# MKB Group's Report 2010

MKB BANK

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**Károly Ferenczy:**
(1862-1917)
**Izvora with a Pine-Grove,1909**
105x123 cm
oil on canvas

Ferenczy is the greatest painter of the Hungarian impressionism. "With its nice rhythm, the composition depicts a grandiose expanse in natural scenery. The three grazing horses are so small in size that the picture can certainly be considered as a pure landscape." *(István Genthon: Károly Ferenczy, monograph)*

# Content

József Rippl-Rónai
(1861-1927)
White clouds,1897
65.5x81 cm
oil on canvas

Being one of the Nabis ('Prophets'), the influential grouping of artists at the end of the 19th century who set themselves the task of renewing painting, Rippl-Rónai painted few landscapes in his so-called black period. This painting was inspired by the frequently strange weather. The whirlwind, torrential rains and storms are recalled by the picture of a half-submerged green house in the flood area of the River Seine against the background of still menacing skies with swirling clouds.

# Key Figures

2010

| | 2009 | 2010 | MKB Bank (HUF million IFRS unconsolidated) Change | MKB Group (HUF million IFRS consolidated) 2010 | MKB Group[1] (EUR million IFRS consolidated) 2010 |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Total assets | 2,906,836 | 2,733,482 | -5.96% | 2,939,188 | 10,544 |
| Securities and NBH | 459,395 | 403,009 | -12.27% | 436,926 | 1,567 |
| Loans and advances to credit institutions | 171,749 | 128,730 | -25.05% | 76,227 | 273 |
| Loans and advances to customers, o.w. | 2,119,863 | 2,166,332 | 2.19% | 2,377,324 | 8,529 |
| Corporate loans | 1,169,661 | 1,358,418 | 16.14% | 1,235,267 | 4,431 |
| Loans to private individuals | 523,127 | 597,537 | 14.22% | 792,459 | 2,843 |
| Risk provisions for loans and advances | (89,496) | (168,930) | 88.76% | (200,334) | (719) |
| Bank deposits and refinancing balances | 1,129,582 | 963,909 | -14.67% | 965,684 | 3,464 |
| Customer accounts and deposits, o.w. | 1,215,922 | 1,278,617 | 5.16% | 1,467,245 | 5,264 |
| Corporate accounts and deposits | 656,725 | 678,610 | 3.33% | 741,424 | 2,660 |
| Accounts and deposits of private individuals | 559,197 | 600,006 | 7.30% | 725,821 | 2,604 |
| Debts securities issued | 141,854 | 146,609 | 3.35% | 144,701 | 519 |
| Subordinated capital | 104,584 | 96,561 | -7.67% | 96,561 | 346 |
| Shareholder's equity | 257,752 | 195,444 | -24.17% | 206,073 | 739 |

[1] HUF/ EUR exchange rate: BS: 278.75; P&L: 274.59.

# 2010

| | 2009 | 2010 | MKB Bank (HUF million IFRS unconsolidated) Change | MKB Group (HUF million IFRS consolidated) 2010 | MKB Group (EUR million IFRS consolidated) 2010 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Net interest income | 75,975 | 75,790 | -0.24% | 91,755 | 334 |
| Net commission income | 15,389 | 16,777 | 9.02% | 20,723 | 75 |
| Other income | 27,712 | (4,003) | -114.45% | (5,314) | (19) |
| Gross operating income | 119,076 | 88,565 | -25.62% | 107,165 | 390 |
| General administrative expenses | (55,499) | (56,594) | 1.97% | (76,349) | (278) |
| Operating profit | 63,577 | 31,970 | -49.71% | 30,816 | 112 |
| Impairments and write-offs | (46,705) | (165,653) | 254.68% | (148,637) | (541) |
| Profit before tax | 16,872 | (133,683) | -892.32% | (117,821) | (429) |
| Profit after tax | 12,923 | (122,673) | -1049.25% | (108,165) | (394) |
| **Business franchise** | | | | | |
| Corporate clients ow. [2] | 46,769 | 48,394 | 3.5% | 73,550 | |
| Large corporates [3] | 2,970 | 3,057 | 2.9% | - | |
| SMEs | 9,743 | 9,535 | -2.1% | - | |
| Micro corporates | 34,056 | 35,802 | 5.1% | - | |
| Private individuals [2] | 321,528 | 348,748 | 8.5% | 619,600 | |
| Pension fund clients | 140,500 | 136,100 | -3.2% | - | |
| Health care fund clients | 120,000 | 133,500 | 11.3% | - | |
| Corporate loans and deposits market share | 13.6%/11.3% | 13%/11.2% | -0.6/-0.1 pps | - | |
| Loans to and deposits from private individuals market share | 6.3%/5.6% | 6.5%/5.9% | +0,2 / +0.3 pps | - | |
| Investment funds market share | 4.5% | 4.2% | -0.3 pps | - | |
| Issued bonds of domestic Fin. Inst. held by resident households [4] | 14.1% | 14.2% | +0.1 pps | - | |
| **Liquidity and self-financing** | | | | | |
| Liquid assets ratio | 22.12% | 19.87% | -2.25 pps | 21.93% | |
| Loans-to-Primary Funds (LTPF) Ratio | 156.13% | 152.00% | -4.13 pps | 147.48% | |
| Loans-to-Deposits (LTD) Ratio | 174.34% | 169.43% | -4.91 pps | 162.03% | |

[2] Total clients of MKB Bank, MKB Romexterra Bank and MKB Unionbank regarding MKB Group data.
[3] Including institutional clients.
[4] Excluding mortgage bonds.

| | 2009 | 2010 | MKB Bank (HUF million IFRS unconsolidated) Change | MKB Group (HUF million IFRS consolidated) 2010 |
|---|---|---|---|---|
| **Capital management** [5] | | | | |
| Total core capital | 304,432 | 251,393 | -17.42% | 216,126 |
| Core capital (Tier 1) | 202,950 | 167,365 | -17.53% | 158,293 |
| Solvency ratio | 9.8% | 10.8% | +1 pps | 10.3% |
| Tier 1 ratio | 8.7% | 9.0% | +0.3 pps | 7.4% |
| **Portfolio quality** | | | | |
| Total NPL ratio | 5.9% | 11.3% | 5.40 pps | 12.9% |
| Corporate NPL ratio | 4.8% | 9.6% | 4.77 pps | 11.7% |
| Private individuals NPL ratio | 11.9% | 18.9% | 6.93 pps | 17.5% |
| Loan loss reserves/NPL | 58.85% | 54.19% | -4.66% | 59.99% |
| Collateral coverage/NPL | 38.05% | 37.06% | -0.99% | 39.26% |
| **Profitability** | | | | |
| ROAE | 14.5% | -28.2% | -42.7% | -41.8%[6] |
| ROAA | 0.9% | -2.3% | -3.2% | -3.9% |
| **Efficiency and operation** | | | | |
| CIR | 46.6% | 63.9% | 17.3 pps | 70.6%[7] |
| Number of employees | 2,195 | 2,243 | 2.2% | 3,932 |
| Number of branches | 86 | 87 | 1.2% | 186 |
| **Share related information** | | | | |
| Earnings per share (in HUF) | 883 | (7,846) | -988.7% | (6,795) |
| Book value per share | 17,457 | 9,427 | -46.0% | - |
| Number of shares | 14,765,369 | 20,732,902 | 40.4% | 20,732,902 |

[5] Regulatory capital without deductions.
[6] Average equity 2010: HUF 279,760 million, 2009: HUF 224,384 million.
[7] Adjusted with profit from equity consolidated companies.

# 2010 Awards and Recognitions

From year to year MKB Bank receives a number of prestigious and high profile awards for its professional versatility in recognition of its unflagging strive for quality in all parts of its operation. In 2010 quite different activities of the Bank were appreciated with honourable awards that reflect our colleagues' expertise and customer-centred attitude.


## Two first places in the contest of **The Primary Dealer of the Year**

Among primary dealers, MKB Bank was the only one to rank first in two categories in the contest *The Primary Dealer of the Year* announced by the Government Debt Management Agency, where 2009' performance of the primary dealers of government securities were objectively measured in five categories:

Category ***The Primary Dealer achieving the highest secondary market share in 2009***: the turnover of HUF 5,497 billion performed by MKB Bank is 15.86% of the total secondary market turnover of primary dealers;

Category ***The Primary Dealer increasing its primary market share the most dynamically in 2009***: our 7.3% share achieved in auctions in 2008 was increased to 10.45% in 2009.

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## MKB Bank became a HUNGARIAN BRAND

Following the Superbrand award we gained in several times in recent years, last year MKB Bank became a *HungarianBrand.* Based on the objective corporate data (tradition, ownership, management, awareness, employment), and the subjective decision of the HungarianBrand Panel of independent experts (reputation and identity) MKB Bank is an essential Hungarian brand. We are proud to receive the award of this newly introduced program focusing on the most excellent domestic brands.

## EXCELLENT CALL CENTER prize to the MKB Bank Call Center

Both in the category of problem solving and sales support related to incoming calls MKB Bank's Call Center proved to be the best in this year's contest for the TOP 10 Call Center-prize established by GfK Hungária Market Research Institute. In the category of general customer management we missed the gold medal only by one single percentage point. MKB Bank this way was recognised with the *Excellent Call Center* prize among more than thirty companies, including eight banks. Test clients tested the skills of the call centres of the contestant companies by nearly 250,000 questions. Thanks to the awarded prizes, we can proudly carry the title of *Excellent Call Center* for a year.

## First place in the category of THE RETAIL BANKCARD OF THE YEAR 2010

The Association of Hungarian Fine and Applied Artists and the Hungarian University of Fine Arts announced a tender for the design of bank and credit cards in circulation and series production again this year.
The panel of experts found the best the optional design with a part of a painting of MKB MasterCard Unembossed Student (Mattis-Teutsch János: Composition) as an individual contestant in the category *The Retail Bankcard of the Year 2010.*


**Vilmos Aba-Novák**
(1894-1941)
**Circus**
56x70 cm
paper, tempera

Aba-Novák's favourite themes include circuses, and more specifically, scenes taking place in the circus ring. In this picture the intense red motives, a chair and a coat - the red tailcoat of the circus rider in his black hat, arrange everything within the space, adjusting other forms, colours and characters in relation to themselves. These rhythm-formulae are a characteristic feature of all Aba-Novák's work.

# Chairman's Statement

2010

This year was an altogether unfavourable and transition year both in the economy and in the banking sector, where the main emphasis laid on short-term stabilisation. On the one hand, the year was characterised by positive factors such as the boost of export and industrial production, the record high level domestic savings and the slower pace of other, unfavourable processes of real economy. On the other hand, the debt crisis of the Euro zone made it clear that reducing the external sensitivity of Hungary requires sacrifices from some sectors that improve the budgetary position, with disproportionately high, and partly temporary contribution. All these, together with the structural measures announced from the beginning of 2011, aiming at the longer-term reform of the expenditures, by intensifying the domestic demand through the reallocation of the domestic income and EU funds and in the medium term by the significant increase of employment, can contribute to the Hungarian economy to permanently take a growth path again.

With the sound level of the fundaments (liquidity, capital, system-level stability), from the aspect of medium-term recovery, mixed impacts dominated the Hungarian banking sector in 2010, whose position was made rather difficult by the regulatory environment and the economic policy. The high provisioning is the logical deferred impact of the crisis due to increasing NPL rates, while the sector cooperates with its customers through restructuring and crisis managing products. At the same time, the permanently high level of the savings rate with increasing financial diversification is a positive factor. The bank tax effective in mid-term, with its unexceptionally high rate even in European context, resulted in losses suffered by a number of banks and also restrains the opportunities for growth. For the banking sector in the medium term it is expected to be counterbalanced by the business opportunities arising from the growing economy, strengthening monetisation and financial penetration.

MKB Bank and MKB Group dedicated 2010 basically to internal consolidation and the improvement of their processes. MKB allocated those provisions that it found necessary in the hectic post-crisis state of the CEE economies for being able to exploit the potentials of the newly starting period of growth on a sound basis. As a result of its intensive internal efforts and with the support of its owner, it strengthened its capital position.

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## 2010: Continued short-term stabilisation of the Hungarian economy

In 2010 Hungary recovered from the recession through export-driven growth (+19%). Last year the Hungarian export could highly rely on the European, and within that on the improving German market, while the surge of domestic sales started gradually from the second half of the year. The export demand also stimulated industrial production growing by 11% in 2010. At the same time, the domestic demand and consumption remained limited in 2010, and further negative tendencies were apparent in addition to the decrease of retail trade turnover. The outcome of the two ambivalent tendencies resulted a real GDP increase of 1.2%.

The external trade balance is attractive, and the internal savings are outstanding; the rate of savings achieved a record-high value. At the same time, external risk was increased by the spring Greek and the autumn Irish crises, restraining room of economic policy and enhanced importance of crisis management. The excessive government debt further increased in spite of the fact that the deficit of the budget significantly decreased.  Therefore, year 2010 was determined by crisis management continued by the new government, by accumulating budget reserves, by stimulating domestic demand as well as making preparations for longer term structural reforms that will rather show an impact from 2011.

The enforced short-term measures allowed not prolonging the IMF-EU loan, while keeping committed to the extremely strict 2010 and 2011 budget deficit target. In order to reduce the budget deficit, retrospectively for 2010 the government imposed an industry specific tax for the ICT, energy and retail sectors, and introduced the bank extra-tax as well that will largely reduce the profitability and competitiveness of the Hungarian bank system in the medium term. For the same purpose but with serious legal and economic scruple the overwhelming majority of private pension funds assets were „quasi-nationalized", and the running pension charges were channelled into the social security system. While these measures are improving temporarily the macro-economic balance – worsen the chances of medium-term growth and negatively influence the perception of the Hungarian economy by the international financial communities, leading to short-term further cost adjustments and restrained investment projects. The market and the international credit rating agencies evaluated the 2010 measures as temporary and non-structural, which was reflected in the permanently high country risk indices, and in the rating actions scaling Hungary's sovereign rating uniformly to the floor of the investment category. The potentially envisaged downgrading may cause severe damage on the money market, for the bank sector, and for the economy. By the end of 2010 the Central Bank gradually increased the reference rate (by 75bps) back to 6%, the same level as in the beginning of the year. At the same time, the exchange rate of HUF stabilised on a weaker level than before the crisis.

