Annual Report
2009

MKB BANK

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Key figures

	2008	2009	MKB Bank Zrt (HUF'm, IFRS uncons.) Change
Balance sheet			
Total assets	**2,656,629**	**2,906,836**	**9.42%**
Securities and NBH	198,061	459,395	131.95%
Loans and advances to credit institutions	237,741	171,749	-27.76%
Loans and advances to customers, o.w.	2,084,553	2,119,863	1.69%
Corporate loans	1,083,471	1,169,661	7.96%
Loans to private individuals	499,332	523,127	4.77%
Risk provisions for loans and advances	(66,167)	(89,496)	35.26%
Bank deposits and refinancing balances	915,647	1,129,582	23.36%
Customer accounts and deposits, o.w.	1,087,823	1,215,922	11.78%
Corporate accounts and deposits	704,371	656,725	-6.76%
Accounts and deposits of private individuals	563,471	559,197	-0.76%
Debts securities issued	270,271	141,854	-47.51%
Subordinated capital	102,892	104,584	1.64%
Shareholder's equity	216,660	257,752	18.97%
Income statement			
Net interest income	66,197	75,975	14.77%
Net commission income	15,103	15,389	1.89%
Other income	15,737	27,712	76.09%
Gross operating income	97,037	119,076	22.71%
General administrative expenses	(54,358)	(55,499)	2.10%
Operating profit	42,679	63,577	48.97%
Provision Charges	(35,102)	(46,705)	33.05%
Profit before tax	7,577	16,872	122.68%
Profit after tax	6,584	12,923	96.29%
Business franchise			
Corporate clients ow. ***	43,816	49,889	13.9%
Large corporates	3,605	3,480	-3.5%
SMEs	11,089	9,743	-12.1%
Small corporates	29,122	36,666	25.9%
Private individuals ***	286,000	322,000	12.6%
Pension fund clients	146,200	140,500	-3.9%
Health care fund clients	108,800	120,000	10.3%
Corporate loans and deposits market share	12,8% / 10,1%	13,6% / 11,3%	0,8 / 1,2 pps
Loans to and deposits from private individuals market share	6,1% / 5,4%	6,3% / 5,6%	0,2 / 0,2 pps
Investment funds market share	5.1%	4.5%	-0,6 pps
Issued bonds of domestic Fin. Inst. held by resident households****	21.5%	14.1%	-7,5 pps

MKB Group (HUF'm IFRS cons.) **2009**	**MKB Group*** (EUR'm IFRS cons) **2009**
3,106,646	**11,470**
486,757	1,797
65,988	244
2,389,452	8,822
1,221,433	4,510
727,658	2,687
(118,226)	-437
1,142,880	4,220
1,405,997	5,191
734,941	2,714
671,056	2,478
139,580	515
104,584	386
252,028	93
98,921	353
22,328	80
24,962	89
146,212	521
(73,754)	(263)
72,457	258
(66,421)	(237)
6,037	22
2,518	9
66,815	
-	
-	
-	
625,208	
-	
-	
-	
-	
-	
-	

	2008	2009	MKB Bank Zrt (HUF'm, IFRS uncons.) Change
Liquidity and self financing			
Liquid assets ratio	16.86%	22.12%	5,26 pps
Loans-to-Primary Funds (LTPF) Ratio**	153.49%	156.13%	2,64 pps
Loans-to-Deposits (LTD) Ratio	191.63%	174.34%	-17,29 pps
Capital management			
Total core capital**	296,945	304,432	2.5%
Core capital (Tier 1)**	197,677	202,950	2.7%
Solvency ratio**	9.7%	9.8%	0,1 pps
Tier 1 ratio**	8.5%	8.7%	0,2 pps
Portfolio quality			
Total NPL ratio	4.3%	5.9%	1.6 pps
Corporate NPL ratio	4.5%	4.8%	0.3 pps
Private individuals NPL ratio	2.7%	11.9%	9.2 pps
Loan loss reserves/NPL	57.39%	58.85%	1.46%
Collateral coverage/NPL	31.63%	38.05%	6.41%
Profitability			
ROAE**	5.6%	14.5%	8,9 pps
ROAA	0.4%	0.2%	-0,2 pps
Efficiency and operation			
CIR	56.0%	46.6%	-9,4 pps
Number of employees	2252	2159	-4.1%
Number of branches	80	86	7.5%
Share related information			
Earnings per share (in HUF)	467	883	89.0%
Payout ratio	-	-	-
Book value per share	15,372	17,457	13.6%
Number of shares	14,094,483	14,765,369	4.8%

* HUF/ EUR exchange rate: BS: 270,84; P&L: 280,58
** Regulatory capital
*** Total clients of MKB Bank, MKB Romexterra Bank and MKB Unionbank
****Excluding mortgage bonds

MKB Group (HUF'm IFRS cons.) 2009
20.16%
154.60%
169.95%
285,180
182,818
10.1%
7.9%
6.58%
6.43%
8.68%
57.23%
37.59%
2.7%
0.2%
50.4%
4070
210
222
-
-
14,765,369

Awards and recognitions

MKB Bank received a number of prestigious and high profile awards in 2009 again, in recognition of its unflagging strive for quality in all parts of its operation as well as its achievements in corporate social responsibility. We are proud of the awards that truly reflect our appreciation but they also encourage us to make further efforts.

MasterCard Bank of the year 2009 Socially Responsible Bank of the Year

MKB Bank won a total of five awards in this traditional competition of the domestic financial sector. The Bank were awarded first place in the category of „Socially Responsible Bank of the Year", while dr. Tamás Ákos executive director came in second in the section „Young banker of the year". MKB Bank won third place in the categories „Best crisis manager bank", „The innovative product of the year", and the „The retail saving product of the year".
The category of social responsibility was paid even more attention due to the world crisis of economy, as many think today that the responsible social attitude is a key value indicator of a company's activity. This is another reason why the first place the Bank earned in the category of „Socially Responsible Bank of the Year" is important, which confirms the efforts MKB Bank made in this respect.

Qualitative service in branch network and Call Centre

MKB Bank's Call Centre and internetbank service beat all domestic competitors in 2009 again in terms of service quality and customer friendly solutions, according to the findings of a survey carried out by the independent Branchmarking (London). The Bank's Call Centre employees delivered quick, accurate and high-quality professional performance throughout the year. As a result of its internetbank development, the bank operates a highly customer-friendly system.
According to the survey, the MKB branch network preserved its high standards both regarding its appearance and the quality of the services. This good performance allowed the MKB Bank branch network to win second place in the Branchmarking competition in Hungary.

The MKB Bank brand received the Superbrands award again

MKB Bank again managed to win the Superbrand status, granted by a panel of high profile international representatives of the marketing profession and communication. Superbrands is an international brand evaluation system which awards the leading brands based on the same criteria. 'Superbrand' is one of outstanding renown in its own sector, the values linked to the brand offering emotional and/or tangible benefits expected and appreciated by consumers/customers.

CEE CRM Leadership 2009

The bank won a high-profile award in the Vienna conference of Microsoft Dynamics. The „CEE CRM Leadership 2009" award granted in the company's most important corporate management and CRM event, organised explicitly to its CCE customers, recognizes the CRM implementation, being unique in the region in terms of its functionality and level of detail, highlighting the leading role of MKB Bank in working out a comprehensive CRM solution.
The bank introduced the CRM/Front-end system in three stages. The system displays the retail and corporate customers' product usage data and customer information on a standardised customer display. In addition to that, relying on data warehouse analyses, it supports efficient sales and campaigns, while the Front-end functions were developed for handling applications for electronic channels and the related modifications.

Voting of real estate market magazine Liquid Real Estate

Comparing the performance of the banks in Hungary on the real estate market, similarly to 2008, last year again the activities of MKB Bank were found as the best in Hungary, in a survey conducted in cca. fifty countries by Euromoney, one of the most prestigious financial magazines of the world, and its professional journal Liquid Real Estate.

itbusiness Leadership Award

The tender entitled „Organisation optimised to business – uniform development process control" jointly submitted by MKB Bank, HP Hungary and IDOM 2000, won the itbusiness Leadership Award in 2009 in the category „Project development – large company". The award established by the IT magazine itbusiness six years ago and granted each year in several categories recognizes the most innovative solution of the given year.
The FWF (Development Workflow) project was launched in March 2008 with the purpose of implementing the HP Project Portfolio Management Center. The PPM system went live in April 2009, which is used by the bank since then to manage its projects, developments and IT error-correcting.

Prestigious university award to dr. Imre Balogh Deputy Chief Executive

The Senate of the Pécs University of Sciences granted the award Pro Universitate Quinqueecclesiensi to dr. Imre Balogh. The MKB Bank Deputy Chief Executive received the highest level recognition that can be granted by the university to external parties for his initiatives and supporting activities carried out in the Pécs University of Sciences and its legal predecessors.

Sports achievements

One of the long time key elements of MKB Bank's CSR portfolio is sponsoring successful team sports. As a naming sponsor, even in more difficult circumstances, the Bank continue to support MKB Veszprém's men's handball team winning both the domestic championship and the cup in 2009, and together with one of MKB's subsidiaries, MKB Euroleasing Sopron's women's handball team. The latter won the Hungarian championship the third time in a row, took the cup for second place, and was greatly successful to qualify among the four best teams in the Euroliga.
In addition to these two outstanding sponsoring activities, MKB Bank also sponsoring the Hungarian Kayak-Canoe Federation, achieving outstanding results in the Olympic Games of the last two decades, whose members earned a number of coins in the world championships in 2009.

Chairman's Statement

Year 2009 was full of challenges and extremities not faced for long both for the Hungarian economy and the banking sector. The global crisis caused severe turbulence on the money markets and then in the real economy. Export markets shrank and as a consequence of the crisis and the measures aiming at improving the equilibrium, internal demand also significantly decreased. From the end of the first quarter, however, the consolidation of the money market intensified, the international investment climate became more favourable and the first signs of recovery from the crisis appeared. As a result of the measures aiming at restoring the equilibrium introduced, following the international credit agreement indispensable for financial stabilisation, the position of Hungary as well as its assessment clearly improved.

In the above-described environment the banking system went through a drastic adjustment process. MKB Bank and MKB Group quickly and successfully reacted to the crisis. The growth rate of MKB Bank's gross operating income and operating profit was outstanding in the sector and its contribution to the sector's provision charge is already decreasing, partly due to the consistent application of the formerly started prudent 'crisis' provisioning policy. Both the Bank and the Group closed 2009 with a positive result, and the measures at the same time contributed to the sustainable and balanced growth in the medium term in the expectedly gradually improving environment.

2009 was the year of stabilization in the Hungarian economy

Hungary in 2009, while fighting the crisis caused by the global economic recession, also struggled with equilibrium and sustainability problems arising as a consequence of domestic structural problems of many years. The medium-term objectives of the Maastricht convergence path of previous years was temporarily replaced by crisis management, and a series of short-term measures defined in the EU-IMF package. While the crisis itself triggered to restore equilibrium in terms of foreign trade turnover, balance of current account and inflation; the strict measures of the government kept the central budget deficit within limits and stabilised the forint exchange rate.

After the collapse of the coalition, first, a single-party minority government, then an "expert" government carried out crisis management, fulfilled criteria arising from the EU-IMF package and implemented a wide scale of austerity measures. As a result, the country risk factors and the assessment of international organisations and rating agencies improved. Hungary remained in investment category at all 3 major rating agencies in 2009. In 2010, although with limited room to manoeuvre in economy, a new government with a stronger political authorization can accomplish further measures to strengthen the sustainable growth path.

Along the stabilization program, elbow room was minimal to implement crisis management similar to that of countries not struggling with equilibrium problems or only to a smaller extent through expansive measures and the intensification of demand by the government. As direct actions, in addition to state and EU financed projects, the measures introduced aimed at keeping the increased burdens of corporates within limits, and a slight adjustment of the personal income tax and the decrease of the burdens of employers also took place during the year. Therefore, returning to a sustainable, near-equilibrium path involved a significant growth sacrifice, whose extent exceeded the rate generally characterising the region, as the GDP fell by 6,3% in real terms (y/y) in 2009.

Parallel to the decrease of the export demand (-18.7% EUR current price) domestic consumption also significantly fell, thus industrial output contracted by 17.7% p.a., which went hand in hand with the decline of investments and the labour market (the rate of unemployment increased from 8.0% to 10.5%). Real wages also decreased, which further deepened the fallback of demand mainly in retail trade. Attributable of the reduced investments and domestic demand, as a result of the crisis the current account deficit and the foreign trade balance improved. The rate of inflation became favourable, 4.2% (taking also into account the effect of the increased VAT rate) and the central bank base rate decreased by a total of 375 bps to 6.25% in 2009.

The escalation of the financial crisis in the fourth quarter of 2008 still meant severe risks in the economy in the first quarter of 2009. The low foreign currency liquidity and the lack of general confidence of investors in the region already softened in the second quarter of 2009. The exchange rate of the forint was weakening until March 2009, then strengthened by the news of the expert government and the stabilization measures, in addition to the international tendencies. The exchange rate of the forint stabilized during the second half of the year on a weaker level, than it was a year before, although it strengthened largely in comparison to the March, most critical period.

Financial stabilization took place in the Hungarian economy with the significant decrease of the deficit of the central budget to 3.6%. Among the strict measures, making an immediate effect, the 5%-point increase of the general VAT rate, the increase of excise tax, the restriction of the pensions and public servants' disbursements, and the decrease of social transfers were the most important ones. The measures of the government included a number of changes positively affecting the structure of economy in the longer run, that, among other things, aimed at the calculation of pensions, the pace of increasing the age limit for retirement, the transformation of the energy subsidy system and the basis of personal income tax payment as well as the increase of property taxation. Although these are important conditions of the long-term boost of economy, further transformations may also be necessary. Further structural changes may be brought about in 2010 by the measures of the new government to be set up after the parliamentary elections.

In addition to the domestic long-term stabilisation measures, the first signs of recovery apparent on our main export-markets also affect favourably on the Hungarian export activities. In 2010, although with the effects of a significantly lower base year, still growth of industrial output is expected, improvement in project ratios and the mitigation of the economic effects of the recessions paired with an intensifying demand for credits, supported by further strengthening internal savings, stable macro-economic, money market and political environment.

In Romania, the recession of the economy was quite similar to that of Hungary, but it took place suddenly, in the course of a couple of month, which shocked the corporate sector more strongly. Two big international rating agencies downgraded the country into the non-investment category. The economic crisis was paired with political uncertainty as well, which was mitigated by the establishment of the new government after the elections, the approval of the year 2010 budget, and the IMF/EU stand-by loan agreement, thus a stabilizing and deliberately growing economic course is expected in the upcoming years, still with significant uncertainties in 2010.

In 2009 the Bulgarian economy suffered from a moderately strong recession 'only', which was fundamentally due to the stable central budget and the lowest deficit in the EU as well as the stability of its currency board. At the same time, the period of recovery may also be longer, with regards to the high sovereign debt and a minimal elbow-room considering the medium-term opportunities for economic stimulus due to budget position and in respect to the currency board. As a result of the new government's measures aiming at reinforcing confidence, the improvement of the rating reflecting country risk is apparent already, first among the countries of the EU region since the escalation of the crisis.

Banking sector: stabil banking system with significantly higher provisioning

From the last quarter of 2008 the banking sector went through a drastic adjustment process, which somewhat moderated only in the second half of year 2009, but it did not fully end yet. In 2009 all participants of the banking sector had to face similar **challenges:**

Ensuring the necessary level of **liquidity** in a hectic environment, when FX funds are more expensive and has shorter maturity. The market environment and the strategic objectives of the parent banks made a number of banks to optimise their loan-to-deposit ratio. As an impact of the crisis, savings significantly increased mainly in deposit instruments due to the cancellation of long-term investments (corporates) and the uncertainty of employment and income outlooks (retail), which had a positive effect on the strengthening of forint liquidity, and practically considerable excess liquidity was generated in the sector from the second half of the year. The LTD ratio decreased from 156% to 147%.

In 2009 perhaps the **managing of credit portfolios and its protection from any further shock** received the most attention. Weakening exchange rates made a negative effect on all players in first half of the year. In addition, in case of companies decreasing demand and increasing bankruptcy rates all contributed to the deterioration of the portfolio. In case of households the effect of the exchange rates volatility due to the price increase of foreign currency refinancing was made even worse by the increase of foreign exchange interest rates, the unfavourable impacts of real wages and, as the most important factor, the decrease of employment that turned out to be more significant than previously expected, or as the sudden growth of unemployment. All these led together to the tripling of the credit losses. Typically, the banking system contributed to improving the customers' credit repayment ability with the restructuring of loans. The earlier dynamics of financing got stopped; and for a significant period of the year both corporate and retail customers were net credit repayers, the wholesale credit portfolio significantly decreased, while the credit portfolio of households only slightly increased in 2009. The NPL ratio increased from 4.1% to 8.1%, according to the preliminary expectations.

The effects of the recession and unexpected shocks required to have a **higher level of capital reserves than before.** Although there were still such banks who realised interim losses, the shareholders globally provided considerable capital to their affiliates in Hungary, thus the capital strength of the domestic banking system significantly increased, capital adequacy ratio increased from the 2008 year-end 11.2% to 12.9%, which constituted limited reserves for further shocks and the deterioration of the portfolio.

Due to the recession, the **lower volumes and income** of the core business lines in 2010 is replaced by the continuously increasing net profit basically realised on fixed income securities (mostly government bonds) as opposed to the previous year's losses, taking advantage of the hectic money and capital market environment. This contributed on the sector level to the HUF 258 bn value of non-interest and non-fee type of profit (2008: HUF -31 billion).

The cumulative **negative effects required counter-balancing in cost management.** The banking system, as to compensate the effect of impairments and write-offs, continued a series of cost cutting and rationalizing steps already started in the last months of 2008 and covering basically all cost types. Thus, the operating costs decreased nominally by 2%, in real-term by close to 6%. The number of employees was lower by 10.4% (yoy). In this environment, clearly only such network developments were implemented that were carried over, but network units were closed down also. The sector's cost-to-income ratio improved from 68% to 46% by the end of 2009.

Based on the preliminary 2009 year-end figures the sector all in all adapted well: efficiency improved, liquidity strengthened, loan-to-deposit ratio and risk weighted assets decreased, cost control is strong, the capital position is stable, and moderate. State or international support was used by two players not having strategic owners. The preliminary pre-tax profit of the sector significantly exceeds that of 2008.

For the Hungarian banking system 2010 could bring the opportunity of consolidation and slow recovery. 2009' focus points will remain, but in addition selective business growth opportunities may appear. At the same time, however, outstanding one-off results of fixed income securities are not expected to realise in 2010 any longer or not to such an extent as in 2009, due to the ongoing consolidation of the money markets and the economy. The growth of credit losses slows down and expected to stop in 2010. The momentum of saving is becoming stronger. The domestic banking sector remains stable in 2010.

The Romanian and Bulgarian bank system had to face similar difficulties in 2009 than the Hungarian. The high rate of increase of the banks' total assets stopped, assets basically stagnated. In order to optimising loan-to-deposit ratios the banks focused on internal savings, relative weak until then, instead of parent bank funding. Due to the effects of the recession, the portfolio of substandard, doubtful and loss loans grew significantly at a higher pace compared to Hungary, from 13.8% to 24.1% in Romania, and from 2.4% to 8.2% in Bulgaria. The banks tried to compensate this with the improvement of their cost-to-income ratio with a significant difference in the two countries (CIR: Romania: 64.0%, Bulgaria: 50.3%). Central banks actively contributed to improving the position of the banking sector, and Romania was also supported by the EU-IMF financial stabilisation package. All in all, the banking systems of Romania and Bulgaria stabilised, their capital adequacy is high, well above the legal level, serving as reserves to cover further limited losses.

Performance of MKB Bank and MKB Group: successful crisis management and stability

For MKB and MKB Group, the strategic objective for 2009 was to build the future based on internal consolidation. The key elements of internal consolidation included the preservation of a stable liquidity position, to preserve and protect customer relations and portfolio quality from shocks, a more effective use of risk-weighted assets, as well as the improvement of the efficiency of operation accompanied by strict cost control. All in all, capital preservation, avoidance of losses, while continuing the building of the future through the internal development of products, the organisation and processes. The Bank and the Bank Group, thanks to their crisis adjustment strategy, effective even in an environment that was incomparably more difficult than in previous years, achieved the above goals successfully, while complying with their own, as well as the proprietary and supervisory limits and expectations.

The Bank's IFRS non-consolidated gross operating income increased by 22.7% to HUF 119.1 billion, within which the net interest income grew by 14.8%, fee and commission income by 1.9% and other income (within this mostly the exchange rate gain of fixed yield securities) by 76.1%. The Bank's operating costs, in the meantime increased only 3.4%, which was lower than the inflation, as a result of the cost optimisation program, thus the cost to income ratio decreased to 46,6% with an 8.7 percentage point improvement. As a result of the above, the operating profit of MKB Bank increased by 46.6% in 2009. The growth dynamics of the gross operating income and operating profit are outstanding in the domestic banking sector according to preliminary data. Provisions increased from HUF 35.1 billion to HUF 46.7 billion, out of which the goodwill write-off for MKB Romexterra Bank amounted to HUF 8.9 billion (2008: HUF 1.1 billion), in accordance with the expected deterioration of the portfolio, due to the economic environment. Nevertheless, the share of MKB Bank in the sector's provisioning has already decreased, as a result of the prudent early provisioning at the escalation of the crisis. In 2009, MKB Bank reached a pre-tax profit of HUF 16.9 billion (2008: HUF 8.3 billion).

Excluding the goodwill write-off for the Romanian subsidiary, MKB Bank's pre-tax ROAA (2008: 0.4%) was 0.9%, and not taking into account the capital invested into the affiliate banks, the bank reached a 14.5% pre-tax ROAE in 2009 (2008: 5.7%). The profit per share almost doubled in 2009, reaching 88.3%. The Bank's non-consolidated pre-tax profit according to the HAS was HUF 342 mn (2008: HUF 526 mn) and its profit after taxes amounted to HUF 298 mn (2008: HUF 524 mn) in 2009. According to the resolution of the Annual General Meeting dividend will not be paid from the 2009' after tax profit.

Although in 2009 increasing the market shares was not a priority for MKB Bank, the Bank's positions further strengthened in the core segments reaching 14.9% and 6.3% in the financing of non-financial corporates and private individuals (2008: 14.1% and 6.1%). The market share increase on the savings market is more significant with a market share of 11.7% in non-financial corporate deposits (2008: 10.0%) and 5.6% in private individual deposits (2008: 5.4%). At the same time, MKB Bank preserved its positions in the entire retail savings. The Bank's business success, in addition to its increasing market shares, was also confirmed by several professional awards in 2009.

MKB Group's IFRS gross operating income increased by 21.5% to reach HUF 146.3 bn. The Group members managed to improve their cost management significantly, to an extent higher than planned, therefore the operating costs amounted to HUF 73.8 bn increasing by 4.8%. Hence, operating profit amounted to HUF 72.6 bn in 2009 (+44.9%). On group level, MKB – partly due to the losses of the Romanian affiliate operating in an environment even more critical than that of Hungary and to the related goodwill write-off – reached HUF 6.0 bn pre-tax profit according to IFRS, which is 13.3% lower than that of 2008. MKB Bank promptly reacted to the deterioration of the Romanian environment and the situation of the subsidiary, and the measures were at stabilizing already in 2009, while their effects will manifest themselves basically in 2010, and in the medium term.

After the appearance of the severe crisis symptoms the Bank was one among the first to increase its capital in the amount of HUF 26.5 billion, thus its capital adequacy ratio according to HAS reached 9.78% at the end of the year (Tier 1: 8.65%). The Bank Group's capital adequacy ratio according to IFRS was 10.76% (Tier 1: 6.59%). MKB Bank paid special attention to strengthening the liquidity position of the Bank and the Bank Group, as a result of which the liquidity ratios continuously improved during the year.

At the end of 2009 in Hungary MKB Bank served 12,700 corporate, 321,500 private individual and 34,000 small enterprise customers in 86 branches, while including the foreign affiliates it served in 74,100 corporate and 615,200 private individual customers in 210 branches in 3 countries of the region, to which further significant customer segments are related through some strategic subsidiaries and increasing network of strategic partners.

Human resources

As a response to the impacts made by the global crisis and domestic recession on the banking market, the members of the MKB group, in their comprehensive review covering all cost types, introduced stricter conditions of headcount management, decreased personnel type of costs, and introduced measures aiming at the streamlining and restructuring of the organisation. As a result of the above actions, the total headcount of MKB Group – including the foreign subsidiaries - was 4,003 on 31st December 2009 (2008: 4,269).

The number of persons employed by MKB Group members operating in Hungary was 2,445 on 31st December 2009, which is a 2% decrease compared to 2008. Within the Group, the headcount of MKB Bank decreased from 2,259 to 2,195 by 3%. The foreign subsidiaries (MKB Unionbank, MKB Romexterra Group) employed 1,558 at end-2009, following a 8% decrease.

The crisis environment, in addition to require forced reactions, emphasised the importance of the development of human resources paradoxically. As a response, MKB Bank in 2009 focused on internal training (e.g. modular retail, regional wholesale training). Due to the crisis it has also become similarly critical that managers and employees would have the competencies necessary for the high-quality performance of their tasks on all levels of the organisation. To this effect, in 2009 the Performance Appraisal System was introduced in MKB Bank, that, on the one hand, contributed to the improvement of the communication between the managers and their colleagues, and on the other hand, through breaking down the corporate targets to the levels of the individuals, made the expected tasks clear and outlined the points of development. In addition to that, the system will have in increasing role in the motivation and retention of key employees.

Key objective of the Bank Group for 2010: with continued consolidation strenghtening the primary customer relationship

The operating conditions of the banking sector are expected to improve in 2010 with no further recession is anticipated in the Hungarian economy in the basic scenario expected by MKB Bank. The money and capital markets will be stabilized, although there is still massive uncertainty as to the path of recovery. MKB Bank's medium-term strategic priority is still the consistent continuation of the previously started internal consolidation, the preservation of the existing portfolios, and the cleaning of the problem portfolio. At the same time, the following key elements added to this strategy in 2010: in order to the bank can improve its self-financing ability increasing the proportion of primary customers, improving the quality and depth of customer relations, strengthening loyalty, boost and diversify profit-generation through significant increase of the profit from fee- and commission, and selective financing activities. All in all, the further reinforcement of the fundaments, including to further strengthen the income structure and efficiency, aiming to maintain stable capital and liquidity positions. The above will be implemented by MKB Bank in 2010 based on an action plan defined per segment and a dedicated tools and measures.

The subsidiaries' goals are similar adjusted to the given market situation. The main objective of the MKB-Euroleasing group is to counter-balance the effects caused by the significant market recession in vehicle financing, to preserve the portfolio quality, intensive cross-selling and to build out and develop further strategic co-operations. The goal of MKB Unionbank is to improve its loan-deposit ratio, to strengthen primary bank relations and to focus on transactional services. The main goals of MKB Romexterra Bank include consolidation and to continue portfolio cleaning.

All these endeavours in an expectedly gradually further improving environment contribute to the sustainable and balanced growth of the Bank and the Bank Group in the medium-term, increasing its profitability and capital market attractivity.

Business Report

The 2009' business year was fundamentally characterised by intensive crisis adjustment and management both in the economy and in the banking sector. The primary objective of MKB Bank was to preserve its clientele and customer portfolios. The Bank's crisis management covering all critical resources proved to be successful; MKB Bank strengthened its fundamentals, its strategic KPI's and efficiency. Furthermore, it maintained or even further improved its business positions, while increased its gross operating income by 32.1%, and operating profit by 86.9%[1]. During the year, the Bank was fully compliant with its own as well as its owner's and supervisory prudential limits and requirements.
Customer savings were on the rise due to the crisis environment and cautiousness of clients. In this environment, the market share of MKB Bank in savings increased significantly both in the retail and corporate segment. Selectivity strengthened in lending, but all in all the market positions of MKB Bank also improved here. In a hectic although gradually improving environment, the contribution of the money and capital market business line was outstanding to the bank's overall income.
In line with its strategy, the endeavours of MKB Bank based on internal consolidation and laying the foundations for its future growth proved to be successful. In 2009 this was reflected by the business model launched for Small companies with new products and dedicated financial advisors and the renewal of Private Banking image. The new business and risk model for Lower Mid-market corporate clients should result in more efficient credit processes and better management of segment specific risks. The enhancement of internet bank, NetBANKár contributed to the still two digit increment of this service. Its early reactions to the crisis after its escalation, its prudent and successful crisis management, its reinforced fundamentals and continued building of the future provide MKB Bank with a chance to enhance its profitability with an improving portfolio quality and developing its business positions further in an increasingly favourable environment.

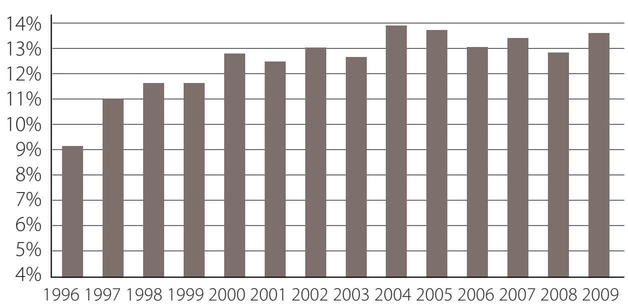
[1] According to unconsolidated HAR figures. According to IFRS growth rates were 22.7% and 46.6%, respectively.

Performance of the individual business lines[2]

Companies and Institutional Customers[3]

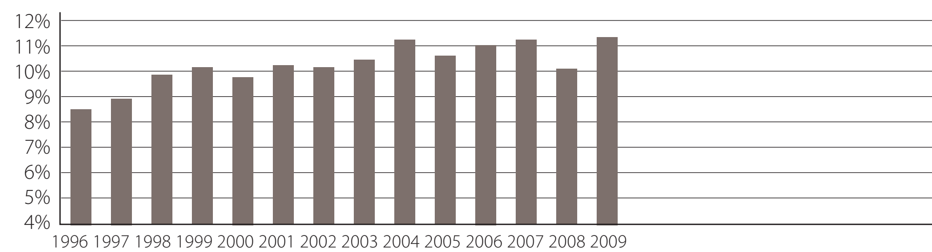
MKB Bank dedicated 2009 to the management of the existing portfolio, preserving its quality, and increasing profitability. Special emphasis was laid on the better exploitation of the possibilities in existing internal resources, collateral-strengthening, and related to this decreasing the amount of risk-weighted assets. Loans to large, mid-sized companies, project and institutional customers practically stagnated at HUF 1,578 billion at the end-2009 (2008: HUF 1,570 billion). In certain domestic segments growth was more moderate at MKB Bank than in the market. In real estate financing holding-back and repositioning started in the last quarter of 2008, was continued. MKB Bank's market share increased by 0.8 % to 13.6% in lending to corporates due to the maturity structure of the portfolio, overreaching effects, and the Bank's intention to help to its unfavourably effected clients by the crisis who have growth potential in the medium to long term applying reasonable credit facilities. In the strategic segment of non-financial companies the Bank has a market share of 14.9%.

Market shares in corporate lending



The bank's refinancing opportunities and the changes in the costs of funds significantly affected the Bank's business activity, but especially that of the wholesale business line through the whole year. More emphasis was put on fund raising. Thanks to the developed competitive products, deposit portfolio of large, medium-sized companies and institutional customers increased by 13.2% to HUF 625 billion in 2009 (2008: HUF 552 billion), with this dynamic growth MKB Bank reached a market share of 11.3% in the overall wholesale and 11.7% in the non-financial company segment. Last year the total number of wholesale account keeping customers was near 50 thousand, of which number of large company, institutional, and medium-size customers exceeded 13,200. As a consequence of the recession the account turnover and related income from the customers also declined in 2009.

Market shares in corporate deposits



The industry competence concept introduced in 2008 was successful, MKB Bank concentrated its knowledge base thus ensuring that sector-specific elements could be asserted while managing the effects of the economic environment. In 2009 the product-based competence centres were key elements of achieving the bank's strategy. As a consequence of the economic crisis demand for factoring services has increased more than ever before, and the pre-financing of receivables significantly increased, both the traditional commercial and projects related ones and state investments. The Treasury product centre provided support in the management and mitigation of risks arising from exchange rate fluctuations. The structures developed by the Subsidised and EU funds product centre reduced the capital needs of wholesale financing. The increasing developed Cash-Management area created frames for funding growth. A number of such structures were developed by these centres to support the growth of account turnover and deepening customer-relations.

[2] The key business line figures of MIS comply with both HAR and IFRS statements.
[3] From the business aspect, small companies belong to the retail business in MKB Bank, but due to the sector statistics the wholesale market share calculations contain their loan and deposit portfolios according to HAR unconsolidated figures.

In order to achieve the strategic objectives the Bank's electronic channels were developed. Cca. 28%, thus 13,900 corporate customers use actively the MKB PCBankár service. The number of corporate Telebank (Call Center) contracts was cca. 14,700 (penetration: 29%). Call Center received 35% of its calls from corporate customers while providing quality service under dynamically increasing number of calls. NetBANKár Business, the internet based banking service of MKB Bank, is already used by 43% of the corporate customers (cca. 21,500 clients). The number of issued business bank cards increased by 8%, to close to 23,000. MKB Bank became member of the SEPA (Single Euro Payments Area) standardised payments zone.

Large and upper-mid corporates, project and commercial real estate financing

This is the traditional business segment of MKB Bank with the highest customer penetration. The number of clients is close to 3,500 including institutional ones. Despite the crisis the portfolio deteriorated only to a limited extent. Both in the case of B/S-wholesale and project financing, MKB laid emphasis on the management of the existing portfolio in 2009. In line with that, the lending volume of large and upper-mid companies, project and institutional clients stagnated in 2009 reaching HUF 1,259.3 billion (2008: HUF 1,241.8 bn).

At end-2009, the accounts and deposits from this segment decreased by 2.8% to HUF 371.9 billion (2008: HUF 382.6 billion). In addition to the collection of deposits, MKB Bank, in line with its efforts to generate cross-selling and fee income, offered open-ended investment funds, own-issued bonds and a wide selection of government securities for liquidity management and investment purposes to its wholesale customers.

In the segment of upper-medium-size companies MKB has a 26.3% penetration in account relations, and offers full-range of tailor-made services. This customer segment was affected only to a limited extent by the impacts of the recession, so the quality of the portfolio is good. The Bank considers this segment as strategic, satisfying client needs with increasingly complex services. The bank offers cross-border services to these companies in their international expansion and to their export activities (e.g. export-factoring, documentary operations, export-financing). The segment managed to remain stable even in the course of the economic crisis, and could manifest growth opportunities in the longer term. On the financing side the Bank is able to ensure adequate medium-term financing either through its own services, or refinanced and state programs.

Although in project and commercial real estate financing, MKB Bank is still the number one player on the domestic market, the repositioning of commercial real estate financing continued in 2009, as a result the significant growth of past years slowed down. The commercial real estate portfolio continues to have a good quality and is well diversified towards to the various sub segments from the construction of office buildings, commercial centres, hotels and residential complexes through energy and transportation development. The scope of financing is also diversified geographically, and in addition to the fundamentally dominant domestic (within that mainly in Budapest) financing, on the basis of the subsidiaries' relations mainly Romania and Bulgaria were considered as target market, but the Bank also financed developments in other CEE countries. In 2009 the main focus was on the management of the existing projects, and due to the increasing risks of the real estate market, with close monitoring of the on-going projects, the necessary restructuring was carried out taking into account the cash-flow generating ability in the changed environment. The Bank in all cases counts on the capital strength of the project sponsors and the owners' commitments, and with the increasing risks these received more emphasis in 2009 than before. Transformation of the projects in the plot financing phase into cash flow generating ones has become more difficult due to the receding real estate market, but it is a target to accomplish gradually. Most of the projects are in the operation phase already, a smaller proportion is in the preparation or implementation phase.

MKB Bank maintains a traditional relationship with a multitude of basically **domestic institutional customers.** The insurance companies, pension funds, health care funds, local governments, chambers, interest representation, church organisations, associations, foundations and other civil organisations provided significant diversified durable funding base. In 2009 their deposit base exceeded HUF 210 bn, while their assets managed by MKB Investment Funds further contributed to MKB's funding base.

The financial crisis required the modification of the strategy targeting the gradual streamlining of the **foreign corporate and international bank financing activities.** Outstanding exposure gradually decreased considering asset and capital efficiency. By the end of 2009, the disbursed foreign corporate and financial institution credit portfolio, excluding the refinancing of the subsidiary banks reached HUF 113 billion decreasing by 11%. At the end of 2009, similarly to previous years, MKB Bank's largest credit portfolio was in Romania and Bulgaria, where the biggest part of the portfolio is related to the financing of the affiliates' own customers by MKB Bank and to international subsidiaries and projects of the partners of MKB Bank in Hungary. The Bank also focused on its bank relations in order to serve its core wholesale customers active in foreign trade, participating in carrying out its exporters' letter of credit and guarantee transactions with own risk-bearing exposures in countries of acceptable risk, and by using risk mitigating solutions in the CIS region (EBRD Trade Facilitation Programme, MEHIB insurance).

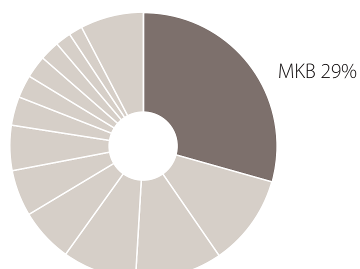
Through the **Bavarian and SCountry desks,** MKB Bank, as CEE bridgehead, acts as a cost-effective 'house-bank' to Bavarian and German companies, basically to the clients of BayernLB. The Bank assists the business in the region of mostly medium-size company customers of more than 60 Bavarian savings co-operatives through opening accounts, performing payment transactions and financing. The SCountry desk represents access to the customers of the German Savings Co-operatives. The Desks in 2009 contacted close to a hundred Bavarian, German companies (account opening, preparations for financing, customer retaining, acquisition, consulting and complaint management, negotiations at fairs). Thus, they have relations with cca. 400 German, Bavarian, existing and potential corporate customers. In 2009, cca. 50 deals were channelled towards MKB Group Desk, responsible for Hungarian-Bulgarian-Romanian regional customer information, acquisition, services and business development. The business activity of MKB is facilitated by the participation in joint chamber events, professional exhibitions, and fairs through the Desks.

Lower-Midmarket Clients (LMC)

In MKB Bank the gradual deterioration of the domestic economic environment affected mostly the Lower-midmarket corporate segment. Similarly to the previous year, in 2009 the focus shifted from the dynamic business growth primarily to the management of existing portfolios and the „cleaning" of these. One of its tools was the introduction of the service model tailor-made specifically to the LMC segment. Implementation and fine-tuning of the model was a principal goal in 2009 in the segment, making the management and risk processes of the LMC customers more effective and exploring the segment-specific risk factors, opening the door to focused risk mitigation. The model naturally also takes into account the handling of external (e.g.: exchange rate fluctuation) effects. At the end of 2009 the total credit portfolio of 9,750 customers reached HUF 313.7 bn , while their deposit portfolio amounted to HUF 253.2 bn.

The Bank's objective is to position itself as an institution efficiently channelling state development subsidies to small and medium sized enterprises, therefore, the Bank continued to provide its AVHA, MFB (New Hungary, SME Credit Program, New Hungary Operating Assets Credit Program, GLOBAL LOAN), Eximbank etc. structures to its customers and further expanded its cooperation with the various state institutions and other partner organisations. MKB was still the market leader in factoring in 2009. On the basis of the service palette built in 2008 the factoring volume further increased. Nevertheless, this increment went hand in hand with the concentration of the portfolios as a result of which the number of customers decreased from the 1,340 in 2008 to 1,098 by the end of 2009. As opposed to this, the turnover slightly increased by 3% to HUF 217 bn (2008: HUF 210 bn). Behind that, however, there is a shift in the distribution of turnover among segments and industries compared to 2008. The share of trade reduced by close to 10 percentage points, but it still has the highest proportion. The factoring of EU and state tenders generated a significant growth, whose proportion increased from 1% to 8%.

MKB Bank's market share in factoring by turnover (2009)



The agreement concluded between MKB Bank and Deutsche Leasing Hungaria for the sale of financial leasing, leasing and asset-based loan products related to EU subsidies is functioning; however, the economic environment also affected the leasing market adversely.

