; at the end of 2007 the standard credit exposures formed 97.49% of the portfolio. Loans and advances to corporate clients showed a very impressive growth, the loan portfolio grew by 112% to BGN 372.2 million (2006: BGN 175.3 million). The retail loan portfolio's growth is almost as high as the corporate, it grew by more than 100% to BGN 354.0 million (2006: BGN 175.9 million). This resulted in a 70.8% loans-to-assets ratio. This led to strengthen the Bank's positions in the market among its competitors: the market share in corporate loans reached 2.5% (2006: 2.2%), and the market share in retail loans reached 0.9% (2006: 0.7%).

As a result of the efforts for increasing the deposit base in 2007, funds borrowed from clients rose by 42.1% to BGN 704.4 million with a net increase of BGN 209 million (2006: BGN 495.7 million). Of which the corporate deposit base grew by 78.4% to BGN 304.5 million (2006: BGN 170.7 million) and the retail deposits grew by 23.0% to BGN 399.8 million (2006: BGN 325.0). The Bank has succeeded in growing its market share in corporate deposits to 2.4% from 2.3% in 2006, and it almost kept its market share in the segment of retail deposits at 1.2%.

The shareholder's equity grew by 52.2% and reached BGN 95.3 million. The total capital adequacy ratio according to Basle I stood at a safe 16.1% (2006: 12.45%) versus the 12% statutory ratio.

The gross operating income reached BGN 42.1 million with a 52.7% increase (2006: BGN 27.6 million). The operating expenses were BGN 32.1 million, so the operating profit almost doubled reaching and was BGN 10.0 million (2006: BGN 5.3 million). The impairments and provisions for losses totalled at BGN 1.6 million. MKB Unionbank ended 2007 with a pre-tax financial result of BGN 8.4 million from BGN 1.6 million in 2006. The Bank's performance ratios improved a lot: the ROAA stood at 1.0% (2006: 0.3%), and the ROAE was 10.6% (2006: 2.6%) at the end of 2007. The costs to income ratio stood at 76.2% (2006: 80.7).

At the beginning of 2007 MKB Unionbank closed completely its shareholding in its subsidiary Unionleasing EAD and the shares of the Bank were sold to strategic partner Deutsche Leasing, Germany. The reported net income from the sale of its stake is BGN 1 million.

At 31 st December 2007 the total staff member was 765. In 2007 some restructuring and outsourcing of support and security functions occurred.

SYNERGIES AND HARMONISATION WITH MKB BANK

The past year was a dynamic and fruitful period for the implementation of the strategic partnership between MKB Unionbank and MKB/BayernLB Group. In direct co-operation with MKB experts projects or project stages directed towards the implementation of a new model of customer service of specific customer segments were completed; a scoring system, risk strategy and credit policy were set up and risk standards in conformity with Basel II. were translated; a policy on liquidity and investment services management, a product catalogue and a concept of mutual funds management were developed; an FTP concept and planning and controlling manuals were drafted; an ALM policy was designed; a basic instruction on the organization of work in the bank group was introduced; standardized procedural rules for SB and MB and organization of internal regulatory documents were prepared; centralization of operations, outsourcing of administrative activities were carried out.

In 2007 business partnership with MKB Bank and Bayern LB involved active exchange of resources. In the reporting year MKB Unionbank maintained on its accounts with these banks operating funds and deposits of some EUR 20 - 35 million. At the same time, MKB Unionbank received from MKB Bank financing in the amount of EUR 56 million as well as a long-term (ten-year) loan of EUR 20.5 million in the form of subordinated term debt to meet the capital adequacy requirements in accordance with banking regulations in the country. In 2007 business co-operation between the Bank and MKB Bank intensified in terms of transactions of mutual benefit with clients doing business and projects in Bulgaria. At the end of 2007 committed loan funds on such transactions amounted to EUR 81.1 million and the Bank's participation made up 47% thereof.

OUTLOOK FOR 2008

Expectedly Bulgaria will continue to maintain highly dynamic economic development and GDP is to grow by some 6% in 2008. The main drivers of growth should be foreign direct investments whose volume is expected to remain unchanged, further export growth and implementation of the first projects supported by the structural funds of the European Union. With its fiscal policy the government is expected to ensure financial stability and a surplus of 3% of GDP projected in the 2008 budget. The main risks for the Bulgarian economy in 2008 will continue to be the high current account deficit (some 21% of GDP) and the high projected inflation (cca. 7% average annual inflation). Combining higher employment with higher labour productivity, which is still unsatisfactory and affects adversely the competitiveness of the economy, will be a challenge.