## Outlook for 2011: Improving domestic demand, structural reforms

In personal income taxation, a single-rate system with family tax benefit was introduced. Also, in addition to the cancellation of the several minor taxes in 2010, reducing the rate of corporate tax from 19% to 10% in the small/medium company sector significantly encourages economic prosperity. These steps leave more income primarily with the households and entrepreneurs, which may intensify domestic demand and the ease the burdens of retail foreign exchange loans. In the business sphere, the expectations of the sectors to which the extra taxes were not imposed typically improved compared to the previous year. Construction industry in the most difficult situation in 2010 and suffering a decrease of 10-11% and the agriculture and food industry falling behind due to the extreme weather conditions may start to grow again in 2011. With permanently high savings, domestic demand and consumption may intensify.

As temporary crisis measures seem to become permanent causes a serious growth and competitive disadvantage for the country, thus it is unavoidable to start fundamental structural reforms that have been postponed for a long time. As part of this, at the beginning of 2011 the economic administration announced measures aiming at stronger state centralisation and limiting the financing of municipalities, regulating employment, reshaping pension system, community transportation and education, permanently improving the balance of the budget. In addition to that, the New Széchenyi Plan announced in 2010 but operatively active only from 2011, partly financed from EU funds, supports the targets of key strategic sectors and functions, such as healthcare, employment, community transportation, green energy and housing through the restructuring of funs equivalent to HUF 2-3 thousand billion. The long-term objectives of the government include the creation of 1 million new tax-paying jobs, as a response to the „traditionally" low domestic activity and high (10.8%) unemployment rate. The necessary transformation of the social and education system and reducing the burdens of the government administration and the administrative burdens of companies may also improve sustainable stability, and substitute crisis measures in the medium term.

In 2011, while maintaining the export demand, through the accelerating domestic consumption and the introducing of reform measures in order to approach permanent economic balance, Hungary may take a sustainable growth path. It could result in a cca. 3%, then even higher real growth, controlled inflation path, accelerating investments and decreasing unemployment in a stable financial environment leading to a more favourable international assessment. A more stable macro-economic environment with calculable growth, the surge of production, consumption and projects, a permanently high rate of savings, and an increasing payment turnover also support the development of the bank sector.

## Romania, Bulgaria: Turned the corner

The recession of the Romanian economy, which started to decline after the crisis broke out, was 2.5% in 2010. In line with the slow recovery of the western markets the industrial production showed a slow increase already in the third quarter. The volume of investments decreased in 2010. The balance of trade deficit accelerated to 6% of the GDP by September, while for the period of January-September the current account deficit was higher than that of the previous year by 32%. The foreign direct investments in the country covered 45% of the deficit. The impacts of the crisis were also reflected in an increasingly unfavourable internal balance, the domestic demand remained weak: the further devaluation of the Romanian lei and the 5% VAT increase affected the price level negatively, and as a result the average inflation in 2010 reached 6.1%. The central bank base rate decreased by 175 bps to 6.25% during the year. The unemployment rate decreased by 1 percentage point reaching 7.1% by the end of 2010. The government has introduced a number of fiscal steps and reform measures in the course of the year; among others, it cut back the salaries of public sphere employees, and used its credit line made available by IMF and the World Bank to finance the deficit of the budget. During 2010 Moody's and S&P did not change the rating of the long term FX debts of Romania, however Fitch improved it to a stable BB+.

The decrease of the GDP in 2009 was followed by ~0.5% growth in 2010 in Bulgaria. It is fundamentally explained by the increasing prosperity of the western export markets, which also plays a role in the 5.5% growth of industrial production. Export grew by 31.6% while the imported products and services increased by 8.8% yoy. Current account balance was positive in some months of 2010, in annual term there will be a slightly deficit of 0.8%. As a consequence of the crisis the annual average inflation started to decelerating and reached its lowest level in June 2010: 0.9%; in the second half of the year inflationary pressure of substantial rises in the international energy and food prices was further amplified by labour cost increase and excise taxes inflation reached 4.6% at the end of 2010. The trend of the unemployment rate, following a decrease for 8 months, increased, thus at the end of the year it reached 9.1%. To avoid further deterioration of fiscal position and to set budget deficit on a declining path, anti-crisis and fiscal consolidation package was adopted. For the medium-term it contains a broad range of further measures both on expenditure and on revenue side, which would be sufficient to strengthen confidence in the country, e.g. pension system, education, health care, state administration. The new government elected in summer 2009 declared maintaining a fixed exchange rate system set the accession to the Euro zone as its target and aims to fight against corruption. Bulgaria's credit rating remained unchanged during the year; the country still remained in the investment category in all three credit rating agencies.

## Banking sector: Delayed recovery with bank tax burden

While none of the most important banking fundamentals, such as liquidity and the availability of internal funds, capital position and sector-level stability, were threatened by any negative developments in 2010, and the level of these could be considered as good throughout the year, from the aspect of medium-term recovery, all in all mixed impacts dominated the Hungarian banking sector, whose position was made rather difficult by the regulatory environment and the economic governance.

The fact that the market environment was strongly two-faced (dynamically increasing export, industrial production and still decreasing domestic demand) affected financing need and credit portfolios volumes. Both supply and demand shrank. The corporate portfolio decreased on transaction basis, with a slowing pace in the second half of the year. The high rate of corporate bankruptcies, though showing a decreasing tendency, is still perceptible, and it is apparent that despite the boost of the Hungarian export, companies are still not keen on starting investments, and they are characterised by exploiting their existing capacities. The other factor in the decreasing lending activity is the limited availability of foreign currency loans offered. Lending to private individuals decreased significantly due to the consequences of the uncertainties of employment continuing in 2010, the weakening of the Hungarian forint against the Swiss frank, and the stricter conditions of retail lending. In the banks' new credit portfolio HUF loans became dominant in 2010, which was quite positive as a fact in itself. In the middle of 2010, mortgage loans in foreign currency practically ceased to exist, and the eviction moratorium was introduced. The credit portfolio shrank, and the new loans reached only a fraction of the pre-crisis volumes.

Previous expectations related to pace of the quality improvement of the existing portfolios proved to be optimistic, as the NPL ratio continuously increased over the year. In line with that, the net provisioning almost reached the extent of one year before. In the process, however, the general effort of the bank sector to save their customers facing temporary difficulties but having a development potential in the medium term, through intensive care, restructuring, reinforcement of the coverage, offering crisis products, has been received positively by the customers.

An outstandingly positive development of 2010 is the further growth of savings and retail customers, through gradually increasing diversification, using primarily bonds and secondary investment funds, permanent saving structures increased significantly, although from a low basis. The prominent corporate deposit portfolio may be regarded rather as the aftermath of the recession, than a phenomenon that is healthily in the long-term. Such strengthening of the self-financing ability contributed favourably to the improvement of loan-to-deposit ratio previously found outstanding even in the international comparison. At the same time, the rechannelling of the deposits and assets of the private pension fund system had unfavourable direct impacts from a number of aspects both for the funds and the institutional investors (demand), both from the aspect of asset management and of customer communication and costs.

The cost level of banks, after the drastic cost saving of previous periods, nominally stagnated in 2010 (which, at the real value, still means further decrease), and in the crisis period it is of total 7%, meaning the lay-off of 3,650 persons. This happened fully in harmony with the previous expectations, similarly, due to the only 9% growth of revenues (interest and fee and commission income), the unrealised one-off treasury income and the weak level of fundamental income and new deals. As a consequence of these factors, the operating profit with a 23% decrease did not reach even HUF 620 billion.

At the same time, however, the above mentioned were part of unfavourable scenarios. Just because of that, in 2010 the greatest shock for the domestic banks was the bank tax, with its record-high rate even in European relation, which hit the Hungarian banking system in this vulnerable, juts-recovering state, further decreasing its profitability to a significant extent. The tax that applies to the whole financial system is expected to remain in effect in the medium term, and to amount to cca. HUF 180 billion between 2010-12 and its rate is expected to be its half in 2013-14. Basically due to the high level of provisioning and the bank tax, 21 banks are expected to make loss in 2010.

In the course of the crisis, parent banks kept supporting their domestic subsidiaries through refinancing and capital allocation. However, because of the rate and timeframes of the bank tax, and of such a growth environment that is loaded with legal and business uncertainties, other markets within the region may be allocated higher growth potentials, mainly in the beginning of the period. Despite the arising difficulties the Hungarian bank system is still stable, its capital adequacy is adequate, and liquidity position is good. The sector manages the crisis-effects, executes active restructuring and cleans its portfolio by using significant resources. In 2011 the position of the sector may improve if the domestic demand and economic boost commence effectively, provisioning significantly decreases and simultaneously the other obstacles of the extension of the financing activities are also removed. In 2011 lending may boosting up, though with more considerable selectivity than before, both in the retail and in the corporate segments, especially in the second half of the year. The positive reception of the economic-policy measures may help the banking sector from the side of the macroeconomic conditions and the assessment by the market, so that it may start to take the firm path of recovery.

The banking sectors of Romania and Bulgaria were still characterised by crisis management in 2010, basically due to the prolonged effects of the slow economic recovery on the portfolio quality. In both banking systems significant capital increase took place, while their liquidity position is stable. The Romanian non-performing loan portfolio remained significant, and its rate is significantly higher than in the Hungarian and the Bulgarian sector. Consequently, because of the delayed effects of the economic boost, the rate of the non-performing loans deteriorated in both countries. The Romanian bank system already made loss in 2010, while the Bulgarian closed the year with a positive result. In Romania retail lending was characterised by a decreasing tendency, while in Bulgaria from the 2nd half of the year demand for both deposits and credits intensified. The parent banks present in both countries are committed to their subsidiaries. In 2011, the stability of the capital position, ensuring the necessary liquidity, the strengthening of the self-financing ability and strict cost management with further rationalisation remained key priorities. Lending will gradually start to increase in 2011 as a result of measures taken to intensify the economy, the profit position is not expected to further deteriorate, if the provisioning significantly decreases.

2010

## Performance of MKB Bank and Bank Group: New growth path ahead with prudent reserves and strenghtened capital position

The business and financial performance of MKB and MKB Group was partly determined by the business and economic environment that is improving slower than expected in the CEEU region, therefore having a prolonged unfavourable effect on the portfolio quality, and basically in Hungary by the regulatory environment, and partly by the efforts made to realise the new economic and political measures and the Bank Group's strategic objectives.

Taking all these into account, MKB Group in 2010 was successfully implementing its strategy formulated at the beginning of the crisis, time-proportionately over-achieving the targets concerning the strengthening of self-financing, the more efficient management of the risk-weighted assets and the improvement of the currency structure of the balance sheet, which was accomplished through the significant internal efforts of the staff of MKB Group, as perhaps the most important results in 2010. In the meantime, the liquidity of the Bank Group remained stable and strong, and the strict cost management continued on group level, setting the course for the further improvement of the operating efficiency.

However, in 2010, in addition to internal consolidation, MKB Group took important steps to build its future. The Group allocated the provisions that it found necessary in the hectic post-crisis state of the Central and Eastern European economies for being able to exploit the starting new period of growth on a firm basis and with clearing portfolio. As a result of its intensive internal efforts, and with the support of its owner, MKB Group strengthened its capital position. Actively, cooperating with its customers the Group carried out intensive restructuring activities by offering crisis products. The Group continued to improve its internal processes and organisational development, which, in the first half of the year, still focused on the reinforcement of the functions related to the preservation of the portfolio. Then, partly simultaneously, a comprehensive renewal program was began aiming at the strategic paradigm shift of the wholesale business line, and consequently the dynamic boost of the performance of the business line in the medium term - by focusing on business reorientation, efficiency and profitability. The main elements of these include strong, centralised support areas, partly a more focused and strongly supported own sales activity and relationship deepening, and partly a proactive, systematic acquisition activity that exploits the synergies between the business lines to the maximum. In 2010 some initial results of the Bank's of primary banking relationship strategy started to appear.

The Bank and the Bank Group's performance in 2010 can be assessed only by taking into account the previously described framework; based on that in a recovering environment that is still hectic and more difficult than pre-crisis and full of challenges, the Bank and the Group successfully accomplished its main objectives, while preserved and in some areas further strengthened its market positions.

MKB Bank and Group have decreased its lending activity intentionally in this crisis period. The unconsolidated total assets of MKB Bank decreased by 6% to HUF 2,733 billion, net loans by 2% to HUF 1,998 billion while deposits grew by 5% and reached HUF 1,279 billion. The increase of deposits was completed with the issue of HUF and FX-based bonds: the total face value of bonds issued in 2010 amounted to HUF 83.9 billion. The resource diversification was further strengthened by Investment Funds whose total asset value grew by 12.5% to HUF 131 billion at end 2010.

The Bank's IFRS non-consolidated interest, fee and commissions income increased by 1.3% to HUF 92.6 billion. At the same time gross operating income was lower than the base due to the drop of exchange rate gain from securities compared to the outstandingly high base of the year before, in addition to the tendency of consolidation of the capital markets. The Bank's operating costs decreased in real terms, and as a result of the optimisation program, with a mere 2.0% growth of the banking operation costs, the 2010 year-end 55.5% cost-to-income ratio is considered favourable even by international standards (clearly excluding bank tax and the subsidiaries related write-offs). The increasing CEEU credit risks and the uncertainties of the economic performance of the region, plus an outstandingly high rate of bank tax even according to world standards, made MKB Bank more cautious than usual in the evaluation of its assets. Therefore, in line with the provisioning guidelines of its parent bank, the Bank also allocated its provisions in a way to prepare for the further prolongation of economic boost. As a result of these two previously unanticipated effects, the significantly higher than planned provisioning and the extra tax amounting to HUF 13.6 billion, the Bank's non-consolidated pre-tax loss as per the international accounting standards amounted to HUF 133.7 billion, first time in the Bank's more than 60 years long history.

The business volumes of MKB Group were basically determined by MKB Bank's development: 4% decline in net loans (HUF 2,178 billion) explains the 5%-decrease of the total assets that accounted to HUF 2,939 billion at end 2010. Deposit portfolio grew by 4% to HUF 1,467 billion. On a group level, MKB realised HUF 117.8 billion consolidated negative pre-tax result according to IFRS, basically due to the losses suffered by the Romanian subsidiary, operating in an even more critical environment than of Hungary's. MKB Bank promptly reacted to the deterioration of the Romanian environment and subsidiary's performance, and actively manages the non-performing portfolio by separating it into an independent entity, while supports the market growth of the healthy bank with retail focus, rebranded under the name of MKB Nextebank. Out of the other main affiliates, Unionbank contributed positively to the performance of the Bank group (pre-tax HUF 674 M) with a relatively good performance with regards to the position of Bulgaria and the Bulgarian banking market. The Leasing group, operating on a vehicle market in a still unfavourable environment, the first time since the foundation of the company group contributed to the Bank group's performance with a minor loss, which was fundamentally caused by the extra bank tax. Taking into account the shrinking of the vehicle market and car financing over the last couple of years and resulting in the exit of the competitors, the Group's relative performance is good.