Retail Banking Services

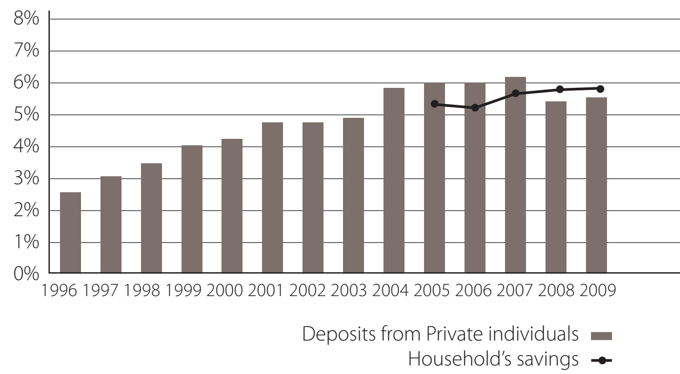
During 2009, the fine-tuning of the new value-proposition and service model introduced in the private individuals business from the beginning of 2006, called „Personally to You" was completed. This model distinguishes MKB Bank from all of its competitors as it provides the services of a dedicated personal advisor to each customer. The model was extended to the small companies segment in comprehensive project as from 01 January 2009: with a significantly wider range of products dedicated small company advisors are ready to assist customers. Parallel to that, the image of the private banking business line, representing the highest quality of service, was also renewed with a number of new products. In addition to laying the foundation of future, 2009 was characterised by several business success, and the business line further reinforced its positions in lending and on the investment market. The dynamics of the sales activities continues to be strong, while its structure further shifted towards higher added-value e.g. investment products (the number of retail customers having investment products increased by 24%) and further improved the quality of customer service. The importance of the results is stressed by the fact that the business line achieved those in an economic environment suffering from the crisis and continually fierce competitive environment. As a result of all these, the efficiency of the business line further improved and contributed to the Bank's business result and business portfolios to an increasing extent. At the end of 2009 the deposit portfolio of retail customers made up 51% of all customer deposits (2008: 48%), while the rate of retail loans increased from 22% to 25% within customer loans. Including the security type funding, the business line is still a net fund raiser for MKB Bank.

Private individuals

During 2009, the number of the bank's private individual customers increased by 12% to 322 thousand. Despite the significant growth of customer number, the clientele improved its status that is higher positioned than the average with the dominance of affluent customers. This is also reflected by the fact that the saving per customer is one of the highest within the sector, 2.2 times the average, while the credit portfolio is close to 2.5 times higher.

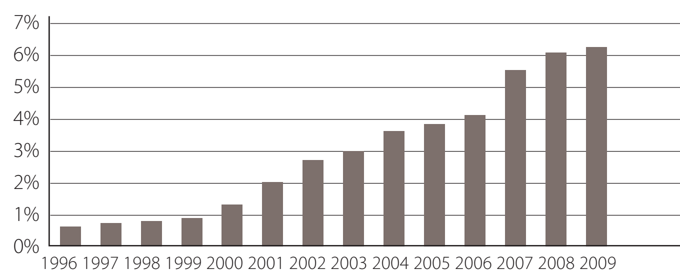
The funds from private individuals' of MKB Bank increased by 9.2% from the 2008 year-end HUF 550.4 billion to HUF 601 billion by December 2009, and as a result of that the total savings position improved. Within this, MKB Bank's private individuals deposits grew by 8.6% to HUF 454 billion (2008 HUF 418 billion), thus the bank's market share increased from the 2008 year-end 5.4% to 5.6% At the same time, however, the portfolio of own shares sold to private individuals amounted to HUF 66.6 billion at the end of 2009 (a growth of 45%).

Market shares in savings from households



The loan portfolio of private individuals increased by HUF 25 billion during the year, i.e. by 5% and amounted to HUF 490 billion. The Bank's market share increased from the 2008 year-end 6.1% to 6.3%. MKB Bank is mainly active on the market of mortgage-covered loans.

Market shares in loans to private individuals



In 2009 – under the aegis of responsible retail lending – MKB Bank joined the Code of Conduct, on the fair conduct of financial institutions granting retail loans towards customers, and – under the aegis of responsible communication of information to retail customers – the Bank also joined Recommendation No. 6/2009 of the Chair of the Hungarian Banking Association on facilitating switch retail bank accounts among banks (Code of the Change of Banks), and assisted its borrowers in a difficult situation with various new and alleviated structures.

In order to provide high-quality services for the customers, special product developments took place in 2009 too: MKB BUBOR Plusz, a HUF based housing loan without exchange rate risk, calculable, and linked to the Budapest interbank interest rate. The range of MKB's account packages was expanded by the introduction of MKB Electronic Service Package. The raising of funds was helped by new investment fund structures, the introduction of new type of HUF and Euro based bonds, continuous term deposit offers, and savings products combined with investment funds, bonds and investment linked insurance structures offering high interest rates. The primacy of quality services was not harmed. Its condition is quality focused development, whose continuance was supported in 2009 e.g. by the Complaints Forum for preventing complaints.
In addition to product developments, the further expansion of the branch network and the skyrocketing increase of transactions carried out through such channels all contributed to the success of the business line. In line with its network strategy and as a result of the projects brought forward from 2008, the Bank's network increased last year by 5 new branches at new locations to 86. Out of these, 26 were in Budapest, 9 in the agglomeration, and 51 in the countryside. Thus MKB Bank appeared now in Tiszaújváros, Pilisvörösvár and Balatonfüred, and at another two downtown locations: directly serving the customers of the Pension fund and the MKB Insurance companies in the office building in Dévai street in the 13th district and in the high-potential Allee shopping mall situated in the centre of the 11th district.
The number of customers having a Telebank (Call Center) contract at the end of 2009 exceeded 107 thousand (penetration: 33%). The Call Center, fulfilling the expected service levels under dynamically increasing number of calls received 65% of the calls from private individuals. According to mystery shopping MKB Bank's Call Center is third times market leader in terms of high quality service. NetBANKár, the internet based banking service of MKB Bank, is already used by 43% of private individuals, and the number of clients increased by 35 thousand to 141 thousand (+33%). The MKB NetBANKár – which in 2009 won 3rd place in the MasterCard tender "The Innovative bank of the year" – was added such further functions such as the management of direct debits, replenishment of mobile phone cards, and, adjusting to the expectations of the European Union, international foreign exchange payment transfers as per the SEPA standard. In the current economic environment, the new Personal Finances functions of the NetBANKár may help the customers handle their finances deliberately.
The number of bankcards issued by MKB Bank to private individuals reached 202,000 in 2009. The number of own-logo and co-branded credit cards to private individuals at the end of 2009 was 20,000.
The External Sales Partner Network of MKB Bank, increasing with 302 contracted partners during 2009, reached 993 by the end of the year, whose work was supported by a sales force of 1,906. The contribution made by external sales partners to the retail credit portfolio disbursed by MKB Bank in the given year further increased, and participation in the sale of small company account and credit products appeared as a new element, also in an increasing proportion.

Private banking

The number of customers served by MKB Private banking business line increased from the 2008 year-end figure of 1,017 to 1,312 by the end of 2009. The assets managed by the business line at the end of year 2009 reached HUF 180 billion (2008: HUF 136 billion) growing by 32%. The average managed assets of HUF 137 million per customer is regarded an outstanding performance on the domestic market.
The significant increase of the managed assets was achieved despite the fact that the confidence of investors in capital market instruments weakened as a consequence of the crisis. The assets managed conservatively in the advisory structure, focusing on capital protection, was able to preserve its value compared to the significant losses realised by others on the capital market – with its very low risk exposure – and this ensured customer satisfaction despite the crisis.
As part of the action plan compiled for the purpose of achieving a market leading role on the domestic premium private banking market in 2009 a new portfolio evaluation module was implemented, and the reinforcement of cross-selling was continued with the retail network and the wholesale business. In spite of the economic crisis, the reputation of the MKB Private Banking business line remained outstanding, contributing to the further strengthening of the customers' loyalty.

Small enterprises

In 2009 a new small enterprise business model was introduced, which includes the renewal and extension of the products, business processes and risk management systems of the small enterprise business line, to meet the market requirements. The results reflect the business policy targets of MKB Bank, according to which the Bank focuses on the primary bank relations, account keeping, and the sale of deposit and payment products, taking also into account the current economic environment, thus ensuring additional funds for the Bank. In parallel the Bank extends its lending activities gradually, selectively by basically state-guaranteed and refinanced products. The number of small enterprises reached 36,666 by the end of 2009. The credit portfolio of the business line increased by 1.5% from HUF 32.0 billion to HUF 32.5 billion, and its deposits grew by 3.7% from HUF 94.0 billion to HUF 97.5 billion.

Several new service packages and new credit products were introduced parallel to the application of new segmentation rules and the new branch model based on the one stop-shop „Personally for You" concept. In this model, dedicated small company advisors provide a one-man service and handle the financial requests/requirements of small companies, and their owners/managers. In 2009 8,096 new service packages were sold, out of which some 70 % included the 2 newly introduced small company account packages (tailor-made services specifically for companies using electronic banking, and large transactor/high sales revenue small companies).

In 2009 the Széchenyi Card (SZC) overdraft with collateral background continued to be the hook-product within the Bank's small company financing. The Bank's market share increased from 18% to 22% in the case of new customers. The average size of the new loans also increased by 10 % to HUF 11 million. 2733 requests (53 % new applications) were forwarded by the chamber and VOSZ offices to the bank, of which 66 % were fully realised deals in 2009. MKB Bank was one the first banks to introduce the SZC crisis management product from August, which means scheduled facility reduction. In May MKB Bank joined the Jeremie Micro Credit Programme targeting the development of SME by the government, and introduced 2 new, refinanced credit products with preferential interest rates and secured by the MV Zrt. Portfolio Guarantee. In 2009 the branch network started to see the new type of the MKB Insurance Multivédelem product, and also continued to sell the products of MKB-Euroleasing.

Money and Capital Markets, Investment Services

Despite the extremely volatile market and basically negative economic environment, the business line maintained the level of its business activity or even increased that in certain segments in 2009, significantly contributing to the Bank's business performance and the implementation of its strategic objectives. The traditional core tasks of the business line have been emphasised once again due to the global financial crisis: its role in financing, effective asset-liability and liquidity management, just as in the management of interest rate and exchange rate risks. The business line continued to accomplish its medium-term strategic goals through further significant product, system, process and organisational developments and through the increase of additional fee and commission income generating business endeavours related to treasury and investment service cross-selling. Altogether, the money and capital market business line was able to outstandingly contribute to the Bank's profitability in this hectic, but improving environment.

The impact of the deepening crisis was perceivable in the foreign exchange trade and in the management of exchange rate risks with wholesale customers, which was reflected in the decrease of export and import volumes above 20%, the drop of foreign exchange denominated loans and the exchange rate deals related to those, and an increased level of risk averseness. As a result of the growing corporate penetration, and despite the negative effects, both the spot and forward foreign exchange turnover increased by close to 10%, which was accompanied by almost 29% growth of the transaction number parallel to a perceivable decrease of the average volume per transaction. Due to risk averseness, demand for hedging and structured options fell almost to its half, but in the second half of the year the signs of an upturn were apparent. In 2009 the drastic fallback of the disbursed foreign exchange loans also caused the number of interest hedging deals to reduce, which could be only partly counter-balanced by the increasing demand from corporate customers as the interest curve moved downwards. The year was characterised by the dominance of deposits, while the simpler investment products could play a role only in the last quarter of the year.

In the spring of 2009 the turbulences on the international money market led to record-high level of volatility on the market of the Hungarian instruments. The forint showed extreme exchange rate movements and the Hungarian government securities market practically froze similarly to the autumn of 2008. This made the securities trade very difficult, while represented exceptional opportunities for entry in this quite extreme market situation. In spite of the unfavourable market circumstances and huge volatility MKB Bank securely fulfilled the market expectations imposed upon Primary Dealers and successfully participated in restarting the Hungarian government bond market. The Bank's weight and role taken in the primary market of government bonds is well reflected by the fact, that in the ÁKK (Government Debt Management Agency) bond auctions restarting from May 2009, MKB Bank ranked 4th among 11 primary dealers and significantly increased its market share from 7.3% to 10.45 %.

In the hectic capital market environment, MKB Bank significantly improved its positions on the secondary market of securities trade both on the stock exchange and the OTC market in 2009, almost in all sub-segments (government securities, equities, bonds, investment fund shares, derivative deals). MKB Bank reached 7.6% market share (2008: 4.1%) in the prompt OTC security market. The market share increased to 8.9% in the OTC trade of government securities (2008:3,9%). The turnover of equities traded on BSE increased by 56% to reach HUF 98.7 billion, while the total turnover of the stock exchange decreased by 2.8%. Foreign securities trading also showed a definite upswing after the risk aversion of the investors characterising the first half of the year.

The role of the business line is gradually increasing in the diversified, primary fund raising based on own-issued securities. MKB Bank, still as one of the leading issuers among domestic credit institution, issued bonds in the total nominal value equivalent to HUF 98.4 billion in 2009, while at the end of 2009 the total nominal value of the 19 domestic bond series amounted to HUF 125.2 billion, including the mid-year maturities. It represents close to 36% growth in the mid-year new issuances and 20% increase of the outstanding portfolio. The bank's share on the market of bonds issued by credit institutions is 14,7% among private individuals and 11.3% among companies at the end of the third quarter of 2009. In November 2009 MKB Bank again renewed its domestic public issuance program of HUF 200 billion and during the year, following the earlier HUF denominated issues, the Bank issued Euro denominated bonds on the domestic market. The current total volume of the EUR and other regional currency denominated bonds issued in the EMTN program between 2005 and 2007 exceeded EUR 340.7 million at the end of 2009.

Despite the increasing uncertainty, risk aversion and divestment resulting from the crisis, the market share of MKB investment funds showed moderate growth. As a consequence of the further deteriorating situation of households, owning almost 60% of the investment funds on the average, their reducing risk appetite and last but not least the strong competition and crowding out effect of high interest rate deposit campaigns, MKB Fund Manager, despite the preliminary plans, did not launch new principle guaranteed closed-end funds in the first half of 2009. Although the global investment environment improving from the second half of the year allowed to launch 2 new open-end (commodities and corporate bonds), 4 closed-end and 3 converting principle guaranteed open-end fund, due to the cash outflow from maturing portfolios and to the tightening liquidity of both the retail wholesale customers, the market share of MKB Fund Manager in 2009 slightly decreased (2008: 5.1%; 2009: 4.5%), however, it preserved its earlier 7th rank. The most successful closed-end fund of year 2009 was the MKB Pagoda Principle Guaranteed Derivative Fund, whose performance was outstanding among the closed-end funds available on the domestic market. In the segment of principle guaranteed closed-end funds, representing an investment of moderate risk, MKB Fund Manager closed the year as the 3rd biggest market player with assets under management of HUF 41.1 bn and a market share of 11.6%. The palette of liquidity funds also widened in terms of foreign currency denomination as the MKB Dollar Principle Guaranteed Liquidity Fund was launched.

Market share in investment funds

At end 2009 the Bank had HUF 1,295 bn of security portfolio under custody and in combined security and customer account keeping services provided to institutional, wholesale and retail customers, which represents a 5.54% growth compared to the previous year. The bank is still one of the biggest custodians on the domestic fund market both in the compulsory and the voluntary pension fund scheme. As part of the development of services related to foreign securities, in 2009 MKB concluded a sub-custodian contract with the Bank of New York Mellon, leader of the global custodian market.

The portfolio and asset management business line started 2009 in an extremely difficult market environment. The risk appetite of the pension fund clientele significantly decreased due to the losses in assets in the previous year. The assessment of the Hungarian instruments was strongly negative in the first quarter of the year, while prices decreased significantly on the international stock markets. Following an upward swing from the end of March, the proportion of equities started to be increased within the portfolios, but the extent of the positive correction and its sustainability were strongly questionable. Because of the fundamentally careful and risk minimizing investment approach the performance of the funds' portfolios was lower than the reference benchmark, it was still able to compensate the negative yields in year 2008. The market value of assets managed by the business line exceeded HUF 202 billion at the end of the year, which is equivalent to 33% growth. As a consequences of the introduction of the optional portfolio system the number of managed portfolios increased.

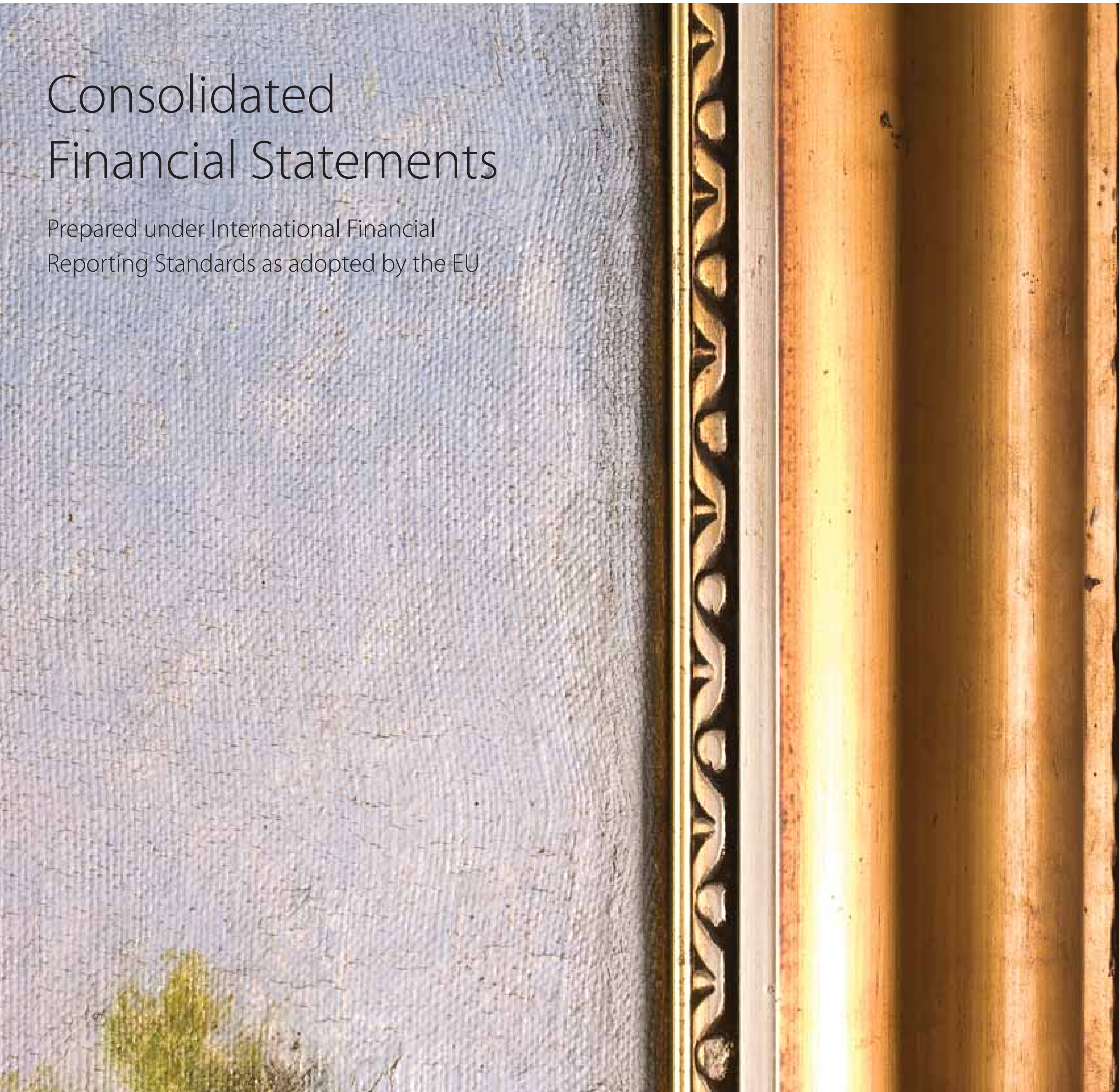
The portfolio and asset management business line is also the portfolio manager of the MKB Pension and Healthcare funds, whose operational environment was lot more unfavourable than that of a number of other business lines in 2009. It is especially true to the voluntary pension fund scheme, where the spill over effect of negative yields in year 2008 and the increased focus on short-term savings affected adversely the membership number and membership fee income. A favourable development, though, is that after 2008 the assets of the fund significantly increased, while disbursements did not decrease.

Given the current environment, MKB Pension Fund closed 2009 successfully. The membership in the voluntary scheme continued to decrease by 4.4% to 141 thousand, due to those losing their jobs and reaching the age limit of retirement. The membership in the compulsory scheme increased despite the possibility to re-enter the social security scheme until the end of the year. Assets under management increased by 14% to HUF 138 billion as various portfolios brought yield above the inflation rate by 7-10%. At the end of the year the Fund's assets per capita reached HUF 978 thousand, which exceeds that of the previous year by 18.1%. The voluntary scheme contributed to the performance of the fund with cca. 103 thousand members (2008: 111 thousand) and assets worth of HUF 84 billion (2008: HUF 78 billion), while the compulsory scheme with over 37 thousand members (2008: 35 thousand), and HUF 54 billion of assets (2008: HUF 43 billion).

Thus, the market share of the MKB Voluntary Fund in terms of managed assets is 10.4% at the end of 2009, resulting in the preliminary ranking of 4th on the market. The positioning of the MKB Funds is reflected by the asset size per member, which still exceeds the market average significantly according to preliminary data, in the voluntary scheme by 34.2%, and in the compulsory scheme by 70.6%.

2009 was a very successful year for MKB Healthcare Fund in all respects. The fund continued to maintain its 2nd ranking on the market in terms of membership, which, increasing by 11% totalled at 120 thousand by the end of the year (2008: 108.8 thousand), representing 13.3% market share in 2009. The income from membership fees, increasing by 24%, reached a new record again with HUF 7.6 billion. It is especially favourable that last year individual payments into the MKB Healthcare Fund increased by 1/3 and their amount was close to HUF 1.5 billion. (The 20% proportion of individual payments was among the highest rates among the healthcare funds.) The assets of the Fund almost reached HUF 7.8 billion by the end of 2009 with a HUF 1 billion increase. In 2009 the Fund accounted for a record volume of services both in terms of number and volume, increasing by cca. 60 %. The share of transactions carried out with health cards increased from 70% to 83% with regards to the invoices accounted for. The spread of e-payment is well reflected by its proportion reaching 60% within the total volume of invoices in December 2009.

The Fund's business relations continued to further extend in 2009 to 3,416 employers (2008: 2,850). At the same time, the number of contracted healthcare service providers increased with close to 10 thousands (2008: 8,600), while the number of card accepting sales points increased to 5,659 (2008: 4,545).



Consolidated Financial Statements

Prepared under International Financial Reporting Standards as adopted by the EU

Key figures

(IFRS, Consolidated)

data in HUF million

	2008	**2009**
Total Assets	2,885,426	3,106,646
Loans and advances to customers*	2,292,794	2,271,242
Current and deposit accounts	1,267,842	1,405,997
Shareholder's equity	229,222	252,028
Gross Operating Income	121,699	146,212
Operating Expenses	(70,360)	(73,754)
Operating profit	51,339	72,457
Provision Charges	(43,003)	(66,421)
Profit Before Taxation	8,336	6,037
Return on Average Equity (ROAE)	3.3%	2.7%
Return on Average Assets (ROAA)	0.3%	0.2%
Cost-to-income ratio	58.4%	50.4%
Capital adequacy ratio**	10.8%	10.1%

* Net portfolio

** According to the regulations of HFSA

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KPMG Hungária Kft.
Váci út 99.
H-1139 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

Independent Auditor's Report

To the shareholders of MKB Bank Zrt.

We have audited the accompanying 2009 consolidated financial statements of MKB Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the consolidated statement of financial position as at 31 December 2009, which shows total assets of MHUF 3,106,646 and retained profit for the year of MHUF 2,518 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 and to assess whether the consolidated business report is consistent with the consolidated financial statements. 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 2009, 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. The consolidated business report is consistent with the disclosures in the consolidated annual financial statements.

Budapest, 10 March 2010

KPMG Hungária Kft.
Chamber registration number: 000202

Gábor Agócs
Partner, Registered Auditor
Identification number: 005600

Consolidated Statement of Financial Position

as at December 31, 2009

Data in HUF million

	Note	2009	2008
Assets			
Cash reserves	6	185 687	212 685
Loans and advances to banks	7	65 973	116 611
Trading assets	8	43 340	65 590
Derivative assets held for risk management	9	29	80
Investments in securities	10	354 110	51 051
Loans and advances to customers	11	2 271 242	2 292 794
Other assets	12	37 292	18 217
Goodwill	13	40 613	33 650
Deferred tax assets	26	4 039	3 246
Investments in jointly controlled entities and associates	14	12 029	11 231
Intangibles, property and equipment	15	92 292	80 271
Total assets		**3 106 646**	**2 885 426**
Liabilities			
Amounts due to other banks	16	1 142 880	947 109
Current and deposit accounts	17	1 405 997	1 267 842
Trading liabilities	18	19 958	30 231
Derivative liabilities held for risk management	19	337	3 224
Other liabilities and provisions	20	34 070	31 604
Deferred tax liability	26	7 212	4 173
Issued debt securities	21	139 580	269 129
Subordinated debt	22	104 584	102 892
Total liabilities		**2 854 618**	**2 656 204**
Equity			
Share capital	23	14 765	14 094
Reserves	24	229 266	198 576
Total equity attributable to equity holders of the Bank		**244 031**	**212 670**
Non-controlling interests	25	7 997	16 552
Total equity		**252 028**	**229 222**
Total liabilities and equity		**3 106 646**	**2 885 426**

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2009

Data in HUF million

	Note	2009	2008
Income statement			
Interest income	27	238 175	223 807
Interest expense	28	139 254	141 128
Net interest income		**98 921**	**82 679**
Net income from commissions and fees	29	22 328	19 541
Other operating income	30	25 062	18 224
Impairments and provisions for losses	31	66 421	43 003
Operating expenses	32	73 754	70 360
Share of jointly controlled and associated companies' profit / (loss) before taxation		(99)	1 255
Profit before taxation		**6 037**	**8 336**
Income tax expense	33	3 519	1 176
Profit for the year		**2 518**	**7 160**
Other comprehensive income			
Share of other comprehensive income of joint-ventures and associates		225	-
Exchange differencies on translating foreign operations		(652)	(7 127)
Revaluation on AFS financial assets	10	1 647	(786)
Other comprehensive income for the year net of tax		**1 220**	**(7 913)**
Total comprehensive income for the year		**3 738**	**(753)**
Profit attributable to			
Shareholders of the parent		3 242	6 449
Non-controlling interests		(724)	711
Total comprehensive income attributable to			
Shareholders of the parent		4 857	252
Non-controlling interests		(1 119)	(1 006)
Net income available to ordinary shareholders		3 242	6 449
Average number of ordinary shares outstanding (thousands)		14 637	14 094
Earnings per Ordinary Share (in HUF)	34		
Basic		222	458
Fully diluted		222	458
Dividend per Ordinary Share (in HUF)		**-**	**-**

Consolidated Statement of Changes in Equity

for the year ended December 31, 2009

Data in HUF million

	Note	Share capital	Share premium	Translation of foreign operations	Retained earnings	Revaluation of AFS financial assets	Non controlling interests	Total equity
At 1 January 2008		**14 094**	**94 500**	**2 453**	**103 051**	**(58)**	**15 640**	**229 680**
Issue of share capital and share premium	23, 24	-	-	-	-	-	-	-
Dividend for the year 2007		-	-	-	-	-	(694)	(694)
Total comprehensive income for the year		-	-	(7 127)	6 449	(786)	7 11	(753)
First / (final) consolidation of subsidiaries		-	-	-	94	-	-	9 4
Change in non-controlling interests during the period		-	-	-	-	-	8 95	8 95
At 31 December 2008		**14 094**	**94 500**	**(4 674)**	**109 594**	**(844)**	**16 552**	**229 222**
Issue of share capital and share premium	23, 24	671	25 829	-	-	-	-	26 500
Dividend for the year 2008		-	-	-	-	-	(1 256)	(1 256)
Total comprehensive income for the year		-	-	(288)	3 467	1 678	(1 119)	3 738
First / (final) consolidation of subsidiaries		-	-	-	4	-	-	4
Change in non-controlling interests during the period		-	-	-	-	-	(6 180)	(6 180)
At 31 December 2009		**14 765**	**120 329**	**(4 962)**	**113 065**	**834**	**7 997**	**252 028**

Consolidated Statement of Cash Flows

for the year ended December 31, 2009

Data in HUF million

	Note	December 31, 2009	December 31, 2008
Cash flow from operating activites			
Profit for the period		2 518	7 160
Adjustments for:			
Depreciation, amortisation and impairment	15	8 899	7 473
Impairment on non-financial assets	31	9 454	1 877
Impairment on financial assets	11, 31	49 090	37 924
Deferred tax movement	33	2 246	(1 265)
Foreign Exchange movement	7, 11, 13, 15, 20, Change in Equity	(4 074)	(1 020)
		68 133	52 149
Change in loans and advances to banks (gross amounts)	7	5 0 661	76 374
Change in loans and advances to customers (gross amounts)	11	(27 287)	(426 149)
Change in trading assets	8	22 301	(7 841)
Change in AFS securities (without revaluation and impairment)	10	(300 659)	(10 164)
Change in other assets (gross amounts)	12	(19 151)	(2 367)
Change in amounts due to banks	16	195 771	368 479
Change in current and deposit accounts	17	138 155	20 706
Change in other liabilities and provisions (without provision charge of the year)	20	2 000	(6 585)
Change in trading liabilities	18	(13 160)	20 742
		4 8 631	33 194
Net cash used in operating activities		**116 764**	**85 343**
Cash flow from investing activities			
Investment in group companies	10, 13, OCI	(22 185)	(296)
Disposals of group companies	10, 13	-	-
Purchase of property and equipment	15	(24 550)	(11 638)
Disposals of property and equipment	15	5 872	1 004
Purchase of intangible assets	15	(7 524)	(8 466)
Disposals of intangible assets	15	5 194	4 084
Net cash used in investing activities		**(43 193)**	**(15 311)**
Cash flow from financing activities			
Increase in issued securities	21	(129 549)	67
Increase in subordinated liabilities	22	1 692	17 427
Issuance of new shares and proceeds from share premium	23, 24	2 6 500	-
Dividend paid	Change in equity	(1 256)	(694)
Net cash from financing activites		**(102 613)**	**16 800**
Net increase/decrease of cash and cash equivalents		**(29 042)**	**86 832**
Cash reserves at 1 January	**6**	**212 685**	**127 298**
FX change on cash reserve		2 044	(1 445)
Cash reserves at December 31	**6**	**185 687**	**212 685**

Supplementary Notes

1 General information

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 address of MKB is Váci u. 38., HU-1056 Budapest, Hungary.
The consolidated financial statements of the Bank as at and for the year ended 31 December 2009 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group conducts its domestic and cross-border financial services businesses through banking and non-banking subsidiaries. For further information on consolidated subsidiaries please see Note 39.
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.

2 Compliance with International Financial Reporting Standards

The consolidated financial statement of the Group has been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.
IFRSs comprise accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.
These financial statements are presented in Hungarian Forint (HUF), rounded to the nearest million, except as indicated. These financial statements were authorised for issue by the Board of Directors on 10 March, 2010.

3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:
- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- Other financial instruments are measured at amortised cost

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 36.

4 Summary of significant accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the Group in preparing and presenting the consolidated financial statements. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a, 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.

b, Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Newly acquired subsidiaries are consolidated from the date that the Group gains control. The purchase method of accounting is used to account for the acquisition of subsidiaries by MKB. The cost of an acquisition is measured at the fair value of the consideration given at the date of exchange, together with costs directly attributable to that acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the statement of comprehensive income.

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the execution of a specific borrowing or lending transaction.
The financial statements of special purpose entities are included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity.

Funds management

The Group manages and administers assets held in investment funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management activities is set out in Note 40.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c, Investments in jointly controlled entities and associated companies

Jointly controlled entities

Where the Group is a party to a contractual arrangement whereby, together with one or more parties, it undertakes an economic activity that is subject to joint control, the Group classifies its interest in the venture as a joint venture. 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. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the Group's share of net assets.

Associates

MKB classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates. For the purpose of determining this classification, control is considered to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Associates 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. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in MKB's share of net assets.

Profits on transactions between MKB and its associates and joint ventures are eliminated to the extent of MKB's interest in the respective associates or joint ventures. Losses are also eliminated to the extent of MKB's interest in the associates or joint ventures unless the transaction provides evidence of an impairment of the asset transferred.
A list of the Group's significant jointly controlled and associated companies is set out in Note 39.

d, Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for supply of services, or for administration purposes.

Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries, and on the acquisition of interests in joint ventures and associates, when the cost of acquisition exceeds the fair value of Group's share of the identifiable assets, liabilities and contingent liabilities acquired. If Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost of acquisition, the excess is recognised immediately in the statement of comprehensive income.
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 whether other assets or liabilities are assigned to them. Impairment testing is performed at least annually, and whenever there is an indication that the cash-generating unit may be impaired, by comparing the present value of the expected future cash flows from a cash-generating unit with the carrying amount of its net assets, including attributable goodwill. Goodwill is stated at cost less accumulated impairment losses. Impairment losses recognized for goodwill are charged to the statement of comprehensive income and are not reversed in a subsequent period.
Goodwill on acquisitions of interests in joint ventures and associates is included in 'Investments in jointly controlled entities and associates'.
At the date of disposal of a business, attributable goodwill is included in MKB's share of net assets in the calculation of the gain or loss on disposal. For further details on the assumptions used in the calculation, please see Note 13.

Other intangible assets

Intangible assets that have a finite useful life are measured initially at costs and subsequently carried at costs less any accu-

mulated 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 that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. This impairment test may be performed at any time during the year, provided it is performed at the same time every year. An intangible asset recognised during the current period is tested before the end of the current year.
Expenditure on internally developed intangible asset (software) is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.
Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

e, Property, plant and equipment

Items of property and equipment including leasehold improvements are measured at cost less accumulated depreciation and impairment losses.
Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The estimated useful lives of property, plant and equipment are as follows:
- freehold land is not depreciated;
- components of freehold buildings are depreciated over 0-50 years
- leasehold buildings are depreciated over the unexpired terms of the leases, or over their remaining useful lives.

The estimated residual value of some of the buildings is higher than the book value and therefore not depreciated.
Equipment, fixtures and fittings (including equipment on operating leases where MKB Group is the lessor) are stated at cost less any impairment losses and depreciation calculated on a straight-line basis to write off the assets over their useful lives, which run to a maximum of 20 years but are generally between 5 years and 10 years.
Depreciation of property, plant and equipment are included in „Operating expenses" line in statement of comprehensive income.
Property, plant and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.
Net gains and losses on disposal or retirement of property and equipment are included in other income, in the year of disposal or retirement.

f, Cash reserve

Cash reserve 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.
Cash and cash equivalents are carried at amortised cost in the statement of financial position.

g, Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading gain or loss on inception of the financial instrument. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the statement of comprehensive income but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Group enters into an offsetting transaction.
Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For financial instruments, fair values may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Where a portfolio of financial instruments has quoted prices in an active market, the fair value of the instruments are calculated as the product of the number of units and quoted price and no block discounts are made.
If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset.
The fair values of financial liabilities are measured using quoted market prices where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the Group's liabilities.

h, Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by the Group which are not classified either as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers (settlement date). They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses. Where loans and advances are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

i, Impairment of loans and advances

At the end of each reporting period the Group assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the statement of comprehensive income. The carrying amount of impaired loans at the end of the reporting period is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses on a case-by-case basis at the end of each reporting period whether there is any objective evidence that a loan is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of the discount.

Collectively assessed loans and advances

Impairment is assessed on a collective basis for homogeneous groups of loans that are not considered individually significant. On loans subject to individual assessment but not impaired are not assessed collectively.
Loans not assessed on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.
In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as new loans for measurement purposes once the minimum number of payments required under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due.

Write-off of loans and advances

A loan (and the related impairment allowance account) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write back is recognised in the statement of comprehensive income.

Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans as part of an orderly realisation are recorded as assets held for sale and reported in 'Other assets'. The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the statement of comprehensive income, in 'Other operating income'. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write down, is also recognised in 'Other operating income', together with any realised gains or losses on disposal.

j, Trading assets and trading liabilities

Treasury bills, debt securities, equity shares are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. These financial assets or financial liabilities are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the statement of comprehensive income. Subsequently, their fair values are remeasured, and all gains and losses from changes therein are recognised in the statement of comprehensive income in 'Other operating income' as they arise.

Interest earned on trading debt securities is reported as trading result among the other operating income when it becomes due. The dividends earned on trading equity instruments are disclosed separately among the interest income when received. Interest payable on financial liabilities acquired for trading purposes is reported as other operating expense.

k, Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated by management. The Group may designate financial instruments at fair value when the designation eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Group are:

Long-term deposit

The interest payable on certain fixed rate long-term deposits from investment funds has been matched with the interest on 'receive fixed/pay variable' interest rate swaps and cross-currency swaps as part of a documented interest rate risk and FX risk management strategy. An accounting mismatch would arise if the deposits were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the statement of comprehensive income. By designating the long-term deposits at fair value, the movement in the fair value of the long-term deposits will also be recognised in the statement of comprehensive income.

Structured Bond

MKB issues structured bonds for its retail and institutional clients since 2008. In these bonds there are embedded derivatives (options) that have to be separated under IAS 39.11 unless the hybrid instruments are measured at fair value. The Group eliminated its risk arising from the above mentioned options by entering into offsetting option transactions. To eliminate valuation inconsistencies, these structured bonds are designated at fair value to profit or loss in their entirety and as a consequence the embedded derivates are not separated.

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and are normally derecognised when sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken directly to the statement of comprehensive income. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in "Interest income".

l, Investments in securities

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value (Note 4 k,), are classified as available-for-sale. The held to maturity category is not applied at the Group level. Financial investments are recognised on trade date, when the Group enters

into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.
Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in equity in the 'Revaluation reserve' (Note 24) until the securities are either sold or impaired. When available-for sale securities are sold, cumulative gains or losses previously recognised in equity are recognised in the statement of comprehensive income as "Other operating income".
At the end of each reporting period an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset or group of assets. This usually arises when circumstances are such that an adverse effect on future cash flows from the asset or group of assets can be reliably estimated. If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset's acquisition cost (net of any principal repayments and amortisation) and its current fair value, less any impairment loss on that asset previously recognised in the statement of comprehensive income) is removed from equity and included in the statement of comprehensive income.
When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

m, Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.
Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the statement of comprehensive income.
Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognising fair value gains and losses does not depend on whether derivatives are held for trading or are designated as hedging instruments. All gains and losses from changes in the fair value of derivatives held for trading or designated as hedging instrument is hedging relationships are recognised in the statement of comprehensive income as the group uses only fair value hedges to hedge its risks.

n, Hedge accounting

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:

- at the inception there is a formal documentation of the hedging relationship that includes among others the identification of the hedging instrument and the specific hedged item, the nature of risk being hedged.
- a high level of hedge effectiveness is expected at the inception and the hedge is actually effective throughout the hedge period,
- the hedge effectiveness can be reliably measured.

The Group also requires a documented assessment on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values of the hedged items. Interest on designated qualifying hedges is included in "Interest income" or "Interest expense".

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.
If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to the statement of comprehensive income based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is released to the statement of comprehensive income immediately.

Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value must offset each other in the range of 80 per cent to 125 per cent.

o, Derecognition of financial assets and liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example repurchase transactions.

p, Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

q, Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Loans and advances to banks' or 'Loans and advances to customers' as appropriate. The finance income receivable is recognised in "Interest income" over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Group is a lessee under finance leases, the leased assets are capitalised and included in 'Intangibles, property and equipment' and the corresponding liability to the lessor is included in 'Other liabilities and provisions'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in "Interest expense" over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'Intangibles, property and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the equipment is thereby impaired. When the Group is the lessee, leased assets are not recognised on the statement of financial position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in "Other operating income" and "Operating expenses", respectively.

r, 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.