The business of MKB Unionbank is expected to develop more dynamically than the banking sector in 2008. At the end of 2008 the Bank's assets will likely exceed BGN 1,355 million accounting for 2.2% of the banking system assets. Lending will continue to be a major tool for expanding the Bank's market positions and the total amount of loans is to grow to BGN 1,052 million. The pre-tax profit is expected to increase by close to 50%. Efficiency indicators are to improve accordingly.

MKB UNIONBANK KEY FIGURES

IFRS unconsolidated, as at 31 December 2007

BGN thousand

	2006 Actual	2007 Actual
TOTAL ASSETS	**602 392**	**1 026 299**
Customer loans (net*)	351 264	726 150
- retail loans	175 934	353 996
- corporate loans	175 330	372 154
Customer accounts and deposits	495 694	704 366
- retail deposits	324 951	399 818
- corporate deposits	170 743	304 548
SHAREHOLDERS´ EQUITY	**62 575**	**95 258**
Net interest income	21 218	31 759
Net fee & comission income	5 817	7 040
Other income	539	3 296
Gross operating income	27 574	42 095
Operating expenses	(22 241)	(32 091)
Impairments and provision charges	(3 746)	(1 607)
Profit before tax	1 587	8 398
Income tax	(273)	(881)
Profit after tax	1 314	7 517
ROAE – pre tax	2,5%	10,6%
ROAA – pre tax	0,3%	1,0%
Cost-to-income	80,7%	76,2%
CAR**	14%	15%

*reduced by provisions
** according to Basel II.

MKB UNIONBANK MARKET SHARES

In %	2006 Actual	2007 Actual
Corporate loans*	2,18%	2,53%
Retail loans	2,28%	2,39%
Corporate deposits*I	0,66%	0,91%
Retail deposits**	1,25%	1,21%
Total assets	1,43%	1,74%

* Data includes credits to corporate clients from all segments
** Data includes only deposits of individuals

MKB UNIONBANK
BALANCE SHEET

as at 31 December 2007

IFRS in BGN thousand

	2006 Actual	2007 Actual
ASSETS	**602 392**	**1 026 299**
Cash balances	12 452	19 671
Amounts due from the National Bank	31 638	78 498
Amounts due from the National Bank	147 689	148 635
Securities	47 924	41 711
Loans and advances to customers	351 264	726 150
Retail	175 934	353 996
Corporate	175 330	372 154
Other assets	2 233	1 587
Participations	2 000	-
Property and equipment	7 192	10 047
LIABILITIES	**539 817**	**931 041**
Amounts due to the National Bank	-	-
Amounts due to other banks	70	133 549
Current and deposit accounts	495 694	704 366
Retail	324 951	399 818
Corporate	170 743	304 548
Certificates of deposit	-	-
Other liabilities and provisions	1 889	8 483
Deferred tax liability	158	213
Borrowed funds and debt securities	42 006	44 710
AlSubordinated debt	-	39 719
SHAREHOLDERS´ EQUITY	**62 575**	**95 258**
Share capital	15 412	40 412
Reserves	47 163	54 846

MKB UNIONBANK
INCOME STATEMENT

as at 31 December 2007

IFRS in BGN thousand

	2006 Actual	2007 Actual
Interest income	41 105	54 732
Interest expense	(19 887)	(22 973)
Net interest income	**21 218**	**31 759**
Net income from comissions and fees	5 817	7 040
Other operating income	539	3 296
Impairments and provisions for losses	(3 746)	(1 607)
Operating expenses	(22 241)	(32 091)
Profit before taxation	**1 587**	**8 398**
Taxation	(273)	(881)
Profit after taxation	**1 314**	**7 517**

THE BOARDS AND THE AUDITOR OF MKB BANK

SUPERVISORY BOARD[1]

CHAIRMAN:
Dr Michael Kemmer (2008)[2]
Chairman
Bayerische Landesbank

MEMBERS:
Mr Paul Bodensteiner (2003)
Ministerialdirigent
Bavarian Ministry of Finance

Dr Kotulyák Éva (2007)
Legal Counsel
MKB Bank Zrt

Dr Siegfried Naser (2001)
Executive Chairman
Sparkassenverband Bayern

Mr Alois Steinbichler (2008)[2]
Member of the Board of Management
BAWAG P.S.K. AG

Ms Asbóthné Tóth Éva (2007)
Counsel
MKB Bank Zrt

1 Mr. Werner Schmidt resigned from his mandate as member of the Supervisory Board of MKB Bank Zrt with effect from March 1, 2008.
2 Elected as member of the Supervisory Board for 3 years by the Annual General Meeting of March 26th, 2008.