The Bank's HAR unconsolidated statements reflect tendencies similar to IFRS, the Bank's profit-before-tax was HUF -112.8 billion (loss; 2009: HUF 342 M profit), and the profit-after-tax accounted to HUF -112.7 billion (loss; 2009: HUF 298 M profit) in 2010.

Although in 2010 increasing its market shares was still not top priority for MKB Bank, the Bank further strengthened its positions in the core segments reaching 14.3% and 6.5% in lending to non-financial companies and retail lending respectively (2009: 14.9% and 6.3%, resp). The market share in savings is even higher than that, with 5.9% share in private individual deposits (2009: 5.6%), and 11.8% in non-financial corporates deposits (2009: 11.7%). At the same time, MKB Bank preserved its position in total retail savings, as well. The Bank's business success was recognized by further professional awards in 2010.

The main shareholder BayernLB, in accordance with its strategic program, continuously ensured the necessary funds for the Group's operation. In addition to refinancing, in the summer of 2010 capital was raised with the amount of HUF 20,250 million, and at the end of 2010 a multi-elemental capital management program was accomplished. As part of which, in addition to Tier 1 capital raise and converting the subordinated loan capital into Tier 1 capital, synthetic capital transfer also took place, which meant that the parent bank took over of the risks by guaranteeing some assets of MKB Bank. Through this and some further internal efforts significant RWA could be decreased on bank and group level. As a result of these actions the HAR capital adequacy ratio improved to 10.8% by the end of the year (Tier 1: 9.0%), which reflects a safe level, exceeding the requirement. (The Bank Group's capital adequacy ratio reached 10.33% (Tier 1: 7.42%) at the end of the year.)

At the end of 2010, with its 87 branches, MKB Bank served 13,100 large corporates, SME and institutional customers, close to 349,000 private individual customers and 35,800 small companies, while together with the foreign subsidiaries it served in 186 branches a total of 17,700 large corporates, SME and institutional customers and 619,600 private individual customers, 56,360 small companies in 3 countries of the region. Through the strategic participations and the expanding partner network, several hundreds of thousands of additional customers are banking with the Group.

## Human resources

The total number of the employees of the MKB Group, including the foreign subsidiaries, decreasing by 1,8%, amounted to 3,932 as at 31 December 2010. The number of staff employed by the MKB Group members operating in Hungary was 2,568 as at 31 December 2010, and within this the number of employees in MKB Bank increased by 2 % to 2,243. The foreign subsidiaries (MKB Unionbank, MKB Romexterra Group) employed 1,364 employees as at 31 December 2010, after a decrease of 13%.

As a consequence of the recession, emphasis partly shifted to human resource development. Acquiring and strengthening professional skills adjusted to the changes of the business strategy was given key priority, which was mainly realised in the form of internal training (e.g. modular retail and wholesale training courses). In addition to that, the changed economic environment highlighted the existence of management and leadership skills, and the high-level application of these. In line with that, the leadership competency of the Bank's complete management staff was surveyed, the results of which serve as the basis of a longer-term complex manager development program. Furthermore, the motivation of key employees and strengthening their commitment are increasing organisational requirements. For this purpose MKB Career Supporting system was launched, which select and supports the appropriate colleagues who manifest a permanent outstanding performance and have valuable expertise for the Bank.

## 2011' objectives of the bank group: Continue its 'Capital Market-ready' Strategy

MKB Bank and the Bank Group continue to implement the objectives, formulated right after the escalation of the crisis, with focus on strengthening the fundaments of banking operations, such as capital optimisation, stable capital and liquidity position, improving self-financing ability and portfolio cleaning. Furthermore, supported by the gradually improving economic environment, endeavours to improve the maturity and currency structure of its balance sheet in the medium term, significant improvement of the operating efficiency and from the business aspect the deepening of the primary banking relationship are given higher emphasis. All the above mentioned three elements are of strategic importance for MKB Bank and Group in the medium term as well.

The fact that some strategic objectives were time-proportionately over-performed in 2010 already, and that the Bank implemented adequate measures with significant internal efforts (e.g. RWA and cost rationalisation, etc.), which went hand in hand with the slightly optimistic but still sound outlook concerning the improvement of the client portfolio quality, serves as a base for MKB Bank and Group to achieve positive results in 2011. The consequent implementation of the above strategic objectives and the expected positive result in 2011, following a high provision charge necessitated by the crisis all fundamentally contribute to the increase of the Bank's value in the medium term. This is further reinforced by the RWA-effective diversification of the income structure through the shift planned among the business lines.

From 2011 the organisational renewal of the corporate business line also supports the strategic paradigm shift, the RWA-effective improvement of profitability, the focus on payments and accounts and the sale of refinanced, EU/state funded and guaranteed risk products in the SME segment. The sale of treasury and investment products has also top priority in this segment. In the private individual client segment the Bank focuses on the further increase of primary banking relationship in addition to the number of customers and the volume of customer funds. After the crystallisation of the regulation the increase of mortgage covered housing loans is still an obvious business target. For small companies the goal is to expand account relations and selectively increase the penetration of guaranteed risk products. In the money and capital market segment the Bank continues to focus on its self-financing ability and the favourable transformation of its balance sheet structure. In addition to these, MKB intends to boost its market share in investment funds, while maintaining its remarkable position gained in bonds issued by FI.

In 2011, on an improving domestic car market both by cars and financings sold, the purpose of MKB-Euroleasing is to grow both on the market of used and new vehicles. The growth is to be achieved in such a changed framework and schemes that mitigate the risk profile of the portfolio. The strategic partners of the company group fundamentally contribute to its performance. In Romania and Bulgaria the outlook is gradually improving, but the delayed impacts of the crisis still warn the Group to be careful, the business activity should be selective while consolidation has unchanged primacy. For MKB Nextebank (formerly MKB Romexterra Bank) the main goal for 2011 is to finish the preparation of the organization for the 'after crisis' market with revised, improved, efficient processes and risk management, in accordance with the Bank's business strategy focusing on retail customers. The top priority for MKB Unionbank is unchanged prudent risk management, in addition to the further improvement of business efficiency. The Bank mainly focuses on retail and SME customers.

MKB Group intends to achieve its 2011 business policy targets through a far better exploitation of its internal resources than before, while preserving its traditional values and still keeping its long-term customer relations in focus in a contradictory but in the medium term improving environment.

János Kléh
(1881-1921)
Autumn, 1910
127.5x180 cm
oil on canvas

Showing one of the striking features of painting at the Szolnok Artists' Colony, in this work Kléh fused plein-air naturalism and the dominant line of the Art Nouveau style in an attempt to, on the one hand, keep pace with the latest western artistic developments, and on the other, to create a typical Hungarian painting. The total effect of collapsing decorative colour is contrasted with the blue sky of the background and rounded off by the unique form of the yellow-crowned tree swathed in autumn sunshine.

# Business Report

2010

This year was still characterised by active crisis management and adaptation, while cautiousness in new businesses, in a very hectic and rather adverse environment from regulatory and economic policy point of view, showing a trend of slow and differentiated upturn after the recession. With remarkable effort, MKB Bank has successfully overperfomed its two fundamental strategic targets, the efficient RWA management and strengthening of self-financing – including the gradual improvement of the balance sheet structure by both maturities and FX – with significant contribution of each business lines, basically. In the meantime, the Bank managed to maintain its market shares, as one of the market leaders, in its core businesses. In most of the business segments, consolidation continued, together with strengthening the collateral background and customer-focused crisis management. At the same time, in the corporate business line, the organisational background has been reinforced. Unified product and sales support for corporate clients with the central business development function serving wholesale and retail business lines support significantly the better exploration of synergies among business lines.

However, 2010 was not just solely about crisis management, which is illustrated by the strengthening tendency of the primary banking relationships, the success of the private banking business and certain Treasury products, the dynamically increasing penetration of electronic services. The performance of the Bank Group in growing self-care-type savings is remarkable. The fine-tuning of business processes in various business lines ensure a good basis for the Bank's business performance to improve sustainably after touching bottom, in a macro-economic environment showing a more balanced improvement.

2010

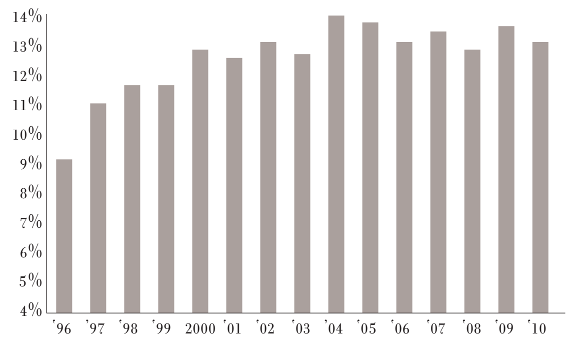
# Performance of the individual business lines[1]

## Companies and institutional customers[2]

During 2010, in an environment showing the signs of a slow, strongly differentiated recovery, the Bank's business policy was continuously the management of the existing portfolio preserving of its quality. Special emphasis was laid on the restructuring activity in the case of the concerned corporate clientele, on collateral-strengthening, and in relation to this on the reduction of the risk-weighted assets, essentially by exploiting internal resources intensively. Beside these in 2010 the Bank was serving its clients unfavourably effected by the crisis who have growth potential in the medium to long term applying for reasonable credit facilities.

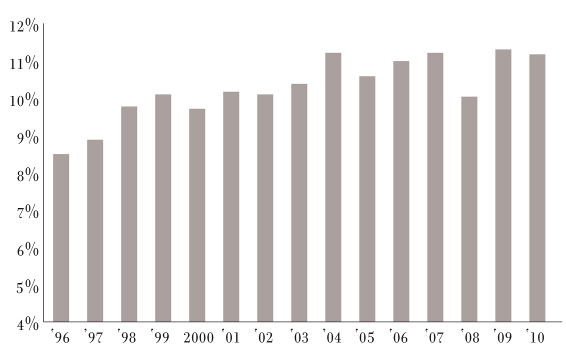
Based on the transactions corporate loan portfolio also showed a decrease in the whole economy due to the recession and renewals were still more typical. Tendencies at MKB Bank were in line with the sector trend, and the deviation of its currency and maturity structure is the explanation for the more moderate real decrease. At the end of 2010 loans to large and medium enterprise, the project and institution clients of the Bank decreased by 2.5%, reaching HUF billion 1,532. MKB Bank's market share in domestic corporate lending fell by 0.6 percentage point to 13.0%, while in the strategic segment of non-financial corporates the Bank reached a market share of 14.3% (2009: 14.9%).

Market share in corporate lending




The overall strategic target of the Bank of strengthening its self-financing ability put emphasis on fund raising for all segments in 2010. The corporate accounts and deposits increased by 4.8% to HUF billion 656, reaching 11.2% market share in the whole corporate segment (in 2009: 11.3%), and 11.8% in the non-financial corporate segment (in 2009: 11.7%). The number of corporate customers with an account of MKB Bank almost reached 49 thousand, out of which the number of large, medium companies and institutional customers exceeded 13,100.

Market share in corporate deposits




[1] The key business line figures are from of MIS.
[2] From business point of view small enterprises represents a separate business line in MKB Bank, however, due to sector statistics the corporate market share calculations contain their loan and deposit portfolio.

In 2010 strengthening of the business activity, apart from the normal acquisition and product development activities, manifested itself in establishing the organisational background conditions facilitating business activity. The support of corporate customers with product development and sales products is now uniform, and the central business development function serving both the wholesale and retail segments significantly contributed to the better exploitation of the synergies among segments.

Beyond the organisational changes in 2010 the Bank considered further development of the infrastructural background of corporate sales activity as of special importance; within its framework new IT applications have been introduced and existing ones, e.g. the electronic channels of the Bank, have been further developed. More than 27%, thus 13,100 corporate customers are active users of the MKB PCBankár service. The number of corporate TeleBANKár (Call Center) contracts was 18,195 (37.6%, in 2009: 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 51.7% (in 2009: 43%) of corporate customers, roughly 25,000 clients. The number of issued business bank cards by MKB Bank is around 24,700. MKB Bank became member of the SEPA (Single Euro Payments Area) standardised payments zone. Since the end of 2010 corporate and institutional customers, by using the MKB Online Trader internet based foreign exchange trading system, are able to follow changes in the exchange rate real-time, as well as to give orders for the immediate foreign exchange sale and purchase transactions with regard to their own bank accounts kept with MKB Bank.

## 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 customers, including institutional ones, exceeds 4,000 with a penetration of 43.4% in account relations. As a favourable factor, despite the crisis the portfolio deteriorated only to a limited extent, in terms of large and upper-mid clientele, where their fundamentally more favourable financial background and higher export orientation played an important role. At the same time the financing activity and the demand for new loans declined, therefore in 2010 the emphasis was rather on renewal and the management of the existing portfolio. In line with that, the lending volume of large and upper-mid companies, project and institutional clients, essentially did not change, reaching HUF 1,248 billion. At end-2010, the accounts and deposits from this segment decreased by 18.6 % to HUF 441 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 28.1% penetration in account relations, and offers full-range of tailor-made services. 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 during the economic crisis, and could manifest growth opportunities in the longer term. On the financing side MKB Bank is able to ensure adequate medium-term financing either through its own services, as well as refinanced programmes and state constructions. Through the Bavarian and SCountry Desks, MKB Bank, as CEE bridgehead, provides cost-effective home bank services to Bavarian and German companies, mainly in this segment, basically to the clientele of owners.

Although in terms of project and commercial real estate financing MKB Bank is still a major domestic market player, however, its repositioning due to the economic environment and the modification of MKB's strategy continued further in 2010. The whole project financing portfolio was reviewed and within its framework measures to strengthen the quality of the portfolio were taken with the involvement of customers relying on the capital strength of the project sponsors and commitments of owners. In 2010 the emphasis was already on the management of the existing projects, and due to the increasing real estate market risks, by the strict monitoring of ongoing projects, the necessary restructuring procedures took place, taking into account the realisable cash-flow producing ability under the changed circumstances. In 2010 special strategic goal was to change the projects in the plot financing stage into cash-flow generating ones despite the unfavourable real estate market conditions. Therefore, the majority of the projects are already in operating phase. The portfolio is diversified both geographically, and considering the real estate sector sub-segments.