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 (Note 4 k,).

s, Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

t, Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.
Deferred tax is provided using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.
Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.
Deferred tax relating to fair value remeasurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of comprehensive income when the deferred fair value gain or loss is recognised in the statement of comprehensive income.

u, Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading and kept in trading book are recognised in 'Interest income' and 'Interest expense' in the statement of comprehensive income using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.
Interest income is recognised on available-for-sale securities using the effective interest rate method, calculated over the asset's expected life. Dividends are recognised in the statement of comprehensive income when the right to receive payment has been established.
Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

v, Fees and commission

Fee and commission income is accounted for as follows:
- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example the arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example asset management and service fees); and
- income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate (for example, certain loan commitment fees).

w, Other income

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

x, Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

y, Employee benefits

The Group operates a staff pension scheme that is qualified as a defined contribution plan under IFRS. All of the Group's employees are entitled to participate in this plan and the majority of employees have elected to join. Assets of this defined contribution plan are managed separately from the group.
Payments to the defined contribution plan and state-managed retirement benefit plans, where the Group's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

z, Segment reporting

In November 2006, the IASB issued IFRS 8, "Operating Segments" ("IFRS 8"), which defines requirements for the disclosure of financial information of an entity's operating segments. It follows the management approach which requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision-maker, in order to allocate resources to a segment and to assess its performance. IFRS 8 is effective for fiscal years beginning on or after 1 January 2009, although earlier application is permitted. The Group adopted IFRS 8 from 1 January 2008. Therefore, the operating segment comparative information contained in the Group's consolidated financial statements for the year ending 31 December 2007 has been presented under the IFRS 8 requirements.
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.
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. These allocations are conducted on arm's length terms and conditions. Please find further details on segment reporting in Note 41.

aa, Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to HUF at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to HUF at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity, in the Currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

ab, Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.
Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the fi-

nancial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

ac, Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

ad, Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. For further information about basic and diluted EPS, please see Note 34.

ae, 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 2009, and have not been applied in preparing these consolidated financial statements:

Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
Additionally in the revised Standard (2009) the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.
The Group has not yet completed its analysis of the impact of the revised Standard.
Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments at any time in the past.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group is currently in the process of evaluating the potential effect of this amendment.
The Group has not yet completed its analysis of the impact of the amendments to the Standard.

IFRIC 12 Service Concession Arrangements (2009) provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements.
IFRIC 12 is not relevant to the Group's operations as none of the Group entities have entered into any service concession arrangements.

IFRIC 15 Agreements for the Construction of Real Estate (2010) clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied.

The Group has not yet completed its analysis of the impact of the new Interpretation as this must be assessed on a contract by contract basis.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that the Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation.

IFRIC 16 is not relevant to the Group's financial statements as the Group has not designated any hedges of a net investment in a foreign operation.

IFRIC 17 Distributions of Non-cash Assets to Owners. IFRIC 17 clarifies that:

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation.

IFRIC 18 Transfers of Assets from Customers The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the transferred item meets the criteria for property, plant, and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of revenue recognition depends on the facts and circumstances of the particular arrangement.

This change in accounting is not expected to have a significant impact on the Group's financial statements as customer contributions do not represent a material item to the Group.

5 Financial risk management

a, Introduction and overview

All the Group's activities involve at some degree risk assumption, the measurement, evaluation, acceptance and management of these risks are integral parts of the Group's daily operative activity. Risk management is an integral part of the Group's operations and a crucial component of its business and overall financial performance. The MKB Group's risk management framework has been designed to foster the continuous monitoring of the changes of the risk environment and is supported by the strong commitment to a prudent risk management culture both on the strategy 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 approval of the Supervisory Board is also required for some specifically defined risk decisions), the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, limitation, monitoring and reporting of all risks. Decisions in respect of major risk principles are approved at group level, and are implemented individually by the own decision making boards of the Group members.

The effective communication on risk and risk appetite, the ongoing 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 the bases of running an effective risk management function in the Group.

The Group has exposure to the following risks from its use of financial instruments:

- **credit risk:**
  The risk of lending comprises the potential risk of the business partner failing to fulfil its payment obligations or failing to do so on time as well as the risk of the value of the receivable diminishing because the business partner's credit rating decreases. Risks stemming from loans or other loan type commitments extended to associated enterprises are also included in the Bank's credit risk managing mechanism.
- **country risk:**
  The country risk generally refers to a potential loss triggered by an economic, political or other event which takes place in the particular country and cannot be controlled by MKB, as creditor or investor. As a result of such an event(s), the obligor cannot fulfil his obligation in time or at all, or the Bank is unable to enforce its rights against the obligor. The components of the country risk are transfer risk, sovereign risk and collective debtor risk.
- **participations risk:**
  The participations risk is defined as the risk related to the following events:
  - Potential losses from providing equity / equity akin financial products or subordinated loan capital; This involves potential losses realised during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment
  - Potential losses from a possible commitment/liability extended in addition to equity investment (i.e. profit/loss transfer agreements), letters of comfort, capital contribution commitments, additional funding obligations)
  - potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.
- **market risks** (including foreign exchange and interest rate risks):
  Market price risk comprises potential losses from changes in market prices in both the trading and banking books.
- **liquidity risk:**
  MKB defines liquidity as the ability to serve its payment obligations entirely as they fall due and to fund new business at all times without having to accept unplanned liquidation losses on the asset side or increased refinancing rates on the funding side.
- **operational risks:**
  Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk does not include business and reputational risks.
- **legal risk:**
  Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law or a delay in reacting to changes in legal framework conditions (including non-observance which is unavoidable or not attributable to one's own fault).
- **reputational risk:**
  Reputational risk is defined as the risk of a bank's reputation falling short of expectations, reputation being a bank's public image in terms of its competence, integrity and reliability as perceived by groups with a legitimate interest.
- **real estate risk:**
  Real estate risk covers potential losses that could result from fluctuations in the market value of real estate owned by BayernLB Group. Real estate risks arising from collateral provided for real estate loans are covered under credit risk.
- **strategic risk:**
  Strategic risk is defined as the negative impact on capital and income of business policy decisions, deficient or unsatisfactory implementation of decisions, or slow adjustment to changes in the economic environment.

• **business risk**
Business risk is defined as unexpected changes in the economic environment that cause negative changes in business volume or margins and are not attributable to other types of risk. It quantifies the difference between planned and actual costs and income.

Below information is presented about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b, Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including approving the Risk Strategy (requiring final approval by the Supervisory Board), the relating policies and guidelines, and the monitoring activities relating to risks the Group exposed to.
The Group's Risk Strategy was set up in consistence with the Business Strategy, the regulations of the Hungarian Financial Supervisory Authority and BayernLB group standards. The tasks incorporated in the Risk Strategy aim at ensuring a balanced risk/return relationship, development of a disciplined and constructive control environment, defining the Bank's risk assumption willingness, risk appetite and the ongoing ability of the Group to manage its risks and the maintenance of its funds to cover risk exposures in the long term. It defines the targets of the risk management of the Group's main business activities including mid-term planning, thus providing the annual profit and risk planning framework.
The directions incorporated in the Risk Strategy are specified in internal policies and instructions that must be adhered to in order to achieve the Risk Strategy goals and targets. The Risk Strategy is approved by the Supervisory Board.
The Supervisory Board is responsible for monitoring compliance with the Group's Risk Management Regulations and for controlling the adequacy of the risk management framework in terms of the Group's risks. In these activities, the Supervisory Board is assisted by the internal audit, which reports to the Supervisory Board and performs regular and ad hoc audits of the risk management controls and procedures and prepares reports to the Supervisory Board on its findings.
The Risk Committee of the Supervisory Board primarily performs tasks in portfolio-level risk supervision. In this framework, the Committee decides on the approval of the reports of the Board of Directors on risk management and on the risk relevant topics and findings of internal, external and regulatory audits.
It also reviews in advance and prepares for the Supervisory Board's approval the Risk Strategy and the Board of Directors' decision on the country limit(s).

The Supervisory Board approves the various decisions of the Board of Directors as a peremptory Supervisory Board. More specifically, in risk management the Supervisory Board's approval is required for the following decisions of the Board of Directors:
• decision on the mid-term and annual (consolidated and non-consolidated) business policy and financial budget
• decision on the Risk Strategy
• approval of the Peremptory Risk Decision-Making Regulations and decisions on risk assumption issues arising from the regulations, requiring the approval of the Supervisory Board
• decisions on country limits.
• decision on the approval of the individual risk reports.

The Board has established the Credit Committee and the Credit Sub-committees, which are responsible for developing and monitoring Group risk management policies in their specified areas, as well as the Asset and Liability Committee (ALCO), which is responsible for managing the liquidity, financing, capital adequacy and market risks of the Bank and the Group. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.
The primary responsibility of the Credit Committee and the Credit Sub-committees is to manage credit risk. The Credit Committee regularly reviews the policies, standards and limits that control credit risks and recommend to the Board of Directors any amendments that may be required from time to time. The Board of Directors defines the credit decision competence of Credit Committee regarding credit decisions. Some exposures exceeding a certain limit need the approval of Board of Directors and, above a set threshold Supervisory Board's approval as well.
ALCO is responsible for the asset and liability management and for the management of the Group's liquidity, funding, capital adequacy and market risks. ALCO is responsible for the elaboration of policies in principle for the management of liquidity risk, interest rate risk, exchange rate risk (foreign exchange and securities), capital adequacy risk, and the submission of this policy to the Board of Directors at MKB and Group level. Such high level policies must include the following:
• measurement guidelines and limit system for the above risks;
• competence and decision-making mechanism;
• guideline for managing limit excess.

c, Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from the Group's lending, trade finance and leasing business, but also from certain off-financial position products such as guarantees, and from assets held in the form of debt securities.
For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk management

The members of the Group have standards, policies and procedures dedicated to the effective monitoring and managing risk from lending (including debt securities) activities. The Bank sets a requirement for the Group members to elaborate and publish their own regulations that comply with the Group-level rules approved by it. The risk management of the members of the MKB Group control and manage credit risks at high standards, in a centralised manner. Its responsibilities include:

- Formulating the Group member's credit policy in consultation with business units by establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk.
- Establishing the authorisation structure for the approval and renewal of credit facilities. In order to establish an adequate credit decision-making system in which decisions are made on time, the limit amounts are established differently according to the customer segment, the customer quality and the business line, for the delegated credit decision authorities and the boards and individual decision-makers of the Business and Risk Units.
- Monitoring the performance and management of retail and wholesale portfolios across the Group.
- Supervising the management of exposures to debt securities by establishing controls in respect of securities held for trading purposes.
- Establishing and maintaining the Group members' concentration risk management policies ensuring that the concentration of exposure does not exceed the limits stated in the internal and regulatory limit systems and concentration risks are effectively managed without any need for additional capital requirements if possible.
- Developing and maintaining the Group members' risk assessment systems in order to categorise the exposures according to the degree of the risk of financial loss faced and to manage the existing risks adequately. The purpose of the risk assessment system is to define when impairment provisions may be required against specific credit exposures. The risk categorisation system consists of several grades which reflect sufficiently the varying degrees of risk of default and the availability of collateral or other credit risk mitigation options with regard to a specific exposure (see Credit rating system subchapter).
- Providing position statements, guidance and professional support to the business units of the Group members in credit risk management.

Each group member must implement and apply the credit policy, harmonised at group level, with credit approval authorities delegated by the authorised decision maker bodies. Each Group member must prepare regular and ad hoc reports to the local management and, in certain cases, to the Group leader and Bayern LB covering the major cases and events of lending. Each group member is responsible for the quality and results of its credit portfolio and for monitoring and controlling all credit risks in its portfolios. This includes managing its own risk concentrations by market sector, geography and product. The control systems applied by the Group enable the Group members to control and monitor exposures by customer and retail product segment.

5.1

The Group's exposure to credit risk at the end of the reporting period is shown below:

Data in HUF million

2009	Cash on hand	Loans and advances to bank	Loans and advances to customers	Investment in debt securities	Derivative assets	OFF B/S exposures
Individually impaired						
Performing	-	-	80 804	-	-	4 343
Substandard	-	-	25 532	-	-	269
Doubtful	-	-	57 447	-	-	714
Bad	-	-	80 611	-	-	657
Total individually impaired gross amount	-	-	244 394	-	-	5 983
Total individually impaired allowance for impairment	-	-	(94 424)	-	-	(1 193)
Total individually impaired carrying amount	**-**	**-**	**149 970**	**-**	**-**	**4 790**
Collectively impaired						
Performing	5	37 084	510 032	-	-	271 685
Substandard	-	-	55 911	-	-	-
Doubtful	-	-	18 492	-	-	-
Bad	-	-	19 264	-	-	1
Total collectively impaired gross amount	5	37 084	603 699	-	-	271 686
Total collectively impaired allowance for impairment	-	(16)	(23 786)	-	-	(376)
Total collectively impaired carrying amount	**5**	**37 068**	**579 913**	**-**	**-**	**271 310**
Past due but not impaired						
Performing	-	-	31 725	-	-	42
Substandard	-	-	7	-	-	-
Doubtful	-	-	-	-	-	-
Bad	-	-	-	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**31 732**	**-**	**-**	**42**
Past due comprises:						
up to 30 days	-	-	13 718	-	-	4 2
30 to 90 days	-	-	2 045	-	-	-
over 90 days	-	-	15 969	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**31 732**	**-**	**-**	**4 2**
Neither past due nor impaired						
Performing	185 682	28 905	1 509 627	354 110	22 765	321 251
Substandard	-	-	-	-	-	240
Doubtful	-	-	-	-	-	99
Bad	-	-	-	-	-	216
Total neither past due nor impaired carrying amount	**185 682**	**28 905**	**1 509 627**	**354 110**	**22 765**	**321 806**
Includes receivables with renegotiated terms						
Total gross amount	**185 687**	**65 989**	**2 389 452**	**354 110**	**22 765**	**599 517**
Total allowance for impairment	**-**	**(16)**	**(118 210)**	**-**	**-**	**(1 569)**
Total carrying amount	**185 687**	**65 973**	**2 271 242**	**354 110**	**22 765**	**597 948**

5.2

Data in HUF million

2008	Cash on hand	Loans and advances to bank	Loans and advances to customers	Investment in debt securities	Derivative assets	OFF B/S exposures
Individually impaired						
Performing	-	-	134 935	-	-	153
Substandard	-	-	29 048	-	-	685
Doubtful	-	-	37 058	-	-	327
Bad	-	39	64 500	-	-	890
Total individually impaired gross amount	-	39	265 541	-	-	2 055
Total individually impaired allowance for impairment	-	(39)	(69 085)	-	-	(1 957)
Total individually impaired carrying amount	**-**	**-**	**196 456**	**-**	**-**	**98**
Collectively impaired						
Performing	3	69 911	1 463 708	-	-	582 069
Substandard	-	-	34 768	-	-	-
Doubtful	-	-	4 252	-	-	8
Bad	-	-	12 047	-	-	28
Total collectively impaired gross amount	3	69 911	1 514 775	-	-	582 105
Total collectively impaired allowance for impairment	-	-	(10 018)	-	-	-
Total collectively impaired carrying amount	**3**	**69 911**	**1 504 757**	**-**	**-**	**582 105**
Past due but not impaired						
Performing	-	-	9 554	-	-	290
Substandard	-	-	148	-	-	98
Doubtful	-	-	1 177	-	-	21
Bad	-	-	107	-	-	233
Total past due but not impaired carrying amount	**-**	**-**	**10 986**	**-**	**-**	**642**
Past due comprises:						
up to 30 days	-	-	9 244	-	-	349
30 to 90 days	-	-	1 637	-	-	292
over 90 days	-	-	104	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**10 985**	**-**	**-**	**641**
Neither past due nor impaired						
Performing	212 682	46 700	580 544	51 051	23 613	70 979
Substandard	-	-	49	-	-	3 020
Doubtful	-	-	-	-	-	-
Bad	-	-	2	-	-	124
Total neither past due nor impaired carrying amount	**212 682**	**46 700**	**580 595**	**51 051**	**23 613**	**74 123**
Includes receivables with renegotiated terms						
Total gross amount	**212 685**	**116 650**	**2 371 897**	**51 051**	**23 613**	**658 925**
Total allowance for impairment	**-**	**(39)**	**(79 103)**	**-**	**-**	**(1 957)**
Total carrying amount	**212 685**	**116 611**	**2 292 794**	**51 051**	**23 613**	**656 968**

Credit rating system

The Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. For individually significant accounts, ratings are reviewed regularly and amendments, where necessary, are implemented quarterly in terms of provisions or facility rating. Exposures below specific amounts are rated in groups, in relation to which the provisions are reviewed at least quarterly or, more frequently if required, in line with the changes of the main economic conditions. Within the framework of individual valuation, the Group uses the following rating categories:

- Pass
- Special mention
- Substandard
- Doubtful
- Loss

In group valuation, the following three categories are applied:

- Pass
- Special mention
- Non-performing

Within the rating categories, the pass indicates items which are likely to return, as it is substantiated by documents, and where the Group entity does not have to expect a loss, or the delay in the repayment of the principal and the interests, or in the performance of any other repayment obligations does not exceed fifteen days and the loss likely to arise due to such delay is fully covered by the value of the available collateral;

Special mention: exposures falling under this debt rating category show the signs of such potential or actual worsening which, in lack of appropriate measures, reduces the probability of future repayment.

In this case the primary source of repayment is not evidently jeopardized yet, maximum 10% potential loss may be expected, however, the dependence on the collaterals or on those granting the collaterals are increasing.

For credits, the repayment of which basically depends on the collateral, i.e., are based primarily on the value of collateral, this rating category is to be applied if the value of collateral becomes uncertain or falls below the level as defined in the framework of the respective decision.

In contrast to the category of "Special mention", the exposures with rating "Substandard" have one or more such features, which unambiguously refer to problems in respect of ability of the Customer to repay the credit. The rate of potential loss exceeds 10% and the collaterals do not provide coverage either with proper safety. These exposures can be regarded as not properly secured in case of possible occurrence of any loss. These features may cover but are not limited to the following: considerable worsening of the financial position, worsening of the payment discipline, improper collaterals or possibilities of enforcing the collaterals.

Exposures that need partial or full restructuring of the credit documentation or important change in the payment schedule, are to be classified as "Substandard" as well. The same is applicable to the exposures, in the case of which the future necessity of the above measures may be considered presumably likely.

The exposures under the category "Doubtful" have the attributes in addition to those of the category "Substandard" whereby the problems arisen in the position, indicators and management environment of the debtor make the repayment of the loan doubtful or improbable.

Exposures must be classified into this category, if payment delay exceeds 90 days and the collaterals available do not provide appropriate coverage for the expectable losses.

In this category the probability of loss is high. On the other hand, significant and important events may still result in improvement of the quality of loan. Since such events may incidentally occur, neither the rate of loss nor the date of its occurrence can be exactly estimated.

Exposures having an expected rate of loss exceeding 70% and the debtor fails to meet his payment obligations despite several reminders to this effect, should be classified under category "Loss".

Receivables from debtors under liquidation procedure must be classified under category "Loss", unless higher recovery than 30% may be supposed with great probability on the basis of the collateral available.

The possible types of exposure handling are: normal, intensive and problematic. A set of criteria has been defined for determining the type of exposure handling, based on relevant indicators warning of the customer or the transaction being problematic. There is a correlation between the transaction rating categories and case management types. Only such customers may be managed within the framework of the normal procedures, against whom there is no exposure classified in categories other than pass. However, at least the intensive management must be applied to a transaction if any of the Bank's exposure towards the specific customer is rated as special mention and, as a main rule, it is mandatory to transfer the customer to problematic management if any of the Bank's exposures towards the debtor has been rated into the substandard or lower category.

Intensive care of wholesale exposures is performed under joint responsibility of Market and Risk.

Problematic Loan Treatment Directorate takes over all of the tasks of dealing with the given customer, preparing the necessary applications and carrying out the tasks of receivable and customer rating in its own scope of competence. In terms of the organisation structure, the Problematic Loan Treatment Directorate belongs to the Risk Office.

The units responsible for the customers monitor exposures on an ongoing basis and in the case of default it has to be ensured that the customer is transferred to the appropriate type of customer handling (intensive or problematic).

Periodic risk-based audits of the Group's credit processes and portfolios are undertaken by the Group's Internal Audit function. During the audits, the auditors check the adequacy, and consistency with the regulations, as well as clarity, of credit regulations and the consistency between the regulations and the practice; an in-depth analysis of a representative sample of accounts; consideration of any oversight or review work performed by credit risk management functions and the adequacy of impairment calculations and a check that Group and local standards and policies are adhered to in the approval and management of credit facilities.

Impaired loans and securities

Impaired loans and securities are transactions for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

When impairment losses occur, the Group reduces the carrying amount of loans and advances through the use of an allowance account. When impairment of available-for- sale financial assets occurs, the carrying amount of the asset is reduced directly. Two types of impairment allowance are in place: individually assessed and collectively assessed, as discussed below.

Individually assessed impairment allowances

These are determined by evaluating exposure to loss, case by case, on all individually significant accounts and all other accounts that do not qualify for the collective assessment approach outlined below. Loans are treated as impaired and off-financial position items are considered provisioned, as soon as there is objective evidence that loss may occur as a result of the customer's default.

The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- the probability that the borrower will enter bankruptcy or other financial realisation;

In determining the level of allowances on such accounts, the Group applies the discounted cash flow calculation method and considers the amount and timing of expected receipts and recoveries and the value of security and likelihood of successfully realizing it.

For significant commercial and corporate debts, specialized loan 'work-out' teams with experience in insolvency and specific market sectors are used to manage the lending and assess likely losses. Individually assessed impairment allowances and provisions are only reversed when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed impairment allowances

Impairment is assessed on a collective basis in two circumstances:

- to cover losses that have been incurred but have not yet been identified on loans subject to individual assessment in the form of an incurred loss,
- on standard retail credit product, rated on a portfolio basis; and
- for homogeneous groups of balances that are not considered individually significant, such as
  - HUF 250 million in the case of customers managed with normal and intensive procedures,
  - customers with less than HUF 125 million total exposures, managed according to problematic management procedures.

Incurred but not yet reported impairment loss

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics. A collective impairment allowance is calculated to reflect impairment losses incurred at the financial position date which will only be individually identified in the future. When determining collective impairment allowance the Group takes into account the historical loss experience in portfolios of similar credit risk characteristics and the "emergence period" (the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan) .

Retail products rated on portfolio basis

The following products are rated on portfolio basis:

- Retail:
  - Credit cards
  - Open credit
  - Housing loans secured against real property (mortgage loans)
  - Loans for unlimited purposes, secured against real property
  - Personal loans
- Small corporate customers:
  - Széchenyi Card credit (state subsidised loans for special purposes)

Homogeneous groups of loans

- A large number of relatively low value assets are valued in groups in order to calculate impairment and provisions. The required provisioning rates are calculated based on the statistical analysis of default and the historic tendency of the actual incurred losses. Homogeneous groups are formed based on several criteria, including the payment delay related to the specific contracts, the type of management of specific customers and the customer's involvement in bankruptcy or liquidation procedures.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and/or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when there is documented evidence that no further recovery can be expected. This determination is reached on the basis of a final statement in case of liquidation or upon establishment that after ceasing the debtor and/or collateral provider to exist, and/or after using all proceeds from collaterals there is still unrecovered exposure remaining.

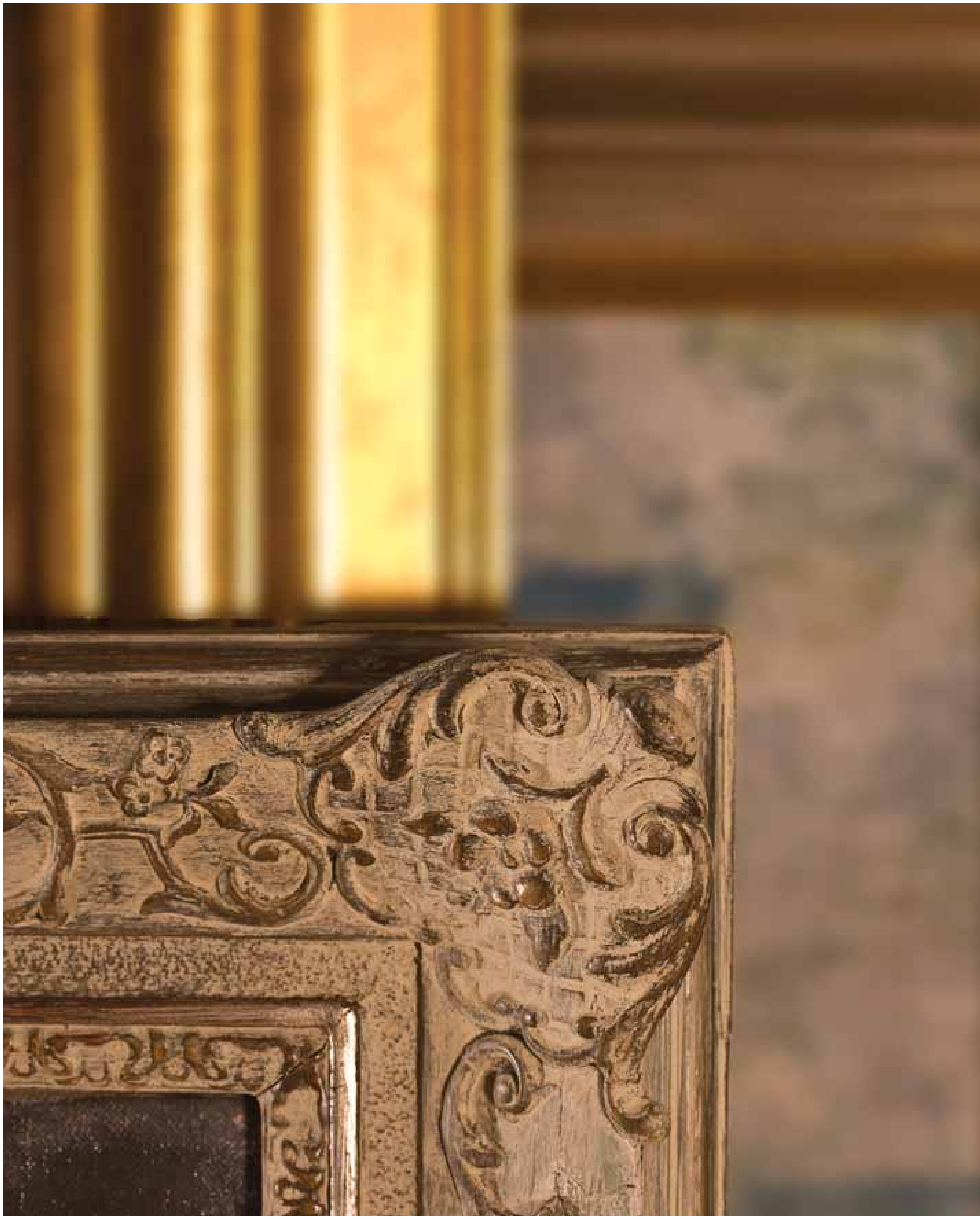
Collateral structure

The Group applies the basic principle, whereby it extends loans primarily in relation to and based on the customer's repayment capacity instead of relying too much on the available collateral. Depending on the customer's paying capacity and rating, as well as the product type, unsecured loans may be extended only in strictly regulated and controlled cases. Nevertheless, collateral may be an especially important mitigant of credit risk.

The main collateral types are as follows:

- primarily mortgages on residential properties in the retail sector;
- charges on business assets, such as premises, stock and debtors, in the commercial and industrial sector;
- mortgages on the financed properties in the commercial real estate sector; and
- sureties, guarantees,
- money, securities deposited as collateral.

In 2009, the Bank, re-defined in a high-level regulation its collateral valuation and management principles, established in compliance with the Basle II regulations. This high-level regulation also serves as a harmonised group-level regulation.
The Bank establishes the coverage ratio required for individual exposures and makes its decisions on the basis of the so-called liquidation value of the collateral items instead of their market value. This amount reflects the estimated proceeds which may be obtained from the properly prepared and professionally executed forced sale of the collateral item. The use of this amount in the calculations also contributes to the prudent management of the existing risks, in line with the related procedures, laid down in the strictly defined responsibility and decision-making regulations.
Taking into account the EU and Hungarian regulatory environment and legal practices, and relying on its own experiences and known Hungarian experiences in the enforcement of the collateral items, the Bank restricted, as much as possible (within the limits of the economies of scale) the rules of acceptability of the various collateral items and the calculation of the liquidation values assigned to them. The regular monitoring and revaluation of the collateral items securing the individual exposures is an important pillar in the Bank's monitoring system.
In order to comply with the Basle II regulations, the Bank has modified also the rules of registration of the collateral structure in the banking systems, the management of collateral items and their revaluation according to the regulations, introducing the required control points. During the implementation of the new regulations into the banking processes, following regular evaluation of experiences, the procedures and regulations will be reviewed and fine-tuned continuously.



5.3

The fair values of collaterals held at the end of the reporting period were as follows:

Data in HUF million

2009	**Loans and advances to bank**	**Loans and advances to Corporates**	**Securities**	**Guarantees and contingencies**	**Letter of credit**	**Undrawn credit**
Cash deposit	-	39 938	-	14 908	341	2 674
Debt securities issued by						
Central governments	-	41	-	1 212	-	89
Companies	-	2	-	18	-	-
Others	-	3 548	-	1 526	-	143
Shares	**-**	**-**	**-**	**-**	**-**	**-**
Mortgage	**-**	**-**	**-**	**-**	**-**	**-**
Building	-	898 364	-	31 159	427	48 853
Other	-	361 831	-	11 988	139	21 682
Guarantees from						
Central governments	-	109 847	-	2 218	275	20 774
Other banks	-	23 664	-	4 225	-	1 393
Companies	-	44 716	-	17 004	-	4 282
Others	-	19 113	-	554	-	2 008
Total collateral	**-**	**1 501 064**	**-**	**84 812**	**1 182**	**101 898**

2008	**Loans and advances to bank**	**Loans and advances to Corporates**	**Securities**	**Guarantees and contingencies**	**Letter of credit**	**Undrawn credit**
Cash deposit	-	45 205	-	12 129	175	6 288
Debt securities issued by						
Central governments	-	1 375	-	1 912	-	62
Companies	-	12 050	-	1 104	-	894
Others	-	-	-	-	-	-
Shares	**-**	**29**	**-**	**-**	**-**	**-**
Mortgage						
Building	-	894 715	-	29 756	272	87 805
Other	-	325 718	-	9 667	238	35 533
Guarantees from						
Central governments	-	64 455	-	1 851	-	7 846
Other banks	-	10 005	-	739	-	173
Companies	-	52 602	-	15 071	-	4 877
Others	-	27 443	-	33	-	2 503
Total collateral	**-**	**1 433 597**	**-**	**72 262**	**685**	**145 981**

5.4

The Group obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements, as follows:

Data in HUF million

	2009	2008
Financial assets		
Equities	-	-
Debt securities	-	-
Non-financial assets		
Properties	2 958	1 408
Inventories	4 758	1 680
Other	-	-
Total assets obtained	**7 716**	**3 088**

Concentrations

The Group monitors concentrations of credit risk by sector and by risk classification. An analysis of concentrations of credit risk by sector and by risk classification at the end of the reporting periods is shown below:

5.5

Data in HUF million

2009	Cash on hand	Loans and advances to bank	Loans and advances to customers	Investment in debt securities	Derivative assets	OFF B/S exposures
Category I - without country risk	-	40 189	133 069	5 171	10 016	49 486
Category II - with low to medium country risk	-	5 310	45 520	-	367	9 875
Category III - with medium to high country risk	-	4 408	108 926	-	89	30 414
Total exposure	**-**	**49 907**	**287 515**	**5 171**	**10 472**	**89 775**

2008	Cash on hand	Loans and advances to bank	Loans and advances to customers	Investment in debt securities	Derivative assets	OFF B/S exposures
Category I - without country risk	-	51 486	140 595	-	8 825	39 580
Category II - with low to medium country risk	-	14 356	53 326	2 640	471	9 558
Category III - with medium to high country risk	-	13 632	56 323	-	229	46 290
Total exposure	**-**	**79 474**	**250 244**	**2 640**	**9 525**	**95 428**

- Category I comprises countries in the EMU, Great Britain and Switzerland
- Category II comprises countries with BayernLB country rating 1 to 11 excluding countries in Category I, e.g. Russia, Croatia, Latvia, Czech Republic
- Category III comprises countries with BayernLB country rating over 11, e.g. Romania, Bulgaria, Turkey, Ukraine.

This categorization is based on BayernLB rating.

5.6

Data in HUF million

2009	Cash on hand	Loans and advances to bank	Loans and advances to customers	Investment in debt securities	Derivative assets	OFF B/S exposures
Automotive	-	-	49 918	-	5	11 731
Aviation	-	-	7 527	-	-	391
Banks	73 232	64 823	52 895	15 563	14 093	25 704
Chemicals	-	-	26 533	-	-	16 028
Construction	-	-	103 341	-	1 800	126 369
Consumer Durables	-	-	21 556	-	11	5 730
Defence	-	-	839	-	14	867
Food + Beverages	-	-	150 173	-	6	35 819
Gas	-	-	103	-	-	73
Health Care	-	-	19 351	-	-	5 062
Hotels	-	-	29 286	117	6	2 385
Insurance companies	-	-	122	-	-	2 103
Logistic	-	-	87 037	-	-	33 331
Manufactoring and Engineering	-	-	31 629	-	4	13 175
Media	-	-	15 118	-	-	3 026
Metals +Mining	-	-	25 491	-	10	7 734
Oil	-	-	15 880	-	-	39 006
Pharmaceuticals	-	-	15 001	-	315	7 779
Pulp + paper	-	-	20 699	-	-	1 581
Real Estate	-	-	775 661	3 220	5 403	80 014
Retail	-	-	78 818	-	11	33 627
Sovereigns	69 635	26	55 742	3 22 815	786	26 346
Steel	-	-	19 286	-	-	1 569
Technology	-	-	29 397	-	62	22 184
Telecom	-	-	29 436	-	99	11 599
Textiles + Apparel	-	-	11 454	-	-	1 368
Tourism	-	-	4 171	-	-	2 801
Utilities	-	-	48 717	-	126	57 357
Non profit organization	-	-	5 360	-	-	2 950
Without sector	42 819	1 140	36 214	12 395	-	7 395
Privat	-	-	622 697	-	14	14 413
Total exposure	**185 686**	**65 989**	**2 389 452**	**354 110**	**22 765**	**599 517**

Data in HUF million

2008	Cash on hand	Loans and advances to bank	Loans and advances to customers	Investment in debt securities	Derivative assets	OFF B/S exposures
Automotive	-	-	47 629	-	10	18 040
Aviation	-	-	7 641	-	-	611
Banks	116 189	116 304	101 174	12 303	12 786	36 991
Chemicals	-	-	26 167	-	1	8 288
Construction	-	-	92 831	-	906	109 399
Consumer Durables	-	-	22 544	-	88	7 079
Defence	-	-	219	-	86	917
Food + Beverages	-	-	173 812	-	656	35 178
Gas	-	-	194	-	-	119
Health Care	-	-	3 104	-	-	1 496
Hotels	-	-	19 603	115	4	1 784
Insurance companies	-	-	5 960	-	-	2 718
Logistic	-	-	68 487	-	-	29 215
Manufactoring and Engineering	-	-	40 141	-	36	24 103
Media	-	-	9 854	-	1	2 421
Metals +Mining	-	-	22 834	-	113	5 249
Oil	-	-	18 250	-	-	25 062
Pharmaceuticals	-	-	14 936	-	3 243	8 803
Pulp + paper	-	-	18 076	-	-	5 344
Real Estate	-	-	718 845	-	4 667	176 758
Retail	394	-	118 113	-	360	27 104
Sovereigns	1 934	-	15 660	66 743	-	11 746
Steel	-	-	516	-	-	4 983
Technology	-	-	70 527	-	86	23 357
Telecom	-	-	17 091	-	-	13 432
Textiles + Apparel	-	-	14 228	-	203	2 051
Tourism	-	-	2 176	-	-	2 674
Utilities	-	-	35 436	-	-	51 308
Non profit organization	-	-	14 673	36	-	3 840
Without sector	94 168	307	65 016	10 347	366	3 660
Privat	-	-	606 160	-	1	17 292
Total exposure	**212 685**	**116 611**	**2 371897**	**89 544**	**23 613**	**661 022**

d, 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. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group requires its operating entities to maintain a strong liquidity position and to manage the liquidity profile of their assets, liabilities and commitments with the objective of ensuring that cash flows are appropriately balanced and all obligations can be met when due.

The management of liquidity and funding is primarily carried out locally in the operating entities of the Group in accordance with practices and limits set by the Board of Directors. These limits vary by entity to take account of the depth and liquidity of the market in which the entity operates. It is the Group's general policy that each banking entity should be self-sufficient with regards to funding its own operations.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

Contractual maturity of liabilities
5.7

Data in HUF million

	Carrying amount	Gross nominal inflow/outflow	up to 1 month	1 month to 3 months	3 months to a year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	19 958	-	-	-	-	-	-
Deposits from banks	1 142 879	1 217 727	24 512	130 181	208 631	746 121	108 282
Deposits from customers	1 405 996	1 420 846	8 29 857	344 652	1 69 753	73 470	3 115
Debt securities issued	139 580	150 582	3 799	313	14 990	111 433	20 046
Subordinated liabilities	104 584	125 890	230	-	2 696	22 280	100 685
Derivative liabilities							
Trading: outflow	-	(550 559)	(80 130)	(66 204)	(170 576)	(196 255)	(37 394)
Trading: inflow	-	517 716	72 622	50 417	166 519	191 027	37 131
Risk management: outflow	-	(25 448)	(14)	(2 873)	(19 481)	(3 081)	-
Risk management: inflow	-	25 276	13	2754	19 513	2 996	-
Unrecognised loan commitments	-	353 790	36 053	42 610	169 068	23 385	82 674

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible maturity. The Gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a gross inflow and outflow amount for derivatives (e.g., forward exchange contracts and currency swaps).

The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately. Due to the significant difference between the expected and the contractual cash-flows, the Group's risk management department use both analysis to manage liquidity risk. The expected, undiscounted cash-flows on the Group's financial liabilities were as follows:

Expected maturity of liabilities
5.8

Data in HUF million

	Carrying amount	Gross nominal inflow/outflow	up to 1 month	1 month to 3 months	3 months to a year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	19 958	-	-	-	-	-	-
Deposits from banks	1 142 879	1 217 727	24 512	130 181	208 631	746 121	108 282
Deposits from customers	1 405 996	1 420 846	829 857	344 652	169 753	73 470	3 115
Debt securities issued	139 580	150 582	3 799	313	14 990	111 433	20 046
Subordinated liabilities	104 584	125 890	230	-	2 696	22 280	100 685
Derivative liabilities							
Trading: outflow	-	(550 559)	(80 130)	(66 204)	(170 576)	(196 255)	(37 394)
Trading: inflow	-	517 716	72 622	50 417	166 519	191 027	37 131
Risk management: outflow	-	(25 448)	(14)	(2 873)	(19 481)	(3 081)	-
Risk management: inflow	-	25 276	13	2 754	19 513	2 996	-
Unrecognised loan commitments	-	353 790	36 053	42 610	169 068	23 385	82 674

The decision of the Management of the Group, however, is also based on the liquidity gap (net position) between contractual in- and outflows, therefore both financial assets and liabilities are grouped into liquidity brackets.

e, Market risk

Market risk is the risk that changes in market prices, such as interest rate (interest rate risk), equity prices (equity risk), and foreign exchange rates (foreign exchange risk) will affect the Group's income or the value of its holdings of financial instruments.

Management of market risks

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 Board has established the Asset and Liability (ALCO) committee, which is responsible for developing and monitoring Group market risk management policies. ALCO has the overall responsibility for establishing and managing market risk policies for the Bank, within the framework of internal policies, 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 Group. At the operational level, market risk is managed by the Money and Capital Markets Directorate on a group-wide basis.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions se designated. Trading activities include transactions with debt and equity securities, foreign currencies, and derivative financial instruments.

Non-trading portfolios include positions that arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. The Group's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments.