BOARD OF DIRECTORS[3]

CHAIRMAN:
Mr Erdei Tamás (1991)
Chief Executive
MKB Bank Zrt

Mr Thomas Christian Buchbinder (2007)
Chairman of the Board of Management
Landesbank Saar

Dr Ralph Schmidt (2005)[4]
Member of the Board of Management
Bayerische Landesbank

MEMBERS:
Dr Balogh Imre (2004)
Deputy Chief Executive
MKB Bank Zrt

Dr Gerhard Gribkowsky (2005)[4]
Member of the Board of Management
Bayerische Landesbank

Dr Simák Pál (2008)[5]
Deputy Chief Executive
MKB Bank Zrt

Ms Bolla Csilla (2004)
Deputy Chief Executive
MKB Bank Zrt

Dr Kraudi Adrienne (2008)[5]
Deputy Chief Executive
MKB Bank Zrt

Mr Neil A. Watson (2003)
Deputy Chief Executive
MKB Bank Zrt

Mr Jochen Bottermann (2001)
Member of the Board of Management
BAWAG P.S.K. AG

Dr Patyi Sándor (2003)
Deputy Chief Executive
MKB Bank Zrt

BOARD OF MANAGEMENT

Mr Erdei Tamás (1987)
Chairman and Chief Executive

Dr Balogh Imre (1990)
Deputy Chief Executive

Ms Bolla Csilla (2004)
Deputy Chief Executive

Dr Kraudi Adrienne (1992)
Deputy Chief Executive

Dr Patyi Sándor (1990)
Deputy Chief Executive

Dr Simák Pál (2008)
Deputy Chief Executive

Neil A. Watson (2005)
Deputy Chief Executive

ELECTED AUDITOR
KPMG Hungária Könyvvizsgáló, Adó- és Közgazdasági Tanácsadó Kft (Chamber of Hungarian Auditors registration No: 000202)

PERSONS LIABLE FOR THE AUDIT
Mr Agócs Gábor chartered auditor (Chamber of Hungarian Auditors membership No: 005600), in case he is prevented Mr Henye István (Chamber of Hungarian Auditors membership No: 005674)

3 The membership of Dr Stotz Péter in the Board of Directors terminated as of December 31, 2007.
4 Elected as member of the Board of Directors for further 3 years by the Annual General Meeting of March 26th, 2008.
5 Elected as member of the Board of Directors for 3 years by the Annual General Meeting of March 26th, 2008.