MKB Bank Zrt. has traditionally wide relationship with especially domestic institutional clientele. Insurance companies, pension funds, health care funds, municipalities, chambers, interest representation bodies and church organisations, associations, foundations and other organisations of the civil society provide significant and diversified durable funding base. In 2010 the existing sight deposit and account portfolio of these institutions exceeded HUF 196 billion, while their assets managed in investment funds offered further funding base for MKB Bank.

## Lower-mid market enterprises

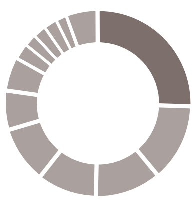
For MKB Bank lower-mid market enterprises represent special and dynamically growing clientele in the long term in which segment the Bank aims to establish strong positions. At the same time the majority of these companies are heavily exposed to the domestic demand, which continued to significantly decrease, although more slowly in 2010. The vulnerability of the segment is similarly shown by the still relatively high number of insolvency procedures. For all these reasons the emphasis in 2010, from the business policy point of view was primarily on the existing portfolios and their improvement. One of the tools to achieve this in 2010 was the consistent application of the fine-tuned lower-medium market business and risk model. The management of the lower-medium enterprise customers and their lending procedures became more efficient and the segment specific risk factors were revealed to facilitate their targeted management. Naturally the model gives increased attention to the management of external impacts (e.g. fluctuation of exchange rate).

In 2010 in this business segment with 9,065 clients the related aggregate loan portfolio shrank by 10.4% to HUF 283 billion and the accounts and deposits volume also fell by 15.4% to HUF 214 billion. The declining loan portfolio reflects the more moderate and stringent financing activity of the Bank, and on the other hand also the already declined demand, which is also reflected by the decrease of deposits. Companies in relatively more favourable financial position mostly utilised their own resources for investments and acquisitions rather than relying on Bank services. In the segment of **lower-mid market companies** MKB has a 18.2% penetration in account relations.

The Bank's special strategic objective is to assist small and medium sized enterprises with obtaining state, EU and international development funds through its services including constructions co- and pre-financing subsidies.

Similar to previous years, domestic enterprises may have access to the resources of MFB (New Hungary Enterprise Development Credit Programme) offering favourable interest terms (provided by state subsidy) and the EIB mid-loan credit programme through MKB Bank. During the recent period the involvement of institutions offering first demand absolute direct surety also increased in the practice of MKB Bank, assisting small and medium sized domestic enterprises to obtain loans despite the unfavourable environment.

MKB Bank's market share
in factoring by turnover, 2010




Also for MKB Bank one of the adequate means of financing the clientele is factoring. In 2010 the total factoring turnover of the factoring association increased by 18.5%. Although the growth of MKB Bank's turnover remained below this figure, it was still the market leader in 2010. The crisis environment naturally left its mark on the dynamics of the increase, as well as the high base resulting from the permanent leading market position of the Bank and its caution due to the previous losses of the lower-mid market portfolio. The portfolio increased by approx. 5%, the number of customers by 4.3% and the turnover by 3.7%, reaching 225 HUF billion. The commercial segment, following a 10%-decline in the previous year, increased by 10% to a 54.6% weight in 2010, along with the decline of other segments. 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 properly functioning; however, the economic environment and in 2010 the still declining investment activity also affected the leasing market.

## Small enterprises

For the small enterprises business line, the goal in MKB's future strategy is dynamic growth. At the same time, however, in 2010 the economic environment that is still characterised by a high bankruptcy ratio and weak domestic demand required to unchanged careful building up of the business line that had been started previously. Thus, the focus was still put on a better-quality growth (e.g. better rates of acceptance), primary banking relationship, account keeping, and the sale of savings and payment products, thus, ensuring excess funds. In the meantime, MKB Bank expanded its lending activities gradually and selectively by a range of state guaranteed and refinanced products, basically. The number of small enterprises reached 35,802 (2009: 34,056) by the end of 2010. The credit portfolio decreased by 10% from HUF 32.5 billion, due to the impacts of the economic crisis and the consequent more careful lending policy, while its liabilities growing by 29% amounted to HUF 126.2 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 MKB's one stop-shop ***Personally for you*** concept. In this model, dedicated small company advisors provide a one-man service and handle the financial requirements of small companies and their owners/managers. In 2010 7,857 new service packages were sold. As a result of adding FX transactions to the Fleet service package introduced in the course of the year, the volume of sales increased by 19%, and the debit turnover of the package by 39%. In 2010 the bank worked out the turnover-dependent pricing of corporate service packages, thus increasing the primary banking relations, which further reinforces the market positions of the business line.

In 2010 the Széchenyi Card overdraft with collateral background continued to be the hook-product of the bank's small company financing. The bank's market share in the case of new customers decreased from 22% to 19%, while the average size of the new loans (2009: HUF 11 million)

2010

did not change. 3,478 requests (19% new applications) were forwarded by the chamber and VOSZ offices to the bank (2009: 2,733), of which 78% were fully realised deals in 2010. MKB Bank was one of the first banks to introduce the Széchenyi Card crisis management product, which means scheduled facility reduction. In the small company segment in 2010 the sale of MKB Insurace Multivédelem product and the products of MKB-Euroleasing continued.

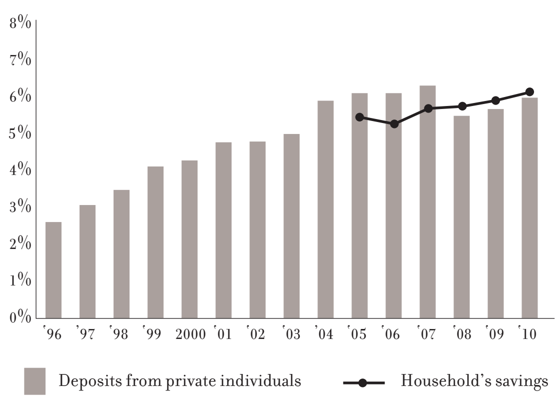
With the extension of the government's Széchenyi Program aiming SME developments in December, MKB Bank also introduced 2 credit products with preferential interest rates ensured by Garantiqa Hitelgarancia Zrt. The Széchenyi Working Capital Loan is used not only to solve the temporary liquidity problems, but due to its 36-months maturity is also explicitly suitable for the financing of working capital loans. Széchenyi Investment loan serves the enterprises' operation and competitiveness in a long term and its maximum 10-year duration is adequate with the return period of investments.

## Private individuals

Following the dynamic development of the previous years, the slow-paced recuperation process from the crisis did have its obvious impact on one of the key strategic business line of MKB Bank. Although, MKB's private individual clients positioned better than the average, thus, they suffered less from the crisis, meaning for instance the unemployment. The strategy is clearly growth, both in the entire saving and investment spectrum and in the mortgage covered lending, besides new condition framework. With its performance in 2010 MKB justified its capability to improve its market position further, once the environment becomes more favourable. In 2010, the number of private individual customers of the Bank increased by 8.5% close to 349,000. Despite the intensive growth in the number of customers, the clientele in average is affluent, which is also indicated by the highest per capita savings in the sector, meaning 2.5 times the average, while close to 2.6 times in lending. Partly due to the growth of the client number and partly because of the more intensive product penetration, the total funds increased by 6,1% to HUF 605,1 billion, and as a result, MKB's market share in total savings of households reached 5.9%.

In respect of funds, MKB Bank basically focused on strengthening of the portfolio approach – fundamentally including the deposits and own bonds – like in the previous years. The closed-end investment funds, the structured bonds, as well as the variable interests bearing bonds were constantly available, similarly, the popular Hozamtrió triple scheme was also a permanent member of the product portfolio. The combined products offered in HUF and EUR are key, since these diversified, basic portfolios raise our customers' interest in more sophisticated savings products. Besides this, the introduction of the MKB Trezor Long-term Accounts played a major role in 2010. MKB Bank was among the first ones to introduce these special accounts early 2010, serving to optimise the personal income tax levied on profit achieved on mid- and long-term savings and investments. HUF 36.6 billion was placed on the MKB Trezor Long-term Savings Account, while HUF 22.5 billion was placed on the MKB Trezor Long-term Investment Account. As a result of all these trends the retail deposits of MKB Bank increased by 15.9% to HUF 382.0, and thereby the Bank's market share increased from the 2009 year-end 5.6% to 5.9% (6th largest), while the own bonds sold to private individuals reached HUF 97.7 billion at the end of 2010, resulting in a 14.2% market share. At the same time the market share of the MKB Bank in investment funds sold to private individuals decreased from 6.2% to 5.4%.

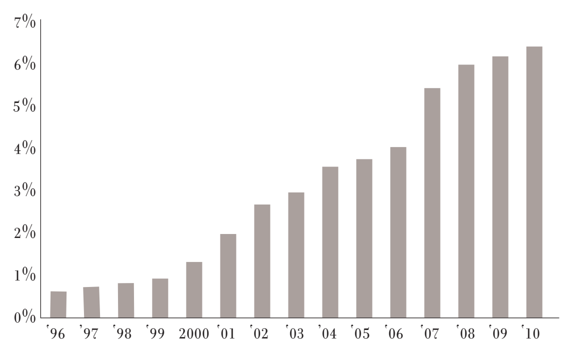
### Market shares in savings from households




The high-quality service of customers is key and is in the constant focus of MKB Bank, and it was particularly so in lending last year. Thus, before the suspension of foreign currency lending, in May 2010 the Bank launched its Predictable Credit Program, to encourage the customers to take up predictable loans free of exchange rate risks, in HUF. As part of this Program, the customers had a choice of two constructions linked to reference yields (BUBOR, State Treasury), thereby any changes that might occur in the loan terms are transparent to them. The retail credit portfolio increased by 13.7% and reached HUF 556.8 billion last year. The market share of the Bank increased from 6.3% to 6.5% in 2010 (the FX rate effect influenced the nominal growth and market share). In its lending activities, MKB focused basically on mortgage backed HUF housing loans in 2010.

In 2010 many changes entered into force in the legislation, due to responsible lending to private individuals, and these significantly altered the Bank's lending parameters and customer information processes. Special consideration is given to and assistance is provided to the clients in the assessment of their debt burden in general and of the impact of any eventual interest rate changes during the lifecycle of a loan on their repayment ability. In addition to new lending, MKB Bank also laid extraordinary emphasis on assisting customers who got into a difficult situation upon the impact of the economic crisis in 2010. The bank seeks personal contacts right upon the occurrence of the first sign of a payment delay, in order to ease the payment-related burdens of the customers, adequate to their changed life situations.

### Market shares in loans to private individuals




In addition to product developments, the increase of transactions carried out through electronic channels also contributed to the performance of the business line. The Bank's network increased to 87 units with the one new branch opened in Miskolc last year. 26 of MKB Bank branches are located in Budapest, 9 in its agglomeration and 52 in the countryside.

At the end of 2010, the number of the Bank's private individual customers with TeleBANKár contract increased by 13.1% to 121 thousand (penetration: 34%, 2009: 33%).

2010

While the Call Centre maintained the expected service level, received 68% of its calls, dynamically growing in number, from the private individual clientele. The high quality of customer service of the Call Center is reflected by the ***Excellent Call Center*** prize (by Gfk Hungária) won the fourth time in test purchases. MKB Bank's internet based banking service, NetBANKár was used by more than 160 thousand customers, representing an increase of 13.5% compared to the previous year, or 49% of private individual clients. Since May 2010 the MKB Mobil NetBANKár service has allowed our customers to continuously keep track of their financial deals quickly and comfortably via an internet based solution optimised to smart phones. The number of MKB Bank cards held by private individuals in 2010 increased by 1.5% to 205,000. The number of MKB or co-branded credit cards, in respect to risk aspects, declined to 17,000 at the end of 2010. Last autumn, MKB Bank started to issue chip cards.

In 2010, the external agent network of MKB Bank increased by more than 400 contracted partners, thus reached a total of 1,415 members. The contribution of the 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 packages and credit products, also with an increasing share, appeared as a new element.

## Private Banking

The number of MKB's Private Banking customers increased by 13.2% to 1,485 by the end of 2010. The assets managed reached HUF 204.4 billion at the end of 2010 growing by 13.6%. The average per capita asset of HUF 137.6 million is outstanding on the domestic market. The assets of the Private Banking business line increased in 2010 while maintaining the client quality, thus, the previous per capita asset level. In 2010 the reputation of MKB Private Banking business line remained intact, contributing to reinforcing the customers' loyalty further.

The growth of the assets in 2010 is remarkable especially in light of the fact that the confidence of investors in general in capital market instruments weakened as a consequence of the economic crisis. In addition, the political and economic policy changes in Hungary further increased temporarily the investors' uncertainty in the initial period. At MKB Bank, however, the assets handled in the advisory structure with conservatively focusing on capital protection ensures the satisfaction of the customers, due to the very low level of risk exposure. According the action plan developed in order to achieve a leading role on the domestic market of premium private banking, in 2010 a new portfolio assessment module was implemented, and the strengthening of cross-selling is continued with the retail network and corporate business line.

## Money and capital markets, investment services

During 2010 the business line at least maintained the level of its business activity or even increased it in certain segments in a volatile, but all in all more favourable market and economic environment, 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 prolonged negative effects of the financial crisis: its role in financing, effective asset-liability and liquidity management, just as in the management of interest 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 income generating business endeavours related to treasury and investment services cross-selling. Altogether, in 2010 the money and capital market business line – considering all business lines – with its outstanding performance preserved its position and role which were achieved in the previous years to contribute to the Bank's profitability.

The market of the Hungarian instruments was characterized by a lower level of volatility than before. The exchange rate of the Hungarian forint against the Euro moved in the range of HUF 261-292. The trading on the market of government securities was also calmer in 2010 than in the year before. In the PD auctions of government bonds, (expanding to 14 PD members during the year), MKB Bank achieved 7.3 % market share, thus ranking the 7th among primary dealers.

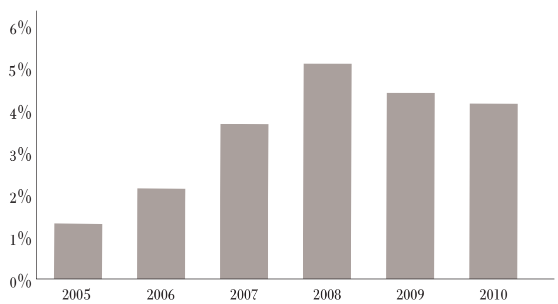
During the year, the companies' attitude to the management of exchange rate risk was characterised by an ever-increasing awareness and risk sensitivity. As a result of this and of the intensifying foreign trade transactions, the turnover of spot and forward foreign exchange deals showed a 5% and 7% growth respectively, despite that the turnover of the conversion and hedging transactions declined due to the low level of FX financing. Our customers tend to diversify more their exchange rate hedging needs in time and maturity, and cover their lower risks more often now, therefore, the average size of contracts further decreased. Consequently, the increasing turnover was accompanied with a 18% growing transaction number. A new electronic trading channel was added to the palette of investment services, which contributes to our customers' improving satisfaction regarding the quality and flexibility of our services. During the business year the law international interest rate levels and the expectations of an unchanged rate level reduced the customers' interest in hedging deals significantly.