Exposure to market risks – trading portfolios

The Group manages exposure to market risk by establishing and monitoring various limits on trading activities. These limits include:

- Product volume limits define maximum aggregate amounts of trading products and contracts that the Group may hold at any time.
- FX position limits restrict the long and short position for each currency and the total net amounts of FX positions that can be held in the trading and banking books.
- VaR limits: The VaR limit of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). MKB Group applies parametric VaR method with 1-day holding period at 99% confidence level with 0.94 decay factor, and with an observation period of 187 business days.
- PLA (Potential Loss Amounts) limits define maximum amount of loss that the Group is willing to assume.

The VaR model used is based mainly on historical data. Taking account of market data from the previous half year, and observed relationships between different markets and prices, the model calculates both diversified and undiversified total VaR, and VaR by risk factors such as interest rate, equity and currency VaR.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- VaR only covers "normal" market conditions.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured on a daily basis. Daily reports of utilisation of VaR limits are prepared by the Group's Risk Unit and regular summaries are submitted to ALCO.

5.9

A summary of the VaR position of the Group's trading portfolios (i.e. only trading book) at 31 December and during the period is as follows:

Data in HUF million

2009	Average	Maximum	Minimum
Foreign currency risk	1 193	2 133	674
Interest rate risk	1 123	2 876	398
Equity risk	19	59	8
Overall	**2 335**	**5 069**	**1 079**

Data in HUF million

2008	Average	Maximum	Minimum
Foreign currency risk	291	2 201	10
Interest rate risk	614	1 513	184
Equity risk	12	21	6
Overall	**917**	**3 735**	**201**

Exposure to interest rate risk – non-trading portfolios
The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates.
The management of interest rate risk is supplemented by monitoring the sensitivity of the financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point parallel fall or rise in all yield curves worldwide.
The ALCO is the monitoring body for compliance with approved limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

5.10

At the end of the reporting period the interest rate profile of the Group's interest-bearing financial instruments was:

As at 31 December 2009

Fixed rate instruments	in HUF million
Financial assets	482 003
Financial liabilities	(1 119 025)
Total fixed rate instruments	**(637 022)**

Variable rate instruments *Denominated in*	HUF	CHF	EUR	USD	Other currencies
Financial assets	423 308	663 041	1 241 868	47 385	93 494
Financial liabilities	(345 428)	(231 104)	(1 061 806)	(40 966)	(13 000)
Total variable rate financial instruments	**77 880**	**431 937**	**180 062**	**6 419**	**80 494**

As at 31 December 2008

Fixed rate instruments	in HUF million
Financial assets	310 083
Financial liabilities	(1 017 990)
Total fixed rate instruments	**(707 907)**

Variable rate instruments *Denominated in*	HUF	CHF	EUR	USD	Other currencies
Financial assets	496 779	718 650	904 462	78 001	127 934
Financial liabilities	(331 987)	(257 546)	(870 280)	(38 086)	(52 658)
Total variable rate financial instruments	**164 792**	**461 104**	**34 182**	**39 915**	**75 276**

5.11

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

As at 31 December 2009	Effect on equity
HUF	
200 bp increase	(394)
200 bp decrease	414
CHF	
200 bp increase	316
200 bp decrease	115
EUR	
200 bp increase	(142)
200 bp decrease	300
USD	
200 bp increase	137
200 bp decrease	(118)
Other currencies	
200 bp increase	(4)
200 bp decrease	6

As at 31 December 2008	Effect on equity
HUF	
200 bp increase	268
200 bp decrease	(317)
CHF	
200 bp increase	261
200 bp decrease	(820)
EUR	
200 bp increase	(2 232)
200 bp decrease	2 589
USD	
200 bp increase	(74)
200 bp decrease	7
Other currencies	
200 bp increase	(41)
200 bp decrease	20

5.14

The amount of change, during the period and cumulatively, in the fair value of the financial liabilities designated as at fair value through profit or loss, that is attributable to changes in the credit risk of that liabilities are the followings:

Data in HUF million

	2009	2008
Changes during the reporting period	(1 869)	(59)
Changes cumulatively (since designation of the financial liabilities)	(1 928)	(59)
Difference between the financial liability's carrying amount and the amount contractually required to pay at maturity	(3 101)	(7 188)

The amount which reflects on changes in market conditions for these liabilities as changes in interest rate, is estimated as follows:

(a) First, computing the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (base rate of the relevant market) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.

(b) Next, calculating the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (base rate of the relevant market) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a).

(c) The difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (base rate in the relevant market) interest rate. The Group employs investment securities, advances to banks, deposits from banks, interest rate swaps and other derivative interest rate contracts as primary risk management techniques to keep interest rate risk within the approved limits.

Exposure to other market risks – non-trading portfolios
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 Group's financial position in foreign currencies at the end of the reporting periods was as follows:

2009	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Financial assets except for derivatives	1 036 290	65 813	1 194 077	605 781	204 685	3 106 646
Financial liabilities except for derivatives	1 174 848	121 764	1 442 621	238 099	1 29 314	3 106 646
Net derivative and spot instruments (short) / long position	7 7 722	55 756	241 276	(366 342)	(8 412)	-
Total net currency positions	**(60 836)**	**(195)**	**(7 269)**	**1 340**	**66 959**	**-**

2008	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Financial assets except for derivatives	689 125	106 649	1 078 699	640 220	3 70 733	2 885 426
Financial liabilities except for derivatives	977 032	119 080	1 290 575	164 996	333 743	2 885 426
Net derivative and spot instruments (short) / long position	233 944	12 539	218 469	(475 225)	10 273	-
Total net currency positions	**(53 963)**	**108**	**6 593**	**(1)**	**47 263**	**-**

f, Operational risks

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk does not include business and reputational risks.
Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law or a delay in reacting to changes in legal framework conditions (including non-observance which is unavoidable or not attributable to one's own fault).

Procedure

The principles, rules and procedures that serve to properly identify, manage and monitor operational risk are defined in the BayernLB OpRisk Guidelines, in the Risk Strategy and in the OpRisk policy, operative directive and CEO directive established by considering the requirements of the Gov. Decree No. 200/2007. (VII. 30.) on the management of operational risk and capital requirement.

Risk measurement

The operational risk capital requirement of MKB Bank Zrt. is calculated by using The Standardised Approach (TSA) both at individual and group level since January 1st 2008 in accordance with the regulations of the Gov. Decree No. 200/2007. (VII. 30.). According to the Standardised Approach the operational risk capital requirement is the average of the preceding three years' total of the weighted governing indicators of the business lines (gross income).

Risk management and monitoring

The system that serves to evaluate operational risk is fully integrated in the Bank's risk management process and in the work processes.
The centralised unit of the Bank's operational risk management is the Centralised OpRisk Management that is responsible for the establishment and maintenance of the internal regulation and organisation of loss data collection (including the IT system and the oprisk network) of operational risk and for the establishment and coordination of the oprisk management methods and tools. Besides, its task is to ensure proper loss data collection and in connection with that the reporting obligations.
Besides the Centralised OpRisk Management, Decentralized OpRisk Units (extended to the whole organisation) were established that identify, report and manage operational risks and their tasks and responsibility being set-up in the oprisk regulations. The Centralised OpRisk Management keeps independent control over the Decentralised OpRisk Managers that are assigned in the various units and responsible for managing operational risk and reporting of loss events.

At group level the Centralised OpRisk Management of MKB determines the, from the Bank's subsidiaries the rules regarding operational risk and the framework for operational risk management at group level and in this respect supervises the subsidiaries as well. The centralised and decentralised operational risk management units have also been established in the subsidiaries and they continuously report the loss events towards the local OpRisk Management.
The OpRisk Management informs the Management about the current status of the Bank's operational risk management in the monthly MIS report and it prepares a report for the Board of Directors on a quarterly basis about the current status of the operational risk management of the Bank and of the subsidiaries. Besides, an oprisk risk report is prepared at group level for BayernLB, also on a quarterly basis (as a part of the so-called group risiko cockpit). The Bank fulfils COREP data delivery to HFSA on a quarterly basis at individual level and half yearly at group level.

Risk management methods and tools

Loss data collection

Since January 1st 2004 MKB Bank Zrt. has been performing operational risk loss data collection which includes the electronic reporting and managing of operational risk loss events. It is important to establish a stabile, good quality oprisk losses database in order to ensure a qualitative management of operational risk and to perform the related controlling activity.

Risk Self-Assessment – RSA

Risk Self-Assessment is an assessment that serves to identify the operational risks currently concerning the assessed units, reveal the level of internal controls applied at the unit and evaluate the processes from the point of view of operational risks. The Bank will perform the risk self-assessment constantly, unit by unit in the future, with the help of a questionnaire, in order to recognise and understand the operational risks related to the work processes and to increase the level of risk-awareness of the units.

Key Risk Indicators - KRIs

Performance/risk ratio suitable for revealing areas and factors critical for operational risk, the while a change of their values indicates the change of factors important from the point of view of risk occurrence. By defining and monitoring the values of the suitable indicators the Bank intends to help forecasting, preventing and reducing operational risks.

Business Continuity Planning

In order to undisturbedly maintain the Bank's operational processes it is necessary to evaluate the potential threats of the certain processes, their probability of occurrence and the potential damages resulting from the fallout of the processes. This risk analysis and the procedures needed to maintain the functionality

of the Bank's organisation is included in the Business Continuity Plan (BCP). The Disaster Recovery Plan (DRP) is based on the BCP. The DRP includes measures that have to be taken when those processes and (eg. IT) resources supporting the processes, that are critical regarding the Bank's operation, get damaged or become unmaintainable.
The occurrence of unfavourable events also has to be analysed while managing operational risks. With operational risk scenario analysis the Bank aims to make expert estimation for those events that originate only in operational risk and have low frequency but cause big loss. Scenario analysis is an important element for calculating operational risk capital requirement (based on oprisk VaR model).

Membership of the Hungarian Interbank Operational Risk Database (HunOR)

The Bank is one of the foundation members of the Hungarian Interbank Operational Risk Database (HunOR) that began its live operation in May 2007 with the participation of 13 domestic financial institutions. The member institutions report their loss data towards the Consortum regularly, anonymously starting with January 1st 2007.

g, Capital management

The Group's lead regulator, the Hungarian Financial Supervisory Authority 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 June 2006, the Basel Committee on Banking Supervision ('the Basel Committee') published the final comprehensive version of 'International Convergence of Capital Measurement and Capital Standards' ('Basel II') which replaced Basel I. 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 also been introduced, as well as increased supervisory review and extended public disclosure needs.

The Group's regulatory capital is analyzed into two tiers:

- 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 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-financial position exposures.

Capital allocation

It is the Group's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group also maintains a strong discipline over its investment decisions and where it allocates its capital, seeking to ensure that returns on investment are appropriate after taking account of capital costs. The Group recognises the effect on shareholder returns of the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity that are possible with greater leverage.
In 2008, the Group introduced the Economic Value Added (EVA) method for capital allocation and budgeting purposes.
Economic Value Added is a financial performance method to calculate the true economic profit of a corporation. EVA can be calculated as net operating after taxes profit minus a charge for the opportunity cost of the capital invested.
EVA is an estimate of the amount by which earnings exceed or fall short of the required minimum rate of return for shareholders or lenders at comparable risk. EVA can be calculated for a divisional (Strategic Business Unit) level.

The basic formula for calculating EVA is:

Operating Income
- Operating Expenses

Operating Profit
- Impairment and provision

Net Operating Profit Before Tax
- Capital Changes (Allocated Capital x Cost of Capital)

Economic Value Added (EVA)

By taking all capital costs into account, including the cost of equity, EVA shows the financial amount of value a business has created or destroyed in a reporting period.
The Group has identified the following as being the material risks faced and managed through the Capital Management Framework; credit, market, operational, and asset and liability management risks.

Basel II

The supervisory objectives of Basel II are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The Capital Requirements Directive ('CRD') implements Basel II in the EU.
Basel II provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The most basic, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories. The next level, the internal ratings-based ('IRBF') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of the probability that a counterparty will default ('PD'), but with quantification of exposure at default ('EAD') and loss given default estimates ('LGD') being subject to standard supervisory parameters. Finally, the IRB advanced approach allows banks to use their own internal assessment of not only PD but also the quantification of EAD and LGD. Expected losses are calculated by multiplying EAD by PD and LGD. The capital resources requirement under the IRB approaches is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.
For credit risk, the Group has adopted the standardised approach to Basel II with effect from 1 January 2008. A rollout plan is in place to advance to IRBF approach over the next three years, leaving a small residue of exposures in the long-term standardised portfolio approach.
Basel II also introduces capital requirements for operational risk and, again, contains three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardized approach it is one of three different percentages of gross revenues allocated to each of eight defined business lines. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements. The Group currently has adopted the standardized approach to the determination of Group operational risk capital requirements.

5.13

Data in HUF million

	2009 Basel II	2008 Basel II
Share capital	14 765	14 094
Nominal value of repurchased own shares	-	-
Issued, but unpaid	-	-
Outstanding share capital	***14 765***	***14 094***
General reserves	234 688	210 523
Cost of repurchased own shares over nominal value		
Intangible assets	(23 467)	(23 766)
Goodwill	(40 613)	(33 650)
Participations in financial institutions	(2 555)	(2 453)
Tier 1: Net core capital	**182 818**	**164 748**
Considerable subordinated debt	99 940	99 822
Revaluation reserves	833	(844)
Reserve for general banking risk	1 742	5 449
Tier 2: Supplementary capital	**102 515**	**104 427**
Other deductions	(153)	(194)
Regulatory capital	**285 180**	**268 980**
Risk-weighted assets (RWA)	2 069 380	2 209 975
Operational risk (OR)	16 777	15 028
Market risk positions (MR)	9 340	8 221
Total risk weighted assets (RWA +12.5*(MR+OR))	**2 395 833**	**2 500 586**
Regulatory capital / Total assets	9,18%	9,32%
Capital adequacy ratio	13,78%	12,17%
Capital adequacy ratio (including market risk)	**11,90%**	**10,76%**

The second pillar of Basel II (Supervisory Review and Evaluation Process - SREP) involves both the Bank and the Supervisory regulators taking a view on whether a Bank should hold additional capital and how much against risks not covered in pillar 1. Part of the pillar 2 process is the Internal Capital Adequacy Assessment Process ('ICAAP') which is the Bank's self assessment of risks not captured by pillar 1. The Group has identified the following additional risks not covered in pillar 1 as material and implemented policies and practices to measure the effect of these risks in pillar 2:

- Credit concentration risk
- Country risk
- Non-trading book interest rate risk (Banking book interest rate risk)
- Settlement risk
- Reputation risk
- Liquidity risk
- Strategic risk

Pillar 3 of Basel II is related to market discipline and aims to make firms more transparent by requiring them to publish specific, prescribed details of their risks, capital and risk management under the Basel II framework.

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

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

6 Cash reserves

6.1

Data in HUF million

	2009	2008
Cash and balances with Central Banks	104 299	118 902
Treasury bills and bills eligible for refinancing by Central Banks	81 388	93 783
Cash reserves	**185 687**	**212 685**

The Group is required to maintain a minimum reserve with the National Bank equivalent to 2% (2008: 2%) of certain deposits. The balance of the minimum reserve is based on the period end balance of these deposit accounts and amounted to HUF 26,031 million as at 31 December 2009. (2008: HUF 23,327 million). At 31 December 2009, cash on hand amounted to HUF 73,644 million (2008: HUF 95,798 million).

Treasury bills, categorized as available-for-sale, amounting to HUF 786 million (2008: HUF 713 million) were pledged as collateral for stock exchange and credit card transactions and according to the Group accounting policy, are presented also as cash reserve.

7 Loans and advances to banks

7.1

Data in HUF million

	2009	2008
Current and clearing accounts	11 922	29 453
Money market placements	21 616	30 429
Loans and advances	32 451	56 768
Less collective allowances for impairment	(16)	(39)
Loans and advances to banks	**65 973**	**116 611**
Collective allowances for impairment		
Balance at 1 January	**(39)**	**(19)**
Impairment loss for the year:		
Charge for the year	(28)	(23)
Reversal	35	5
Effect of foreign currency movements	1	(2)
Unwinding of discount	-	-
Reclassification	15	0
Write-offs	-	-
Balance at 31 December	**(16)**	**(39)**

From the balance of Current and clearing accounts, HUF 395 million (2008: 892 million) was due from a shareholder with a significant influence and was granted at market rate.

8 Trading assets

8.1

Data in HUF million

	2009 Cost	2009 Accumulated unrealised result	2009 Book value	2008 Cost	2008 Accumulated unrealised result	2008 Book value
Debt and equity instruments						
Government Treasury bills	1 258	1	1 259	3 398	3	3 401
Government bonds	11 101	285	11 386	27 508	2 035	29 543
Hungarian corporate sector bonds	6 611	540	7 151	8 153	470	8 623
Foreign corporate sector bonds	657	53	710	114	1	115
Hungarian equities	96	3	99	379	(4)	375
Foreign equities	-	-	-	-	-	-
Total debt and equity instruments	**19 723**	**882**	**20 605**	**39 552**	**2 505**	**42 057**
Derivative instruments by type						
FX-based derivatives instruments	-	9 186	9 186	-	11 939	11 939
Index-based derivative instruments	-	22	22	-	8	8
Interest-based derivative instruments	-	10 443	10 443	-	8 734	8 734
Credit default swaps	-	-	-	-	-	-
Options	566	2 518	3 084	487	2 365	2 852
Total derivative instruments	**566**	**22 169**	**22 735**	**487**	**23 046**	**23 533**
Total trading assets	**20 289**	**23 051**	**43 340**	**40 039**	**25 551**	**65 590**

9 Derivative assets held for risk management

9.1

Data in HUF million

	2009 Cost	2009 Accumulated unrealised result	2009 Book value	2008 Cost	2008 Accumulated unrealised result	2008 Book value
FX-based derivatives instruments	-	-	-	-	68	68
Interest-based derivative instruments	-	29	29	-	12	12
Derivatives held for risk management	**-**	**29**	**29**	**-**	**80**	**80**

Fair value hedges of interest rate risk

The Group uses interest rate swaps to hedge its exposure to changes in the fair value of its fixed rate notes and certain loans and advances. Interest rate swaps are matched to specific issuances of fixed rate notes or loans. (see Note 4 n,)

Other derivatives held for risk management

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, and options. The fair values of those derivatives are shown in the table above.

10 Investments in securities

10.1

	2009	2008
		Data in HUF million
Available-for-sale		
Hungarian Government bonds	3 15 241	35 990
Hungarian corporate sector bonds	7 277	494
Foreign Government bonds	2 0 760	9 766
Foreign corporate sector bonds	4 613	1 805
Hungarian equities	6 138	2 937
Foreign equities	3 07	252
Less specific allowances for impairment	(226)	(193)
Investment in securities	**3 54 110**	**51 051**
Specific allowances for impairment		
Balance at 1 January	(193)	-
Impairment loss for the year:		
Charge for the year	(33)	(193)
Reversal	-	-
Effect of foreign currency movements	-	-
Unwinding of discount	-	-
Write-offs	-	-
Balance at 31 December	**(226)**	**(193)**

At 31 December 2009, HUF 32,249 million (2008: HUF 22,278 million) from the total amount of Investments in securities were pledged as collateral for stock exchange and credit card transactions in the ordinary course of business.

The total revaluation effect excluding deferred taxes in the equity comprises HUF 668 million gain (2008: HUF 1,050 million loss) and HUF 0 million deferred tax income and HUF 33 million deferred tax expense (2008: HUF 159 million deferred tax income and HUF 3 million deferred tax expense).

In 2009 HUF 17,565 million gain and HUF 1,165 million loss was recognized in the income statement through selling AFS securities, which is a reclassification from other comprehensive income into profit or loss.

The following table shows the pre-tax profit or loss as though the debt instruments (other than those classified as at FVTPL) of the Group had been classified as at fair value through profit or loss (FVTPL) and accounted for at amortized cost:

10.2

Data in HUF million

	Profit Before Tax	Effect in each scenario	Pre-tax profit or loss in each scenario
If all investments in debt instruments had been classified as financial assets at FVTPL	6 037	2 001	8 038
If all investments in debt instruments (other than those classified as at FVTPL) had been accounted for at amortised cost	6 037	310	6 347

10.3

As at 31 December 2009, the carrying amount, the fair value and the amortized cost of all investments in debt instruments, other than those classified as FVTPL are as follows:

Data in HUF million

	Carrying amount	Fair value	Amortized cost
Investments in debt instruments classified as:			
Loans and receivables	-	-	-
Held-to-maturity investments	-	-	-
AFS financial assets	429 274	429 274	428 362
Total	**429 274**	**429 274**	**428 362**

11 Loans and advances to customers

11.1 Loans and advances to customers at amortised cost

Data in HUF million

2009	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate				
Overdrafts	42 220	(333)	(32)	41 855
Trading and industrial	4 82 046	(9 019)	(853)	472 175
Real estate	6 97 167	(9 003)	(8)	688 155
Total corporate	**1 221 433**	**(18 355)**	**(893)**	**1 202 185**
Small- and medium sized enterprises (SME)				
Overdrafts	5 0 787	(4 800)	(1 085)	44 902
Trading and industrial	3 65 261	(55 733)	(1 367)	308 162
Real estate	1 7 451	(1 098)	(56)	16 297
Credit card	6 862	(305)	(24)	6 533
Total SME	**4 40 361**	**(61 936)**	**(2 532)**	**3 75 894**
Retail				
Overdrafts	2 3 795	(4 656)	(4 280)	14 859
Residental mortgage	4 99 698	(1 593)	(6 118)	491 987
Credit card	2 0 905	(10)	(1 183)	19 711
Personal	5 154	(213)	(1 299)	3 642
Employees	1 1 187	(23)	(26)	11 138
Trading and industrial	1 66 919	(7 638)	(7 455)	151 826
Total retail	**7 27 658**	**(14 133)**	**(20 361)**	**6 93 163**
Loans and advances to customers	**2 389 452**	**(94 424)**	**(23 786)**	**2 271 242**

2008	Gross amount	Specific allowances impairment	Collective allowances impairment	Carrying amount
Corporate				
Overdrafts	46 605	(626)	(19)	4 5 960
Trading and industrial	4 56 954	(4 789)	(178)	451 987
Real estate	626 279	(2 269)	(642)	623 368
Total corporate	**1 129 838**	**(7 684)**	**(839)**	**1 121 315**
Small- and medium sized enterprises (SME)				
Overdrafts	48 753	(3 640)	(116)	4 4 997
Trading and industrial	3 89 823	(38 880)	(825)	350 118
Real estate	51 045	(4 043)	(82)	4 6 920
Credit card	6 648	(170)	(17)	6 461
Total SME	**496 269**	**(46 733)**	**(1 040)**	**448 496**
Retail				
Overdrafts	28 629	(5 307)	(931)	2 2 391
Residental mortgage	4 64 098	(325)	(2 711)	461 062
Credit card	17 051	-	(1 377)	1 5 674
Personal	156 506	(4 262)	(2 028)	150 216
Employees	11 292	-	(73)	1 1 219
Trading and industrial	6 8 214	(4 774)	(1 019)	6 2 421
Total retail	**745 790**	**(14 668)**	**(8 139)**	**722 983**
Loans and advances to customers	**2 371 897**	**(69 085)**	**(10 018)**	**2 292 794**

11.2 Allowances for impairment

Data in HUF million

	2009	2008
Specific allowances for impairment on loans and advances to customers		
Balance at 1 January	**69 085**	**44 747**
Impairment loss for the year:		
Charge for the year	55 979	68 058
Reversal	(13 376)	(30 965)
Aqiusition of subsidiaries -		
Utilisation	(9 235)	(7 127)
Recoveries	*1 539*	*801*
Effect of foreign currency movements	(396)	970
Unwinding of discount	(4 421)	(1 732)
Reclassification	(3 563)	(4 866)
Restatement	-	-
Balance at 31 December	**94 073**	**69 085**
Collective allowances for impairment on loans and advances to customers		
Balance at 1 January	**10 018**	**4 017**
Impairment loss for the year:		
Charge for the year	16 780	3 862
Reversal	(4 787)	(1 510)
Recoveries	-	-
Utilisation	(497)	(1 787)
Effect of foreign currency movements	(196)	570
Unwinding of discount	(1 111)	-
Reclassification	3 579	4 866
Restatement	-	-
Balance at 31 December	**23 786**	**10 018**

11.3

The concentration of Loans and advances to customers by industry at 31 December was as follows:

Data in HUF million

Sectors 2009	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Real Estate	775 661	(17 889)	(1 769)	756 003
Food + Beverages	150 173	(19 235)	(630)	130 308
Financial services	52 895	(2 265)	(68)	50 562
Construction	103 341	(9 386)	(1 269)	92 686
Trade and sevices	78 818	(3 948)	(913)	73 957
Logistics	87 037	(2 121)	(896)	84 020
Utilities	48 717	(1 226)	(89)	47 402
Automotive	49 918	(2 525)	(1 459)	45 934
Oil and gas	15 983	(185)	(27)	15 771
Technology	29 397	(5 132)	(976)	23 289
Metals +Mining	25 491	(4 737)	(57)	20 697
Hotels	29 286	(2 340)	(357)	26 589
Non profit organizations	5 360	(92)	(4)	5 264
Chemicals	26 533	(3 036)	(89)	23 408
Manufactoring and Engineering	31 629	(1 433)	(203)	29 993
Sovereigns	55 742	(100)	(41)	55 601
Consumer Durables	21 556	(2 502)	(273)	18 781
Media	15 118	(1 334)	(161)	13 623
Telecom	29 436	(757)	(3)	28 676
Pharmaceuticals	15 001	(116)	(53)	14 832
Textiles + Apparel	11 454	(2 371)	(186)	8 897
Pulp + paper	20 699	(2 360)	(334)	18 005
Other	87 510	(3 670)	(188)	83 652
Private	622 697	(5 664)	(13 741)	603 292
Loans and advances to customers	**2 389 452**	**(94 424)**	**(23 786)**	**2 271 242**

Sectors 2008				
Real Estate	718 845	(10 751)	(351)	707 743
Food + Beverages	173 812	(14 666)	(227)	158 919
Financial services	101 174	(1 614)	(41)	99 519
Construction	92 831	(9 474)	(210)	83 147
Trade and sevices	120 787	(1 847)	(1 082)	117 858
Logistics	68 487	(956)	(99)	67 432
Utilities	35 436	(1 268)	(26)	34 142
Automotive	47 629	(1 966)	(64)	45 599
Oil and gas	18 444	(176)	(155)	18 113
Technology	70 527	(6 377)	(42)	64 108
Metals +Mining	22 834	(1 215)	(16)	21 603
Hotels	19 603	(1 742)	(62)	17 799
Non profit organizations	14 673	(17)	(11)	14 645
Chemicals	26 167	(1 151)	(18)	24 998
Manufactoring and Engineering	40 141	(2 053)	(59)	38 029
Sovereigns	15 660	(156)	(18)	15 486
Consumer Durables	22 544	(1 995)	(43)	20 506
Media	9 854	(875)	(20)	8 959
Telecom	17 091	(850)	(10)	16 231
Pharmaceuticals	14 936	(69)	(18)	14 849
Textiles + Apparel	14 228	(2 209)	(35)	11 984
Pulp + paper	18 076	(1 648)	(20)	16 408
Other	81 958	(1 328)	(318)	80 312
Private	606 160	(4 682)	(7 073)	594 405
Loans and advances to customers	**2 371 897**	**(69 085)**	**(10 018)**	**2 292 794**

Comment of sector migration:
Due to the change of sector statistical code (amended by KSH (Central Statistical Office)), the allocation by RIB code has been significantly changed. The Ribs that bears the most significant effect of reclassification as follows:
Financial services: HUF 37 billion decrease
Trade and services: HUF 38 billion decrease
Technology: HUF 28 billion decrease

At 31 December 2009 the carrying amount of loans designated as hedged item in a fair value hedge relationship was HUF 28,357 million, while their amortised cost amounted HUF 28,188 million.

11.4 Finance lease receivables

As part of its financing activities, the Group enters into finance lease transactions as a lessor. At December 31, 2009 and 2008, 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 are as follows:

Data in HUF million

2009	**Up to 1 year**	**1year to 5 years**	**over 5 years**	**Total**
Gross investment in the lease	15 383	25 240	9 151	49 774
Unearned finance income	(2 607)	(4 234)	(1 563)	(8 404)
Present value of minimum lease payments	***12 776***	***21 006***	***7 588***	***41 370***
Accumulated allowance for uncollectible minimum lease payments	-	-	-	-
Finance leases as per balance sheet date	**12 776**	**21 006**	**7 588**	**41 370**
2008				
Gross investment in the lease	14 063	32 670	11 035	57 768
Unearned finance income	(3 166)	(6 325)	(1 680)	(11 171)
Present value of minimum lease payments	***10 897***	***26 345***	***9 355***	***46 597***
Accumulated allowance for uncollectible minimum lease payments	-	-	(567)	(567)
Finance leases as per balance sheet date	**10 897**	**26 345**	**8 788**	**46 030**

In 2009, HUF 356 million contingent rents were recognized in finance income (2008: NIL), and unguaranteed residual value amounted to HUF 561 million (2008: HUF 394 million). At 31 December 31 2009, the accumulated allowance for uncollectible minimum lease payments amounted HUF NIL (2008: HUF 567 million).
Contracts original maturity ranges from 1 year to 10 years. Most of the leasing agreements are CHF based. The contracts earn interest on variable rates linked to the relating BUBOR, LIBOR, EURIBOR. In general hotels, office buildings and vehicles are leased. No guaranteed residual value exists.

12 Other assets

12.1

	2009	2008
		Data in HUF million
Prepayments and other debtors	25 421	10 572
Inventory	1 096	196
Inventories held for sale	7 716	3 088
Corporate income tax refundable	3 302	4 267
Other taxes refundable	109	370
Specific allowances for impairment	(352)	(276)
Other assets	**37 292**	**18 217**
Specific allowances for impairment		
Balance at 1 January	**(276)**	**(63)**
Impairment loss for the year:		
Charge for the year	(76)	(213)
Recoveries - -		
Effect of foreign currency movements	-	-
Unwinding of discount	-	-
Write-offs	-	-
Balance at 31 December	**(352)**	**(276)**

At 31 December 2009, HUF 7,716 million (2008: HUF 3,088 million) from the value of inventory have been acquired through enforcement of security over loans and advances.

13 Goodwill

13.1

Goodwill	2009	2008
		Data in HUF million
Cost		
Balance at 1 January	34 702	37 502
Acquisitions through business combinations	-	-
Acquisition of minority interest	16 575	-
Other acquisitions – internally developed	-	-
Effect of movements in exchange rates	(804)	(2 800)
Disposal of subsidiaries	-	-
Balance at 31 December	**50 473**	**34 702**
Impairment losses		
Balance at 1 January	(1 052)	-
Impairment loss	(8 912)	(1 052)
Effect of movements in exchange rates	104	-
Balance at 31 December	**(9 860)**	**(1 052)**
Carrying amounts		
As at 1 January	**33 650**	**37 502**
At 31 December	**40 613**	**33 650**

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 carrying amount of goodwill is allocated to the following cash generating units:

Data in HUF million

	2009	2008
MKB Unionbank AD	32 418	16 032
MKB Romexterra Bank S.A.	7 344	16 767
MKB Euroleasing Zrt.	6 796	5 538
-thereof subsidiaries	851	851
Goodwill	**46 558**	**38 337**

MKB Romexterra Bank S.A. contains the Romexterra Group members, and MKB Euroleasing Zrt. contains Euroleasing group members.
MKB Euroleasing Zrt. is consolidated with equity method, and based on this fact the total carrying amount is tested.
The recoverable amount of each cash-generating units has been calculated based on their value in use.
Value in use has been calculated by discounting the future cash flows generated from the continuing operation of the cash generating unit. By estimating the expected future cash-flows from operation, the Group used the assistance of independent valuers. The values assigned to the key assumptions represent management's assessment of future trends in the Bulgarian, Romanian banking industry and in the Hungarian leasing industry and are based on both external sources and internal sources (historical data).
Key assumptions applied in the estimation process were as follows:

MKB Unionbank AD
Cash flows were estimated based on actual operating results and a five-year business plan. According to the business plan, income has been estimated to reach HUF 1,854 million in the first year, and it should reach HUF 5,392 million by the end of the fifth year. We expect a continuous increase in net interest income from HUF 8,065 million in 2010 to HUF 11,742 million by the end of 2014. As a parallel effect, the non-interest income is expected to increase from HUF 2,801 million to HUF 5,005 million. Due to the financial crises in 2010 still high provisioning level is expected in the amount of HUF 2,769 million which may have a slight decrease till 2014 in the amount of HUF 2,329 impairment loss.
A pre-tax discount rate of 7.4 percent was applied in determining the recoverable amount of MKB Unionbank. The discount rate was estimated based on a weighted average cost of capital.

After the financial crises increasing growth rate is used to extrapolate cash flow projections beyond the period covered by the most recent business plan for the first five years, and a constant rate is used for the period from 2014.
As the Bulgarian market has enormous growing potential, we believe that this five-year projection is realistic and faithfully reflects our best estimates.
According to the cash-flow projection, MKB Unionbank has a value in use more than its carrying amount, therefore no impairment is needed.

MKB Romexterra Bank S.A.

Cash flows were estimated based on actual operating results and a five-year business plan. Restructuring effects were taken into account by calculating of cash flows, because it was approved by the management before the date of preparation of Goodwill impairment test. According to the business plan, income has been estimated to reach HUF 3,384 million loss in the first year, and it should reach HUF 1,337 million gain by the end of the fifth year. Due to the restructuring we expect an increase in net interest income and also in non interest income. In 2010 we expect weak economic condition in Romania and expect also high level of impairment. Due to the restructuring a part of a non performing loans will be sold and then a take off is expected. A pre-tax discount rate of 11.1 percent was applied in determining the recoverable amount of MKB Romexterra Bank. The discount rate was estimated based on weighted average cost of capital.

A decreasing growth rate is used to extrapolate cash flow projections beyond the period covered by the most recent business plan for the first five years, and a constant rate is used for the period from 2014.

As the Romanian market has growing potential, we believe that this five-year projection is realistic and faithfully reflects our best estimates.

According to the cash-flow projection, MKB Romexterra Bank has a value in use less than its carrying amount, therefore impairment is needed which amounted to HUF 8,912 million.

MKB Euroleasing Zrt.

Cash flows were estimated based on actual operating results and a five-year business plan. According to the business plan, income has been estimated to reach HUF 989 million in the first year, and it should reach HUF 1,887 million by the end of the fifth year.

In line with the continuous fill of the market, we expect a similar net interest income from 2010 to 2014. As a parallel effect, the non-interest income is expected to increase slightly. We calculated with a decreasing average impairment loss after the financial crises.

A pre-tax discount rate of 6.6 percent was applied in determining the recoverable amount of MKB Euroleasing. The discount rate was estimated based on weighted average cost of capital.

A decreasing growth rate is used to extrapolate cash flow projections beyond the period covered by the most recent business plan for the first 5 years, and a constant rate is used for the period from 2014.

As MKB Euroleasing is a market leader in the field of car and fleet leasing, we believe that this five-year projection is realistic and faithfully reflects our best estimates.

According to the cash-flow projection, MKB Euroleasing Zrt. has a value in use more than its carrying amount, therefore no impairment is needed.

14 Investments in jointly controlled entities and associates

14.1

Data in HUF million

	2009	2008
Cost	10 731	7 867
Goodwill arising on acquisition	1 527	1 528
Share of post acquisition reserves	(229)	1 836
Investments in jointly controlled entities and associates	**12 029**	**11 231**

14.2

General and financial data of the jointly controlled entities and associates for the years ended 31 December is as follows:

Data in HUF million

	MKB Euroleasing Zrt.	MKB Euroleasing Autópark Zrt.	Ercorner Kft.	GIRO Zrt.	Pannonhalmi Borház Termelő és Szolgáltató Kft.
General data					
Ownership (%)	50%	49,99%	50%	22,19%	45,48%
Involvement	equtiy	equtiy	equtiy	equtiy	equtiy
Financial data					
Current assets	2 090	4 164	107	4 672	200
Non-current assets	9 020	13 221	9 557	4 219	1 124
Total assets	**11 110**	**17 385**	**9 664**	**8 891**	**1 324**
Current liabilities	1 921	8 802	7 318	2 925	564
Non-current liabilities	9 189	8 583	2 346	5 966	760
Total liabilities	**11 110**	**17 385**	**9 664**	**8 891**	**1 324**
Equity					
Revenues	908	12 553	347	6 317	301
Expenses	670	12 620	536	5 923	322
Profit/Loss	**238**	**(67)**	**(189)**	**394**	**(21)**

15 Intangibles, property and equipment

15.1

Data in HUF million

2009	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	31 742	37 151	41 823	110 716
Acquisitions through business combinations				
Additions – internally developed	12 167	13 796	6 044	32 007
Other additions	(4 643)	4	4 706	67
Disposals	(5 244)	(2 834)	(4 640)	(12 718)
Effect of movements in exchange rates	8	(93)	(68)	(153)
Balance at 31 December	**34 030**	**48 024**	**47 865**	**129 919**
Depreciation and impairment losses				
Balance at 1 January	7 976	4 995	17 474	30 445
Acquisitions through business combinations				
Depreciation for the year	2 640	1 277	4 740	8 657
Impairment loss	-	1 62	12	174
Reversal of impairment loss	-	-	-	-
Disposals	(50)	(152)	(1 450)	(1 652)
Other additions	-	-	67	67
Effect of movements in exchange rates	(2)	(31)	(31)	(64)
Balance at 31 December	**10 564**	**6 251**	**20 812**	**37 627**
Carrying amounts				
At 1 January	23 766	32 155	24 349	80 271
At 31 December	**23 466**	**41 773**	**27 053**	**92 292**
2008				
Cost or deemed cost				
Balance at 1 January	29 502	32 977	37 018	99 497
Acquisitions through business combinations	-	-	-	-
Additions – internally developed	8 466	4 095	7 023	19 584
Other additions	-	3 31	1 89	520
Disposals	(6 237)	(23)	(2 305)	(8 565)
Effect of movements in exchange rates	11	(229)	(102)	(320)
Balance at 31 December	**31 742**	**37 151**	**41 823**	**110 716**
Depreciation and impairment losses				
Balance at 1 January	7 432	4 047	14 970	26 449
Acquisitions through business combinations	-	-	-	-
Depreciation for the year	2 692	914	3 849	7 455
Impairment loss	-	-	14	14
Reversal of impairment loss	-	-	-	-
Disposals	(2 153)	(1)	(1 323)	(3 477)
Other additions	-	6 0	(55)	5
Effect of movements in exchange rates	5	(25)	19	(1)
Balance at 31 December	**7 976**	**4 996**	**17 474**	**30 445**
Carrying amounts				
At 1 January	22 070	28 930	22 048	73 048
At 31 December	**23 766**	**32 155**	**24 349**	**80 271**

16 Amounts due to other banks

16.1

Data in HUF million

	2009	2008
Due on demand	4 228	5 355
Money market deposits	932 831	758 085
Borrowings	205 820	183 669
Amounts due to other banks	**1 142 880**	**947 109**

As at 31 December 2009, HUF 76,188 million (2008: HUF 293,436 million) from the closing balance of Amounts due to other banks was related to contracts with original maturity of more than five years.

17 Current and deposit accounts

17.1

Data in HUF million

	2009	2008
From corporate clients	734 941	704 371
From retail clients	671 056	563 471
Current and deposit accounts	**1 405 997**	**1 267 842**

As at 31 December 2009, from the amount of current and deposit accounts, HUF 18,276 million (2008: HUF 30,057 million) has been measured as a fair value through profit or loss.