Note: the year in which membership commenced is in parentheses

BRANCH NETWORK OF MKB BANK IN BUDAPEST

		Telefon	Fax
Alagút utcai Fiók	1013 Budapest, Alagút u. 5.	(1) 489 5930	(1) 489 5940
Lajos utcai Fiók	1023 Budapest, Lajos. u. 2.	(1) 336 2430	(1) 336 3169
Mammut Fiók	1024 Budapest, Széna tér 4.	(1) 315 0690	(1) 315 0672
EuroCenter Fiók	1032 Budapest, Bécsi út 154.	(1) 439 3000	(1) 453 0822
Békásmegyeri Fiók	1039 Budapest, Pünkösdfürdő u. 52.-54.	(1) 454 7700	(1) 454 7699
Újpesti Fiók	1045 Budapest, Árpád út 183-185.	(1) 272 2444	(1) 272 2449
Szent István téri Fiók	1051 Budapest, Szent István tér 11.	(1) 268 7461	(1) 268 7131
Türr István utcai Fiók	1052 Budapest, Türr István u. 9.	(1) 268 8219	(1) 268 7908
Székház Fiók	1056 Budapest, Váci u. 38.	(1) 268 8472	(1) 268 8079
Andrássy úti Fiók	1061 Budapest, Andrássy út 17.	(1) 268 7066	(1) 268 7067
WestEnd City Center Fiók	1062 Budapest, Váci út 1-3.	(1) 238 7800	(1) 238 7801
Arena Plaza Fiók	1087 Budapest, Kerepesi út 9.	(1) 323-3870	(1) 323-3899
Duna Ház Fiók	1093 Budapest, Soroksári út 3/C	(1) 216 2991	(1) 216 2992
Árkád Fiók	1106 Budapest, Örs vezér tere 25.	(1) 434 8110	(1) 434 8119
Fehérvári úti Fiók	1119 Budapest, Fehérvári út 95.	(1) 204 4686	(1) 204 4717
MOM Park Fiók	1124 Budapest, Alkotás út 53.	(1) 487 5550	(1) 487 5551
Nyugati téri Fiók	1132 Budapest, Nyugati tér 5.	(1) 329 3840	(1) 329 3859
Duna Plaza Fiók	1138 Budapest, Váci út 178.	(1) 239 5110	(1) 239 5084
Masped Ház Fiók	1139 Budapest, Váci út 85.	(1) 237 1756	(1) 238 0135
Siemens Ház Fiók	1143 Budapest, Hungária krt. 130.	(1) 422 4140	(1) 252 0062
Rákoskeresztúri Fiók	1173 Budapest, Pesti út 237.	(1) 254 0130	(1) 254 0138
Csepel Plaza Fiók	1211 Budapest, II. Rákóczi F. út 154-170.	(1) 278-5750	(1) 278-5769
Budafoki Fiók	1221 Budapest, Kossuth Lajos u. 25.-27.	(1) 482 2070	(1) 482 2089
Budaörsi Fiók	2040 Budaörs, Szabadság út 45.	(23) 427 700	(23) 427 719
Dunakeszi Fiók	2120 Dunakeszi, Fő út 16-18.	(27) 548-100	(27) 548-119
Érdi Fiók	2030 Érd, Budai út 11.	(23) 521 840	(23) 521 859
Gödöllői Fiók	2100 Gödöllő, Kossuth Lajos u. 13.	(28) 525-400	(28) 525-419
Solymári Fiók	2085 Solymár, Terstyánszky u. 68.	(26) 560 650	(26) 560 669
Szentendrei Fiók	2000 Szentendre, Kossuth Lajos u. 10.	(26) 501 400	(26) 501 399
Szigetszentmiklós	2310 Szigetszentmiklós, Gyári út 9.	(24) 525-660	(24) 525-679
Váci Fiók	2600 Vác, Március 15. tér 23.	(27) 518 670	(27) 518 699

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BRANCH NETWORK OF MKB BANK IN HUNGARY