In a more favourable capital market environment, MKB Bank improved its stock exchange positions on the secondary market to a remarkable extent. The Bank doubled its BSE equity turnover and increased it to HUF 205 billion, while the same market turnover increased only by 4%, which was resulted in a market share of 3.4%. Within the total prompt OTC security turnover MKB Bank reached 6.6% market share, and within this its share in the OTC trade of government securities was 7.7%. Besides these, the trade of foreign securities also showed a definite increase.

MKB Bank is still one of the leading issuers among domestic credit institutions. During the year MKB ensured a wide range of investment products serving the customers' different needs in maturity and interest conditions. The Bank is still one of the leading issuers among domestic credit institutions. In November 2010 MKB Bank renewed again its domestic public issue program with a pool amount of HUF 200 billion and in addition to its HUF bonds, the Bank also appeared regularly on the domestic market with Euro denominated bond-series. The total nominal value of its bonds issued in 2010 is equivalent to HUF 83.9 billion, while the total portfolio of its 35 domestic bond series amounted to HUF 160.7 billion at the end of 2010, including the interim maturities, which represents 28.4% growth compared to the end of the previous year. MKB Bank's share on the market of bonds issued by credit institutions was 14.2% in the retail segment and 48.5% in the case of companies at the end of the fourth quarter.

2010

Market share in investment funds 2005-2010




Asset management had a beneficial operating environment generally till autumn. The economic recovery, started in spring 2009 continued and supported most of the developed countries to a growth path. The unsustainable sovereign debt growth resulted sizable negative correction on the market of riskier instruments during spring, however the measures of the central banks and governments could finally, at least temporarily, manage the difficulties. 2010 delivered smaller, but still extraordinary yields then in the previous year concerning the principal asset types. Portfolio of assets under management exceeded HUF 212 billion at the end of 2010. Growth curve were temporarily moderated by the 'pension stabilizing law' enacted in 2010. The role of the second pillar of the pension system will be marginalized in the future, that could lead even to a 30% shrink in the volume of managed assets. The asset management of the bank could successfully overtake all the difficulties and for each of the mandates with productivity linked remuneration performed well to be entitled to the extra fee income, thus assuring over-the-plan profitability for the end of the year.

MKB manages the assets of MKB Pension and Health Care Funds as well. The environment of the pension funds have significantly deteriorated due to the unexpected government measures that were introduced. In spite of this, the annual performance may still be regarded as favourable. The number of members of the two pension funds altogether decreased by 3% to 136,100. The tendency of previous years continued with a moderated intensity: the number of members in the Voluntary scheme further decreased by 5% (2009: -7%), and the number of members in the Compulsory Fund increased by 2% (2009: +6%). The worsening income situation, the high number of people reaching the retirement age limit and the setback of pension savings within the cafeteria system continued to be strongly reflected in the voluntary fund. The Compulsory Fund suffered both from the political communication and the actions taken by the government in the second half of the year, as well as the continued aggressive chasing of members by other funds. The number of members in the Voluntary scheme decreased by 5.0% to 97,800 yet it remained the 4th biggest. While in the Compulsory scheme the number of members increased by 1.9% to 38,300. The value of assets managed significantly increased, in the Voluntary Fund by 4.8% to HUF 88 billion, and in the Compulsory Fund by 16.7% to 63 billion. The individual portfolios also earned favourable yields. In the Voluntary Fund – with an inflation rate of 4.9% – the net yields were between 5.7%-9.8%, in the Compulsory scheme between 7.9%-9.3%. The per capita assets are still one of the highest among the funds: HUF 0.9 million (voluntary), HUF 1.6 million (compulsory). The Voluntary Pension Fund ranks 4th by assets, with a market share of 10.3% (end Sept-2010). In the 2nd half of the year, the Compulsory scheme fulfilled the legal requirements amending the funds' activities and their members' relationship, through transparent communication with the members. (Early 2011, in challenging economic-political environment when the bulk of the assets of Compulsory pension funds and their current payments were re-channelled into the state pension fund, MKB Compulsory Pension fund is characterised by three times stronger loyalty (=retain membership) than the average, which made the Fund jumping ahead from the 10th to the 6th in ranking.)

MKB Health Care Fund prepared for a difficult operating environment due to the changes of taxation in 2010 with stagnating number of members and falling revenues. The state administration cafeteria becoming widespread was a favourable and unplanned impact, as well as the increase of demand for such a form of savings that offers immediate useful spending opportunities, due to the income position of individuals. Despite not favourable forecasts, the Fund in 2010 achieved outstanding results regarding all key figures. With more than 133,500 members, it is still 2nd in ranking with 11% growth by the end of the year. Contribution from members increased by 9.3% to a record high HUF 8.2 billion. It is particularly positive that individual payments increased by 38% and their amount exceeded HUF 2 billion, their 25% proportion is one of the highest among health care funds. The assets of the Fund increased to HUF 8.5 billion by the end of 2010, which means MKB Health Care Fund was the largest by assets in 2010. Last year, the Fund accounted for 10% higher volume of services with 1.3 million invoices worth HUF 7.9 billion. Number of transactions carried out with health care card reached 1 million, or 82% of account settled. The business relations of the Fund further expanded in 2010 to 4,164 employers (2009: 3,416). The number of contracted health-care service provider points increased close to 11,400 (2009: 10 thousand), and the number of card accepting sales points to 6,350 (2009: 5,659). The Fund has 1,700 contracts for electronic billing of the 2,100 public pharmacies.

Net asset value of MKB managed investment funds increased by 12.5%, or by HUF 14.6 billion. 9 new closed-end funds were launched in 2010, slightly but still exceeded the volume maturing during the year. In the segment of moderate risk bearing capital-guaranteed closed-end funds, MKB Fund Manager closed the year with asset management of HUF 42.1 billion and 11.8% market share as the 3rd biggest market player, maintaining its market share as previous year. During the year three closed-end investment funds were transformed into an open-end liquidity or money market fund. Out of the open-end investment funds, the volume of liquidity and money market funds increased significantly. A new open-end investment fund was also launched, which offers a further opportunity for those customers who are interested in investments into North-American equity markets to diversify their portfolio. The market share of MKB Fund Manager slightly decreased to 4.2%.

The Bank's custody management business line regarding its custody management, combined security and customer account keeping and custody services provided to institutional, wholesale and retail customers, the Bank held a total securities portfolio of HUF 1,470 billion under custody at the end of the year, which represents 13.5% growth. The bank still remained one of the major custodians on the domestic pension fund market in 2010.

In accordance with MKB's strategy and due to the changed risk and market environment it was necessary to redefine the financial institutions strategy and to develop a new business model. As a result, the central coordination of Financial Institutions Relations was integrated into Money and Capital Market department. The new strategy emphasises the long term relationship with financial institutions which is based on balanced reciprocity. The financial institutions relations focuses on the needs of core MKB customers related to international payments, foreign trade turnovers and covering their market risks, in addition to this the emphasis is on the banking relationships that are prominent in liquidity management and fund raising. Serving wholesale costumers with active foreign trade activity is a priority for the Bank. The Bank cooperates in carrying out the exporters' irrevocable 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). Lending to financial institutions was cut back previously already and mainly limited to the funding of the subsidiaries in line with the previous strategy.

**Sándor Ziffer**
(1880-1962)
**Cinterem at Nagybánya, 1912**
90x130 cm
oil on canvas

Ziffer's style, termed as decorative Impressionism, evolved under the influence of Gauguin and Matisse on Naturalistic foundations. The blue parasol in the foreground, picking out the colour of the sky, and the yellow hat with the white parasol lend warmth to the picture otherwise composed predominantly of cold colours, capturing a moment of sunlit afternoons in Nagybánya.

# Consolidated Financial Statements

## Prepared under International Financial Reporting Standards (IFRS)

## Key Figures

*Consolidated, IFRS* | *HUF million*

| | 2009 | 2010 |
|---|---|---|
| Total Assets | 3,106,646 | 2,939,188 |
| Loans and advances to customers[1] | 2,271,242 | 2,177,770 |
| Current and deposit accounts | 1,405,997 | 1,467,245 |
| Shareholder's equity | 252,028 | 206,073 |
| | | |
| Gross Operating Income | 146,212 | 107,165 |
| Operating Expenses | (73,754) | (76,349) |
| Operating profit | 72,457 | 30,816 |
| Provision Charges | (66,421) | (148,637) |
| Profit Before Taxation | 6,037 | (117,821) |
| | | |
| Return on Average Equity (ROAE)[2] | 2.7% | -41.8% |
| Return on Average Assets (ROAA) | 0.2% | -3.9% |
| Cost-to-income ratio[3] | 50.4% | 70.6% |
| Capital adequacy ratio[4] | 10.1% | 10.3% |

[1] Net loans.
[2] Average equity 2010: HUF 279,760 million, 2009: HUF 224,384 million.
[3] Adjusted with profit from equity consolidated companies.
[4] According to the regulations of HFSA.

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This is an English translation of the Independent Auditors' Report on the "MKB Bankcsoport Beszámoló 2010" of MKB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails.

## Independent Auditor's Report on "MKB Group's Report 2010"

To the shareholders of MKB Bank Zrt.

The pages 33 and from 35 to 39 of the accompanying "MKB Group's Report 2010", which present the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows (hereinafter referred to as "the financial statements") are derived from the audited consolidated annual report of MKB Bank Zrt. (hereinafter referred to as "the Company") for the year ended December 31, 2010. We expressed an unmodified audit opinion on that consolidated annual report in our report dated March 21, 2011. That consolidated annual report and the financial statements do not reflect the effects of events that occurred subsequent to the date of our report on that consolidated annual report.

The financial statements do not contain all the disclosures required by the Act on Accounting and by the International Financial Reporting Standards as adopted by EU. Reading the financial statements, therefore, is not a substitute for reading the audited financial statements of MKB Bank Zrt.

*Management's Responsibility for the Financial Statements*

Management is responsible for the presentation of the financial statements in the Report in accordance with the audited consolidated annual report.

*Auditor's Responsibility*

Our responsibility is to review whether the financial statements are consistent with the audited consolidated financial statements, based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

*Opinion*

In our opinion, the financial statements presented on the pages 33 and from 35 to 39 of "MKB Group's Report 2010" are consistent with the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows included in the audited consolidated annual report of MKB Bank Zrt. for the year ended December 31, 2010, from which those statements were derived.

Budapest, 17th May 2011

KPMG Hungária Kft.
Registration number: 000202

Gábor Agócs
*Partner, Professional Accountant*
Registration number: 005600

# MKB Group Consolidated Statement of Financial Position

*December 31, 2010* *HUF million*

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Cash reserves | 222,442 | 185,687 |
| Loans and advances to banks | 75,780 | 65,973 |
| Trading assets | 43,787 | 43,340 |
| Derivative assets held for risk management | 0 | 29 |
| Investments in securities | 253,237 | 354,110 |
| Loans and advances to customers | 2,177,770 | 2,271,242 |
| Other assets | 27,007 | 37,292 |
| Goodwill | 26,224 | 40,613 |
| Deferred tax assets | 9,465 | 4,039 |
| Investments in jointly controlled entities and associates | 11,750 | 12,029 |
| Intangibles, property and equipment | 91,726 | 92,292 |
| **Total assets** | **2,939,188** | **3,106,646** |
| **Liabilities** | | |
| Amounts due to other banks | 965,684 | 1,142,880 |
| Current and deposit accounts | 1,467,245 | 1,405,997 |
| Trading liabilities | 29,692 | 19,958 |
| Derivative liabilities held for risk management | 276 | 337 |
| Other liabilities and provisions | 26,476 | 34,070 |
| Deferred tax liability | 2,480 | 7,212 |
| Issued debt securities | 144,701 | 139,580 |
| Subordinated debt | 96,561 | 104,584 |
| Total liabilities | 2,733,115 | 2,854,618 |
| **Equity** | | |
| Share capital | 20,733 | 14,765 |
| Reserves | 178,805 | 229,266 |
| Total equity attributable to equity holders of the Bank | 199,538 | 244,031 |
| Non-controlling interests | 6,535 | 7,997 |
| Total equity | 206,073 | 252,028 |
| **Total liabilities and equity** | **2,939,188** | **3,106,646** |

# MKB Group Statement of Comprehensive Income

| December 31, 2010 | | HUF million |
|---|---|---|
| | 2010 | 2009 |
| **Income statement** | | |
| Interest income | 186,220 | 238,175 |
| Interest expense | 94,465 | 139,254 |
| Net interest income | 91,755 | 98,921 |
| Net income from commissions and fees | 20,723 | 22,328 |
| Other operating income / (expense) | (4,378) | 25,062 |
| Impairments and provisions for losses | 148,637 | 66,421 |
| Operating expenses | 76,349 | 73,754 |
| Share of jointly controlled and associated companies' profit / (loss) before taxation | (935) | (99) |
| Profit /Loss before taxation | (117,821) | 6,037 |
| Income tax expense | (9,656) | 3,519 |
| Profit /Loss for the year | (108,165) | 2,518 |
| **Other comprehensive income** | | |
| Share of other comprehensive income of joint-ventures and associates | 56 | 225 |
| Exchange differencies on translating foreign operations | 1,649 | (652) |
| Revaluation on AFS financial assets | (9,228) | 1,647 |
| Other comprehensive income for the year net of tax | (7,523) | 1,220 |
| **Total comprehensive income for the year** | **(115,688)** | **3,738** |
| Profit attributable to: | | |
| Shareholders of the bank | (106,246) | 3,242 |
| Non-controlling interests | (1,919) | -724 |
| Total comprehensive income attributable to: | | |
| Shareholders of the bank | (113,917) | 4,857 |
| Non-controlling interests | (1,772) | (1,119) |
| Net income available to ordinary shareholders | (106,246) | 3,242 |
| Average number of ordinary shares outstanding (thousands) | 15,635 | 14,637 |
| Earnings per Ordinary Share (in HUF) | | |
| Basic | (6,795) | 222 |
| Fully diluted | (6,795) | 222 |
| Dividend per Ordinary Share (in HUF) | - | - |