18 Trading liabilities

18.1

Data in HUF million

	2009			2008		
	Cost	**Accumulated unrealised result**	**Book value**	**Cost**	**Accumulated unrealised result**	**Book value**
Derivative instruments by type						
FX-based derivatives instruments	-	9 866	9 866	-	2 0 668	2 0 668
Index-based derivative instruments	-	34	34	-	2 0	20
Interest-based derivative instruments	-	6 956	6 956	-	6 545	6 545
Credit default swaps	52	38	90	52	139	1 91
Options	894	2 118	3 012	718	2 089	2 807
Total derivative instruments	**946**	**19 012**	**19 958**	**770**	**29 461**	**30 231**
Total trading liabilities	**946**	**19 012**	**19 958**	**770**	**2 9 461**	**30 231**

19 Derivative liabilities held for risk management

19.1

Data in HUF million

	2009			2008		
	Cost	Accumulated unrealised result	Book value	Cost	Accumulated unrealised result	Book value
FX-based derivatives instruments	-	-	-	-	1 737	1 737
Interest-based derivative instruments	-	337	337	-	1 487	1 487
Derivatives held for risk management	**-**	**337**	**337**	**-**	**3 224**	**3 224**

20 Other liabilities and provision

20.1

Data in HUF million

	2009	2008
Accruals and other creditors	29 824	27 608
Corporate income tax payable	-	180
Other taxes payable	2 094	1 859
Dividends payable	-	-
Provision for guarantees and contingencies	2 152	1 957
Other liabilities and provisions	**34 070**	**31 604**

20.2 Provision for contingencies and commitments

Data in HUF million

	2009	2008
Balance at 1 January	1 957	1 532
Provisions made during the year	1 555	1 337
Provisions used during the year	(271)	(192)
Provisions reversed during the year	(1 089)	(725)
Effect of foreign currency movements	0	4
Unwinding of discount	-	-
Balance at 31 December	**2 152**	**1 957**

Provisions of HUF 650 million (2008: HUF 550 million) have been made in respect of costs arising from contingent liabilities and contractual commitments (see Note 35), guarantees of HUF 1,102 million (2008: HUF 1,075 million) and commitments of HUF 400 million (2008: HUF 332 million)

Finance leases as a lessee

As part of its business activities, the Group enters into finance lease transactions as a lessee. At 31 December 2009 and 2008, the reconciliation of the Group's future minimum lease payments at the end of the reporting period and their present value by relevant remaining maturity periods was the following:

20.3

Data in HUF million

2009	Up to 1 year	1year to 5 years	over 5 years	Total
Future minimum lease payments	1 638	6 693	30 159	38 490
Unpaid finance expence	(1 156)	(5 098)	(23 568)	(29 822)
Present value of minimum lease payments	**482**	**1 594**	**6 592**	**8 668**
Finance leases as a lessee	**482**	**1 594**	**6 592**	**8 668**
2008				
Future minimum lease payments	179	357	-	536
Unpaid finance expence	(24)	(28)	-	(52)
Present value of minimum lease payments	**155**	**329**	**-**	**484**
Finance leases as a lessee	**155**	**329**	**-**	**484**

In 2009, no contingent rents were recognized in finance income (2008: HUF NIL). No sublease payments are expected to be received at the end of the reporting period. The net carrying amount of the leased office equipment amounted to HUF 466 million at the end of the reporting period (2008: HUF 621 million), and the net carrying amount of the lands and buildings used by the reporting entity was HUF 8,289 million (2008: HUF NIL).
The Group leases some of its branches in the form of operating lease. At 31 December 2009 and 2008, the total amount of future minimum lease payments under non-cancellable operating leases by relevant remaining period was the following:

20.4

Data in HUF million

2009	Up to 1 year	1year to 5 years	over 5 years	Total
Minimum lease payments	3 103	5 654	6 098	14 856
Non-cancellable operating leases	**3 103**	**5 654**	**6 098**	**14 856**
2008				
Minimum lease payments	2 216	3 643	21 943	27 802
Non-cancellable operating leases	**2 216**	**3 643**	**21 943**	**27 802**

No sublease payments are expected under these non-cancellable leases.
In 2009, lease and sublease payments were recognised as an expense in the period amounted to HUF 3,222 million (2008: HUF 672 million) whereas no contingent rents and sublease payments were recognised.
The leasing contracts original maturity ranges from 1 year to 10 years. The contracted lease payments are usually linked to the customer price index. There are no purchase options or restrictions.

21 Issued debt securities

21.1

Data in HUF million

Reference	Interest	Par value	First insurance	Due date	Listed	Carrying amount 2009	Carrying amount 2008
XS0232164342 EUR 50 million	Floating rate	13 541	11.10.2005	11.10.2010	Yes (Luxemburg)	13 541	13 237
XS0256867648 EUR 50 million	Floating rate	13 542	6.06.2006	6.06.2011	Yes (Luxemburg)	12 187	13 230
MKB Euró Fix 2011 4%	Fixed rate	3 521	10.11.2009	10.11.2011	No	2 489	-
XS0311628407 RON 50 million	Floating rate	3 197	19.07.2007	19.07.2010	Yes (Luxemburg)	3 197	3 306
XS0330903070 SKK 1000 million	Floating rate	8 990	19.11.2007	19.11.2010	Yes (Luxemburg)	7 156	8 790
MKB Részvény Index 1. Kötvény	Structured	400	12.09.2008	12.09.2012	Yes (BÉT)	400	4 00
MKB 20100915 Kötvény	Fixed rate	3 968	23.07.2008	15.09.2010	Yes (BÉT)	4 014	3 350
MKB Relax 2. Kötvény	Structured	252	12.08.2008	12.02.2010	Yes (BÉT)	225	2 52
MKB III. kötvény	Floating rate	40 986	9.12.2005	7.02.2011	Yes (BÉT)	29 931	35 890
MKB IV. kötvény	Floating rate	28 000	10.06.2009	9.12.2011	Yes (BÉT)	27 763	-
MKB V. kötvény	Floating rate	6 000	30.10.2009	26.10.2012	Yes (BÉT)	4 622	-
MKB FIX + 2010	Fixed rate	3 000	21.10.2005	21.10.2010	Yes (BÉT)	1 070	1 092
MKB FIX + 2013	Fixed rate	3 000	15.02.2006	15.02.2013	Yes (BÉT)	322	318
MKB FIX + 2016	Fixed rate	3 000	15.02.2006	15.02.2016	Yes (BÉT)	90	1 07
MKB Kiszámítható Kötvény	Fixed rate	4 222	8.05.2009	8.12.2010	No	4 217	-
MKB Kiszámítható 2. Kötvény	Fixed rate	3 202	12.06.2009	10.12.2010	No	3 199	-
MKB Kiszámítható 3. Kötvény	Fixed rate	1 571	25.06.2009	25.01.2011	No	1 570	-
MKB Kiszámítható 4. Kötvény	Fixed rate	867	19.08.2009	22.02.2011	No	866	-
MKB Kiszámítható 5. Kötvény	Fixed rate	2 583	25.09.2009	31.03.2011	No	2 579	-
MKB Kiszámítható 6. Kötvény	Fixed rate	664	30.10.2009	28.04.2011	No	663	-
MKB Kiszámítható 7. Kötvény	Fixed rate	1 187	18.12.2009	4.07.2011	No	1 185	-
MKB D100120	Zero Coupon	10 800	9.09.2009	20.01.2010	Yes (BÉT)	10 752	-
MKB D100310	Zero Coupon	8 000	9.10.2009	10.03.2010	Yes (BÉT)	5 847	-
Accrued interest of the bonds						1 427	2 419
MKB Unionbank AD		-	N.A.	N.A.	No		1 323
MKB Romexterra Bank S.A.		167	N.A.	N.A.	No	268	2 39
Accrued interest of the bonds issued by subsidiaries						-	38
MKB Bonds matured in 2009						-	185 137
Issued debt securities	**-**	**164 660**	**-**	**-**	**-**	**139 580**	**269 129**

The Group use fair value revaluation through profit or loss for structured bonds, as they are related to assets, which share the same risk that give rise to opposite changes in fair value. At 31 December 2009 the carrying amount of FVTPL own issued bonds amounted to HUF 644 million (2008: HUF 1,063).

22 Subordinated debt

22.1

Data in HUF million

2009	Borrowed on	Amount in original	Original currency	Interest	Due date	Listed	Carrying amount
Subordinated loans from the shareholders							
BAYERISCHE LANDESBANK	30.10.2002	50 000 000	EUR	6M EURIBOR+3.12%	30.10.2017	No	13 640
BAYERISCHE LANDESBANK	16.12.2003	36 000 000	EUR	6M EURIBOR+1.5%	16.12.2013	No	9 751
BAYERISCHE LANDESBANK	10.06.2005	45 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	12 189
BAYERISCHE LANDESBANK	21.10.2008	50 000 000	EUR	6M EURIBOR+5%	22.10.2018	No	13 691
BAWAG P.S.K. BANK	16.12.2003	4 000 000	EUR	6M EURIBOR+1.5%	16.12.2013	No	1 083
BAWAG P.S.K. BANK	16.06.2005	5 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	1 354
Subordinated notes issued							
BAYERISCHE LANDESBANK	04.10.2006	120 000 000	EUR	3M EURIBOR+1.01%	04.10.2016	No	32 507
BAYERISCHE LANDESBANK	31.07.2007	75 000 000	EUR	3M EURIBOR+0.92%	31.07.2017	No	20 369
Subordinated debt		**385 000 000**	**-**	**-**	**-**	**-**	**104 584**
2008							
Subordinated loans from the shareholders							
BAYERISCHE LANDESBANK	30.10.2002	50 000 000	EUR	6M EURIBOR+3.12%	30.10.2017	No	13 426
BAYERISCHE LANDESBANK	16.12.2003	36 000 000	EUR	6M EURIBOR+1.5%	16.12.2013	No	9 533
BAYERISCHE LANDESBANK	10.06.2005	45 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	11 917
BAYERISCHE LANDESBANK	21.10.2008	50 000 000	EUR	6M EURIBOR+5%	22.10.2018	No	13 482
BAWAG P.S.K. BANK	16.12.2003	4 000 000	EUR	6M EURIBOR+1.5%	16.12.2013	No	1 059
BAWAG P.S.K. BANK	16.06.2005	5 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	1 324
Subordinated notes issued							
BAYERISCHE LANDESBANK	04.10.2006	120 000 000	EUR	3M EURIBOR+1.01%	04.10.2016	No	32 117
BAYERISCHE LANDESBANK	31.07.2007	75 000 000	EUR	3M EURIBOR+0.92%	31.07.2017	No	20 035
Subordinated debt		**385 000 000**	**-**	**-**	**-**	**-**	**102 892**

The Group use fair value revaluation through profit or loss for structured bonds, as they are related to assets, which share the same risk that give rise to opposite changes in fair value. At 31 December 2009 the carrying amount of FVTPL own issued bonds amounted to HUF 644 million (2008: HUF 1,063).

23 Share capital

The Bank's authorised, issued, called up and fully paid share capital comprises 14,765,369 (2008: 14,094,483) ordinary shares of HUF – 1,000 (2008: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

24 Reserves

Currency translation reserve
The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Share premium
Share premium comprises of premiums on share capital issuances.

Retained Earnings
Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entity less any dividend payment. MKB discloses general risk reserve and general reserve included in retained earnings defined by the local governments.
Retained Earnings available for distribution for the parent of the holding company amounted to HUF 79,278 million.

A / General risk reserve
Local legislation allows the Group to set aside a general risk reserve up to 1.25% of risk weighted assets and off-financial position 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 33). The Bank did not choose this option between years 2003 and 2008. From the 2009 financial year onwards, the Bank decided to set aside again additional general risk provisions up to the level of 0.1 % of the risk-weighted assets and off-balance sheet items. The Bank gradually utilizes the outstanding amount for uncovered loans, securities and investments, inventories and other off-balance sheet losses during the actual financial year.

B / General reserve
According to the Act on Credit Institutions and Financial Enterprises (Banking Act), banks shall set aside as general reserve 10% of Profit after taxation. Dividends can be paid only after recognition of general reserve. This reserve can be utilized only for losses derived from ordinary activity. Credit institution can reclassify part or total of its retained earnings into general reserve. Supervisory authority can allow the entity not to set aside the amount calculated as above stated.
The Group discloses general reserve as part of retained earnings. In 2009 MKB recognized as general reserve HUF 30 million (2008: HUF 53 million), which totalled at HUF 17,832 million.
General reserve set aside by foreign entities domiciled in Romania amounted to HUF 1,556 million. In 2009 there were NIL general reserve recognized. In Bulgaria there was NIL general reserve recognized.

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

25 Non-controlling interest

During 2009 minority interest decreased due to acquisition of further stakes in MKB Unionbank A.D. The ownership of the Bank increased from 60% up to 94%. Further decrease was due to issue of new share capital in MKB Romexterra Bank S.A. which resulted a decrease by 1.98%.

26 Deferred tax assets and liabilities

26.1

Deferred tax assets and liabilities are attributable to the following:

Data in HUF million

	2009			2008		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Intangibles, property and equipment	212	1 763	(1 551)	223	227	(5)
Investments in subs., jointly contr. entities and associates	-	6 6	(66)	-	71	(71)
Available-for-sale securities	191	5 0	141	212	3	209
Loans and advances to customers	-	2 667	(2 667)	5	2 015	(2 010)
Allowances for loan losses	1 308	2 065	(756)	2 314	-	2 314
Amounts due to customers	1 580	1	1 579	-	263	(263)
Issued debt securities	2	-	2	-	-	-
Provisions (included general risk reserve)	45	3 93	(348)	41	1 277	(1 236)
Derivatives	-	-	-	-	-	-
Other items	111	2 07	(96)	166	317	(151)
Tax loss carry-forwards	590	-	590	285	-	285
Net tax assets (liabilities)	**4 039**	**7 212**	**(3 173)**	**3 245**	**4 173**	**(927)**

27 Interest income

27.1

Data in HUF million

	2009	**2008**
Cash reserves	15 626	10 684
Loans and advances to banks	7 491	9 130
Loans and advances to customers	167 241	162 683
Derivatives	30 462	35 962
Investments in securities	17 355	5 348
Interest income	**238 175**	**223 807**

Included within various captions under interest income for the year ended 31 December 2009 is a total of HUF 5,532 million (2008: 1,732) accrued on impaired financial assets.

28 Interest expense

28.1

Data in HUF million

	2009	**2008**
Amounts due to other banks	35 473	33 928
Deposits from customers	71 844	61 873
Issued debt securities	15 696	15 787
Subordinated liabilities	4 285	5 404
Other fees and commisions similar to interest expenses	472	232
Derivatives	11 484	23 904
Interest expense	**139 254**	**141 128**

Included within interest income (in the line item corresponding to where the interest expense on the hedged item is recognised) are fair value changes of HUF 3,773 million on derivatives held in a qualifying fair value hedging relationship, and included within interest expense is HUF 2,970 million representing changes in the fair value of the hedged item attributable to the hedged risk. The only components of interest income and expense reported above that relate to financial assets or liabilities carried at fair value through profit or loss are the income and expense on derivative assets and liabilities held for risk management purposes.

29 Net income from commissions and fees

29.1

Data in HUF million	2009	2008
Commission and fee income	**28 300**	**27 319**
Payment and account services	10 426	10 052
Credit related fees	5 834	4 899
Card services	2 752	2 806
Brokerage fees and other securities business	3 634	3 205
Other commission and fee income	5 654	6 357
Commission and fee expense	**5 972**	**7 778**
Payment and account services	2 342	2 518
Credit related fees	1 484	1 980
Card services	836	804
Brokerage fees and other securities business	681	497
Fee paid for car dealers	-	913
Other commission and fee expense	629	1 066
Net income from commissions and fees	**22 328**	**19 541**

Brokerage fees include fees from trust management and other securities services in the amount of HUF 2,204 million (2008: HUF 1,618 million). For further information on the Group's fund management activity, please see Note 40.

Fees paid for car dealers are similar as interest income which are amortized in accord with Group accounting policy and are disclosed as interest expense.

30 Other operating income

30.1

Data in HUF million	2009	2008
Gain on trading securities	4 105	1 546
Gain on sale of available-for-sale securities	16 862	73
Net gain on disposal of group companies	-	-
Net gain on trading derivative transactions	8 628	18 281
Incomes on non-current assets held for sale	8 703	-
Expenses on non-current assets held for sale	(9 137)	-
Other	(4 099)	(1 676)
Other operating income	**25 062**	**18 224**

31 Impairments and provisions for losses

31.1

Data in HUF million

	Note	2009	2008
Impairment loss on			
Loans and advances to banks	7	7	1 8
Loans and advances to customers	11	54 596	39 445
Investments in securities	10	33	193
Goodwill	13	8 912	1 052
Other assets	12	76	213
Direct write off		2 331	1 472
Provision on			
Guarantees and contingencies	35	466	612
Impairments and provisions for losses		**66 421**	**43 003**

32 Operating expenses

32.1

Data in HUF million

	2009	2008
General and administration expenses	16 592	14 381
Wages and salaries	24 161	24 321
Compulsory social security obligations	8 312	9 229
Occupancy costs	14 831	12 889
Marketing and public relations	2 517	3 317
Communication and data processing	7 341	6 223
Operating expenses	**73 754**	**70 360**

In 2009, the Group's average statistical employee number was 4,070 (2008: 4,313).

33 Income tax

33.1 Income tax expense recognized in the Statement of Comprehensive Income

Data in HUF million

	2009	2008
Current tax expense	1 321	1 671
Hungarian corporation tax charge – on current year profit	1 260	1 468
Romanian corporation tax charge – on current year profit	3	-
Bulgarian corporation tax charge – on current year profit	58	203
Deferred tax expense/(income)	2 198	(495)
Origination and reversal of temporary differences	2 268	(484)
Effect of changes in tax rates	(70)	(11)
Adjustments in respect of prior years	-	0
Income tax	**3 519**	**1 176**

The Hungarian corporation tax rate applied to MKB Bank and its Hungarian subsidiaries was 16% (2008: 16%) as a corporate profit tax charge, and there was an extra tax charge at a rate of 4% which is applied from September 1, 2006 and it is part of current tax income. From 1 January, 2010 19% corporation tax rate will apply in Hungary as a single current tax rate which was approved by the parliament in June 2009. In Romania, the current income tax rate for 2009 was 16% (2008: 16%) and the deferred tax rate used was the same. In Bulgaria, the current income tax rate for 2009 was 10% (2008: 10%), and the deferred tax rate is the same.

33.2 Reconciliation of effective tax rate

Data in HUF million

	2009		2008	
	%	mHUF	%	mHUF
Profit before income tax		6 037		8 336
Income tax using the domestic corporation tax rate	19,00%	1 147	20,60%	1 717
Effect of tax rates in foreign jurisdictions	42,53%	2 567	-0,93%	(77)
Non-deductible expenses	5,68%	343	8,52%	7 10
Tax exempt income	-8,92%	(538)	-14,07%	(1 173)
Recognition of previously unrecognised tax losses	0,00%	-	-0,01%	(1)
Income tax	**58,29%**	**3 519**	**14,11%**	**1 176**

Effect of tax rates in foreign jurisdictions reflects that MKB used a prudent approach concerning tax losses and for loss maker entities was not allowed to recognise deferred tax assets and the relating deferred tax income.

At 31 December 2009, the Group had unused tax losses amounting to HUF 3,361 million (2008: HUF 1,458 million) with the following maturity:

33.3

Data in HUF million

	2009	2008
Without maturity	1 614	1 286
Mature within 1 year	188	50
Mature between 1 and 5 years	1 517	122
Mature between 5 and 10 years	42	-
Corporation tax loss carryforwards	**3 361**	**1 458**

In 2009, the Group accounted HUF 184 million deferred tax asset and HUF 11 million deferred tax liability (2008: HUF 209 million deferred tax asset and HUF 3 million deferred tax liability) directly against equity.

34 Earnings per share

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of HUF 3,242 million (2008: HUF 6,449 million) and a weighted average number of ordinary shares outstanding of 14,637 million (2008: 14,094 million)

The calculation of fully diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after any adjustment for the effects of all dilutive potential ordinary shares. In 2009 and 2008 there were no dilution factor that might cause an adjustment in the weighted average number of ordinary shares, therefore basic and diluted EPS were equivalent.

35 Contingencies and commitments

35.1

Data in HUF million

	2009	2008
Contingencies		
Guarantees and similar obligations	222 117	228 982
Obligations from letters of credit and other short term trade related items	24 892	15 828
Other contingent liablities (including litigation)	4 273	548
Total contingencies	**251 282**	**245 359**
Commitments		
Undrawn commitments to extend credit	346 665	415 664
Total commitments	**346 665**	**415 664**

Concerning contingencies and commitments net amounts are disclosed in the table.

36 Use of estimates and judgements

Management discusses with the Group Supervisory Board the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.
These disclosures supplement the commentary on financial risk management (see Note 5).

Key sources of estimation uncertainty

Allowances for credit losses
Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see Note 4 i,).
The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.
Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values
The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed under Note 4.

The Group measures fair values using the following hierarchy of methods:

- Quoted market price in an active market for an identical instrument.
- Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of the reporting period that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain over the counter structured derivatives and certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Data in HUF million

	Note	Quoted market prices in active markets	Valuation techniques-observable inputs	Valuation techniques-significant unobservable inputs	Total
31 December 2009					
Trading assets	8	20 688	22 652	-	43 340
Derivative assets held for risk management	9	-	29	-	29
Loans and advances to customers	11	-	-	-	-
Current and deposit accounts	17	-	18 276	-	18 276
Trading liabilities	18	202	19 756	-	19 958
Derivative liabilities held for risk management	19	-	337	-	337
Issued debt securities	21	-	644	-	644
31 December 2008					
Trading assets	8	42 057	23 533	-	65 590
Derivative assets held for risk management	9	-	80	-	80
Loans and advances to customers	11	-	-	-	-
Current and deposit accounts	17	-	30 057	-	30 057
Trading liabilities	18	-	30 231	-	30 231
Derivative liabilities held for risk management	19	-	3 224	-	3 224
Issued debt securities	21	-	1 067	-	1 067

As part of its trading activities the Group enters into OTC structured derivatives, primarily options indexed to equity prices, foreign exchange rates and interest rates, with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different asset prices or foreign currency exchange rates. These inputs are estimated based on extrapolation from observable shorter-term volatilities, recent transaction prices, quotes from other market participants and historical data.

In determining fair values, the Group does not use averages of reasonably possible alternative inputs as averages may not represent a price at which a transaction would take place between market participants on the measurement date. When alternative assumptions are available within a wide range, judgements exercised in selecting the most appropriate point in the range include evaluation of the quality of the sources of inputs (for example, the experience and expertise of the brokers providing different quotes within a range, giving greater weight to a quote from the original broker of the instrument who has the most detailed information about the instrument) and the availability of corroborating evidence in respect of some inputs within the range.

37 Accounting classifications and fair values

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques (see Note 4 g, and Note 36), which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured.

37.1

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

Data in HUF million

2009	**Note**	**Trading**	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Financial assets								
Cash reserves	6	-	-	-	81 388	104 299	185 687	185 687
Loans and advances to banks	7	-	-	65 973	-	-	65 973	65 961
Measured at fair value		-	-	*701*	-	-	*701*	*701*
Measured at amortised cost		-	-	*65 272*	-	-	*65 272*	*65 260*
Trading assets	8	43 340	-	-	-	-	43 340	43 340
Derivative assets held for risk management	9	29	-	-	-	-	29	29
Investments in securities	10	-	-	-	354 110	-	354 110	354 110
Loans and advances to customers	11	-	-	2 271 242	-	-	2 271 242	2 403 064
Measured at fair value		-	-	*28 357*	-	-	*28 357*	*28 357*
Measured at amortised cost		-	-	*2 242 885*	-	-	*2 242 885*	*2 374 707*
Financial liabilities								
Amounts due to other banks	16	-	-	-	-	1 142 880	1 142 880	1 048 869
Current and deposit accounts	17	-	18 276	-	-	1 387 721	1 405 997	1 359 091
Measured at fair value		-	*18 276*	-	-	-	*18 276*	*1 8 276*
Measured at amortised cost		-	-	-	-	*1 387 721*	*1 387 721*	*1 340 815*
Trading liabilities	18	19 958	-	-	-	-	19 958	1 9 958
Derivative liabilities held for risk management	19	337	-	-	-	-	337	337
Issued debt securities	21	-	644	-	-	138 936	139 580	162 528
Measured at fair value		-	*644*	-	-	*4 727*	*5 371*	*5 371*
Measured at amortised cost		-	-	-	-	*134 209*	*134 209*	*157 157*
Subordinated debt	22	-	-	-	-	104 584	104 584	105 351

Data in HUF million

2008	Note	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Financial assets								
Cash reserves	6	-	-	118 904	9 3 782	-	212 686	212 684
Loans and advances to banks	7	-	-	116 650	-	-	116 650	96 131
Measured at fair value		-	-	*8 551*	-	-	*8 551*	*8 551*
Measured at amortised cost		-	-	*108 098*	-	-	*108 098*	*87 580*
Trading assets	8	65 590	-	-	-	-	65 590	65 590
Derivative assets held for risk management	9	80	-	-	-	-	80	80
Investments in securities	10	-	-	-	51 051	-	51 051	51 051
Loans and advances to customers	11	-	-	2 371 896	-	-	2 371 896	2 484 098
Measured at fair value		-	-	*42 853*	-	-	*42 853*	*42 853*
Measured at amortised cost		-	-	*2 329 043*	-	-	*2 329 043*	*2 441 245*
Financial liabilities								
Amounts due to other banks	16	-	-	-	-	947 109	947 109	968 061
Current and deposit accounts	17	-	30 057	-	-	1 237 786	1 267 842	919 744
Measured at fair value		-	*30 057*	-	-	-	*30 057*	*30 057*
Measured at amortised cost		-	-	-	-	*1 237 786*	*1 237 786*	*889 687*
Trading liabilities	18	30 231	-	-	-	-	30 231	30 231
Derivative liabilities held for risk management	19	3 224	-	-	-	-	3 224	3 224
Issued debt securities	21	-	1 067	-	-	268 062	269 129	298 573
Measured at fair value		-	*1 067*	-	-	*92 493*	*93 560*	*93 560*
Measured at amortised cost		-	-	-	-	*175 569*	*175 569*	*205 013*
Subordinated debt	22	-	-	-	-	102 892	102 892	126 075

The methods and, when a valuation technique is used, the assumptions applied in determining fair values of financial instruments were as follows:

Cash reserves, Loans and advances to banks and Amounts due to other banks

Due to their short term nature, the carrying amount of Cash reserves and Loans and advances to banks and Amounts due to other banks is a reasonable approximation of their fair value.

Trading assets and liabilities and Derivative assets and liabilities held for risk management

Fair values of Trading assets and liabilities and Derivative assets and liabilities held for risk management that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques. For further information, please see Note 36.

Investments in securities

The fair values of instruments grouped into Investments in securities are based on quoted market prices, when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar securities. For further information, please refer to Note 10 and Note 4 l.

Loans and advances to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by coupon rates. In general, contractual cash flows are discounted using the Group's best estimate of the discount rate that a market participant would use in valuing instruments with similar repricing and credit risk characteristics. The fair value of a loan portfolio reflects both loan impairments at the end of the reporting period and estimates of market participants' expectations of credit losses over the life of the loans.

For impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Current and deposit accounts

For the purposes of estimating fair value, Current and deposit accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the end of the reporting period.

Issued debt securities and Subordinated debt

Fair values are determined using quoted market prices at the end of the reporting period where available, or by reference to quoted market prices for similar instruments.

38 Related parties

The Group's related parties include the parent company, associates, joint ventures, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

38.1 Transactions with related parties

Related parties have transacted with the Group during the period as follows:

Data in HUF million

	Parent company and its group		Non-consolidated subsidiaries		Jointly controlled entities		Associates		Key management personnel	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Assets										
Amounts due from other banks	31 260	20 664	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	2 971	4 385	14 516	9 132	18 562	4 385	687	488
Derivative financial assets	3 767	2 409	9	-	-	-	-	-	-	-
Other assets	398	1	-	5	-	-	-	78	-	-
Liabilities										
Amounts due to other banks	915 517	658 863	-	-	-	-	-	-	-	-
Current and deposit accounts	408	852	765	3 078	120	144	2 454	3 078	-	-
Borrowed funds and debt securities	4 068	22 040	-	-	-	-	-	-	-	-
Subordinated debt	102 153	100 527	-	-	-	-	-	-	-	-
Derivative finacial liabilities	10 836	14 113	0	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	34	-	-	23	-	-
Income statement										
Interest income	723	160	354	420	1 056	681	1 125	991	18	19
Interest expense	2 336	22 237	165	148	11	6	343	279	-	-
Other net income/(expense)	(17 467)	5 727	11	83	20	24	219	103	(955)	(1 507)
Contingencies and commitments										
Undrawn commitments to extend credit	2 150	2 000	1 035	664	1 258	1 317	2 250	664	-	-
Guarantees	-	-	-	-	344	86	1 083	-	-	-

The amount outstanding from Key Management Personnel represents mortgages and secured loans granted and these loans are secured over property of the respective borrowers.
The above transactions with other than Key Management Personnel were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing.

The transactions did not involve more than the normal risk of repayment or present other unfavourable features.
No impairment losses have been recorded against balances outstanding during the period with related parties, and no specific allowance has been made for impairment losses on balances with related parties at the period end.

38.2

Key management personnel compensation for the period comprised:

	Data in HUF million	
	2009	**2008**
Short-term employee benefits	955	1 423
Other long-term benefits	-	84
	955	**1 507**

39 Group entities

39.1

The subsidiaries and jointly controlled entities of MKB and their activities are as follows:

Data in HUF million

Company	**Percentage of equity owned**	**Percentage of voting rights**	**Country of incorporation**	**Brief description of activities**
MKB-Euroleasing Autólízing Szolgáltató Kft.	60,79%	50%	Hungary	Car finance activity.
MKB-Euroleasing Autóhitel Zrt.	65,45%	50%	Hungary	Car and consumer finance activities.
MKB-Euroleasing Autópark Zrt.	74,97%	50%	Hungary	Car finance activity.
MKB-Euroleasing Zrt.	50,98%	50%	Hungary	Holding of Euroleasing group.
MKB Üzemeltetési Kft.	100%	100%	Hungary	Property operation and maintenance.
MKB Unionbank AD	94%	94%	Bulgaria	Fully licenced commercial bank.
MKB Romexterra Bank S.A.	82,47%	82,47%	Romania	Fully licenced commercial bank.
MKB Romexterra Leasing IFN S.A.	76,59%	92,87%	Romania	Car finance activity.
S.C. Corporate Recovery Management S.R.L.	82,47%	100%	Romania	Claims buying/factoring activity.
MKB Befektetési Alapkezelő Zrt.	100%	100%	Hungary	Investment fund management activity.
Resideal Zrt.	100%	100%	Hungary	Property investment and valuation.
Exter-Immo Zrt.	100%	100%	Hungary	Financial leasing activity.
Exter-Bérlet Kft.	100%	100%	Hungary	Wholesale trade.

40 Funds management

40.1

The Group manages 19 close-ended (2008: 22) and 16 open-ended (2008: 10) investment fund via MKB Befektetési Alapkezelő Zrt, a fully owned and consolidated subsidiary. However, as the funds themselves are not controlled by the Group, they are not consolidated. For funds management services provided by the Group, funds should pay certain fees and commission that is presented as „Commission and fee income" (see Note 29). In 2009 and 2008, the volume of the funds, and transactions with the funds themselves were as follows:

Data in HUF million

Managed funds	2009	2008
Open-ended funds	75 639	61 949
Close-ended funds	41 054	57 692
Commission and fee income from funds	2 320	1 729
Deposits from funds	68 288	53 853
Interest expense on deposits from funds	5 516	3 961

41 Segment information

The following segment information has been prepared in accordance with IFRS 8, "Operating Segments," which defines requirements for the disclosure of financial information of an entity's operating segments. It follows the "management approach", which requires presentation of the segments on the basis of the internal reports about components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance. Management reporting for the Group is based on IFRS.

Business segments

The business segments identified by the Group represent the organizational structure as reflected in its internal management reporting systems. The Group is organized into four 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. As of 31 December 31 2009, the Group's business segments and their main products were:

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 instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through 210 full-service branches and sub-branches (2008: 219 branches), ATMs, telephone and electronic channels.

Money and Capital Markets

The Group serves domestic institutions with sophisticated cash management and risk mitigation tools 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 market positions.

Other

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

41.1

Data in HUF million

2009	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves	6	-	-	-	-	185 687	185 687
Loans and advances to banks	7	-	(11 618)	-	77 591	-	65 973
Trading assets	8	-	-	-	43 340	-	43 340
Derivative assets held for risk management	9	-	-	-	29	-	29
Investments in securities	10	-	-	-	354 110	-	354 110
Loans and advances to customers	11	1 411 590	2 169	857 465	18	-	2 271 242
Other assets	12	-	-	-	-	37 292	37 292
Goodwill	13	-	-	-	-	40 613	40 613
Deferred tax assets	26	-	-	-	-	4 039	4 039
Investments in jointly controlled entities and associates	14	-	-	-	-	12 029	12 029
Intangibles, property and equipment	15	-	-	-	-	92 292	92 292
		1 411 590	**(9 449)**	**857 465**	**475 088**	**371 952**	**3 106 646**
Liabilities							
Amounts due to other banks	16	-	1 067 979	-	74 901	-	1 142 880
Current and deposit accounts	17	671 205	9 718	725 074	-	-	1 405 997
Trading liabilities	18	-	-	-	19 958	-	19 958
Derivative liabilities held for risk management	19	-	-	-	337	-	337
Other liabilities and provisions	20	-	-	-	-	34 070	34 070
Deferred tax liability	26	-	-	-	-	7 212	7 212
Issued debt securities	21	18 194	50 034	71 352	-	-	139 580
Subordinated debt	22	-	104 584	-	-	-	104 584
Shareholders' equity	23, 24, 25	-	-	-	-	252 028	252 028
		689 399	**1 232 315**	**796 426**	**95 196**	**293 310**	**3 106 646**
Income statement							
Gross revenue - external customers		122 657	7 021	101 510	59 429	922	291 539
Gross revenue - inter-segment		(28 963)	30 236	22 738	(24 012)	-	-
Interest and commission expenditure		(34 920)	(37 587)	(44 313)	(10 869)	(17 538)	(145 227)
Impairment and provisions for losses	31	(34 967)	(9 036)	(29 713)	0	7 295	(66 421)
Operating costs		(21 548)	(5 863)	(36 237)	(5 847)	(4 259)	(73 754)
Share of associates' profit		-	-	(99)	-	-	(99)
Segment result		**2 259**	**(15 229)**	**13 886**	**18 701**	**(13 580)**	**6 037**
Other information							
Capital expenditure		-	-	-	-	37 242	37 242
Depreciation and amortisation	15	3 248	66	4 624	534	360	8 832
Other non-cash expenses		4 63	-	414	-	23	900

Data in HUF million

2008	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves	6	-	-	-	-	212 685	212 685
Loans and advances to banks	7	-	93 603	-	23 008	-	116 611
Trading assets	8	-	-	-	65 590	-	65 590
Derivative assets held for risk management	9	-	-	-	80	-	80
Investments in securities	10	-	-	-	51 051	-	51 051
Loans and advances to customers	11	1 592 439	105 693	593 887	775	-	2 292 794
Other assets	12	-	-	-	-	18 217	18 217
Goodwill	13	-	-	-	-	33 650	33 650
Deferred tax assets	26	-	-	-	-	3 246	3 246
Investments in jointly controlled entities and associates	14	-	-	-	-	11 231	11 231
Intangibles, property and equipment	15	-	-	-	-	80 271	80 271
		1 592 439	**199 296**	**593 887**	**140 504**	**359 300**	**2 885 426**
Liabilities							
Amounts due to other banks	16	-	915 647	-	31 462	-	947 109
Current and deposit accounts	17	656 659	(4 256)	615 439	-	-	1 267 842
Trading liabilities	18	-	-	-	30 231	-	30 231
Derivative liabilities held for risk management	19	-	-	-	3 224	-	3 224
Other liabilities and provisions	20	-	-	-	-	31 604	31 604
Deferred tax liability	26	-	-	-	-	4 173	4 173
Issued debt securities	21	21 348	199 585	48 196	-	-	269 129
Subordinated debt	22	-	102 892	-	-	-	102 892
Shareholders' equity	23, 24, 25	-	-	-	-	229 222	229 222
		678 007	**1 213 868**	**663 635**	**64 917**	**2 64 999**	**2 885 426**
Income statement							
Gross revenue - external customers		139 601	11 037	50 470	23 199	37 265	261 572
Gross revenue - inter-segment		(42 435)	26 680	16 935	(1 180)	-	-
Interest and commission expenditure		(36 111)	(36 723)	(19 664)	(12 300)	(36 330)	(141 128)
Impairment and provisions for losses	31	(33 024)	(1 145)	(8 401)	-	(433)	(43 003)
Operating costs		(19 546)	(349)	(31 227)	(3 774)	(15 464)	(70 360)
Share of associates' profit		-	-	1 255	-	-	1 255
Segment result		**8 485**	**(500)**	**9 368**	**5 945**	**(14 962)**	**8 336**
Other information							
Capital expenditure		-	-	-	-	19 584	19 584
Depreciation and amortisation	15	2 471	104	2 895	441	1 555	7 466
Other non-cash expenses		89	159	87	8	35	378

Measurement of segment profit or loss

Segment reporting under IFRS 8 requires a presentation of the segment results based on management reporting methods with reconciliation between the results of the business segments and the consolidated financial statements. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information which are regularly reviewed by the chief operating decision maker.

Calculation of intersegment revenue

Intersegment revenues and expenses 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.

Since the Group's business activities are diverse in nature and its operations are integrated, certain estimates and judgments have been made to apportion revenue and expense items among the business segments.

42 Changes in accounting estimates

Due to the financial crises and market changes change in valuation method was necessary concerning the currency based derivative transactions. Earlier the fair value of this kind of transactions was calculating by discounting with swap yield curves. The traditional valuation technique does not take into account that some of the currencies are more risk related than the others and the investors request premium to compensate their credit risk. The indicator of this risk is CBS (Cross Currency Basis Swap) spread, which is used in valuation technique from 1 January, 2009.

This new valuation model resulted 2,394 million gains in other comprehensive income. As the risk decreases by approaching the date of cash flow, this effect decreases as well.

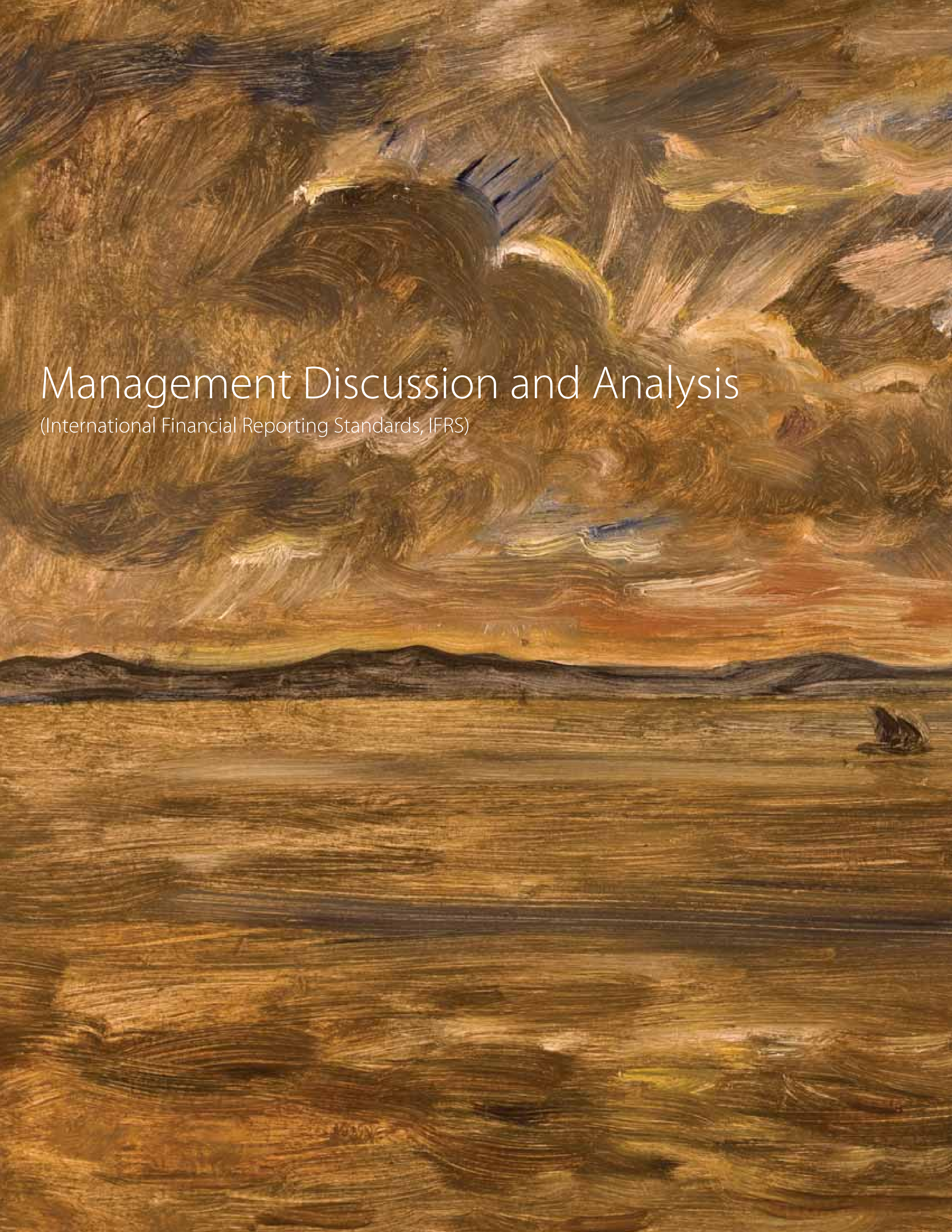
43 Events after the end of the reporting period

On 8 January, 2010 MKB acquired additional shares in MKB Életbiztosító Zrt. and MKB Általános Biztosító Zrt. After the acquisition MKB owns 37.5% of the ordinary shares in both entity directly.