		Telefon	Fax
Baja	6500 Baja, Bartók B. u. 10.	(79) 521-330	(79) 521-359
Balassagyarmat	2660 Balassagyarmat, Kossuth L. u. 4-6.	(35) 501-340	(35) 501-359
Békéscsaba	5600 Békéscsaba, Szabadság tér 2.	(66) 519-360	(66) 519-379
Cegléd	2700 Cegléd, Kossuth tér 8.	(53) 505-800	(53) 505-819
Debrecen	4024 Debrecen, Vár u. 6/C.	(52) 528-110	(52) 528-119
Debrecen Piac u.	4025 Debrecen, Piac u. 81.	(52) 501-650	(52) 417-079
Eger	3300 Eger, Érsek u. 6.	(36) 514-100	(36) 514-129
Esztergom	2500 Esztergom, Bajcsy-Zsilinszky u. 7.	(33) 510-450	(33) 510-479
Gyöngyös	3200 Gyöngyös, Köztársaság tér 1.	(37) 505-460	(37) 505-478
Győr	9021 Győr, Bécsi kapu tér 12.	(96) 548-220	(96) 548-259
Győri Árkád	9027 Győr, Budai u. 1.	(96) 548-236	(96) 548-249
Hatvan	3000 Hatvan, Kossuth tér 4.	(37) 542-120	(37) 542-139
Herend	8440 Herend, Kossuth Lajos u. 140.	(88) 513-610	(88) 513-618
Heves	3360 Heves, Szerelem A. u. 11.	(36) 545-560	(36) 545-569
Hódmezővásárhely	6800 Hódmezővásárhely, Kossuth tér 2.	(62) 530-900	(62) 530-909
Jászberény	5100 Jászberény, Lehel vezér tér 16.	(57) 504-840	(57) 504-849
Kalocsa	6300 Kalocsa, Hunyadi János u. 47-49.	(78) 563-830	(78) 563-859
Kaposvár	7400 Kaposvár, Széchenyi tér 7.	(82) 527-940	(82) 527-951
Kazincbarcika	3700 Kazincbarcika, Egressy út 1/c.	(48) 510-700	(48) 510-719
Kecskemét	6000 Kecskemét, Katona József tér 1.	(76) 504-050	(76) 504-053
Keszthely	8360 Keszthely, Kossuth Lajos u. 23.	(83) 515-520	(83) 515-529
Kiskőrös	6200 Kiskőrös, Petőfi tér 2.	(78) 501-300	(78) 501-319
Kiskunhalas	6400 Kiskunhalas, Kossuth u. 3.	(77) 520-620	(77) 520-625
Kisvárda	4600 Kisvárda, Szt. László u. 51.	(45) 500-680	(45) 500-689
Komárom	2900 Komárom, Bajcsy-Zs. u.1.	(34) 541-060	(34) 541-079
Miskolc	3530 Miskolc, Széchenyi u. 18.	(46) 504-540	(46) 504-545
Miskolc Plaza	3525 Miskolc, Szentpáli u. 2-6.	(46) 504-580	(46) 504-589
Mosonmagyaróvár	9200 Mosonmagyaróvár, Magyar u. 26-28.	(96) 577-400	(96) 577-409
Nagykanizsa	8800 Nagykanizsa, Erzsébet tér 8.	(93) 509-650	(93) 509-661
Nyíregyháza	4400 Nyíregyháza, Szarvas u. 11.	(42) 597-610	(42) 597-611
Orosháza	5900 Orosháza, Könd u. 38.	(68) 512-430	(68) 512-439
Paks	7030 Paks, Dózsa Gy. út 75.	(75) 519-660	(75) 519-679
Pápa	8500 Pápa, Kossuth u. 13.	(89) 511-770	(89) 511-799
Pécs	7621 Pécs, Király u. 47.	(72) 522-240	(72) 522-255
Salgótarján	3100 Salgótarján, Fő tér 6.	(32) 521-200	(32) 521-209
Siófok	8600 Siófok, Sió u. 2.	(84) 538-150	(84) 538-169
Sopron	9400 Sopron, Várkerület 16.	(99) 512-920	(99) 512-935
Szeged	6720 Szeged, Kölcsey u. 8.	(62) 592-010	(62) 592-029
Székesfehérvár	8000 Székesfehérvár, Zichy liget 12.	(22) 515-260	(22) 515-275
Szekszárd	7100 Szekszárd, Garay tér 8.	(74) 505-860	(74) 505-878
Szolnok	5000 Szolnok, Baross u. 10-12.	(56) 527-510	(56) 527-570
Szombathely	9700 Szombathely, Szent Márton u. 4.	(94) 528-380	(94) 528-362
Tata	2890 Tata, Ady Endre u. 18.	(34) 586-730	(34) 586-733
Tatabánya	2800 Tatabánya, Fő tér 6.	(34) 512-920	(34) 512-940
Veszprém	8200 Veszprém, Óváros tér 3.	(88) 576-300	(88) 576-302
Zalaegerszeg	8900 Zalaegerszeg, Kossuth Lajos u. 22.	(92) 550-690	(92) 550-695

SOCIAL RESPONSIBILITY OF MKB BANK AND MKB GROUP

This social activity of MKB Bank has several dimensions, such as sponsoring and patronage as well as institutional support with special focus on art, culture, education, healthcare, sport and charities.

The Bank provides financial support for cultural events, projects, institutions and foundations. Among many others, it worth mentioning, that MKB Bank supported the renovation of Tihany's Calvary, the Gala concert on the 50th anniversary of the world famous Bartók String Quartet as well as the Tihany Outdoor Festival.

THE MKB COLLECTION

MKB Bank is reknowned in the market and among customers as the number one collector and patron of arts, as 'the bank of culture'. Over the past 20 years MKB Bank built up a collection of mostly classical Hungarian paintings of almost 400 items. This is a unique collection in the Hungarian arts market, also attractive for the organisers of major exhibitions to lend and present them. Accordingly, self-contained exhibitions were opened in 2005 in the KOGART Gallery. Some paintings of the Bank were included in the exhibition in the Hungarian National Museum entitled 'A selection from 150 years of arts in Hungary'.