# MKB Group Consolidated Statement of Changes in Equity

*December 31, 2010* *HUF million*

| | | Share capital | Share premium | Translation of foreign operations | Retained earnings | Revaluation of AFS financial assets | Non controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2009** | | **14,094** | **94,500** | **(4,674)** | **109,594** | **(844)** | **16,552** | **229,222** |
| Issue of share capital and share premium | | 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** |
| Issue of share capital and share premium | 23, 24 | 5,968 | 63,760 | - | - | - | 132 | 69,860 |
| Dividend for the year 2009 | | - | - | - | (39) | - | (89) | (128) |
| Total comprehensive income for the year | | - | - | 1,526 | (106,189) | (9,252) | (1,772) | (115,687) |
| First / (final) consolidation of subsidiaries | | - | - | - | - | - | - | - |
| Change in non-controlling interests during the period | | - | - | - | (267) | - | 267 | - |
| | | | | | | | - | |
| **At 31 December 2010** | | **20,733** | **184,089** | **(3,436)** | **6,570** | **(8,418)** | **6,535** | **206,073** |

2010

# MKB Group Consolidated Statement of Cash Flows

| *December 31, 2010* | 2010 | *HUF million* 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit / Loss before taxation | (117,821) | 6,037 |
| *Adjustments for:* | | |
| Depreciation, amortisation and impairment | 11,021 | 8,899 |
| Impairment on non-financial assets | 20,976 | 9,454 |
| Impairment on financial assets | 117,043 | 49,090 |
| Deferred tax movement | (10,158) | 2,246 |
| Net Interest income | (45,829) | (46,736) |
| Dividends on available for sale securities | (131) | (34) |
| Foreign Exchange movement | 2,739 | (4,074) |
| | (22,160) | 24,882 |
| Change in loans and advances to banks (gross amounts) | (10,238) | 50,661 |
| Change in loans and advances to customers (gross amounts) | (24,365) | (27,287) |
| Change in trading assets | (418) | 22,301 |
| Change in AFS securities (without revaluation and impairment) | 90,002 | (300,659) |
| Change in other assets (gross amounts) | 9,143 | (19,151) |
| Change in amounts due to banks | (177,195) | 195,771 |
| Change in current and deposit accounts | 61,248 | 138,155 |
| Change in other liabilities and provisions (without provision charge of the year) | (12,000) | 2,000 |
| Change in trading liabilities | 9,673 | (13,160) |
| Interest received | 131,765 | 164,578 |
| Interest paid | (85,936) | (117,842) |
| Dividends received | 130 | 34 |
| Income tax paid | 9,656 | (3,519) |
| | 1,465 | 91,882 |
| **Net cash used in operating activities** | **(20,695)** | **116,764** |

| | 2010 | HUF million<br>2009 |
|---|---|---|
| **Cash flow from investing activities** | | |
| Investment in group companies | (335) | (22,185) |
| Disposals of group companies | - | - |
| Purchase of property and equipment | (8,254) | (24,550) |
| Disposals of property and equipment | 445 | 5,872 |
| Purchase of intangible assets | (6,869) | (7,524) |
| Disposals of intangible assets | 4,328 | 5,194 |
| **Net cash used in investing activities** | **(10,685)** | **(43,193)** |
| **Cash flow from financing activities** | | |
| Increase in issued securities | 5,121 | (129,549) |
| Increase in subordinated liabilities | (8,023) | 1,692 |
| Issuance of new shares and proceeds from share premium | 69,860 | 26,500 |
| Dividend paid | (128) | (1,256) |
| **Net cash from financing activites** | **66,830** | **(102,613)** |
| **Net increase/decrease of cash and cash equivalents** | **35,450** | **(29,042)** |
| Cash reserves at 1 January | 185,687 | 212,685 |
| FX change on cash reserve | 1,305 | 2,044 |
| Cash reserves at December 31 | 222,442 | 185,687 |

**Béla Iványi Grünwald**
(1867-1940)
**Harbour, 1910s**
65x48.5 cm
oil on canvas

A founder of the Nagybánya artists' colony, Iványi was unique in that he alone in that group showed sensitivity to modern approaches and experiments, and was able to follow his pupils on their road to Modernism. Harbour, which he painted in the Venice region, is very cleanly composed. The painterliness of the surface conceals the simplicity of its structure.

# Management's discussion and analysis

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 2010. 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, 2010 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 territories, such as Hungarian domestic, Bulgarian market and Romanian market. (the related classification of the Group entities can be found under the Key figures table)

The world-wide economic crisis affected the countries of CEE-SEE region severely but differently, and due to the partly differing macro-economic characteristics and structures, the speed and quality of the recovery process was also different in 2010 and will be different in 2011 too, while the fundamental factors and directions are similar. The position of all three countries has improved, which was facilitated by the development of the export-target countries: the economic growth of Hungary commenced at the beginning of the year, in Bulgaria the GDP started to grow in the third quarter, and in Romania the GDP is expected to increase in 2011. The intensifying internal demand from 2011 will strengthen the economic performance, boosting this effect. While Hungary and Bulgaria are among the most disciplined ones among the EU member states regarding their budget position, in Romania firm steps were taken to reduce the deficit. The consistent execution of the already started corrective measures and their replacement by permanent structural reforms may further increase confidence in the countries of the region in a gradually improving international economic environment. It is a key issue in general too, but in particular for Hungary, whose market assessment and international rating was less favorable from the second half of year 2010 than it would be justified by the fundaments of its private economy.

In 2010 the bank sectors of the individual countries were still characterized by crisis management, basically due to the delayed impacts of the slow economic recovery on the portfolio quality. Stability of capital position, safe liquidity, strengthening of self-financing ability and strict cost management with further cuts remained in priority. The stability of capital position and ensuring the necessary liquidity remained priority just as well the strengthening of the self-financing ability and strict cost management through further rationalization. Lending activity will gradually increase in 2011 after a series of measures to intensify the economy, and the profit position is not expected to further deteriorate, if provisioning is significantly reduced; at the same time, the bank tax introduced in Hungary, with its initial rate, is clearly a serious burden that withholds growth.

2010

## Domestic business area

In 2010, Hungary recovered from the recession through export-driven growth. Industrial production increased by 11% on the base of export (+19% HUF base), while domestic demand was still weak and decreasing, these effects together results 1.2% real growth of the GDP. The external balance is promising, and the internal savings are substantial. At the same time, external risk was increased by the spring Greek and the autumn Irish crises, restraining room of economic policy and enhanced importance of crisis management. The excessive government debt further increased in spite of the fact that the deficit of the budget significantly decreased. Therefore, year 2010 was determined by crisis management continued by the new government, by accumulating budget reserves, by stimulating domestic demand as well as making preparations for longer term structural reforms.

The enforced measures allowed not prolonging the IMF-EU loan, while keeping committed to the extremely strict 2010 and 2011 budget deficit target. In order to reduce the budget deficit, retrospectively for 2010 the government imposed an industry specific tax for the ICT, energy and retail sectors, and introduced the banking tax as well that will largely reduce the profitability and competitiveness of the Hungarian bank system until 2012. For the same purpose the overwhelming majority of private pension funds assets and the running pension charges were channeled into the social security system. The market and the international credit rating agencies evaluated the 2010 measures as temporary and non-structural, which was reflected in the permanently high country risk indices, and in the rating actions of the international agencies scaling Hungary's sovereign rating uniformly to the floor of the investment category. By the end of 2010 the Central Bank gradually increased the reference rate (by 75bps) back to 6%, the same level as at the beginning of the year. At the same time, the exchange rate of HUF stabilized on a weaker level than before the crisis.

Some of the announced measures actually involve the re-channeling income towards SME-s and certain household segments, leading to an ease in their financial position, growth in savings and consumption, mitigating burdens of loan repayment and increasing domestic demand. Further measures, re-structuring HUF 2-3 thousand billion EU funds, will intensify health-care, community transport, green energy management as well as housing purposes, and in general employment and the expansion of the taxpayer basis.

In 2011, while maintaining the export demand, through the accelerating domestic consumption and the introducing of reform measures in order to approach permanent economic balance, Hungary may take a sustainable growth path. It could result an about 3%, then even higher real growth, accelerating investments and decreasing unemployment in a stable financial environment leading to a more favorable international assessment.

A major difficulty faced by the Hungarian bank system in 2010 was the bank tax, with an exceptionally high rate, even in European relation. The tax hit the sector in a period when its fundamental profitability is weak due to the slow economic recovery, the room for further cost adjustment dried up, and the improvement in credit portfolio quality is slower than expected, consequently the allocation of provision charges is high. In 2011 further deterioration of profitability is not expected and the finance activities increase gradually as an effect of stimulating economic measures, if provisioning could largely be reduced. However, the introduced banking tax in Hungary with its initial rate is clearly a serious factor that moderates economic growth.

## Bulgarian business area

The decrease of the GDP in 2009 was followed by ~0.5% growth in 2010 in Bulgaria. It is fundamentally explained by the increasing prosperity of the western export markets, which also plays a role in the 5.5% growth of industrial production. Export grew by 31.6% while the imported products and services increased by 8.8% yoy. Current account balance was positive in some months of 2010, in annual term there will be a slight deficit of 0.8%. As a consequence of the crisis annual average inflation started to decelerating and reached its lowest level in June 2010 at 0.9%; in the second half of the year inflationary pressure of substantial rises in the international prices of energy and foods was further amplified by labor cost increase and excise taxes inflation reached 4.6% at the end of 2010. The trend of the unemployment rate, following a decrease for 8 months, increased, thus at the end of the year it reached 9.1%. To avoid further deterioration of fiscal position and to set budget deficit on a declining path, anti-crisis and fiscal consolidation package was adopted. For the medium-term, it contains a broad range of further measures both on expenditure and on revenue side, which would be sufficient to strengthen confidence in the country, e.g. pension system, education, health care, state administration. The new government elected in summer 2009 declared maintaining a fixed exchange rate system set the accession to the Euro zone as its target and aims to fight against corruption. Bulgaria's credit rating remained unchanged during the year; the country still remained in the investment category at all three credit rating agencies.

The Bulgarian banking system was hit seriously by the crisis, though to a lesser extent than some countries of the CEE region, which was reflected in 2010 in the fallback of the pace of growth, and the dynamically deteriorating portfolio quality. In the banking sector, due to the increased external financing costs, the decreasing domestic demand, and reducing business portfolios, such corrective measures were introduced, which were intended to counter-balance the deterioration of the credit portfolios, and the significantly improved number of problematic customers. All in all, in 2010 the Bulgarian banking system, operating with 24 commercial banks and 6 affiliate offices, producing 4.1% growth of total assets, is stable, and some risk ratios and figures already show the signs of improvement. In 2010, strict cost control was still a priority: costs to gross operating income improved to 49%, Tier1 ratio slightly decreased, but its over 15% level is far high, and safely exceeds the required minimum.

## Romanian business area

The recession of the Romanian economy, which started to decline after the crisis broke out, was 2.5% in 2010. In line with the slow recovery of the western markets, the industrial production showed a slow increase already in the third quarter. The volume of investments decreased in 2010. The balance of trade deficit accelerated to 6% of the GDP by September, while for the period of January-September the current account deficit was higher than that of the previous year by 32%. The foreign direct investments in the country covered 45% of the deficit. The impacts of the crisis were also reflected in an increasingly unfavorable internal balance, the domestic demand remained weak: the further devaluation of the Romanian lei and the 5% VAT increase affected the price level negatively, and as a result the average inflation in 2010 reached 6.1%. The central bank base rate decreased by 175 pps to 6.25% during the year. The unemployment rate decreased by 1 percentage point reaching 7.1% by the end of 2010. The government has introduced a number of fiscal steps and reform measures in the course of the year; among others, it cut back the salaries of public sphere employees, and used its credit line made available by IMF and the World Bank to finance the deficit of the budget. During 2010, Moody's and S&P did not change the rating of the long term FX debts of Romania, however Fitch improved it to a stable BB+.

## 2010

The global crisis hit Romania and the Romanian banking sector extremely severely, which caused the sudden drop of the previously high growth pace. The increased costs of external financing, company bankruptcies, lower volumes due to the tightening export markets, the drop in domestic demand, the cautiousness of the households lead to the deterioration of the portfolio quality, the jump in the number of problematic loans and dropping profitability. In the interest of at least partial counterbalancing correction measures such as the fine tuning or transformation of the business models, the rationalization of branch networks and costs were taken in addition to RWA management, the improvement of the loan-to-deposit rate and the preservation of the capital. The activity of the banking sector tightened at real value. The total assets grew by a nominal 3.5% during the year and the retail and corporate credit portfolio showed a 4.3% growth in 2010, which in real value meant a decrease due to the devaluation of the lei during the year. The proportion of the problematic loans in November reached 31.7% compared to the 24.1% proportion at the end of 2009 which reflects the banks' deteriorating portfolios. The portfolio of retail and corporate deposits grew by 3% in 2010. The loan-to-deposit ratio reached an unchanged 120%. Despite the increasing margins, the profitability of the bank sector dropped due to the efforts made in the interest of improving the portfolio deterioration and the loan-to-deposit proportion. Cost optimization was typical in the entire Romanian banking system, however the material impact of the cost reductions can be seen only from 2011 due to the one-off impacts (CIR 2010: 64.1%, slightly deteriorated). All in all, the system is stable, the capital adequacy ratio reached 14.7% at the end of the year and the tendency is slow improvement.

In 2010 MKB Group's principal long-term financial priorities were aimed at sustainable and diversified revenues, focused cost discipline, proactive management of deteriorating credit quality and effective balance sheet and capital management. In the year 2010, MKB Group activities were heavily affected by the adverse market environment.

# Financial performance

In 2010 MKB Group faced the negative impacts of the world wide macroeconomic environment and focusing on risk management was characteristic for the operation. The Group's total operating income (net interest income plus non-interest income), decreased by 26.12% to HUF 108,100 million (2009: HUF 146,311 million). Net interest income's share showed an increase compared to the previous year (2010: 84.9%, 2009: 67.6%) due partly to one-off gains from the securities trades in 2009 that boosted non-interest income in that year. However net interest income decreased in normal terms, mainly driven by the shrinking of interest income earned on loans and advances to customers.

The falling interest income from lending businesses and the similar amount of net commission income earned reflected on the shrinking lending business and volume of payment transactions which fitted to the generally adverse market environment in the CEE region. Net commission income was sustained almost at the same level as in previous year.