Due to the financial crises quick reply on the new circumstances is necessary in the Romanian market. In order to keep the pace with the new market requirements the management decided to restructure the Romexterra Group. Corporate Recovery Management S.R.L. will be directly owned by MKB from 2010. The management also decided to introduce some belt tightening measures, which includes cutting costs, making redundancy, strengthening the workout process etc.

Management Discussion and Analysis

(International Financial Reporting Standards, IFRS)



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 2009. 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, 2009 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 – MKB Unionbank, and Romanian – MKB Romexterra Group.
Although with differences, the global economic crisis hit the CEE-SEE economies seriously in 2009, resulting in deep recession in almost every country. Significant decline in external demand and heavy contraction of investments were the key factors to decrease output and to deteriorate overall performance of the economies. In some countries further internal factors deepened the crisis, such as budget deficits, heavy dependency on external financing, serious decrease of internal demand and the indebtedness of both households and companies in foreign currency.
Adjustments resulted in the improvement of external balance, the decline in inflation rate and in line with significant efforts to cut-back budget expenditures and to reallocate financial resources to boost the economy. Financial stabilization was also supported by the continuously improving international financial markets. Asset growth was stopped, thus, the banking systems' liquidity was gradually improved. Both business policies aiming to improve LTD ratios and also recession effects were contributors to this process. Portfolio quality deteriorated as projected, NPL ratios and provisioning level rose significantly. Efficiency improvement programs, cost cutting measures and price-adjustments were introduced. Banking systems are stable their capital adequacy ratios well exceed the supervisory requirement with coverage for further limited losses.

Domestic business area

Financial stabilisation in Hungary with essential central budget deficit reduction to 3.6% of GDP also meant a growth sacrifice, as the contraction outperformed the region with GDP falling by more than 7% in real terms (y/y) in the third quarter of 2009.
The current account deficit and the foreign trade balance improved, on the basis of the reduced investment activities and domestic consumption. Industrial output fell by 19% (11 months y/y) mostly as an effect of the reduced export demand. Rate of unemployment peaked on 10.5% at the end of the year. The rate of inflation improved to 4.2% (with the effect of the 5 pps interim general VAT rate hike) and the base rate decreased to 6.25% (cut by 375 bps sum in 2009). The exchange rate of the forint stabilized during the second half of the year on a weaker level, than it was a year before, although it strengthened largely in comparison to the March, most critical period.
During the 3rd quarter it was important to introduce a wide scale of austerity measures that are able to cope with the effects of the crisis and meet the criterions of the EU-IMF contract. As a result, the country risk factors and the opinion of international organisations and rating agencies improved. Hungary remained in investment category at all 3 major rating agencies in 2009.

Bulgarian business area

Despite the started economic recovery at the end of 2009 GDP declined by 5.1% from 6.5%. The budget deficit accumulated since the beginning of the year stood negative, about 0.8% of GDP. Standard & Poor's has revised the country's outlook from stable to positive due to the favorable fiscal policy. The year-on-year inflation in the country stood negative in December 2009: 0.1%. The deficit on the current account is by 63.9% lower than in the same period of the previous year in amount EUR 2.5 billion (8.5% of GDP). Due to the global financial repercussions and overall uncertainty on emerging markets the foreign direct investment inflow in the country reported a dramatic slow down in 2009, almost by 56.6% less than in 2008. It was mainly due to the construction industry and real estate operation. The industrial output is also reduced, the year-on-year fall was 12.1%. The business climate in the country was unfavorable. At the end of the year the index in all sectors of the economy declined except for construction where it remained unchanged. In 2009 the banking system assets increased by 17.72% compared to BGN 69.56 billon at the end of 2008. The bad loans in the banking system increased 3.3 times comparing to 2008. The market segment with the highest share of bad loans is the residential loans, consumer loans and corporate loans with overdrafts.

Romanian business area

During 2009 the economy declined by 7.2% (2008: GDP growth by 7.1%). Standard & Poor's has reaffirmed Romania's rating to 'BB+' negative long term foreign currency credit ratings. The annual average inflation rate was 5.6% in 2009 (2008: 7.9%). The foreign direct investment inflow decreased by 45% to EUR 5 billion. The volume of completed real estate transactions was down by 90% to EUR 100 million compared to 2008. A continues fall in domestic demand (consumption and investments) and in imports lead to an improvement in the foreign trade deficit and in current account deficit. The deficit on the current account is 4.3% of GDP in amount EUR 5 billion. Romania's trade deficit reduced by 65% in November comparing to the same month of 2008 based on the indubitable evidence of a sharp economic contraction. The banking system assets approached EUR 85 billion at the end of 2009. The volume on traded on the money market currency market was 24% lower than in 2008 (EUR 353 billion) registering almost a return to 2007 levels.

In 2009 MKB Group's principal long-term financial priorities aiming at diversified revenues, focused cost discipline, sustainable credit quality and effective balance sheet and capital management were again manifested in its business activity and financial performance. In the year 2009, MKB Group replied quickly on the requirements of the changed market environment, which contributed to a balanced financial performance.

Financial Performance

In 2009 MKB Group preserve market positions of domestic and foreign business areas but also faced the negative impacts of the world wide macroeconomic environment. The Group's total operating income (net interest income plus non-interest income), continued growing in 2009 with a year-over-year increased by 21.5% to HUF 146,311 million (2008: HUF 120,444 million). The main factor of this growth relates to interest bearing items however net interest income's share showed a slight decrease compared to the previous year (2009: 67.6%, 2008: 68.7%). The significant growth of the net interest income derived from the increased financial position of available for sale securities which resulted also higher interest income.

The falling interest income from lending business and the similar amount of net commission income reflected on the shrinking lending business and volume of payment transactions which fitted to at the general market environment in the CEE region. Net commission income sustained on the same level as in previous year. However net commission income shows 14% increase, some part of the commission expenses was converted into interest expenses due to disclosure requirements.

In 2009 other operating income reflected a significant increase 37.5% from HUF 18.2 billion in 2008 to HUF 25.1 billion, mainly due to realized gain on sale of AFS government bond securities in the domestic market.

The profit before taxation of HUF 6,037 million for 2009 was behind the 2008 profit of HUF 8,336 million, extreme increase of net provision charges and significant lower profit from equity consolidated participation could not be counterbalanced by higher pre provision business income. The profit from equity consolidated participations decreased significantly by HUF 1.3 billion due to the lower profitability of joint ventures and associates and the Group recognized HUF 601 million loss as a consolidation effect of Ercorner Kft. due to accounting previous equity loss on current year share capital issuance. The pre-tax return on average equity ratio (ROAE) was 2.7% for 2009 (2008: 3.3%), while the pre-tax return on average assets ratio (ROAA) was 0.2% in 2009 (2008: 0.3%). However, the profit before tax in MKB stand alone achieved sharp increase (by 104%) compared to the previous year level, but the loss of consolidated companies eliminated this effect. The net provision charge became extremely high due to deteriorating exposure of wholesale and small and medium loans and advances mainly in Romexterra Group, which had a material impact on profit before tax. This reflected in the significant rise of relative net provision charge, which was at 2.9% for 2009 compared to the 1.9% figure of 2008. Prudent risk management process provided a strong coverage to non-performing wholesale and small and medium type of loans in the Romexterra's business.

Despite the higher level of impairments and the unfavourable market environment, the MKB Group was able to preserve its own operating profitability regarding the business income, which is reflected in the gross operating margin (gross operating income to average assets) of 4.9% for 2009, having the 4.8% of 2008 and quick treasury reply on changes in stock market, whereas the relative operating costs represented 2.5% in 2009 (2008: 2.6%). This reflected the Group's ambition for improving the harmony between the business expansion and cost's increase.

Taxes on income charges amounted to HUF 3,519 million (2008: HUF 1,176 million), from which consisted HUF 2,198 million net deferred tax expenses. Concerning deferred taxes prudent approach was applied in MKB Group, therefore deferred tax asset in case of loss making subsidiaries was not recognized.

On the grounds of profit after taxation of HUF 2,518 million for 2009, the Board of Directors proposes nil dividend payment.

Key figures

(Hungarian Accounting Rules, non-consolidated)

Data in HUF million

2009	**MKB Bank**	**MKB Unionbank**	**Romexterra Group**	**Leasing Group**	**Auxiliaries***	**MKB Group**
Total Assets	2 906 836	225 746	194 215	102 461	76 767	3 106 646
Share Capital	14 765	8 365	18 773	2 093	67 646	14 765
Reserves	242 987	9 963	(11 226)	6 867	(177)	229 266
Operating Income	**119 076**	**9 092**	**13 533**	**6 078**	**12 960**	**146 211**
Net interest income	*75 975*	*6 368*	*9 979*	*9 911*	*535*	*98 921*
Net commission income	*15 389*	*2 273*	*2 745*	*151*	*395*	*22 328*
Other	*27 712*	*451*	*809*	*(3 984)*	*12 029*	*24 962*
Operating Expenses	(55 499)	(5 651)	(10 079)	(1 584)	(13 497)	(73 754)
Impairments and provisions for losses	(37 792)	(2 721)	(12 021)	(4 293)	(923)	(57 508)
Goodwill impairment	(8 912)				-	8 912)
Profit Before Taxation	**16 872**	**720**	**(8 568)**	**201**	**(1 460)**	**6 037**
Profit After Taxation	**12 923**	**653**	**(8 111)**	**148**	**(1 367)**	**2 518**
Pre-tax Return on Average Equity (ROAE)	7,4%	4,3%	na	2,2%	na	2,7%
Earnings per Average Outstanding Share (EPS)	88,3%	7,9%	na	8,7%	na	22,2%
Pre-tax Return on Average Assets (ROAA)	0,6%	0,3%	na	0,2%	na	0,2%
Cost-to-income ratio	46,6%	62,2%	74,5%	26,1%	104,1%	50,4%
Capital adequacy ratio	9,78%	13,4%	11,8%	na	na	10,1%
2008						
Total Assets	2 656 629	207 689	225 315	128 875	71 896	2 885 426
Share Capital	14 094	8 179	17 953	1 293	64 507	14 094
Reserves	202 752	9 086	(3 564)	9 429	1 357	215 127
Operating Income	**97 037**	**6 688**	**11 526**	**4 269**	**13 144**	**120 444**
Net interest income	*66 197*	*5 816*	*7 343*	*5 004*	*804*	*82 679*
Net commission income	*15 103*	*1 728*	*3 238*	*(1 422)*	*(13)*	*19 541*
Other	*15 737*	*(856)*	*945*	*193*	*12 353*	*18 224*
Operating Expenses	54 358	(4 068)	(10 046)	(1 807)	(11 511)	(70 360)
Impairments and provisions for losses	35 102	(754)	(5 444) (	1 269)	(138)	(43 003)
Goodwill impairment	(1 052)					(1 052)
Profit Before Taxation	**7 577**	**1 866**	**(3 964)**	**1 193**	**1 496**	**8 336**
Profit After Taxation	**6 584**	**1 675**	**(4 114)**	**1 659 1**	**231**	**6 449**
Pre-tax Return on Average Equity (ROAE)	4,6%	12,6%	na	13,5%	2,4%	3,3%
Earnings per Average Outstanding Share (EPS)	46,7%	20,5%	na	128,3%	1,9%	45,8%
Pre-tax Return on Average Assets (ROAA)	0,3%	1,3%	na	1,1%	2,3%	0,3%
Cost-to-income ratio	56,0%	60,8%	87,2%	42,3%	87,6%	58,4%
Capital adequacy ratio	9,65%	13,8%	9,8%	na	na	10,8%

* Autóhitel, Autólízing

**MKB Üzemeltetési, Befektetési Alapkezelő, Exter-Bérlet, Resideál, Exter-Immo

The profit before tax of MKB achieved attractive HUF 16,872 billion due to quick reply on the new market requirements like reprising of loans and more active treasury business. These facts reflect in the pre-tax return on average equity (7.4%) and CIR which dropped from 56% in 2008 to 46.6% in 2009.
The pre-tax ROAE of Unionbank was significantly over the consolidated level of the Group (2.7%). This indicator of MKB Unionbank decreased significantly, which amounted to 4.3 % compared to 12.6% of the previous year-end. During the business year the MKB Bank's ownership in Unionbank increased, from 60% to 94% which resulted significant goodwill raise in amount HUF 16.6 billion. There was a sharp increase (35.9%) of pre provision net operating profit amounting HUF 3,441 million (2008: HUF 2,620 million). The decrease of ROAA reflected the higher impairment expenses and a more conservative business activity that is consistent with the increase risk from the economic crisis. Cost to income ratio was over the consolidated level (50.4%) and slightly grew to 62.2% from the 60.8% for 2008.
Regarding Romexterra Group's ROAE and ROAA, there was still non applicable due to the negative profit before tax. From the other side there was a huge flaring of pre provision net operating profit, which increased to HUF 3,454 million from HUF 1,480 million. This could be explained by growth (17.4%) of operating income, while due to the strict cost control the CIR developed from 87.2% in 2008 to 74.5% in 2009. Although there was expansion in incomes, the impairment recognized in SME portfolio overcompensated this effect.
The MKB Euroleasing Group's ROAE decreased to 2.2% (2008: 13.5%) and the CIR was 26.1%, which was a significant reduce compared to the previous year level (42.3%). This reflected in shrinking of business activity in the car finance market, the efficient cost cutting in wages and salaries and other side the implementation of amortizing of new commissions.

Net interest income

Net interest income, the most important component of revenue, amounted to HUF 98,921 million, 19.6% in excess of HUF 82,679 million in 2008. The average interest earning assets significantly increased (by HUF 254 billion), while the total average loans and advances grew by HUF 61.2 billion. This growth of average assets derived from the huge increase in exposure of government bonds. The net margin increased to 2.96% from 2.70%, which was explained by continual reprising of customer loan from the end of last year which counterbalanced significantly the moderate business activity and the less willing to pay.
Parallel the money market financing became cheaper then it was last year, which resulted slight decrease of interest expenses.
The 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. The customer exposure reflects moderate business growth. The interest income from loans and advances slightly sustain at same level.
The average interest earning liabilities increased by HUF 460.6 billion, that gave coverage for the moderate business extension. The growth of customer deposit was over than the expansion of customers' loans and advances which reflected HUF 61.2 billion increase. Both the customer and bank deposit increased and parallel significant growth (HUF 303 million) of investment in securities occurred. The new money market loans derived from parent bank. Corporate current and deposit accounts significantly increase compared to the previous levels which belong to the retail client deposit. The level of corporate clients deposit reflected slight growth (HUF 30.6 billion) compared to the previous year which showed the positive tendency of financing business in corporate segment.
Interest expense due to the increase of retail deposit significantly increased to HUF 72.3 billion from HUF 61.8 billion 2008 which reflected in the enhanced roll of the retail deposits in the Group's financing structure.
The interest income from debt securities significantly increased (by HUF 12 billion) due to the purchasing of government bonds, which bind the liquidity surplus in moderate loan business environment.

Average interest asset/liabilities by business areas

Data in HUF million

	MKB Bank		MKB Unionbank		MKB Romexterra Bank	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Average Loans and advances	2 360 499	2 071 419	153 498	137 476	113 134	109 873
Average securities	351 333	137 075	4 815	2 514	35 017	6 034
Average interest earning assets	**2 711 832**	**2 208 495**	**158 313**	**139 990**	**148 151**	**115 907**
Average interest rate %	*6,33%*	*6,92%*	*9,24*	*8,33*	*14,74*	*13,94*
Average customer and deposit accounts	2 169 402	1 691 516	193 684	144 320	186 896	143 655
Average issued securities	401 727	384 355	477	1 797	162 827	
Average interest bearing liabilities	**2 571 129**	**2 075 871**	**194 161**	**146 116**	**187 059**	**144 482**
Average interest rate %	*4,45%*	*5,24%*	*4,36*	*4,18*	*7,83*	*6,79*
Difference betwen average rate %	**1,89%**	**1,68%**	**4,88**	**4,16**	**6,91**	**7,15**

In 2009 **MKB Bank reported** HUF 75,975 million net interest income, a positive result compared to the HUF 66,197 million in the previous year. This significant increase in interest marge related to reprising of retail and corporate customer loans reduced the impact on shrinking economic environment. Last year the bank had to give a special premium to private customers in order to increase the deposit exposure. The deposit promotions generated the growth of retail deposit and additional interest expenses in 2009. The surplus of interest expense was overcompensated by reprising effect and moderate business growth.

In 2009 the average portfolio of interest-bearing assets grew from HUF 2,208.5 billion in 2008 by 22.8% due to a robust 19.3% increase in the currency-based portfolio. At the same time, interest-bearing assets denominated in domestic currency reflected a relative decrease (1.2%) caused by shrinking of average money market exposures in domestic currency which was not overcompensated by slight growth of average corporate exposures.

The customer loans increased primarily in the large corporate segment, where the return is less effective (HUF 147.5 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 106.5 billion) but the average portfolio.

In 2009 the average portfolio of interest bearing assets of MKB Unionbank increased from HUF 139.9 billion in 2008 by 13.1% to HUF 158.3 billion. Increase of the average portfolio was resulted from new transactions significantly in corporate segment (34.3%). The considerable growth has appeared in private sector (25.5%). At the same time average portfolio of securities raise by 91.6% (amounted to HUF 4,815 million).

The increase of average portfolio related to private individuals was mainly denominated in domestic currency (BGN). Structure of corporate segment has slightly changed in 2009. The large corporate segment was increased from HUF 22 billion to HUF 38.9 billion.

The average portfolio of interest bearing liabilities increased from HUF 146.2 billion by 32.9% to 194.2 billion mainly because of the moderate growth previous year. In 2009 the average deposit portfolio increased by HUF 49.4 billion (34.2%) which was mainly derived from increase of the term deposits. The average exposure of issued securities significantly decreased by HUF 1.3 billion (72.56 %). On account of the above mentioned factors the net interest margin changed to 4.88%.

In 2009 average portfolio of **interest bearing assets of MKB Romexterra Bank** significantly increased by 27.8% (amounted to HUF 148.2 billion) from HUF 115.9 billion in 2008. The reason of significant increase average balance of securities by HUF 29 billion to HUF 35 billion. According to the average loan portfolio sustained at previous year's level.

Meanwhile, the average portfolio of interest-bearing liabilities enlarged from HUF 144.5 billion in 2008 by 29.5% amounted to HUF 187.1 billion.The main indicator of increase was the rise of customer deposit in the retail segment. The moderate business activity and harsh competition on deposit market resulted the decrease of net interest margin from 7.2% to 6.2%.

Non-interest income

For 2009, the total non-interest income increased by 25.5% and amounted to HUF 47,390 million (2008: HUF 37,765 million), representing 32.4% of gross operating income compared to 31.4% in 2008. 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 22,328 million grew by 14% from HUF 19,541 million in 2008, reflecting the almost unchanged position of the Bank's fee-generating activities. The moderate growth of lending business resulted HUF 0.9 billion commission income. The sustained income from payment transaction showed the standstill of business extension in the market. At the same time, the commission expense slightly decreased due to shrinking of lending business and payment transactions. The subsidiaries' business activity showed same symptom which resulted HUF 0.5 billion decrease in case of Romexterra Bank and HUF 0.5 billion increase in case of Unionbank.

However credit and payment fee-income grew compared to 2008, the income level was below the planned level in the domestic business area.

Meanwhile, fee expenses showed a significant decrease (by HUF 1,806 million) compared to previous years and dropped to HUF 5,972 million from 2008 year-end figure of HUF 7,778 million. The reason of shrinking of fee expense can be related to the credit business and payment activity.

Other operating income of HUF 25,062 million for 2009 was significantly over the total amount of HUF 18,224 million for 2008. The gain on sale of trading securities showed HUF 2,559 million increase compared to previous year meanwhile the trading gains on AFS securities showed extra profit surplus HUF 16,789 compared to 2008. This mainly reflected the realized gain of Hungarian government bonds which were held in AFS portfolio. Net gain on derivative transaction represented 34.4% of total operating income which showed less significance among the operating income elements, than in year before. Despite it, the net income from derivative business amounted to HUF 8,628 million which can be explained by interest related transaction. By the end of the year the bank reclassified the net income on CRS derivatives into the interest related transaction. The other expense amounted to HUF 4,028 million which mainly derived from the cost of treasury activity (bonds and equity's trading cost of carry). Less part derived from fair value result from fair value options amounted to HUF 643.7 million.

Within **MKB's non-interest-type income,** the HUF 15,389 million net fee and commission income in 2009 sustained at the previous year level amounted to HUF 15,103 million income. This standstill of commission income derived from less credit business activity and less payment transaction due to the recession of macroeconomic environment. The other operating income significantly increased due to the trading activity on government bonds (by HUF 16,904 million) which was slightly compensated by the shrinking of net gain on derivative assets (by HUF 5,540 million).

MKB Unionbank's net commission and fee income was up 31.5% from HUF 1,728 million in 2008. Vivid increasing eventuated due to extension of lending business (HUF 0.7 billion) as a consequence of that, the total amount reached HUF 2.3 billion at the end of this year. While income from FX based transaction was HUF 0.3 billion profit in 2008, for the year of 2009 Unionbank disclosed HUF 0.7 billion profits mainly due to revaluation of currency related transactions.

MKB Romexterra Group's net commission and fee income slightly declined from 3.2 billion in 2008 to HUF 2.7 billion in this year, recognizing more commission and fee expense from payment services in amount HUF 0.3 billion while other commission income decreased by HUF 0.4 billion. The currency related transactions were reducing from HUF 1.5 billion in 2008 to 0.9 billion due to fall of FX based transactions.

Provision

Due to the financial crises more prudent approach which resulted more impairment and provision, than in the previous year.. This approach reflected in much higher impairment level of loans and advances and the regularly conducted impairment test on goodwill during the second half of the year. As a result of goodwill impairment tests the Group recognized HUF 8,912 million impairment on MKB Romexterra Bank's goodwill, which reduced its carrying amount by 56%. The total credit risk provision amounted to HUF 120,378 million in the financial position, which means additional HUF 57,508 million net provision charge in 2009. The main part of the net provision charge was recognized in Romexterra Bank's and MKB's books.

Operating costs

Cost discipline remained a priority in 2009 as well, although the Group continued to investing in revenue growth initiatives. During 2009 operating costs totaled HUF 73,754 million, 4.8% higher than HUF 70,360 million 1 year earlier.

The nominal growth in operating expenses was driven from General and administrative expenses and Occupancy cost and Communication and data processing, with more than 15% growth in case of three types expenses.

In nominal terms the general and administrative costs increased by 15.4% over 2008 which was mostly caused by higher cost level of Romanian market. The increase related to MKB stand alone figure was only 10.8%. The decrease of salaries and wages was visible (1%) also included the big effect of MKB Romexterra Group's change where the number of employees were reduced by 17.2% ,which resulted 4.7% decrease of salaries and wages in Romexterra Bank. The compulsory social security contribution significantly decreased compared to change on relevant regulation about social security fee.

However the Group opened 5 new branches in 2009 which seemed to be much lesser growing rate than previous year's one (29), the occupancy cost disclosed almost same growth (15%) than in previous year (14.7%). This reflected the more growth in gas, electricity charges than in property rental expenses and this could be related to higher price level in Romanian market. Simultaneously, communication and data processing expenses increased by HUF 1,118 million due to the required IT development tasks which related to core system and data warehouse. There was significant cost cutting in marketing budget which showed HUF 800 million decrease compared to previous year and following the domestic market tendency.

The recognized benchmark to measure efficiency in the banking industry, the cost-to-income ratio for the year 2009 was 50.4%, that was lower than 58.4% figure of 2008. This decrease compared to last year's figure reflected cut of marketing costs and decrease of compulsory social security contribution.

MKB Bank's operating costs amounted to HUF 55,499 million with a 1.7% nominal increase compared to the HUF 54,545 million total costs in 2008. In relation to the standstill of business growth in MKB Bank in 2009, the headcount figure sustained almost at previous level during this year. The salaries, wages and other staff-related expenses decreased by 4.8% and reached HUF 23,506 million. This decrease was related to strict cost control over salaries and wages and change on regulation related to compulsory contribution (from 32% to 27% in general).

The general administration expenses grew by HUF 1,035 million, which mostly derived from increase of other tax items and other office costs.

The growth in communication and data processing costs (9%) which can be bind to IT cost 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 (5 new branches), were the most important items.

The occupancy cost increased significantly by 11.1% (by HUF 899 million) due to the rental cost of new branches and new office for administrative purpose.

The marketing cost in line with the moderate business activity significantly decrease by 22.1% amounted to HUF 2,190 million.

The Bank's 46.6% cost to income ratio indicated some improving in comparison to the 56% in 2008. The Bank introduced the first part of the strict cost control over MKB during 2009. Consequently the Bank gave up the hire of new employees.

General and administrative cost of MKB Unionbank increased by HUF 1.5 billion from 2008 (HUF 4.1 billion) to 2009 (HUF 5.6 billion). The number of employees reduced by 11.4% to 693 meanwhile the salaries and wages were up by 16.5% to HUF 2.2 billion from 2008 to 1.8 billion. The other administrative expenses increased from HUF 1.5 billion 2008 to HUF 2.7 billion 2009 (79.9% increasing). Related to administrative expenses rising could be explained by a higher amount of building cost (HUF 0.8 billion). The above mentioned cost increase was indicated by extension of branch network which caused relative high CIR 62.2% (2008: 60.8%).

General and administrative cost of MKB Romexterra Bank slightly decreased from HUF 9.4 billion in the previous year to HUF 9.3 billion. The number of employees reduced by 17.2% to 891 which can be explained the fall of salaries and wages by 4.7% to HUF 3.6 billion. The other administration expenses are almost the same level in amount HUF 3.8 billion comparing to the previous year. The above mentioned cost restriction caused lower CIR 80.6% (2008: 90%).

Financial Position Management

At the end of 2009, the Group's total assets were up 7.7% from HUF 2,885.4 billion at previous year-end to HUF 3,106.7 billion. However the volume of total asset increase, the loans and advances exposure was at the previous year level. This reflected by the change on the share of customer asset balances which decreased to (73.1%) as it was in the previous year-end (79.5%) in the total.

In 2009 growth in total assets was primarily driven by purchase of government bond securities in amount of HUF 303 million. Among customer loans the largest indicator of increase (HUF 80.9 billion) was additional (HUF 65 billion) project- and corporate financing loans that was given to real estate sector. Parallel, significant (HUF 72.6 billion) decrease was visible concerning the small and medium enterprise's exposures which related to food and beverages and trade and services.

The loans and advances to retail sector had prominent decrease due to the increase of collectively impairments (by HUF 12.2 billion). Residential mortgage loans to private clients increased by HUF 30.9 billion which could be regarded as normal tendency.

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 Group by corporate and private customers increased by 10.89% amounted to HUF 1,405.9 billion (2008: HUF 1,267.8 billion). The current and deposit account increased by HUF 3.6 billion in case of MKB Romexterra Bank at the same time growth of HUF 3.3 billion was appeared in the customer deposit of MKB Unionbank.

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 resources on the market.

The money market deposits (HUF 1,142.9 billion) grew by HUF 195.8 billion in 2009 since the end of the previous year, mainly as a result of currency deposits from the money market. This increase of the inter-bank deposits exceeded the budget. This provided a long-term response to the shortage of funds on the international equity markets. The financing derived from the BayernLB according to the group treasury arrangements.

At the end of 2009 **the total assets of MKB Bank** were HUF 2,906.8 billion, 9.4 % higher than HUF 2,656.6 billion for 2008. This growth was behind the 18.9 % level as in the previous year.

The volume of the investment in securities held for AFS purposes grew significantly up to HUF 328.3 billion from HUF 39.2 billion in 2008, mainly because of the increased portfolio of Hungarian government bonds.

Among the assets, the customer loan portfolio remained almost on the same level as in the last year.

The dominance of the loans denominated in foreign currency to corporate customers remained significant in the portfolio, representing 74% (typically EUR loans). Similarly to corporate loans, foreign currency loans dominated in the retail customer segment throughout the year, as a result of which foreign currency loans represent approximately 86% of the total retail loan portfolio of the Bank similarly to last year. The majority of the new retail currency loans were taken in EUR, mainly in the form of new transactions dominated by real property and other mortgage loans. Because of these facts, the high fluctuation of FX rates has been reflected on the balance sheet and also on the profit and loss figures.

The customer deposits grew by 11.78% from HUF 1,087.8 billion in the previous year to HUF 1,215.9 billion. The growth was higher than in 2008, which was also reflected in the slight raise share of the customer deposit portfolio (2009: 45.9%, 2008: 44.6%). The corporate deposit increased by 10.3% to HUF 683.2 million in 2009. The share of Micro SME segment's deposit is slightly rose to 15% in amount 102.49 billion was at the end of the year.

The average portfolio of retail deposits grew to HUF 431 billion from HUF 405.6 billion in the previous year. In terms of timing of the retail deposits, a major increase was observed in the third quarter (HUF 74.5 billion) - primarily in relation to an increase in demand HUF and EUR deposits. While the current HUF retail deposit portfolio increased by HUF 4 billion during the year.

The money market financing derived directly from BayernLB in amount of HUF 915.9 billion deposit. The share of banking deposit changed from 37.5% of previous year level to 42.6% at the end of current year.

Portfolio of issued Bonds decreased by HUF 129,5 million mainly because EUR 455 million issued bonds matured in October 2009.

At the end of 2009 MKB Unionbank's total assets increased by 8.7% from HUF 207.7 billion at previous year-end to HUF 225.7 billion. During 2009 the loans portfolio growth by 10% to HUF 165 billion compared to HUF 150 billion in the previous year. The retail segmentation which contains the small companies & individual clients and households slightly reduced by 2% to HUF 69.3 billion from HUF 70.7 billion. Meanwhile the corporate segmentation was up by 18.7% to HUF 92 billion.

The customer deposit barely rose by 2.8 % with a net increase of HUF 3.3 billion. The deposit from retail segment at the end of the year amounted to HUF 60 billion. During the reporting period the Bank kept on extending its client base. At the end of 2009, the Bank's customers in the retail banking numbered 85,744 in which 9,601 are SMEs and 76,143 are individuals.

In this **financial year total assets of MKB Romexterra Bank** decreased by 21.3% from HUF 191.8 billion to 150.8 billion. The loan portfolio of MKB Romexterra Bank significantly reduced by 22.7% to HUF 98.7 billion. The sharpest decrease eventuated in SME segment that was down by 22% to HUF 56.56 billion.

The current account and deposit balances increased from HUF 69.1 billion to HUF 72.7 billion at the end of year. While the deposit from retail segment growth by 32% to HUF 38.5 billion the corporate segmentation decreased by 10.4% to HUF 40.1 billion. At the end of 2009, the Bank's customers in the retail banking numbered 217,464. Due to the huge decrease of customer deposit MKB had to provide the stable liquidity situation for MKB Romexterra Bank during this year. This changed the proportion of financing structure of 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 capitalized 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 also been introduced, as well as increased supervisory review and extended public disclosure needs.

Tier 1 Capital includes securities with no fixed maturity date, such as ordinary shares. At December 31, 2009, as a preliminary figure the Group had HUF 186.6 billion (2008: HUF 188.9 billion) under Hungarian Supervisory Regulation.

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 2009, Tier 2 capital element increased to HUF 61,394 million (including HUF 104,273 million subordinated debt with deduction of 50% core capital limit (HUF 6,621 million) and of up to 5 year maturity (HUF 4,333 million) In 2008: HUF 67,032 million (HUF 101,940 million subordinated loan comprising) deducted by HUF 5,381 million due to the up to 5 year maturity. There is no additional borrowed subordinated debt during this year.

Risk-weighted assets including operational and market risk decreased by 5.7% from 2008 (HUF 2,487.6 billion) and amounted to HUF 2,345.8 billion.

At 2009 year-end, the Group's level of capital remained strong, with capital ratios in excess of regulatory minimum requirements. However there was capital increase in March, 2009, the Group's regulatory capital base decreased amounted to HUF 251.6 billion under the Hungarian Supervisory Regulations. The decrease was caused by additional provision that was required by Hungarian Supervisory and cumulated loss related to Romexterra Group. Despite this negative effect, the capital adequacy ratio slightly decreased to 10.13% from 10.33% reflecting the strong capital adequacy level. However, the Group's capital adequacy ratio safely exceeded the minimum legal supervisory requirements.

The CAR of MKB Unionbank decreased to 13.40% from 13.83% of previous year level under local supervisory regulation. The core capital was HUF 23,836 million which was higher than the previous year-end figure (HUF 21,704 million) due to the additional subordinated loans derived from MKB Bank. Meanwhile the risk asset increased by 13.4% amounted to HUF 177,929 million (2008: HUF 156,890 million) according to local supervisory gap.

The CAR of MKB Romexterra Bank significantly increased to 13.14% from of previous year-end level 9.19% according to supervisory local gap. The core capital was HUF 13,227 which was higher than the previous year-end figure (HUF 11,977.6 million) due to the additional capital contribution derived from MKB Bank. Meanwhile the risk asset decreased by 22.72% amounted to HUF 100,699 million from HUF 130,298 million in 2008 (including increasing capital charge for market risk position by 43.24% to HUF 613 million) This was explained by the standstill of business growth of MKB Romexterra Bank.

In frame of Group RWA management the expansion of business growth in both subsidiaries was harmonized with core capital requirements, which contributed to more efficient use of allocated capital in the MKB Group.