INSTITUTIONAL SPONSORSHIP

In addition to the above examples, in 2007 MKB Bank contributed to the endeavours of several cultural institutions, including the Museum of Fine Arts and the Ludwig Contemporary Museum.

- The Museum of Fine Arts was sponsored in the framework of an annual cooperation arrangement, primarily focusing on works of art describing ancient times. Cooperation with the Museum began in 2006 as part of what was called MUSEUM+ programme, to keep the Museum open once a week up to 10.00 p.m. enabling even those to visit exhibitions who are normally busy at regular business hours. In 2007 cooperation was focused on the exhibition of Inca treasures, which was one of the most visited exhibition during the year in Hungary with 160.000 visitors.
- The Ludwig Museum was sponsored under an annual cooperation arrangement with the aim of presenting contemporary arts. In 2007 the museum introduced visitor-friendly extended opening hours due to this funding.

PATRONAGE OF ARTS

The sponsoring of the world famous Franz Liszt Chamber Orchestra is of outstanding importance, a form of cooperation dating back to more than 19 years. In 2007 MKB Bank also contributed to the organisation of the events commemorating the 50 year anniversary of the Hungarian National Gallery and sponsored the "Save the Hungarian Film Treasure Foundation".

The Bank is traditionally sponsoring certain foundations. MKB Bank provides financial assistance to health and social projects along with helping children in a variety of ways. The Bank supports the Hungarian Red Cross and the National "Save the Children" Service which focuses on supporting talented children living under difficult circumstances. In addition MKB established a scholarship scheme in 1997 that supports annually 100 children with special talents and excellent results on the fields of music, math, sports etc.

Sponsoring the most successful sports is one of the key elements of MKB Bank's sponsorship strategy. MKB Veszprém men's handball team and MKB Euroleasing Sopron women's basketball team still being the most important projects, along with providing financial assistance to the kayak-canoe sports. The kayak-canoe rating scheme was developed into a tradition during the past years, whereby the Bank awards annually the best performers in this branch of sports. MKB Bank's participation in granting the Prima Primissima Awards as a Co-founder of the Junior Prima Award for sport from 2007 was considered to be one of the most outstanding opportunity this year.

SOCIAL ACTIVITIES OF MKB GROUP MEMBERS

Social responsibility is increasingly in the focus at MKB Group members as well. In 2007 MKB-Euroleasing started a 'Customer Protection Communication Campaign' which aims to help the orientation among financial constructions and facilitate conscious consumer decisions. It sponsors the Pannon Philharmonic Orchestra of Pécs; the city which will be The Cultural Capital of Europe in 2010. It joined in 2007 to the supporters of 'National Association of Large Families' which aims to preserve social values and it also supports the 'Foundation of White Frames' which tries to link the civil and the entrepreneur sphere.

In line with its CEEU strategy, MKB Bank also contributed to financing the exhibition entitled 'Bulgaria's Faces' in the Museum of Ethnography. At MKB Romexterra Bank in Romania in line with its cultural and healthcare sponsorship activities the Writers' Assotiation and the "Carol Davila" University of Medicine and Pharmacy were the beneficieries. The bank also promoted a prestigious event celebrating Romania's EU accession by the organisation of the Legal Councelor's Association. Last but not least in 2007 MKB Romexterra Bank donated "Progresul" Sport Club, active in several sports.

In addition, Bulgarian subsidiary MKB Unionbank was the main sponsor of the German Economic Evening in Sofia, organised also to financially support public healthcare purposes. Traditionally, MKB Unionbank was among the supporters of the charity campaign "Bulgarian Christmas" to collect money for healing of ill Bulgarian children. In addition it granted monthly donation for children without parents or having disabilities and supported the Association of mentally disabled people. In education MKB Unionbank promotes studies abroad through donation to European Language Centre. The Bank supported also one of the oldest annual International Music Festivals in Bulgaria – "March Music Days" founded in 1961 in Rousse to Bulgarian and foreign musicians all over the world. On top of this MKB Unionbank donated local theatre of Targovishte and in its environmental commitment supported the Fruit-culture Institute in Plovdiv.

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IMPRESSUM
Editor: Dr. Pál Simák
Csaba Szekeres
Publisher: Mónika Szűcs
Photo: Péter Korniss
Design: Balázs Grábits
Provokátor Reklám Kft.
Prepress: WellCom Stúdió Kft.
Printed: Maxima Papír Kft.