In 2010, other operating income reflected a significant decrease from HUF 25.1 billion gain in 2009 to HUF 4.4 billion loss, mainly due to a new tax imposed by the Hungarian Government on banks and financial institutions. On the other hand during 2009 MKB Bank realized an outstanding gain on sale of AFS government bond securities in the domestic market (2009: HUF 16.4 billion, 2010: HUF 4 billion).

As opposed to the profit of HUF 6,037 million in 2009, the Group realized a negative profit before taxation of HUF 117,821 million for 2010. The main drivers of this fall were the sharp increase of net provision charges and the above mentioned banking tax (2010: HUF 13,960 million). The profit from equity consolidated participations decreased significantly (by HUF 836 million), due to the lower profitability of joint ventures and associates and the Group recognized a HUF 1,492 million loss on the first consolidation of MKB Általános Biztosító Zrt. and MKB Életbiztosító Zrt during 2010. These negative results could not be counterbalanced by the positive result of MKB Euroleasing Zrt (HUF 948 million gain mainly driven by gains on sale and revaluation of investments). The pre-tax return on average equity ratio (ROAE) and the pre-tax return on average assets ratio (ROAA) became negative, due to the losses before tax for 2010 whereas in 2009 they represented 2.7% and 0.2%, respectively. In contrast to the previous years, the profit before tax in MKB's stand alone financial statements decreased sharply compared to the previous year level (2010: HUF 133,683 million loss, 2009: HUF 16,872 million gain), and the losses of some consolidated companies contributed further to this negative result. The net provision charge became considerable mainly in Romanian Market and MKB Bank. At MKB Bank the level of impairment was increased mostly in wholesale and real-estate project financing due to the deepening crisis on the real estate market. There were also methodological changes in the calculation of impairment in line with Bayern LB principles increasing further the losses from impairments. In addition to that the average delay in repayments has increased at all entities of the Group. This was reflected in the significant rise of relative net provision charge, which was at 6.8% for 2010 compared to the 2.9% figure of 2009. Prudent risk management process provided a strong coverage to non-performing wholesale and small and medium type of loans group-wide.

Taxes on income amounted to HUF 9,656 million income (2009: HUF 3,519 million expense), which consisted of HUF 10,274 million net deferred tax income. This was primarily caused by the recognition of Deferred Tax Asset on the tax loss at MKB Bank.
On the grounds of negative profit after taxation of HUF 106,246 million for 2010, the Board of Directors proposes no dividend payment.

# Key Figures 2010

*Consolidated, IFRS* *HUF million*

| | MKB Bank | Bulgarian Market | Romanian Market[1] | Hungarian Leasing Market[2] | Auxiliaries[3] | MKB Group |
|---|---|---|---|---|---|---|
| Total Assets | 2,733,482 | 246,789 | 151,848 | 89,507 | 85,977 | 2,939,188 |
| Share Capital | 20,733 | 11,391 | 32,134 | 2,093 | 73,648 | 20,733 |
| Reserves | 174,711 | 10,976 | (50,882) | 6,353 | (2,268) | 178,805 |
| Operating Income | 88,565 | 10,714 | 4,403 | 4,617 | 14,259 | 107,165 |
| Net interest income | 75,790 | 7,444 | 3,654 | 4,937 | 209 | 91,755 |
| Net commission income | 16,777 | 2,619 | 1,358 | (129) | 461 | 20,723 |
| Other | 9,556 | 651 | (609) | 176 | 13,622 | 8,646 |
| Banking Tax | (13,559) | - | - | (367) | (33) | (13,960) |
| Operating Expenses | (56,594) | (6,003) | (10,586) | (1,373) | (15,680) | (76,349) |
| Impairments and provision for losses | (165,653) | (4,037) | (35,102) | (3,428) | (1,114) | (133,209) |
| Goodwill impairment | - | - | - | - | - | (15,428) |
| Profit Before Taxation | (133,683) | 674 | (41,285) | (184) | (2,535) | (117,821) |
| Profit After Taxation | (122,673) | 600 | (42,073) | (336) | (2,875) | (106,246) |
| Pre-tax Return on Average Equity (ROAE) | -47.9% | 3.4% | -211.8% | -2.1% | -3.5% | -41.8%[4] |
| Earnings per Average Outstanding Share (EPS) | -784.6% | 6.1% | -166.6% | -16.1% | -4.1% | -679.5% |
| Pre-tax Return on Average Assets (ROAA) | -4.7% | 0.5% | -23.9% | -0.2% | -3.2% | -3.9% |
| Cost-to-income ratio | 63.9% | 56.0% | 240.4% | 29.7% | 110.0% | 70.6%[5] |
| Capital adequacy ratio | 10.81% | 12.94% | 15.21% | n.a | n.a | 10.33% |

1 MKB Romexterra Bank, MKB Romexterra Leasing, CRM.
2 Autóhitel, Autólízing.
3 MKB Üzemeltetési, Befektetési Alapkezelő, Resideal, Exter-Immo, Exter-Bérlet.
4 Average equity 2010: HUF 279,760 million, 2009: HUF 224,384 million.
5 Adjusted with profit from equity consolidated companies.

# Key Figures 2009

*Consolidated, IFRS* *HUF million*

| | MKB Bank | Bulgarian Market | Romanian Market[1] | Hungarian Leasing Market[2] | Auxiliaries[3] | 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 | 146,212 |
| 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 | (46,705) | (2,721) | (12,021) | (4,293) | (923) | (57,508) |
| Goodwill impairment | - | - | - | - | - | (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) | 3,242 |
| Pre-tax Return on Average Equity (ROAE) | 7.4% | 4.3% | -50.2% | 2.2% | -2.2% | 2.7% |
| Earnings per Average Outstanding Share (EPS) | 88.3% | 7.9% | -44.2% | 8.7% | -2.1% | 22.2% |
| Pre-tax Return on Average Assets (ROAA) | 0.6% | 0.3% | -4.1% | 0.2% | -2.0% | 0.2% |
| Cost-to-income ratio | 46.6% | 62.2% | 74.5% | 26.1% | 104.1% | 50.4% |
| Capital adequacy ratio | 9.78% | 13.40% | 11.79% | na | na | 10.13% |

[1] MKB Romexterra Bank, MKB Romexterra Leasing, CRM.
[2] Autóhitel, Autólízing.
[3] MKB Üzemeltetési, Befektetési Alapkezelő, Resideal, Exter-Immo, Exter-Bérlet.

The profit before tax of MKB amounted to HUF 133,683 million loss in 2010, mainly due to the extremely increased level of risk provisioning and the extra burden cased by the newly levied banking tax. These facts were manifested in the pre-tax return on average equity, that became negative in 2010 due to the losses accounted for in that year (2009: 7.4%) and CIR which increased from 46.6% in 2009 to 63.9% in 2010 due to the shrinkage in operating income.

The pre-tax ROAE of **Bulgarian Market** decreased slightly, as it amounted to 3.4 % compared to 4.3% of the previous year-end. There was a sharp increase (37%) of pre provision net operating profit amounting HUF 4,711 million (2009: HUF 3,441 million). Comparing to previous year the ROAA remained almost at the same level, reaching to 0.5% which reflected the impairment expenses and conservative business activities that were consistent with the increase risk from the economic crisis. Cost to income ratio was better than the consolidated level (70.6%) and was slightly reduced to 56.0% from the 62.2% for 2009 due to the improvement of cost efficiency.

Regarding **Romanian Market's** the decreasing ROAA reflects on the erosion of assets and due to the management's decision, which focused on risk management and cut down on new businesses ROAE deteriorated further and reduced to -211,8%. From the other side there was a huge decline of pre provision net operating profit, which reduced to HUF 6,183 million losses from HUF 3,454 million gains in 2009. This could be explained by sharp fall (at 67.5%) of operating income. The CIR extremely deteriorated as it was up from 74.5% in 2009 to 240.4% in 2010: the Operating income was shrinking, however at the same time Operating expenses remained almost at the same level despite the ongoing restructuring which resulted personnel related restructuring expenses during this year. There was a huge flaring of impairment in the Market recognized in SME and Private portfolio.

During the business year, the MKB Bank's ownership in MKB Romexterra Bank increased from 82.47% to 90.79% and the ownership in Corporate Recovery Management grew to 100%.

The **Hungarian Leasing Market's** ROAE and ROAA became negative in 2010 because of the negative profit before tax, due to the continuing crisis on the leasing market and the higher level of impairment mainly caused by delayed customer repayments. The CIR moderately deteriorated to 29.7% in 2010 from 26.1% in the previous year, the fall of Operating income exceeded the decrease of Operating expenses. This was mainly the result of shrinking of business activities in the car finance markets.

## Net interest income

Net interest income, the most important component of revenue, amounted to HUF 91,755 million, 7.24% short of HUF 98,921 million in 2009. In contrast to the tendency in the previous years, the average interest earning assets decreased (by HUF 17 billion), driven by the reduction of average loans and advances (by HUF 79 billion) due to the higher level of risk provisioning. The gross volume of loans and advances remained almost at previous on last year's level caused by the deterioration of Hungarian domestic currency against CHF, as loans and advances decreased generally following the management's decision by moderating lending business activity. Simultaneously, the net margin decreased to 2.56% from 2.96%, mainly as a result of the decreasing nominal interest rate environment in the domestic currency.

The average interest bearing liabilities increased by HUF 32.6 billion, that gave coverage for the moderate business extension. The growth of average volume of customer accounts and deposit (by HUF 116 billion) counterbalanced the decrease of the average level of issued securities (a decline of HUF 84 billion). As far as the closing volumes considered, the Customer current and deposit account increased slightly, while the Bank deposits decreased significantly (by HUF 177 billion) mainly due to the expired and prepaid financial deposits of Bayern LB during 2010. At the same time Subordinated debts decreased as well by the repayment of loans also to other main shareholder's. The increase of Current and deposit accounts compared to the previous level is visible mainly at retail client deposits (HUF 55 billion growth). The level of corporate clients deposit reflected minor growth (HUF 6.5 billion) compared to the previous year which showed the positive tendency of financing business in corporate segment.

The interest income from debt securities increased by HUF 1,808 million lagging behind the growth of HUF 12 billion in 2009, in accordance with the decreased volume of AFS government bonds held during 2010.

## Average interest asset/liabilities by business areas

*HUF million*

| | MKB Bank | | MKB Unionbank | | MKB Romexterra Bank | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Average Loans and advances | 2,322,957 | 2,360,499 | 162,770 | 153,498 | 54,567 | 113,134 |
| Average securities | 437,131 | 351,333 | 6,037 | 4,815 | 25,824 | 35,017 |
| **Average interest earning assets** | **2,760,088** | **2,711,832** | **168,807** | **158,313** | **80,391** | **148,151** |
| *Average interest rate %* | *5.43* | *6.33* | *8.85* | *9.24* | *11.53* | *14.74* |
| Average customer and deposit accounts | 2,327,157 | 2,169,402 | 209,787 | 193,684 | 103,231 | 186,896 |
| Average issued securities | 265,788 | 401,727 | 0 | 477 | 87 | 162 |
| **Average interest bearing liabilities** | **2,592,945** | **2,571,129** | **209,787** | **194,161** | **103,317** | **187,059** |
| *Average interest rate %* | *3.16* | *4.45* | *3.74* | *4.36* | *5.08* | *7.83* |
| **Difference betwen average rates %** | **2.27** | **1.89** | **5.12** | **4.88** | **6.44** | **6.91** |

## 2010

In 2010 **MKB Bank** reported HUF 75,790 million net interest income, which was almost at the same level as in previous year (2009: HUF 75,975 million). Interest income related to Loans and advances to banks/customers decreased significantly (by HUF 21 billion), at the same time also Interest expense on Customer/Banking deposits reduced materially (by HUF 25 billion). This shrinking was related to the lower level of interest rates in general following the cut of the base rate starting from January 2009 and the lower level of business activities throughout 2010.

In 2010 the average volume of interest-bearing assets grew from HUF 2,711.8 billion in 2009 by 1.8% to HUF 2,760 billion due to the securities portfolio denominated in domestic currency, contrary to the previous year, when there was a robust increase in the currency-based portfolio. At the same time, interest-bearing assets denominated in foreign currencies reflected a relative decrease (0.1%). During 2010 the currency based lending business was restricted by the Hungarian Government by prohibiting the registration of mortgage on loans denominated in foreign currency. This was also reflected in MKB's strategy by focusing on HUF lending instead of currency based financing businesses.

A considerable increase was observed in the average portfolio of private loans (HUF 38.1 billion), which are very effective in terms of return, while average customer loans decreased remarkably in the segment of small and medium-sized enterprises (HUF 36 billion).

**In 2010 the average portfolio of interest bearing assets of MKB Unionbank** increased from HUF 158.3 billion in 2009 by 6.6% to HUF 168.8 billion. The increase of the average portfolio was resulted from the growth in private segment (27.6%). Meanwhile in corporate segment there was a slight reduction of 3.3% to HUF 130.4 billion. At the same time average portfolio of securities rose by 25.4% and amounted to HUF 6,037 million. The increase of average portfolio related to private individuals was mainly denominated in domestic currency (BGN). The large corporate segment showed a decline from HUF 38.9 billion to HUF 33 billion.

The average portfolio of interest bearing liabilities increased from HUF 194.2 billion by 8% to HUF 209.8 billion mainly because of the moderate growth in previous year. In 2010 the average deposit portfolio increased by HUF 16.1 billion (8.3%) which was mainly derived from the increase of private customer's deposits. Continuing the tendency of previous years the average exposure of issued securities significantly dropped by HUF 477 million and reached zero in 2010. On account of the above mentioned factors the net interest margin changed to 5.12%.

**In 2010 average portfolio of interest bearing assets of MKB Romexterra Bank** sharply declined by 45.7% and amounted to HUF 80.4 billion from HUF 148.1 billion in 2009. The fall was resulted from corporate segment (67.6%) of average loans and advances. Simultaneously there was a decline in large corporate segment which fell by half to HUF 4.2 billion. Compared to 2009 the private segment dropped by 18% to 27.3 billion. The average portfolio of securities slightly was also fallen by 26.2% (amounted to HUF 25.8 billion).

Meanwhile, the average portfolio of interest-bearing liabilities shrank from HUF 187 billion in 2009 by 44.7% and amounted to HUF 103.3 billion. The main factor of decrease was the drop of customer deposit by 37.3% at financial institution. The average exposure of issued securities was significantly dropped by HUF 76 million. The moderate business activities and harsh competition on deposit markets resulted in the decrease of net interest margin from 6.9% to 6.4%.