Key figures

(unconsolidated , IFRS)

Data in HUF million

	2008	2009
Total Assets	2,656,629	2,906,836
Loans and advances to customers*	2,018,422	2,030,383
Current and deposit accounts	1,087,823	1,215,922
Shareholder's equity	216,847	257,752
Gross Operating Income	97,037	119,076
Operating Expenses	(54,358)	(55,499)
Operating profit	42,679	63,577
Provision Charges	(35,102)	(46,705)
Profit Before Taxation	7,577	16,872
Return on Average Equity (ROAE)**	5.6%	14.5%
Return on Average Assets (ROAA)***	0.4%	0.9%
Cost-to-income ratio	56.0%	46.6%
Capital adequacy ratio	9.7%	9.8%

Key figures

(unconsolidated , HAR)

Data in HUF million

	2008	2009
Total Assets	2,699,402	2,897,590
Shareholders' equity	206,222	234,133
Gross Operating Income	83,621	114,454
Operating Expenses	49,622	50,448
Provision Charge	29,005	61,298
Profit Before Taxation	526	342
Profit After Taxation	524	298
Pre-tax Return on Average Equity (ROAE)	0.3%	0.2%
Capital adequacy ratio	9.7%	9.8%

* Net portfolio

** Excluding Investment, Impairments and Provision Charges for foreign auxiliaries

*** Excluding the total effect of foreign auxiliaries

Unconsolidated Balance Sheet

(Hungarian Accounting Rules)

Data in HUF million

		Item	December 31, 2008	December 31, 2009
Assets				
1	**1.**	**Cash in hand, balances with central banks**	**61,972**	**55,978**
2	**2.**	**Treasury bills**	**158,083**	**396,022**
3		a) held for dealing	157,135	394,680
4		b) held for investment		
5	**2/A**	Revaluation difference on treasury bills	948	1,342
6	**3.**	**Loans and advances to credit institutions**	**212,059**	**158,436**
7		a) due on demand	28,010	10,642
8		b) other receivables from financial services	183,998	147,789
9		ba) maturity up to one year	109,058	76,636
10		Of which: – to affiliated undertakings	75,939	71,247
11		– to other undertakings with participating interest		
12		– to the National Bank of Hungary		
13		– clearing house	20	10
14		bb) maturity over one year	74,940	71,153
15		Of which: – to affiliated undertakings	69,157	67,452
16		– to other undertakings with participating interest		
17		– to the National Bank of Hungary		
18		– clearing house		
19		c) receivables from investment services	3	
20		Of which: – to affiliated undertakings		
21		– to other undertakings with participating interest		
22		– clearing house	3	
23	**3/A**	Revaluation difference on receivables due from credit institutions	48	5
24	**4.**	**Loans and advances to customers**	**2,011,338**	**2,017,525**
25		a) receivables from financial services	2,010,948	2,016,534
26		aa) maturity up to one year	699,202	616,072
27		Of which: – to affiliated undertakings	87,377	59,647
28		– to other undertakings with participating interest		0
29		ab) maturity over one year	1,311,746	1,400,462
30		Of which: – to affiliated undertakings	75,508	96,903
31		– to other undertakings with participating interest		0
32		b) receivables from investment services	89	827
33		Of which: – to affiliated undertakings		
34		– to other undertakings with participating interest		
35		ba) receivables from investment service activities on the stock exchange	38	101
36		bb) receivables from over-the-counter investment service activities		591
37		bc) receivables from investment services to customers	51	135
38		bd) receivables from clearing houses		
39		be) other receivables from investment services		
40	**4/A**	Revaluation difference on receivables due from customers	301	164

Data in HUF million

		Item	December 31, 2008	December 31, 2009
41	**5.**	**Debt securities including fixed-income securities**	**52,426**	**37,474**
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	52,465	37,190
46		ba) held for dealing	52,465	37,190
47		Of which: – to affiliated undertakings	0	46
48		– to other undertakings with participating interest		
49		– repurchased own debt securities	41,204	23,688
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	-39	284
54	**6.**	**Shares and other variable-yield securities**	**3,258**	**6,038**
55		a) shares and equity stakes held for dealing	484	96
56		Of which: – to affiliated undertakings	106	
57		– to other undertakings with participating interest		
58		b) other variable-yield securities	2,395	5,887
59		aa) held for dealing	2,395	5,887
60		bb) held for investment		
61	**6/A**	Revaluation difference on shares and other variable-yield securities	379	55
62	**7.**	**Shares and participating interests held for investment purposes**	**315**	**305**
63		a) shares and participating interests	315	305
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**	**128,585**	**133,183**
69		a) shares and participating interests in affiliated undertakings	128,585	133,183
70		Of which: – shares and participating interests in credit institutions	52,775	51,007
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**	**13,564**	**31,382**
74		a) intangible assets	13,564	31,382
75		b) revaluation surplus on intangible assets		
76	**10.**	**Tangible fixed assets**	**2,496**	**2,446**
77		a) tangible fixed assets for financial and investment services	2,053	2,002
78		aa) land and buildings	477	434

		Item	December 31, 2008	Data in HUF million December 31, 2009
79		ab) technical equipment, fittings and vehicles	1,568	1,566
80		ac) fixed assets in the course of construction	8	2
81		ad) advance payments on constructions		
82		b) tangible fixed assets servicing non-financial and non-investment activities	443	444
83		ba) land and buildings	35	35
84		bb) technical equipment, fittings and vehicles	408	409
85		bc) fixed assets in the course of construction		
86		bd) advance payments on constructions		0
87		c) revaluation surplus on tangible fixed assets		
88	**11.**	**Own shares**		
89	**12.**	**Other assets**	**30,037**	**26,811**
90		a) stocks (inventories)	314	2,747
91		b) other receivables (from non-financial and non-investment securities)	7,314	5,853
92		Of which: – to affiliated undertakings	60	145
93		– to other undertakings with participating interest		
94	**12/A**	Revaluation difference on other receivables		
95	**12/B**	Positive revaluation difference on derivative transactions	22,409	18,211
96	**13.**	**Prepayments and accrued income**	**25,269**	**31,990**
97		a) accrued income	23,504	27,817
98		b) prepayments	1,765	4,173
99		c) deferred charges		
100		**Total assets**	**2,699,402**	**2,897,590**
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)	1,164,896	1,244,880
102		***- Fixed assets***		
		(2/b+3/bb+4/ab+5/ab+5/bb+6/bb+7+8+9+10)	1,531,646	1,638,931

Liabilities

104	**1.**	**Liabilities to credit instiutions**	**911,782**	**1,127,509**
105		a) due on demand	3,826	3,664
106		b) liabilities from financial services with agreed maturity dates or periods of notice	907,841	1,123,689
107		ba) maturity up to one year	232,316	338,861
108		Of which: – to affiliated undertakings	148,202	243,238
109		– to other undertakings with participating interest		
110		– to the National Bank of Hungary	5,000	
111		– clearing house		
112		bb) maturity over one year	675,525	784,828
113		Of which: – to affiliated undertakings	509,512	680,247
114		– to other undertakings with participating interest		
115		– to the National Bank of Hungary		
116		– clearing house		

Data in HUF million

		Item	December 31, 2008	December 31, 2009
117		c) liabilities from investment services	115	156
118		Of which: – to affiliated undertakings	0	
119		– to other undertakings with participating interest		
120		– clearing house	114	155
121	**1/A**	Revaluation difference on liabilities due to credit institutions		
122	**2.**	**Liabilities to customers**	**1,079,819**	**1,196,996**
123		a) saving deposits	576	300
124		aa) due on demand		
125		ab) maturity up to one year	569	293
126		ac) maturity over one year	7	7
127		b) other liabilities from financial services	1,077,876	1,196,363
128		ba) due on demand	346,025	346,567
129		Of which: – to affiliated undertakings	7,900	3,684
130		– to other undertakings with participating interest	38	57
131		bb) maturity up to one year	715,931	825,901
132		Of which: – to affiliated undertakings	6,216	3,286
133		– to other undertakings with participating interest	727	314
134		bc) maturity over one year	15,920	23,895
135		Of which: – to affiliated undertakings		
136		– to other undertakings with participating interest		
137		c) liabilities from investment services	1,367	333
138		Of which: – to affiliated undertakings		
139		– to other undertakings with participating interest		
140		ca) liabilities from investment service activities on the stock exchange		
141		cb) liabilities from over-the-counter investment service activities		
142		cc) liabilities to customers from investment services	1,367	333
143		cd) liabilities from clearing houses		
144		ce) other liabilities from investment services		
145	**2/A**	Revaluation difference on liabilities due to customers		
146	**3.**	**Liabilities from issued debt securities**	**310,228**	**164,545**
147		a) issued bonds	310,163	164,492
148		aa) maturity up to one year	216,983	59,173
149		Of which: – to affiliated undertakings	2,744	15,300
150		– to other undertakings with participating interest		
151		ab) maturity over one year	93,180	105,319
152		Of which: – to affiliated undertakings		
153		– to other undertakings with participating interest		
154		b) other debt securities	0	0
155		ba) maturity up to one year		
156		Of which: – to affiliated undertakings		
157		– to other undertakings with participating interest		
158		bb) maturity over one year		

Data in HUF million

		Item	December 31, 2008	December 31, 2009
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	65	53
169	**4.**	**Other liabilities**	**53,720**	**43,381**
170		a) maturity up to one year	19,125	24,074
171		Of which: – to affiliated undertakings	114	34
172		– to other undertakings with participating interest	34	
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	34,595	19,307
178	**5.**	**Accruals and deferred income**	**27,952**	**23,018**
179		a) accrued liabilities	50	62
180		b) accrued costs and expenses	27,817	22,890
181		c) deferred income	85	66
182	**6.**	**Provisions**	**7,739**	**3,735**
183		a) provisions for pensions and similar obligations	107	105
184		b) risk provisions for off-balance sheet items (for contingent and future labilities)	1,145	1,556
185		c) general risk provision	6,487	2,074
186		d) other provisions		
187	**7.**	**Subordinated liabilities**	**101,940**	**104,273**
188		a) subordinated borrowings	101,940	104,273
189		Of which: – to affiliated undertakings	99,557	101,836
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		
195	**8.**	**Subsribed capital**	**14,094**	**14,765**
196		Of which: repurchased own shares at face value		
197	**9.**	**Subsribed but unpaid capital (-)**		
198	**10.**	**Capital reserves**	**91,901**	**117,730**
199		a) share premium	91,840	117,669
200		b) other	61	61

Data in HUF million

		Item	December 31, 2008	December 31, 2009
201	**11.**	**General reserve**	**17,802**	**17,832**
202	**12.**	**Retained earnings (accumulated profit reserve) (±)**	**79,278**	**79,899**
203	**13.**	**Legal reserves**	**2,246**	**2,097**
204	**14.**	**Revaluation reserve**	**430**	**1,542**
205		Value-adjusted reserves		
206		Revaluation reserves	430	1,542
207	**15.**	**Profit or loss for the financial year (±)**	**471**	**268**
208		**Total liabilities**	**2,699,402**	**2,897,590**
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)	1,570,852	1,618,329
210		***- Long term liabilities*** (1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7)	886,572	1,018,322
211		***- Equity (Capital and reserves)*** (8-9+10+11+12+13+14+15)	206,222	234,133

Off-balance-sheet

	31.12.2008.	31.12.2009.
Contingent liabilities:	844,174	810,508
Future receivables	470,284	470,417
Future liabilities:	430,235	445,921
Control number	**1,744,693**	**1,726,846**

Unconsolidated income statement

(Hungarian Accounting Rules)

Data in HUF million

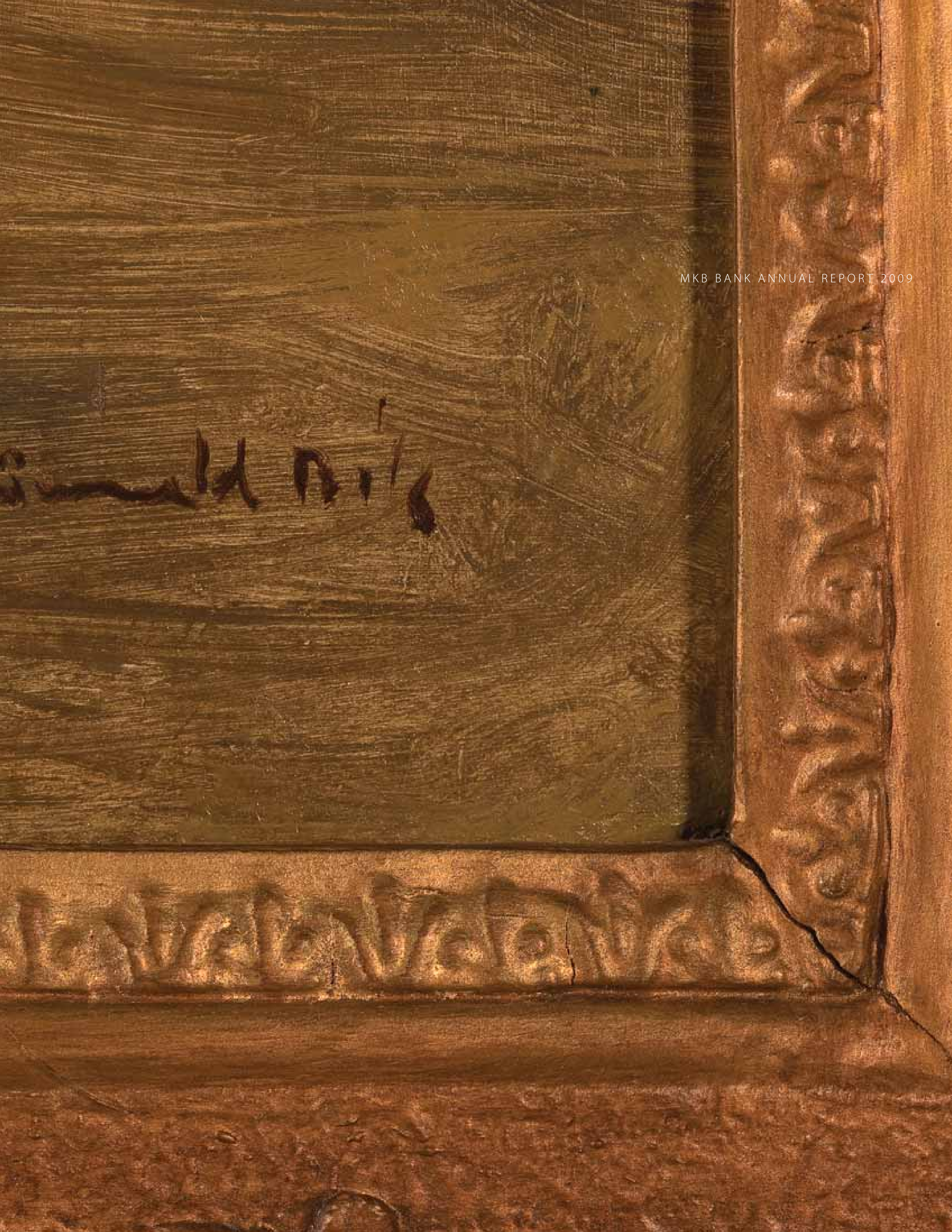
		Item	31.12.2008.	31.12.2009.
1	**1.**	**Interest receivable and similar income (2+5)**	**154,549**	**162,858**
2		a) interest income (receivable) from fixed-income securities	8,273	25,594
3		Of which: – from affiliated undertakings		
4		– from other undertakings with participating interest		
5		b) other interest and similar income	146,276	137,264
6		Of which: – from affiliated undertakings	11,418	12,180
7		– from other undertakings with participating interest		
8	**2.**	**Interest payable and similar charges**	**108,518**	**113,573**
9		Of which: – to affiliated undertakings	29,608	30,376
10		– from other undertakings with participating interest	57	58
11		**Net interest income (1-8)**	**46,031**	**49,285**
12	**3.**	**Income from securities (13+14+15)**	**1,706**	**1,947**
13		a) income from shares held for dealing (dividend, profit-sharing)	115	
14		b) income from shares in affiliated undertakings (dividend, profit-sharing)	1,541	1,947
15		c) income from other shares and participating interests	50	0
16	**4.**	**Commission and fees income (17+20)**	**20,947**	**21,071**
17		a) from other financial services	19,101	18,485
18		Of which: – from affiliated undertakings	67	155
19		– from other undertakings with participating interest	2	2
20		b) from investment services (except for income from trading activities)	1,846	2,586
21		Of which: – from affiliated undertakings	71	1,158
22		– from other undertakings with participating interest	3	3
23	**5.**	**Commission and fee expense (24+27)**	**8,959**	**6,170**
24		a) from other financial services	8,713	5,840
25		Of which: – to affiliated undertakings	208	12
26		– from other undertakings with participating interest		
27		b) from investment services (except for charges of trading activities)	246	330
28		Of which: – to affiliated undertakings		
29		– from other undertakings with participating interest		
30	**6.**	**Net profit or net loss on financial operations (31-34+37-41)**	**23,425**	**48,686**
31		a) income from other financial services	33,300	4,597
32		Of which: – from affiliated undertakings		
33		– from other undertakings with participating interest		
34		- valuation difference		
35		b) expenses from other financial services	2,081	7,120
36		Of which: – to affiliated undertakings	41	
37		– from other undertakings with participating interest		
38		- valuation difference		
39		c) income from investment services (income from trading activities)	95,065	119,183
40		Of which: – from affiliated undertakings		
41		– from other undertakings with participating interest		

Data in HUF million

		Item	31.12.2008.	31.12.2009.
42		– value re-adjustment (increase) of securities for trade (not more than acquisition value)		365
43		– valuation difference	30,131	33,576
44		d) expenses from investment services (expenses from trading activities)	102,859	67,974
45		Of which: – to affiliated undertakings		32
46		– from other undertakings with participating interest		
47		– value adjustment (decrease) of securities for trade	471	
48		- valuation difference	48,653	23,224
49	**7.**	**Other operating income(46+49)**	**11,854**	**7,389**
50		a) incomes from non-financial and non-investment services	5,118	5,364
51		Of which: – from affiliated undertakings		146
52		– from other undertakings with participating interest		
53		b) other income	6,736	2,025
54		Of which: – from affiliated undertakings		
55		– from other undertakings with participating interest		
56		– value re-adjustment (increase) of stocks (inventories) (not more than acquisition value)		
57	**8.**	**General and administrative expenses (54+62)**	**47,063**	**47,716**
58		a) Staff costs (55+56+59)	25,664	24,316
59		aa) wages and salaries	16,895	16,418
60		ab) other staff costs	2,740	2,140
61		Of which: – social security contributions	919	826
62		= pension costs	486	128
63		ac) contributions on wages	6,029	5,758
64		Of which: – social security contributions	5,228	5,044
65		= pension costs	4,259	4,136
66		b) Other administrative expenses (material-type expenses)	21,399	23,400
67	**9.**	**Depreciation (value adjustments in respect of assets items 9 and 10)**	**2,559**	**2,732**
68	**10.**	**Other operating expenses (65+68)**	**17,820**	**20,249**
69		a) expenses from non-financial and non-investment services	4,836	5,368
70		Of which: – to affiliated undertakings	19	
71		– to other undertakings with participating interest	403	
72		b) other expenses	12,984	14,881
73		Of which: – to affiliated undertakings	2	
74		– to other undertakings with participating interest		
75		– value adjustment (decrease) of stocks (inventories)		55
76	**11.**	**Value adjustments in respect of loans and advances and provisions for contigent liabilities and for commitments (73+74)**	**45,504**	**56,900**
77		a) value adjustments (decrease) in respect of loans and advances	44,476	55,626
78		b) provisions for contingent liabilities and commitments	1,028	1,274
79	**12.**	**Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments (76+77)**	**18,805**	**10,286**

Data in HUF million

		Item	31.12.2008.	31.12.2009.
80		a) value re-adjustments (increase) in respect of loans and advances	18,134	9,424
81		b) use of provisions for contingent liabilities and commitments	671	862
82	**12/A.**	General risk provision and use	739	4,413
83	**13.**	**Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**	**1,052**	**8,912**
84	1**4.**	**Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests**		
85	**15.**	**Profit or loss on ordinary activities**	**550**	**398**
86		Of which: – ***Profit for loss of financial and investment services*** (1-2+3+4-5+ 6+7/b-8-9-10/b-11+12+12/A-13+14)	268	402
87		– ***Profit for loss of non-financial and non-investment services*** (7/a -10/a)	282	-4
88	**16.**	**Extraordinary income**	**11**	**87**
89	**17.**	**Extraordinary expense**	**35**	**143**
90	**18.**	**Extraordinary profit or loss (16-17)**	**-24**	**-56**
91	**19.**	**Profit or loss before taxation (±15±18)**	**526**	**342**
92	**20.**	**Tax payable**	**2**	**44**
93	**21.**	**Profit or loss after taxation (±19-20)**	**524**	**298**
94	**22.**	**Addition to and use of general reserve (±)**	**-53**	**-30**
95	**23.**	**Retained earnings allocated for dividends**		
96	**24.**	**Dividends and profit-shares approved**		
97		Of which: – to affiliated undertakings		
98		– to other undertakings with participating interest		
99	**25.**	**Profit or loss for the financial year** (±21±22+23-24)	**471**	**268**



KPMG Hungária Kft.
Váci út 99.
H-1139 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

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 2009 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 10 March 2010 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 123 to 132 of the Annual Report 2009 of MKB Bank Ltd. are consistent, in all material respects, with the audited unconsolidated Financial Statements they were derived from.

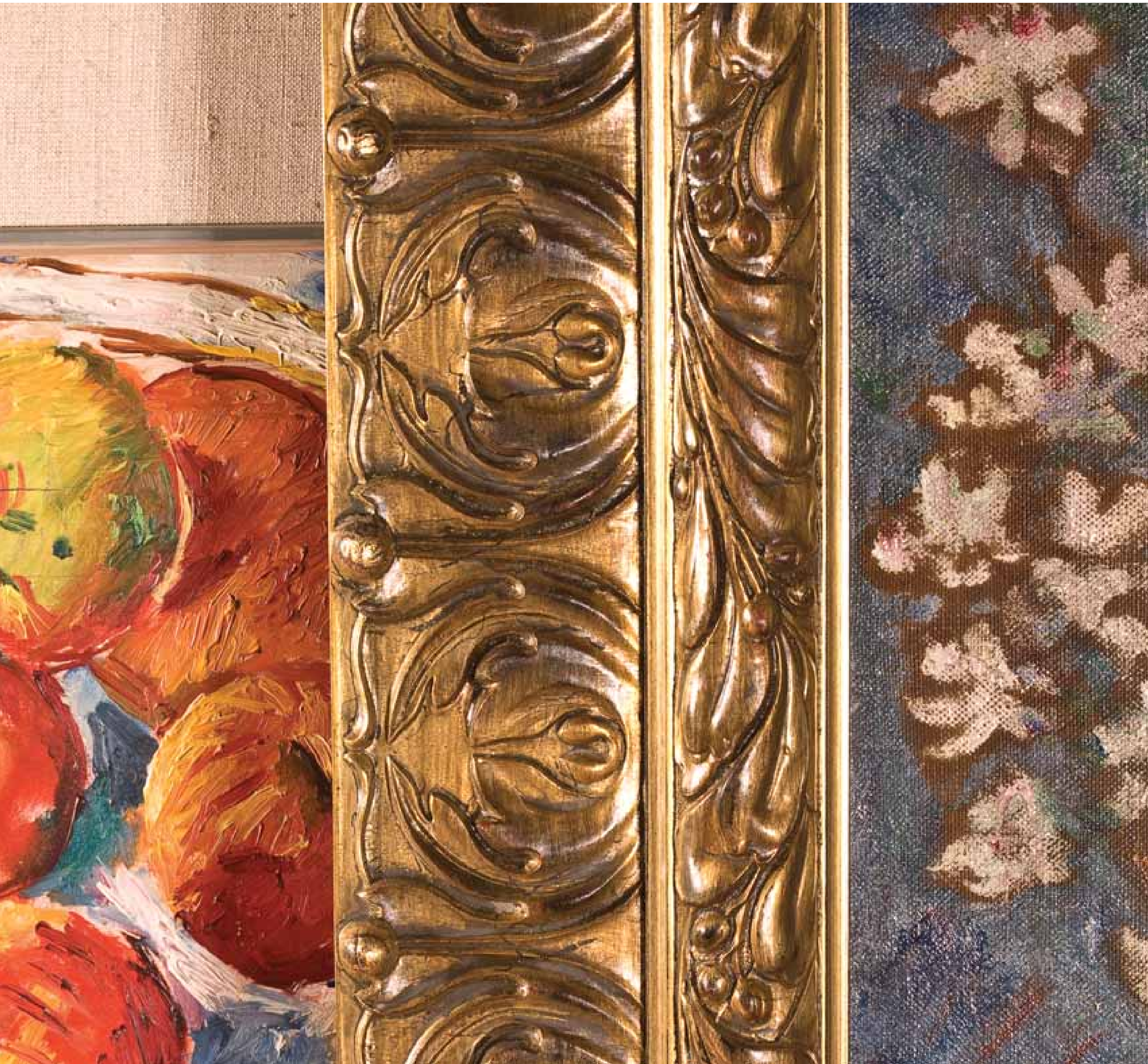
For a better understanding of the Bank's financial position, the results of its operations for the period and of the scope of our audit, the Unconsolidated Balance Sheet and the Unconsolidated Income Statement should be read in conjunction with the underlying unconsolidated Financial Statements issued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

Budapest, 2 June 2010

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

Agócs Gábor
Partner, registered Auditor
Identification number: 005600

MKB BANK ANNUAL REPORT 2009



Individual Reports of MKB's key business subsidiaries

Key figures of the MKB Group

(Unconsolidated, IFRS, HUF million)

Data in HUF million

2009	MKB Bank	MKB Unionbank	Romexterra Group	Leasing Group	Auxiliaries*	MKB Group
Total Assets	2 906 836	225 746	194 215	102 461	76 767	3 106 646
Share Capital	14 765	8 365	18 773	2 093	67 646	14 765
Reserves	242 987	9 963	(11 226)	6 867	(177)	229 266
Operating Income	**119 076**	**9 092**	**13 533**	**6 078**	**12 960**	**146 211**
Net interest income	*75 975*	*6 368*	*9 979*	*9 911*	*535*	*98 921*
Net commission income	*15 389*	*2 273*	*2 745*	*151*	*395*	*22 328*
Other	*27 712*	*451*	*809*	*(3 984)*	*12 029*	*24 962*
Operating Expenses	(55 499)	(5 651)	(10 079)	(1 584)	(13 497)	(73 754)
Impairments and provisions for losses	(37 792)	(2 721)	(12 021)	(4 293)	(923)	(57 508)
Goodwill impairment	(8 912)				-	8 912)
Profit Before Taxation	**16 872**	**720**	**(8 568)**	**201**	**(1 460)**	**6 037**
Profit After Taxation	**12 923**	**653**	**(8 111)**	**148**	**(1 367)**	**2 518**
Pre-tax Return on Average Equity (ROAE)	7,4%	4,3%	na	2,2%	na	2,7%
Earnings per Average Outstanding Share (EPS)	88,3%	7,9%	na	8,7%	na	22,2%
Pre-tax Return on Average Assets (ROAA)	0,6%	0,3%	na	0,2%	na	0,2%
Cost-to-income ratio	46,6%	62,2%	74,5%	26,1%	104,1%	50,4%
Capital adequacy ratio	9,78%	13,4%	11,8%	na	na	10,1%

* Autóhitel, Autólízing
**MKB Üzemeltetési, Befektetési Alapkezelő, Exter-Bérlet, Resideál, Exter-Immo

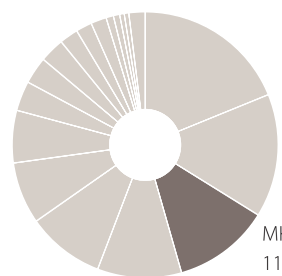
Business and financial performance of MKB Euroleasing Group in 2009*

MKB-Euroleasing Group, in strategic partner- and ownership with MKB Bank since 2001, comprehensively integrates car trading, vehicle financing, fleet management and insurance brokerage in a unique way in Hungary, offering complex services to its customers. The Group has been a dominant participant of the vehicle financing market in Hungary for 19 years now.
The financing activity is centralised in the MKB-Euroleasing Autóhitel Zrt. and in affiliated companies. Fleet management is performed through MKB-Euroleasing Autópark Zrt. while insurance brokerage is undertaken by Eurorisk Kft. and Netrisk Kft. Hungary's largest single brand and used car dealership network belonging to one owner group is operated by Carnet Invest Zrt.
The total volume of new cars sold after the 4.5 % drop in 2007 and 10 % decrease in 2008, dramatically declined by more than 60 % in 2009. The Group's financing business line was not able to stay clear of the impacts of the market and though it increased its market share, its newly disbursed loan volume drastically decreased compared to 2008. The company in the strongly deteriorating environment continued its actions started in the autumn of 2008 with the purpose of improving its efficiency and rationalising its expenses.

Vehicle financing

The Group's customer financing business line has continued to be one of the dominants of the domestic vehicle financing market, despite the sharp drop in loans granted.
The Group's total new lending to customers amounted to HUF 20.7 billion in 2009 (2008: HUF 61.4 billion). The number of new customer financing contracts amounted to 8,369 in 2009 while in 2008 it was 24,955. From an other point of view in spite of the decline in the segment of new vehicles the group managed to reach the market leading position in 2009 after ranking 4th in 2008 and 6th in 2007.** MKB-Euroleasing is the 3rd largest with 11.9% market share by the new financings on the new and used car market in 2009. It specially deserves attention that the vehicle financing activity managed to remain profitable even in a crisis environment, after the real assessment of risks and with significant risk costs. In 2009 the business line financed a total of 82,000 customers. Co-operation with strategic partners –Toyota Pénzügyi Zrt. (of which MKB-Euroleasing Zrt. is one of its owners), and PSA Finance Hungária Zrt. financier of the Peugeot and Citroën brands– continues to be important element in the profit generation of the business line.

Market share of MKB-Euroleasing in total car financing by new financed value – 2009



Fleet management

MKB-Euroleasing Autópark Zrt. significantly strengthened its market positions in 2009. The number of financed and managed cars was 8,200 at the end of the year. This is 5% growth compared to 2008, which is outstanding in the well-known economic conditions. This makes the group the largest player of the new car fleet financing market with a market share exceeding 20%, while in the fleet-management only it ranks second on the market also with a share above 20%. Partly the client acquisition and also strict claim management, as well as the measures to preserve the portfolio contributed to the success. During the year MKB-Autopark OOD, a fleet management company within the group, started its business activities in the Bulgarian market.

* The Annual Report of the MKB-Euroleasing Group contains the audited and consolidated figures of MKB-Euroleasing. This chapter of MKB Group's Annual Report shows the business performance of MKB-Euroleasing Group, in addition, it also includes the key financial figures of MKB Euroleasing Autóhitel Zrt. being as the most significant company in the vehicle financing business line of the Group. The consolidated financial statements of MKB-Euroleasing Group will be available after the edition (and likely the publication) of MKB Bank's Annual Report.
** MKB-Euroleasing Zrt. + TFSH + PSAFH new lending (new retail cars and commercial vehicles under 3.5 tons).

Car trading

MKB-Euroleasing has a unique car trading network in the domestic market. The network comprises 27 points of sale across the country, selling 13 brands and operating numerous used car lots. The network of Carnet Invest Zrt. – MKB Euroleasing Group's vehicle trading subsidiary – sold a total of 8,606 cars in 2009 (2008: 12,081), of which 4,089 were new cars (2008: 7,325), achieving a relative growth above 47 % compared to the size of the market in the significantly declining trade of new cars, and 6.8 % market share in 2009. The economic crisis had a negative effect on the dealers, to which they responded by cost cutting and rationalisation projects as well as mergers during the year.

Insurance brokerage

Vehicle insurance brokerage is performed by the market leader Eurorisk Kft. on the 'off-line' market and by the online intermediary market leader Netrisk Kft. In 2009 a total of cca. 400,000 Casco and mandatory third party motor liability insurance contracts were written. At the end of 2009 Netrisk Kft. had close to 500,000 customers while Eurorisk had nearly 106,000 clients. Both insurance brokerage subsidiaries of the Group are also operating in other insurance markets besides providing vehicle-related insurance services. During the 4th quarter of the year Netrisk Broker de Asigurare S.R.L., jointly founded by Eurorisk Kft. and Netrisk Kft. started its Internet-based insurance brokerage activities in the Romanian market.

The responses of MKB Euroleasing Group in a changing environment

MKB-Euroleasing Group, monitoring the increase of the risks involved in the vehicle financing market, will continue to lay particular emphasis in the future on maintaining the quality of the portfolio, mitigating the risks and the continuing improvement of the admission systems. During the year ensuring compliance with the recommendations of the supervisory authority (SREP) had key priority. As a reaction to the crisis spreading on the concerned markets the group reviewed its medium-term growth plans and introduced significant cost saving and efficiency improving measures. In 2009 the vehicle financing companies of the group joined the Code of Conduct of the financial institutions.

MKB Euroleasing Autóhitel Zrt.

Unconsolidated Balance Sheet for the year ended December 31, 2009
(Hungarian Accounting Rules)

HUF Thousand

	2008	2009
Cash reserves	1,458,356	2,211,914
Loans and advances to customers	99,095,791	72,072,403
Investments in affiliated companies	1,717,400	1,717,400
Intangible assets	71,197	35,010
Tangible fixed assets	163,576	115,737
Other assets	2,826,071	2,655,030
Accured items	2,860,440	3,077,446
Total assets	**108,192,831**	**81,884,940**
Liabilities to credit institutions	97,994,070	73,697,943
Liabilities to customers	465,233	385,549
Other liabilities	3,604,800	1,190,701
Accrued liavilities	700,661	382,680
Shareholder's equity		
Share capital	411,100	1,211,100
Reserves	5,016,967	5,016,967
Result for the year	0	0
Total liabilities	**108,192,831**	**81,884,940**

MKB Euroleasing Autóhitel Zrt.

Unconsolidated Income Statement for the year ended December 31, 2009 (Hungarian Accounting Rules)

HUF Thousand

	2008	2009
Interest receivable and similar income	8,929,730	12,704,187
Interest payable and similar charges	3,183,191	2,701,834
Net interest income	**5,746,539**	**10,002,353**
Income from securities	361,630	0
Commission and fees income	632,594	867,922
Commission and fee expense	1,206,089	1,810,044
Net profit or net loss on financial operations	289,172	-4,296,851
Other operating income	1,212,025	2,157,399
General and administrative expenses	1,419,413	1,278,733
Depreciation 63,254	62,431	
Other operating expenses	2,190,791	2,387,222
Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	319,991	2,499,115
Profit or loss on ordinary activities	**3,042,422**	**693,278**
Extraordinary profit or loss	**-504,485**	**-452,072**
Profit or loss before taxation	**2,537,937**	**241,206**
Tax payable	344,219	49,878
Profit or loss after taxation	**2,193,718**	**191,328**
Dividends and profit-shares approved	2,193,718	191,328
Profit or loss for the financial year	**0**	**0**

The business performance and key figures of MKB Insurance Companies

MKB Általános Biztosító (MKB General Insurance) and MKB Életbiztosító (MKB Life Assurance) started their operation in October 2007. In their cooperation with MKB Bank, the branch of the Bank network plays an outstanding role, where more than 500 well prepared financial advisors are able to serve customers wishing to purchase insurance products. Through the foundation of the insurance companies the Bank was able to successfully implement its one-stop-shop bank assurance strategy, and thus became fully universal in Hungary.

The economic crisis also influenced the insurance market. The decline in sale of vehicles and real estates, in lending and industrial performance, the increase of the number of bankruptcies made policy sales difficult, while the strengthening price competition decreased average premiums. As a result of the above, the total premium revenues of the insurance companies in Hungary decreased by 7.3% in 2009 compared to 2008 (source: MABISZ). The figures of MKB Insurance companies do not reflect these facts, as compared to the market they managed to achieve good results, however, the rate of growth could have been higher without the economic crisis.

MKB Life Assurance

MKB Életbiztosító Zrt.'s premium revenue reached HUF 2.53 bn in 2009, reflecting a 99% growth compared to the previous year. Out of this, HUF 651 million was realised from continuous premium payment, while HUF 1875 million is from up-front premium life insurance policies. The number of customers increased from 5,828 in 2008 to 9,538, or by 64%.

At the end of 2009 the company had 8,728 contracts with continuous premium payment, the total average premium of which reached HUF 756 million p.a. 1197 up-front premium insurance policies linked to investment units were effective, whose net asset value (investment portfolio) amounted to HUF 2.68 billion.

Within this, the up-front premium insurance product linked to investment units ('MKB Kincstár') showed an outstanding performance after the difficult first half of the year (+113% premium revenue compared to the end of 2008). The performance of the joint product of the Bank and the Insurance Company with continuous premium payment, 'MKB Értékmegőrző', was somewhat lower, especially due to the fallback of lending and the cancellations and repurchases at a higher level than planned. The number of the new risk life insurance introduced in the 4th quarter of 2008 (MKB Életrevaló) –a unique product on the Hungarian market with risk profit refund – increased to 2,213, and its annual premium to HUF 101 million.

MKB General Insurance

MKB General Insurance in 2009 reached HUF 506 million premium revenues, which represents 210% growth compared to the previous year. The number of customers increased form 8,936 in 2008 to 17,964 by 101%.

Property Insurance

The number of the housing insurance product of MKB General Insurance, 'Családi Otthonbiztosítás' sold in 2009 slightly decreased, mainly due to the decline in bank financing. At the same time, as a result of a purposeful sales activity (providing customers with a higher level of security and covering more risks), the average premium is higher and the number and proportion of stand-alone insurance policies (not taken out linked to a loan product) increased, and in October insurance brokers also started to sell the housing insurance product.

At the end of 2009 the „non-life" insurance company had a housing insurance portfolio of 12,183 contracts and its premium revenue amounted to HUF 340 million. Premium revenues exceeded that of the previous year by 92%.

On the 1st of October 2008, the company insurance package called „MKB Multivédelem" was introduced, targeting primarily the small and medium-sized enterprises. The quick introduction of the product into the market was successful. The amount of premium revenues reached HUF 33.2 million in 2009. On the 1st of July 2009 a new product was added to the palette of products, as an insurance product for condominiums, called Mentsvár, was introduced. The sale of the product gained momentum at the end of the year, mainly, however, contracts for year 2010 were made.

In 2009, 1374 property damage cases were announced by the Company's customers. The damage payments and the change of damage reserves amounted to a total value of HUF 80.8 million, which resulted in a favourable damage rate compared to the premiums earned (29.4%).

In 2009 the extension of the sales channels of the insurance company also started, entering the market of independent brokerage. The extension affects all three property insurance products. Sales by brokers brought about new challenges and at the same time new opportunities, as MKB General Insurance have to stand ground in a significantly tougher competition. Nevertheless, opening to the market is the condition of growth, this is the way the insurance company can reach more customers with its products.

Vehicle Insurance

The vehicle branch of MKB General Insurance closed its first full year in 2009. During the business year, through the sale of Motor Vehicle Liability Insurance and Casco Insurance products, the company focused its activities on the market of passenger vehicles targeting private individuals. The company, in establishing its insurance premiums and the target market took into account to the greatest extent the opportunities offered by the MKB group; consequently, mainly the brands financed by the MKB-Euroleasing group and sold by the CarNet car dealership network came to the foreground.

The 60% decline of the domestic vehicle market, and the even higher-level fallback of car financing required the modification of the strategy during the year. Instead of the market of brand dealers, the business line launched a direct campaign focusing on customers already having a Casco contract but looking for better conditions. As a result of this, in the second half of the year the number of new contracts increased dynamically.

At the end of 2009 the company held 4,262 Motor Vehicle Liability Insurance and 2,108 Casco Insurance contracts. In 2009 premium revenues of the Liability Insurance was HUF 118.3 million, while that of the casco branch HUF 97.6 million. In 2009 268 vehicle damages were reported by the company's customers. The damage payments and the change of damage reserves amounted to a total value of HUF 146 million in 2009, which resulted in a damage rate of 70.5% compared to the premiums earned.

MKB Életbiztosító Zrt (MKB Life Assurance)

Key figures
(non-audited)

HUF Thousand

Description	2008	2009
Total assets	2 216 175	4 323 224
Investments	1 003 286	1 473 911
Insurance technical reserves	72 342	401 667
Insurance technical reserves for investments for the benefit of life assurance policyholder bearing the risk of investment	858 339	2 682 030
Equity	899 092	885 297
Earned premium without counter-insurance	1 264 846	2 516 615
Insurance technical profit	-577 035	-457 890
Profit on non-insurance activities	-511 809	-421 790
Profit before taxation	-511 809	-421 796

MKB Általános Biztosító Zrt (MKB General Insurance)

Key figures
(non-audited)

HUF Thousand

Description	2008	2009
Total assets	2 476 590	1 820 138
Investments	2 124 394	1 407 436
Insurance technical reserves	41 696	103 915
Equity	2 027 689	1 362 025
Earned premium without counter-insurance	53 836	229 823
Insurance technical profit	-736 500	-775 691
Profit on non-insurance activities	-550 407	-665 124
Profit before taxation	-550 422	-665 662

Business and financial performance of MKB Romexterra Bank

The Romanian economy

After strong years of growth, the Romanian economy declined by 7.2% in 2009. Due to the crisis, both internal and external demand decreased significantly. Imports contracted by 10% in December, however, on the low basis of 2008, exports showed a 19% increase, but still largely underperforming the pre-crisis years in terms of volume. Thus, the foreign trade deficit decreased by 65% in December, while the CA gap shrank to 4.3% of the GDP after double digit deficits of the previous years. FDI inflow covered 97% of the gap.

The crisis was also reflected in the deterioration of the internal balance. Budget deficit reached 7.2% in 2009, just meeting the IMF criterion, as a result of declining revenues, measures to boost the economy and presidential elections. The Romanian currency depreciated by 15%, also affecting the inflation rate adversely. Thus the average CPI inflation reached 5.6% in 2009. The NBR decreased the policy interest rate by 225 bps to 8% by the end of the year and to 7% in January 2010. The labour market also contracted due to the crisis in the real economy. The unemployment rate increased by 3.4 pps, reaching 7.8% by year-end 2009. Real wages declined by 5.3% in December.

Financial stabilisation of the Romanian economy was strongly supported by the IMF/EU stand-by agreement. Political turbulences moderated by the end of 2009 as the new government took the office and the parliament approved the budget for 2010. Besides, relations with the IMF also improved. Further stabilisation and upturn is highly dependent on both the improvement of external markets and the restrictive fiscal policy. Given these, the assessment of the country might improve after the past downgrades by rating agencies.

The Romanian banking sector

The global financial and economic crisis hit Romania quite seriously resulting in a sudden recession from a high growth period. Direct and indirect effects such as increased costs of external financing, corporate bankruptcies and lower volumes due to shrinking export markets, decreasing domestic demand and household cautiousness all affected hard the banking sector leading to deteriorating loan portfolios, increased NPLs and fallen profitability. To at least partly offset unfavorable effects, adjustment included fine-tuning or switch of business models, restructuring including network and cost rationalization. RWA management, LTD improvement and capital preservation became in focus. In all, the system is stable, part of the risk factors and figures started to improve already.

Loans to households and corporates reached RON 200 bn in 2009 with an increase of only 1%, which means, that it decreased significantly in real terms due to RON depreciation. Banks experienced deteriorating portfolio as the share of NPLs reached 24.1% in December from 13.8% at end-2008. The volume of household and corporate deposits grew by 11% to reach RON 168 bn in 2009. Thus, the LTD ratio improved from 131% in 2008 to 119% by year-end 2009. NBR lowered the minimum obligatory reserves for RON denominated liabilities to 15% from 18%, and for FX liabilities to 25% from 40% in 2009.

Despite the increasing margins, profitability of the banking system declined due to portfolio deterioration and LTD improvement efforts. Cost optimization took place throughout the Romanian banking system, but the real effect of these cost cuts may be apparent only from 2010 due to one-off effects of the reorganization. CIR increased from 55.7% in 2008 to 65.0% in 2009 in the banking system. With increasing risk costs, ROE after tax decreased from 17.0% in 2008 to 2.7% in 2009. Aggregated profit of the Romanian banking system reached RON 772.3 mn in 2009. Due to the crisis capital adequacy ratio improved from 9.24% in 2008 to 10.39% by year end 2009.

Since the banking system is largely foreign-owned and well capitalized and although asset quality will deteriorate further, we do not expect any liquidity or solvency problems for the system. These concerns are also mitigated somewhat by the joint agreement between the banks in Romania, the NBR, the IMF and the EC.

The business performance of MKB Romexterra Bank

Similarly to other market players, MKB Romexterra Bank also suffers from significant portfolio deterioration and rapidly increasing risk costs. As a response, the "Cleaning Profile" concept has been elaborated focusing on the split of the portfolio of MKB Romexterra Bank in order to manage the separate portfolio elements adequately.

The Bank reinforced the monitoring activity of the loan portfolio and overviewed its financing policy to retain high quality growth in new loans. Proactive problematic loan management has also been introduced with strengthend intesive care and work-out activities. In line with the selective client segment focus, the Bank's market share (in total assets) declined from 0.9%

in 2008 to 0.6% in 2009, ranking 21st in the banking system. Market share in terms of total assets expected to decrease to 0.5% in December 2010.

The number of the Bank's customers decreased by 4.04% to 232,935 (2008: 242,750). The number of large corporate reached 695, the number of SMEs reached 2,196, while the number of micro company clients was 12,580. The number of private individual customers was 217,464 (2008: 227,130). The number of branch network units stood at 70 by the end of 2009.

In June 2009 there was a severe fire case at the office building, where MKB Romexterra Bank had a part of its headquarters. The BCP-DRP Plan was immediately put into force, the management and staff successfully ensured the continued operation. Fortunately, there was no human injury concerning MKB Romexterra Bank and also no loss of data. As a consequence the Bank moved to a new HQ located in the City Center.

The financial performance of MKB Romexterra Bank

Total assets of MKB Romexterra Bank decreased by 19% reaching RON 2,359.1 mn (2008: RON 2,900.9 mn). The net loan portfolio of MKB Romexterra Bank decreased by 26.7% and reached RON 1,340.6 mn. The balance of accounts and deposits increased by 10% reaching RON 1,228.9 mn. MKB Bank increased its share through capital raise in MKB Romexterra Bank from 80.84% to 82.47%. The share capital has been increased by almost 11.4% to RON 194.4 mn in May 2009, shareholders' equity stood at RON 1291.1 mn at year-end ensuring a sound capital base of the bank with capital adequacy ratio reaching 10.4% by the end of the year. Gross operating income was RON 170.6 mn (2008: RON 153.4 mn). Operating costs increased by 1.7%, well below inflation, thus the CIR improved from 90% in 2008 to 82% in 2009. In December, impairments for fire damages (RON 2,097 thou) and unrecoverable expenses (RON 8,339 thou) related to branch network reorganization and the formation of a specialized credit risk management (CRM) entity were registered. With a provisioning of RON 117.8 mn, the Bank realized a loss of RON 87.5 mn, pre-tax (2008: loss of RON 58.0 mn), and of RON 80.5 mn, after tax. The bank focused on non-performing loan management, reducing it by the transfer to CRM and by increased efforts to reduce the delinquent exposures.

The management of the Bank was renewed, hiring reputable Romanian experts for the better execution of MKB Romexterra Bank's business strategy. At the end of 2009 total active employee number was 836 in the Bank, 22% less than at year end 2008.

Outlook for 2010

The overall outlook for the Romanian economy is improving, although, the dependency on politics is quite significant. To keep the balance between economic stimulation and continued internal consolidation will be the key task for the new government, in accordance with IMF and EU criteria. GDP growth in real terms will be slightly positive (between 0.4-1.2%) in 2010. The improvement of the foreign trade and current account deficit (a gap of 5.2% is expected) will stop in 2010, as both exports and imports catch up. The new government is committed to decrease the budget deficit (5.9% is expected) in 2010. Inflation rate is projected to improve somewhat to 5%. However, unemployment rate is to further deteriorate to reach 8.5% by the end of 2010.

Profitability of the banking sector might increase in 2010, as business activity improves and the effects of past cost optimization efforts materialize. However, further deterioration of the loan portfolio is expected. The fierce competition for customer funds might be over, but growth in customer loans will be moderate and very selective. Portfolio management and customer loyalty will be in focus.

The priority for MKB Romexterra Bank is to effectively manage and clean the loan portfolio and ensure efficient control of the portfolio quality. Higher attention will be paid to the quality and value of loan collaterals. To strengthen the active handling of loan exposures in early delinquency and to take pragmatic and fast measures in late delinquency cases is also important.

The new strategic focus of the Bank will be the retail client segment with the implementation of a differentiated service model and special emphasis on increased risk awareness and business and operational efficiency. The Bank will focus on the deepening of customer relations and the increase of transactions in order to improve service level and the comfort of the clients. Cross-selling opportunities will also be better exploited.

MKB Romexterra Bank
Key figures**

IFRS uncons., as at 31.12. 2009 — RON thousand

	Actual 31. 12. 2008	Actual 31. 12. 2009
Total assets	**2,900,913**	**2,359,097**
Customer loans (net*)	**1,828,205**	**1,340,572**
- retail loans	506,624	458,701
- micro loans	8,589	8,867
- corporate loans	1,312,992	873,003
Customer accounts and deposits	**1,117,684**	**1,228,913**
- retail deposits	440,917	601,874
- micro deposits	96,859	213,902
- corporate deposits	579,907	413,137
Shareholders' Equity	187,355	129,086
Net interest income	84,170	120,606
Net fee & comission income	44,387	40,238
Other income	24,855	9,738
Gross operating income	153,413	170,583
Operating expenses	(138,066)	(140,393)
Impairments and provision charges	(73,306)	(117,686)
Profit before tax	(57,959)	(87,497)
Income tax	(1,136)	6,952
Profit after tax	(59,096)	(80,545)
ROAE - pre tax	-30.2%	-50.9%
ROAA - pre tax	-2.4%	-3.1%
Cost-to-income	90.0%	82.3%
CAR	9.24%	10.39%

*reduced by provisions
**audited

MKB Romexterra Bank
Market shares

in %	Actual 12. 31. 2008	Actual 12. 31. 2009
Corporate loans*	1.33%	0.88%
Retail loans**	0.52%	0.47%
Corporate deposits*	0.85%	0.59%
Retail deposits**	0.65%	0.84%
Total assets	0.85%	0.64%

* Data includes respectively credits and deposits to companies
** Data includes respectively only credits and deposits of individuals

MKB Romexterra Bank
Balance Sheet*

IFRS uncons., as at 31.12. 2009	Actual 12. 31. 2008	RON thousand Actual 12. 31. 2009
Assets	**2,900,913**	**2,359,097**
Cash balances	75,497	53,388
Amounts due from the National Bank	714,606	492,916
Amounts due from other banks	11,729	25,136
Securities	122,924	291,060
Loans and advances to customers	1,828,205	1,340,572
Other assets	29,036	65,734
Participations	56,958	41,752
Property and equipment	61,957	48,540
Liabilities	**2,713,558**	**2,230,011**
Amounts due to the National Bank	56,000	143,986
Amounts due to other banks	1,474,870	748,990
Current and deposit accounts	1,117,684	1,228,913
Certificates of deposit	-	
Other liabilities and provisions	15,630	29,411
Deferred tax liability	2,375	
Borrowed funds and debt securities	-	
Subordinated debt	47,000	78,712
Shareholders' Equity	**187,355**	**129,086**
Share capital	239,967	260,009
Reserves	(52,612)	(130,923)

*audited

MKB Romexterra Bank
Income Statement*

IFRS uncons., as at 31.12. 2009	Actual 12. 31. 2008	RON thousand Actual 12. 31. 2009
Interest income	227,991	341,969
Interest expense	(143,820)	(221,363)
Net interest income	**84,170**	**120,606**
Net income from commissions and fees	44,387	40,238
Other operating income	24,855	9,738
Impairments and provisions for losses	(73,306)	(117,686)
Operating expenses	(138,066)	(140,393)
Profit before taxation	**(57,959)**	**(87,497)**
Taxation	(1,136)	6,952
Profit after taxation	**(59,096)**	**(80,545)**

*audited

Business and financial performance of MKB Unionbank

The Bulgarian economy

In the middle of 2009 the Bulgarian economy entered into recession, following the impact of the global economic crisis. Due to its stable public finances and currency board, Bulgaria was hit by the crisis later than other CEE countries. By the end of the third quarter of 2009 the GDP felt by 5.1% on an annual basis. The decline is less than the initially expected drop. The influence of the crisis was seen mainly in decreasing market demand, contraction in some major industries, limited disposable income of individuals and tighter bank lending.

The new center-right government, which was elected in July 2009, has strengthened confidence in the Bulgarian economy and in the currency board, improving public finances discipline. According to preliminary figures the country's budget deficit for 2009 December is only 0.8% - one of the lowest deficits in EU. The government has also taken measures to intensify fight with corruption and crime and improve the absorption of EU structural funds. These all led to an improved outlook by Standard & Poor's and also Moody's changed Bulgaria' s ratings to positive from stable as a first EU member sovereign upgrade since the escalation of the crisis. The country is in investment category at all 3 major agencies.

Due to the global financial turmoil and the overall uncertainty in the emerging markets, the inflow of foreign direct investments (FDI) in the country slowed down significantly compared to previous years. Their total amount reached EUR 2.84 billion at the end of 2009, or 56.6% lower than the same period a year before. However, FDI cover entirely the current account deficit, which has contracted sizeably from 25.4% for 2008 to 8.6% by December 2009 as part of the rebalancing of the Bulgarian economy. The gross external debt remained at the 2008 level of around 110% of GDP (EUR 37.0 billion in November 2009).

The annual rate of decline in the industrial production has eased in the last months of the year from its sharp drop of 24% in the first half to more moderate 17.4%. The inflation rate slowed down significantly during the year and was 2.8%. Unemployment kept an increasing monthly trend throughout the year in line with recessionary processes and at the end of 2009 reached 9.13%.

The government and the Bulgarian National Bank have declared their intention to maintain further the currency board regime of fixed exchange rate against the euro as part of the country's strategy for joining the eurozone in the next years. Despite the pressures from the external environment, the country's foreign currency reserves remained at a stable level, reaching EUR 12.9 billion at the end of 2009 and providing good coverage for the currency board.

The Bulgarian banking sector

The global financial and economic crisis hit Bulgaria quite seriously resulting in a sudden recession from a high growth period. Direct and indirect effects such as increased costs of external financing, corporate bankruptcies and lower volumes due to shrinking export markets, decreasing domestic demand and household cautiousness all affected hard the banking sector leading to deteriorating loan portfolios, NPL's jumped and profitability bottomed. To at least partly offset unfavorable effects, adjustment included fine-tuning or switch of business models, restructuring including networks and cost rationalization. RWA management, LTD improvement and capital preservation became in focus. In all, the system is stable, part of the risk factors and figures started to improve already.

In 2009 there were 24 commercial banks and six branches operating in the country. Assets in the banking system reached BGN 70.87 bn at the end- 2009, with a growth rate of 1.9%, reflecting the influence of the global crisis. Total loans in the banking system reached BGN 51.4 billion. Despite the worsening quality of banks' loan portfolios due to the crisis, the level of NPL remained below the average for the CEE region at 8.2%. By December 2009 the total amount of deposits from individual and corporate customers reached BGN 43.3 bn in which corporate deposits decrease by 5.7%, while deposits of individuals accelerates its growth to 12.0%. Thus loan-to-deposit ratio improved according to parent banks' requirements.

At the same time the Bulgarian banking system maintained stable liquidity ratio of 20.6% and high level of capital adequacy of around 17%. In the past year the banking sector's equity increased by BGN 1.6 billion and reached BGN 9.3 billion. Although loan loss provisions were much higher compared to 2008, the banking system still managed to achieve good profit levels in 2009, and the total net income for the year is BGN 780 million. Cost-to-income ratio improved to 50.3% due to the strict cost-management and cost-cutting measures.

The business performance of MKB Unionbank

In 2009 the Bank's businesses developed in the complicated conditions of a recession, evolving in the country's economy since end-2008. MKB Unionbank is one of the banks which sustained and increased its overall business activity. In 2009 the Bank's assets rose by 6.3% and exceeded BGN 1,631 million. A trend emerged in 2009 for a higher share of the Bank's assets in the total amount of banking system assets, reaching 2.3% in December (2.2% in December 2008).

Customer lending portfolio increased by 6.4% reaching BGN 1,164.9 million. At the same time, adverse economic conditions in the past year affected very negatively the quality of the loan portfolio. The share of performing loans decreased by 7.2% comprising 91.3% of the total. Nevertheless, the quality of the Bank's loan portfolio stood above the average level in the banking system. As of December, market shares in loans to corporates improved by 0.1% to 2.90%. Loans to individuals marked a same level of growth as the banking system and their market share was 1.2%.
In 2009 the limited external funding of the banks in Bulgaria as a result of the global financial crisis sustained the trend of attracting deposits from the domestic market. At the same time, borrowed funds from clients marked a slight growth of 1%. As of December, the market shares of the Bank in terms of deposits were as follows: from corporate clients 3.0% (2.9% in 2008) and from individuals 1.2% (1.3% in 2008).
In 2009 a higher growth in the number of clients was reported compared with the previous year. At the end of the year, active clients numbered 88,056, an increase by 13.2% (6.8% in 2008). The number of corporate clients rose by 16.5%, and the number of individual clients increased by 12.7%.
Branch network optimisation continued in 2009, aimed at improving its efficiency. Four smaller financial centres were closed and their clients were transferred to other banking units in the same area. At the end of 2009 retail banking financial centres numbered 54 and the number of operating regional corporate centres remained unchanged. In 2009 the headcount decreased by 11.4% and the number of FTEs was 693.
In 2009 the utilization of the expertise and know-how of the Bank Group and MKB Bank in particular in the Bank's business practices, organization and management continued. In direct co-operation with MKB Bank experts, harmonisation projects or project stages were implemented in line with group level requirements and standards. Particularly helpful were the expertise and practices associated with risk management and control in the conditions of economic recession, optimisation and restructuring of activities, expenses and approaches for higher efficiency of banking units.

The financial performance of MKB Unionbank

The Bank's gross operating income for 2009 increased by 5.5% and reached TBGN 63,896.6, and the reported net interest income (TBGN 44,736.7) and income from fees and commissions (TBGN 15,843.7) comprised 70.0% and 24.8%, respectively. Operating expenses for 2009 amounted to TBGN 41,658.9, growing by 4.0%. The reported net provisioning amounted to TBGN 17,218.
MKB Unionbank ended 2009 with a pre-tax financial result for 2009 of TBGN 5,019.5. Efficiency indicators for 2009 are: pre-tax ROAE: 3.5%; pre-tax ROAA: 0.3%, while operating expenses/operating income ratio of 65.20%.
As of 31.12.2009, shareholders' equity increased to TBGN 133,323 growing by 3.8% on 2008. The total capital adequacy ratio stood high, 13.40%, against the required 12%.

Outlook for 2010

The recession in the country will remain in place in 2010 and the economy is expected to shrink further by 1 – 1.5%. A more stable recovery can be seen in the second half of the year or in the beginning of 2011, after a pickup in the industry and improvement in Bulgaria's main foreign trade partners. Unemployment could rise further to 10% - 11% as a result of the weaker economic activity and planned job cuts in the public sector. The government plans to continue its efforts for maintaining macroeconomic stability and prudent fiscal policies. Structural reforms look set to re-start and there is untapped potential to stimulate growth by better EU funds utilization. Despite the expected stability of the banking system, the banks' credit portfolios will remain under pressure as a result of the economic difficulties which will limit growth and profitability in the sector. The government plans to apply for the European exchange-rate mechanism ERM II in early 2010, which will further improve confidence in the Bulgarian economy and its prospects for economic recovery.
The planned tasks and targets of MKB Unionbank for 2010 take into account the realities and the impact of the global financial crisis, and the business plan creates preconditions for further development of the Bank's business, though in the conditions of an ongoing recession, a fall in GDP and an adverse business climate. The planed growth of assets is around 10%. The key focus in the loan portfolio growth is on loans to households and mortgage lending in particular. A priority in lending to corporate clients will be the funding of clients with good credit history. Planned growth is to be realized at the expense of well structured loans and under SME finance programmes including funds provided from the Bulgarian Development Bank and other lines for funding under EU programmes. The loan portfolio growth in the micro companies sub-segment will be limited. The planned growth of borrowed funds will be higher than that of loans, thus ensure a more significant improvement of the Loan/Deposit ratio. Significantly higher pre-tax profit for 2010 improves the efficiency ratios.

MKB Unionbank
Key figures**

IFRS	Actual 31. 12. 2008	Actual 31. 12. 2009
		in BGN thousand
Total Assets	**1,535,052.89**	**1,631,356.90**
Customer loans (net*)	**1,094,816.41**	**1,164,889.18**
-retail loans	522,080.93	500,367.68
-corporate loans	572,735.47	664,521.50
Customer accounts and deposits	**855,938.97**	**864,061.04**
-retail deposits	448,192.11	439,289.60
-corporate deposits	407,746.86	424,771.44
Shareholders' Equity	128,481.80	133,322.92
Net interest income	45,331.87	44,736.73
Net fee & comission income	13,453.02	15,843.70
Other income	1,794.00	3,316.17
Gross operating income	60,578.88	63,896.60
Operating expenses	(40,073.06)	(41,658.86)
Impairments and provision charges	(5,977.83)	(17,218.27)
Profit before tax	14,527.99	5,019.47
Income tax	(1,489.25)	(464.43)
Profit after tax	13,038.74	4,555.04
ROAE - pre tax	11.66%	3.48%
ROAA - pre tax	1.02%	0.29%
Cost-to-income	66.15%	65.20%
CAR	13.83%	13.40%
Number of employees	782	693

*reduced by provisions
**audited

MKB Unionbank
Market shares

in %	Actual 12. 31. 2008	Actual 12. 31. 2009
Corporate loans *	2.8%	2.9%
Retail loans **	1.2%	1.2%
Corporate deposits *	2.9%	3.0%
Retail deposits **	1.3%	1.2%
Total assets	2.2%	2.3%

* Data includes respectively credits and deposits of companies
** Data includes respectively only credits and deposits of individuals

MKB Unionbank
Balance Sheet*

IFRS	in BGN thousand Actual 12. 31. 2008	Actual 12. 31. 2009
Assets	**1,535,052.89**	**1,631,356.90**
Cash balances	25,931.61	23,126.75
Amounts due from the National Bank	206,101.03	171,755.06
Amounts due from other banks	169,941.77	200,588.00
Securities	25,662.05	56,023.88
Loans and advances to customers	1,094,816.41	164,889.18
Retail	522,080.93	500,367.68
Corporate	572,735.47	664,521.50
Other assets	2,387.17	3,176.76
Participations	-	-
Property and equipment	10,212.86	11,797.27
Liabilities	**1,406,571.08**	**1,498,033.97**
Amounts due to the National Bank	-	-
Amounts due to other banks	458,758.70	513,429.51
Current and deposit accounts	855,938.97	864,061.04
Retail	448,192.11	439,289.60
Corporate	407,746.86	424,771.44
Certificates of deposit	-	-
Other liabilities and provisions	4,665.00	8,370.18
Deferred tax liability	282.67	362.22
Borrowed funds and debt securities	39,332.11	64,226.33
Subordinated debt	47,593.64	47,584.71
Shareholders' Equity	**128,481.80**	**133,322.92**
Share capital	60,411.77	60,411.77
Reserves	68,070.04	72,911.16

*audited

MKB Unionbank
Income Statement*

IFRS	in BGN thousand Actual 12. 31. 2008	Actual 12. 31. 2009
Interest income	92,840	103,743
Interest expense	(47,509)	(59,006)
Net interest income	**45,332**	**44,737**
Net income from commissions and fees	13,453	15,844
Other operating income	1,794	3,316
Impairments and provisions for losses	(5,978)	(17,218)
Operating expenses	(40,073)	(41,659)
Profit before taxation	**14,528**	**5,019**
Taxation	(1,489)	(464)
Profit after taxation	**13,039**	**4,555**

*audited

Information

Corporate Governance Statement

On the basis of s.95/B of Act C of 2009 on Accounting

The Corporate Governance system applied by MKB Bank Zrt. (hereinafter: Company) is based on the effective Hungarian statutory regulations and the provisions of the Articles of Association.
The Shareholders' Meeting is the supreme governing body of the Company. Each share entitles to one vote at the Shareholders' Meeting.
The ordinary Shareholders' Meeting shall be held annually, at the latest by the end of May each year. Decision on issues conferred to the exclusive authority of the Shareholders' Meeting under the law, or the Articles of Association shall fall within the exclusive authority of the Shareholders' Meeting.
The Board of Directors is the operative management body of the Company. The members of the Board of Directors represent the Company with regard to third parties, at court and before other authorities.
The Board of Directors is entitled to take all actions permitted by the effective legal regulations and the resolutions of the Shareholders' Meeting except for matters falling within the exclusive authority of the Shareholders' Meeting or the Supervisory Board. Particular decisions of the Board of Directors listed in the Articles of Association may not be executed before the approval thereof by the Supervisory Board.
The Board of Directors shall hold its meetings whenever it deems necessary, but at least ten times a year in order to perform its duties properly. The Board of Directors shall draw up its By-laws to be approved by the Supervisory Board.
The members and the Chairman of the Board of Directors are elected and recalled, and their remuneration is determined by the Shareholders' Meeting.
The Supervisory Board shall control the management of the Company, and when approving the decisions of the Board of Directors listed under the Articles of Association it shall act as a Decision Making Supervisory Board as set out under s.37 of Act IV of 2006 on Business Associations.
The list of the members of the Board of Directors and the Supervisory Board is enclosed hereto under Appendix 1.
The Supervisory Board shall hold its meetings whenever it deems necessary in order to perform its duties properly.
The Supervisory Board shall draw up its By-laws to be approved by the Shareholders' Meeting.
The members of the Supervisory Board are elected and recalled, and their remuneration is determined by the Shareholders' Meeting.
The members of the Supervisory Board shall be elected by the Shareholders' Meeting for a period of no more than three years. Unless there is an agreement between the Works Council and the Board of the Directors to the contrary, one third of the members of the Supervisory Board shall be the representatives of the Company's employees nominated by the Works Council, to be elected by the first Shareholders' Meeting following the nomination, except for cases of disqualification stipulated by law, when a new nomination is required.

The Supervisory Board has the following Committees:

Risk Committee
Remuneration Committee

The Risk Committee decides on the approval of the following reports of the Board of Directors:

- report on major developments and events affecting the risk position;
- risk reporting;
- report on the overall implementation status of BayernLB Group Risk Management Principles and Guidelines;
- report on risk relevant topics and findings from internal, external and regulatory audits;
- risk strategy updates (the proposal of the Board of Directors shall be evaluated and commented by the Risk Committee in order to prepare the approval of the Supervisory Board).

Decisions of the Board of Directors on country limits shall be evaluated and commented by the Risk Committee in order to prepare the approval of the Supervisory Board.

Tasks of the Remuneration Committee:
- approval of the decision on matters attaching to the bonus, as well as to the conclusion, modification and termination of the employment contract of the Deputy Chief Executives of the Company;
- the decision making on the bonus, as well as the conclusion, modification and termination of the employment contract of the Chairman and Chief Executive of the Company.

Main characteristics of the internal control system of the Company:

The system of internal control functions (operative internal controls and internal audit) within the organisation has been developed in accordance with the requirements set out in Recommendation No 11/2006 of the Supervisory Council of the Hungarian Financial Supervisory Authority on the "establishment and operation of internal safeguards", based on statutory and EU standards. Within the internal safeguards – in addition to internal governance – the system of internal control functions comprises the following main elements:
• Risk Management;
• Compliance;
• Internal Audit.

The units pursuing internal control functions are independent from each other within the organisation, and from the banking organisational units the activities of which are controlled by them.
The elements of the internal control system are aimed at process integrated control, management control and the operation of the management information system, and the regulated operation thereof are secured by internal regulations, job descriptions and other IT-supported solutions (e.g. the self control system operated in the branch network) forming an interlinking, hierarchical system.
Brief presentation of the risk management system of the Company and the principles used during risk management:
The Company launched its TRM (Transforming Risk Management) Project in December 2006, the primary purpose of which was the conceptual renewal of the processes of the risk management departments and the implementation of new procedures in the bank processes and relevant regulations as well as the development of the collateral and monitoring system of the Company.
Within the framework of the Risk Implementation Project, pursuant to the basic requirements of the preparation for Basel II and following the principles of BayernLB an overall concept concerning the risk assumption processes of the Company was established, according to which – with the amendment of the internal regulations of the Company - new risk assumption procedural rules entered into force as of 1 July 2008.

Main elements of the concept:
• Implementation of the Uniform Bank Segmentation categorisation applicable for the whole clientele of the Company;
• Development of Basel II conform rating tools and the development of analytic scorecards in the interest of IRBF compliance, the introduction of a customer rating system in line with this, which suitably supports the decision making activity of the management of the bank;
• Transformation of the decision making system according to the corporate governance structure of the Company and the changes of the implemented risk assumption procedural rules;
• Launch of monitoring activity supported by IT of basic functionality;
• Definition of an overall criteria system to identify endangered loans as soon as possible containing and considering the relevant indicators facilitating the recognition of endangered loans; definition of the different deal management types, the related tasks, procedural rules;
• Termination of the difference of provisioning based on Hungarian accounting rules and IFRS and the establishment of the corresponding provisioning system.

The 31 risk management principles approved by the Board of Directors of the Company concern 5 main subjects: the organisation, credit deals, problematic customer management, trading transactions (including treasury) and the operational risks.
The most important risk management principles contain final control enforced at the level of the Board of Directors, independent control separated from the risk assumption areas and adequate measuring, diversification, monitoring and reporting of the risks. Efficient communication of the risks and risk assumption willingness, continuous developments in the interest of the recognition, measurement, monitoring of risks, making the risk processes of key importance up-to-date and user friendly, enhancing their performance and the employment of well trained workforce are the tokens of the efficient risk management function of the Company.
The Articles of Association of the company are available for the public on the website of MKB Bank Zrt (www.mkb.hu) and in the registry of the Metropolitan Court of Budapest as Court of Registration; the By-laws of Supervisory Board are available for the public in the registry of the Metropolitan Court of Budapest as Court of Registration.

The Boards and the Auditor of MKB Bank Zrt.

Supervisory Board[1]

Chairman:

Stefan Ermisch (2009)[2]
Member of the Board of Management
Bayerische Landesbank

Members:

Jochen Bottermann (2009)
Counsel to the Board of Management
BAWAG P.S.K.

Dr Buzáné Dr Bánhegyi Judit (2010)[3]
Branch Director
MKB Bank Zrt.

Gerd Häusler (2010)[3]
Chairman of the Board of Management
Bayerische Landesbank

Dr Kotulyák Éva (2007)[4]
Legal Counsel
MKB Bank Zrt.

Lőrincz Ibolya (2008)[4]
Deputy Head of Department
MKB Bank Zrt.

Dr Mészáros Tamás (2009)[2]
Rector
Corvinus University, Budapest

Hans Schaidinger (2009)[2]
Lord Mayor
City of Regensburg

Dr Ralph Schmidt (2008)[5]
Member of the Board of Management
Bayerische Landesbank

[1] Mr Andreas Dörhöfer resigned from his membership in the Supervisory Board with effect from June 3, 2009. Dr Siegfried Naser resigned from his membership in the Supervisory Board with effect from July 1, 2009. Dr Michael Kemmer resigned from his membership in the Supervisory Board with effect from December 15, 2009. The membership of Ms Asbóthné Tóth Éva in the Supervisory Board terminated as of March 31, 2010.
[2] Elected as member of the Supervisory Board by the Extraordinary General Meeting of June 8, 2009.
[3] Elected as member of the Supervisory Board by the Annual General Meeting of March 31, 2010.
[4] Elected as member of the Supervisory Board by the Annual General Meeting of March 31, 2010 for further three years.
[5] Dr Ralph Schmidt resigned from his membership in the Supervisory Board with effect from April 30, 2010.

Board of Directors

Chairman:
Erdei Tamás (1991)
Chief Executive Officer
MKB Bank Zrt.
Members:
Dr Balogh Imre (2004)
Deputy Chief Executive for Retail
MKB Bank Zrt.
Gáldi György (2009)
Deputy Chief Executive for Risk Management
MKB Bank Zrt.
Dr Kraudi Adrienne (2008)
Deputy Chief Executive for Corporate Governance and Marketing & Communication
MKB Bank Zrt.
Dr Patyi Sándor (2003)
Deputy Chief Executive for Wholesale
MKB Bank Zrt.
Dr Simák Pál (2008)
Deputy Chief Executive for Strategy and Finance
MKB Bank Zrt.

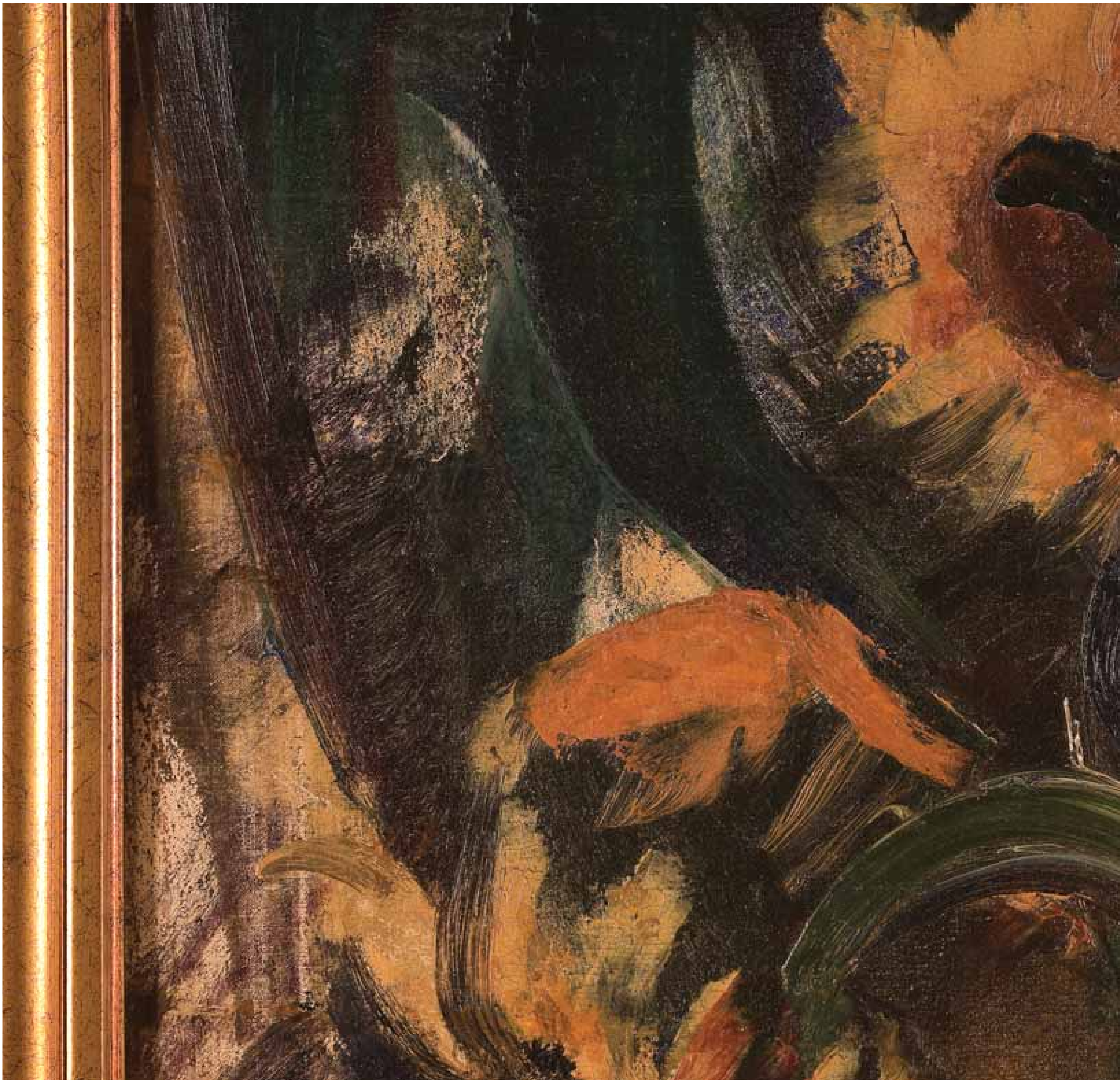
Note: Beginning of membership in brackets

Risk Committee:
Dr Ralph Schmidt, Chairman
Stefan Ermisch
Jochen Bottermann

Remuneration Committee:
Stefan Ermisch, Chairman
Dr Ralph Schmidt
Jochen Bottermann

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)

Branch Network of MKB Bank



Branch Network of MKB Bank in Budapest

Name	Address	Phone	Fax
Alagút utcai fiók	H-1013 Budapest, Alagút u. 5.	(00 36 1) 489-5930	(00 36 1) 489-5940
Allee bevásárlóközponti fiók	H-1117 Budapest, Október 23 u. 6-10.	(00 36 1) 381-4080	(00 36 1) 381-4099
Andrássy úti fiók	H-1061 Budapest, Andrássy út 17.	(00 36 1) 268-7066	(00 36 1) 268-7067
Arena Plaza fiók	H-1087 Budapest, Kerepesi út 9.	(00 36 1) 323-3870	(00 36 1) 323-3899
Árkád fiók	H-1106 Budapest, Örs vezér tere 25.	(00 36 1) 434-8110	(00 36 1) 434-8119
Békásmegyeri fiók	H-1039 Budapest, Pünkösdfürdő u. 52-54.	(00 36 1) 454-7700	(00 36 1) 454-7699
Budafoki fiók	H-1221 Budapest, Kossuth Lajos u. 25-27.	(00 36 1) 482-2070	(00 36 1) 482-2089
Budaörsi fiók	H-2040 Budaörs, Szabadság út 45.	(00 36 23) 427-700	(00 36 23) 427-719
Campona fiók	H-1222 Budapest, Nagytétényi út 37-43.	(00 36 1) 362-8180	(00 36 1) 362-8199
Csepel Plaza fiók	H-1211 Budapest, II. Rákóczi F. út 154-170.	(00 36 1) 278-5750	(00 36 1) 278-5769
Dévai utcai bankfiók	H-1134 Budapest, Dévai u. 23.	(00 36 1) 268-7424	(00 36 1) 268-7829
Duna Ház fiók	H-1093 Budapest, Soroksári út 3/C	(00 36 1) 216-2991	(00 36 1) 216-2992
Duna Plaza fiók	H-1138 Budapest, Váci út 178.	(00 36 1) 239-5110	(00 36 1) 239-5084
Dunakeszi fiók	H-2120 Dunakeszi, Fő út 16-18.	(00 36 27) 548-100	(00 36 27) 548-119
Érdi fiók	H-2030 Érd, Budai út 11.	(00 36 23) 521-840	(00 36 23) 521-859
EuroCenter fiók	H-1032 Budapest, Bécsi út 154.	(00 36 1) 439-3000	(00 36 1) 453-0822
Fehérvári úti fiók	H-1119 Budapest, Fehérvári út 95.	(00 36 1) 204-4686	(00 36 1) 204-4717
Gödöllői fiók	H-2100 Gödöllő, Kossuth Lajos u. 13.	(00 36 28) 525-400	(00 36 28) 525-419
Lajos utcai fiók	H-1023 Budapest, Lajos. u. 2.	(00 36 1) 336-2430	(00 36 1) 336-3169
Mammut fiók	H-1024 Budapest, Széna tér 4.	(00 36 1) 315-0690	(00 36 1) 315-0672
Masped Ház fiók	H-1139 Budapest, Váci út 85.	(00 36 1) 237-1756	(00 36 1) 238-0135
MOM Park fiók	H-1124 Budapest, Alkotás út 53.	(00 36 1) 487-5550	(00 36 1) 487-5551
Nyugati téri fiók	H-1132 Budapest, Nyugati tér 5.	(00 36 1) 329-3840	(00 36 1) 329-3859
Pilisvörösvári fiók	H-2085 Pilisvörösvár, Fő u. 60.	(00 36 26) 538-988	(00 36 26) 538-989
Rákoskeresztúri fiók	H-1173 Budapest, Pesti út 237.	(00 36 1) 254-0130	(00 36 1) 254-0138
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Szent István téri fiók	H-1051 Budapest, Szent István tér 11.	(00 36 1) 268-7461	(00 36 1) 268-7131
Szentendrei fiók	H-2000 Szentendre, Kossuth Lajos u. 10.	(00 36 26) 501-400	(00 36 26) 501-399
Szigetszentmiklós	H-2310 Szigetszentmiklós, Gyári út 9.	(00 36 24) 525-660	(00 36 24) 525-679
Türr István utcai fiók	H-1052 Budapest, Türr István u. 9.	(00 36 1) 268-8219	(00 36 1) 268-7908
Újpesti fiók	H-1045 Budapest, Árpád út 183-185.	(00 36 1) 272-2444	(00 36 1) 272-2449
Váci fiók	H-2600 Vác, Március 15. tér 23.	(00 36 27) 518-670	(00 36 27) 518-699
WestEnd City Center fiók	H-1062 Budapest, Váci út 1-3.	(00 36 1) 238-7800	(00 36 1) 238-7801

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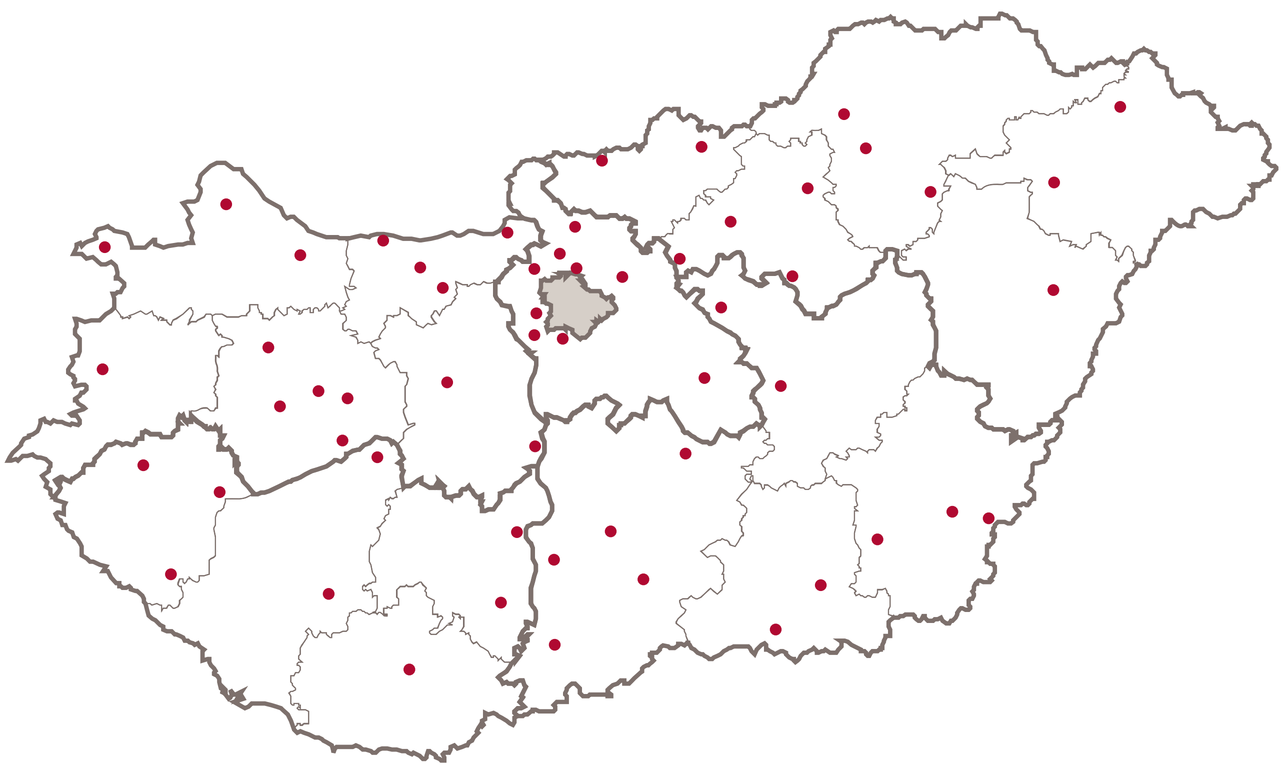

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Barabás, Miklós: Hungarian noblewoman, 1872
oil on canvas, 97,5 x 73 cm
Basch, Andor: Still life with apples, 1935
oil on wood, 33 x 41 cm
Börtsök, Samu: Hortensias in bloom, c 1920
oil on canvas, 100 x 72 cm
Csók, István :Apple tree blossoms (Primavera), 1911
oil on canvas, 51 x 51 cm
Csók, István: Asters, 1913
oil on canvas, 58 x 70 cm
Iványi-Grünwald, Béla: Lake Balaton before the storm, 1922
oil on canvas, 50 x 60 cm
Kmetty, János: Large still life with flowers, 1937
oil on canvas, 80 x 100 cm
Markó, Ferenc: Ideal landscape, 1856
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Márffy, Ödön: Vase with sunflowers, 1930
oil on canvas, 76 x 60,5 cm
Mednyánszky, László: By the stream, 1900
oil on canvas, 71x101 cm
Rippl-Rónai , József: Portrait of Mrs Kunffy, 1908
pastel on paper, 65 x 50 cm
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Vienna Imperial Painter: Portrait of Albert, Prince of Saxony, Duke of Teschen, 1766-1767
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Ziffer, Sándor: Bouquet of flowers in the window, 1937
oil on canvas, 69 x 100 cm