## Non-interest income

For 2010, the total non-interest income decreased by 65.5% and amounted to HUF 16,345 million (2009: HUF 47,390 million), representing 15.1% of gross operating income compared to 32.4% in 2009. The fall in the nominal and relative amount of such income was the net result of different factors as detailed below.

Total net commission and fee income of HUF 20,723 million decreased by 7.2% from HUF 22,328 million in 2009, reflecting the negative impact of a more depressed market environment on the Bank's fee-generating activities. The moderate growth of lending business was resulted merely HUF 36 million commission income increase. The sustained income from payment transaction showed the standstill of business activities in the market, whereas credit related commission income lagged behind the previous year's result remarkably by HUF 510 million. Meanwhile commission income deriving from brokerage fees and other securities business exceeded the previous year's level by HUF 1.4 billion mainly due to fees from fund asset management at MKB Bank.

Simultaneously, fee expenses showed a significant increase (by HUF 1,641 million) compared to previous year and reached HUF 7,613 million from the 2009 year-end figure of HUF 5,972 million. The reason of growth of fee expense can be related mainly to the credit businesses and payment activities.

Other operating income of HUF 4.4 billion loss for 2010 was significantly below the total amount of HUF 25,062 million net profit for 2009. The main drivers of this remarkable decrease were the new tax levied in 2010 by the Hungarian government on banks and financial institutions (HUF 13,960 million on MKB Group level), and the lower gain on sale of securities, that lagged behind significantly the result earned in 2009. The gain on sale of trading securities showed a HUF 2,866 million decreases compared to previous year, while the trading gains on AFS securities fell by HUF 12,100 million compared to 2009. In 2009, MKB Bank realized an outstanding gain of HUF 16.8 billion on the sale of AFS bonds. Net gain on derivative transactions declined as well to HUF 5,659 million (2009: HUF 8,628 million). Other expenses amounted to HUF 2,253 million which mainly derived from the cost of treasury activities (bonds and equity's trading cost of carry) in the amount of HUF 1,382 million.

Within **MKB's non-interest income,** the HUF 16,777 million net fee and commission income in 2010 exceeded slightly the previous year's level, which amounted to HUF 15,389 million income. This moderate growth of commission income derived from the lower volume of credit business activities and less payment transactions due to the recession of macroeconomic environment. The other operating income significantly decreased due to banking tax paid in the amount of HUF 13,559 million and the shrinking gain on sale of AFS securities as discussed in more details above.

**MKB Unionbank's net commission and fee income** was up 15.2% from HUF 2,273 million in 2009. The increase was eventuated due to extension of lending business (HUF 0.2 billion) and as a consequence of that, the total amount reached HUF 2.6 billion at the end of year 2010. While income from FX based transactions was a HUF 0.7 billion profit in 2009, for the year of 2010 Unionbank disclosed HUF 0.4 billion profits mainly due to the revaluation of currency related transactions.

**Romanian Market's net commission and fee income** declined from 2.7 billion in 2009 to HUF 1.4 billion in 2010, due to the fact that MKB Romexterra Bank recognized less commission and fee income from lending businesses (a fall of HUF 1 billion), and payment service income dropped by HUF 0.3 billion to HUF 0.8 billion. The net income from currency related transactions declined from HUF 0.9 billion in 2009 to 0.4 billion due to the fall of FX based transactions.

## Impairments and provisions

Due to the financial crises and negative impacts of deteriorated economic environment, more prudent approach was applied in the Group which resulted in increased impairments and provision charges, significantly in excess of levels in the previous years. This approach and effects were 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 7,955 million impairment on Bulgarian Market's goodwill, and HUF 7,473 million impairment on that of Romanian Market's. The method of the Goodwill impairment calculation changed compared to last year: the management expects 15 years return period for strategic investments and use exit strategy abroad, which resulted higher level of goodwill impairment losses. The total credit risk provisions amounted to HUF 206,424 million in the statement of financial position (2009: HUF 120,378 million), which meant an additional HUF 133,579 million net provision charge in 2010 (2009: HUF 57,508 million). The main part of the net provision charge was recognized in MKB's books, Romexterra Bank's and Corporate Recovery Management's books, most of the net provision charge was generated by Corporate and Retail&Private Banking segments . In line with Bayern LB's accounting principles the method of calculating incurred loss was changed by the end of 2010, which increased the level of provisioning considerably as well.

## Operating costs

In the adverse market environment, cost discipline remained a strong priority in 2010 as well. During 2010 operating costs totaled HUF 76,349 million, 3.5% higher than HUF 73,754 million in 2009.

The nominal growth in operating expenses was driven by Occupancy costs, Communication and data processing, and Marketing and public relations expenses, with a total of 26.0% growth in case of these three types of expenses.

In nominal terms, the general and administrative costs decreased by 7.3% over 2009, whereas the increase related to MKB's own stand alone figure was only 1.5%. The decrease in of salaries and wages was visible (3.7%), mainly due to MKB Bank, where there was a decrease of 11.6% from one hand due to the strict cost cutting, and on the other hand due to the reduction of employer's contributions during 2010.

The occupancy costs increased by 31.6% on MKB Group level, which exceeded significantly the growth in the previous year (15.0%). The Group opened 2 new branches in 2010 (MKB Bank:1, MKB Romexterra Bank:1), which seemed to be a much lower growth rate than previous year's one when 5 new branches were opened., However, a new office building at MKB Bank increased occupancy cost and at MKB Üzemeltetési Kft IT related equipments were scrapped causing HUF 945 million additional impairment losses in 2010.

Simultaneously, communication and data processing expenses increased by 16.1% to HUF 8,527 million, which was almost the same growth rate as previous year's (2009: 18.0%). Marketing and public relations expenses increased by 22.2% to HUF 3,075 million, in contrast to the decrease in the preceding year (2009: 24.12% decrease) in line with the increased marketing budget for 2010.

The recognized benchmark to measure efficiency in the banking industry, the cost-to-income ratio for the year 2010 was 70.6%, that was significantly higher than its 50.4% figure in 2009. This increase compared to last year's figure reflected principally the shrinking of other operating income, due partly to the new banking tax levied in 2010 (MKB Group total: HUF 13,960 million).

MKB Bank's operating costs amounted to HUF 56,594 million with a 2.0% nominal increase compared to the HUF 55,499 million total costs in 2009. In relation to the standstill of business growth at MKB Bank in 2010, the headcount figure was sustained almost at previous level during the year. The salaries, wages and other staff-related expenses decreased by 14.8% and reached HUF 20,032 million. This decrease was partly related to strict cost control over salaries and wages and partly to the change in regulations relating to compulsory contribution (from 32% to 27% starting from July 2009) and health-care contribution (HUF 1,950 per employees was abolished starting from January 2010).

The general administration expenses grew by HUF 162 million, where the remarkable increase in Legal and advisory services was off-set by the decrease of Other administrative expenses.

The growth in communication and data processing costs (at 10.1%) related to increased IT costs mainly due to a change in the accounting  process of project fees. Starting from 2010 in line with BayernLB accounting principles, certain fees in relation to project preparation and roll-out activities are not capitalized but accounted for as expenses when incurred.

The occupancy costs increased significantly by 31.9 % (or HUF 2,880 million), mainly due to a new office building used for administrative purposes and the increasing price level of overhead costs.

Marketing costs were up by 22,9% to HUF 2,691 million compared to previous year in line with the higher marketing budget for the year.

The Bank's cost to income ratio increased to 63.9% compared to the 46.6% in 2009, which was primarily driven by the shrink Other operating income, and not the increasing level of operating expenses.

General and administrative cost of MKB Unionbank slightly increased (by HUF 0.4 billion) from  (HUF 5.6 billion) in 2009 to HUF 6 billion in 2010. The number of employees remained at the same level (698 employees) comparing to 2009. Meanwhile, salaries and wages were up by 9.4% to HUF 2.4 billion from HUF 2.2 billion in 2009. The other administrative expenses increased by 5.3% to HUF 2.9 billion. The growth in administrative expenses could be explained by higher amount of advertising costs (HUF 0.3 billion). Due to the strict cost control, the CIR improved from 62.2% to 56.0% in 2010.

General and administrative cost of MKB Romexterra Bank including restructuring expenses decreased from HUF 9.3 billion in the previous year to HUF 9.2 billion in 2010. The number of employees was reduced by 28.4% to 638 which explains the fall of salaries and wages by 19.2% to HUF 2.9 billion in 2010. A total of HUF 1.3 billion restructuring expense, mainly consisting of severance payments, was incurred in connection with the ongoing restructuring process at MKB Romexterra Bank. Comparing to the previous year other administration expenses declined by 13.2% to HUF 3.3 billion. Despite of the above mentioned cost cutting factors, the CIR was extremely up to 147.1% (2009: 80.6%) because of the considerable shrink in Other operating income.

# Financial position management

At the end of 2010, the Group's total assets showed a decline of 5.4% from HUF 3,106.6 billion at previous year-end to HUF 2,939.2 billion. The Group's loans and advances to customers decreased by 4.1% to HUF 2,177.8 billion. However, despite the downward change in the volume of loans and advances the share of customer asset balances in the total slightly increased to 74.1% as at the previous year-end.

In 2010 the decline in total assets was primarily driven by the lower volume of purchases of available for sale securities in amount of HUF 253.2 million (2009: HUF 303 million). Among customer loans, the largest factor of decrease (HUF 93.5 billion) was the fall of (HUF 48,4 billion) in project- and corporate financing loans which was partly balanced by the increase (HUF 13 billion) of real estate loans. Parallel, with these changes significant (HUF 107.7 billion) decrease was visible concerning the small and medium enterprise's exposures which related to the wholesale and retail trade and food and beverages sectors.
The loans and advances to retail sector had a prominent growth (by HUF 49.6 billion) albeit the increase went together with the rise in collectively assessed impairments (by HUF 2.7 billion) comparing the previous year. Residential mortgage loans to private clients increased by HUF 72 billion which could be regarded as a favorable growing tendency.

In a highly competitive environment, the Group's business policy continued placing strong emphasis on retaining and expanding the customer deposit base in order to decrease the customer loan to primary funds ratio. Total volume of current and deposit accounts held at the Group by corporate and private customers increased by 4.36% amounted to HUF 1,467.2 billion (2009: HUF 1,405.9 billion). The current and deposit accounts decreased by 10.0% in case of MKB Romexterra Bank, and at the same time a growth of HUF 28.3 billion (19.8%) was appeared in the customer deposit of MKB Unionbank.

The shrinking or stagnating volumes of assets did not necessitated further liability increase from money market in 2010. Due to this fact the money market deposits totaling to HUF 965.7 billion were reduced by HUF 177.2 billion in 2010 since the end of the previous year. The most significant part of the decrease in inter-bank financing (86.5%) derived from BayernLB, in line with the group treasury arrangements.

At the end of 2010 **the total assets of MKB Bank** were HUF 2,733.5 billion, 6.0% lower than HUF 2,906.8 billion as at 2009 year-end. This change compares to the increase of 9.4 % in the previous year.

The volume of the investment in securities held for AFS purposes was significantly down to HUF 221.0 billion from HUF 328.3 billion in 2009, mainly because of the reduced portfolio of Hungarian government bonds.

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

The dominance of the loans denominated in foreign currency (typically EUR (61.5%), CHF loans) to corporate customers remained significant in the portfolio, representing 76.0% in the total. Similarly to corporate loans, foreign currency loans were dominant in the retail customer segment throughout the year, as a result of which foreign currency loans represented approximately 86.2% of the total retail loan portfolio of the Bank as it was characteristic in recent years. The majority of the new retail foreign currency loans were taken in EUR (54.9%) although the rate of HUF loans improved (38.4%) as well, mainly at new transactions dominated by mortgage loans (74.9%) and personal loans. Because of these facts, the fluctuation of FX rates had been reflected by the change in loan balances in the balance sheet.

The customer deposits grew by 5.2% from HUF 1,215.9 billion in the previous year to HUF 1,278.6 billion. The growth was lower than in 2009, although still resulted in a slight raise share of the customer deposit portfolio (2010: 50.4%, 2009: 45.9%). The corporate deposit increased by 9.7% to HUF 749.8 million in 2010. The share of Micro SME segment's deposit is slightly reduced to 15.9% and its amount was HUF 86.2 billion at the end of the year.

The average portfolio of retail deposits grew to HUF 477.3 billion from HUF 431.0 billion in the previous year. In terms of timing of the retail deposits, a major increase was observed in the fourth quarter (HUF 302.1 billion) – primarily in relation to the two-thirds increase in demand HUF and one third of proportion EUR deposits. Meanwhile the current HUF retail deposit portfolio increased by HUF 4.9 billion during the year.

The money market financing derived directly from BayernLB in the amount of HUF 833.7 billion. The share of banking deposit changed from 42.6% of previous year level to 38.0% at the end of current year.

Portfolio of issued Bonds increased by HUF 4.8 million due to the active issuing policy, while HUF 53.2 billion of bonds issued in previous years matured in 2010.

At the end of 2010 **MKB Unionbank's total assets** increased by 9.3% from HUF 225.7 billion at previous year-end to HUF 246.8 billion. During 2010 the loans portfolio growth was at 4.4% up to HUF 197.5 billion compared to the previous year. The retail segmentation which contains the micro companies & individual clients and households rose by 13.8% to HUF 80.2 billion from HUF 70.4 billion. Meanwhile, the total amount of loans to the corporate segment was up by 9.2% to HUF 37 billion.

The customer deposit rose by 23.4 % with a net increase of HUF 28.3 billion. The deposit from corporate segment at the end of the year grew by 20.3% and amounted to HUF 45.6 billion. The same growth appeared in the retail segment to HUF 73.6 billion. During the reporting period the bank kept on extending its client base. At the end of 2010, the Bank's customers in the retail banking numbered 97,528 in which 10,049 were SME clients and 87,479 were private individuals.

In this financial year **total assets of MKB Romexterra Bank** decreased by 58.1% from HUF 150.8 billion to HUF 87.7 billion. The loan portfolio of MKB Romexterra Bank was significantly reduced by 55.6% to HUF 39.5 billion. The sharpest decrease eventuated in the SME segment that was down by 75.4% by HUF 42.7 billion. The main factors of the decreasing were considerable provisioning of the assets and due to the restructuring wholesale non performing loans were sold to Corporate Recovery Management.

The current account and deposit balances declined from HUF 72.7 billion to HUF 71.7 billion at the end of year. While the deposit from corporate segment decreased by 26% to HUF 11.9 billion, the funds from the SME customers slightly rose by 4.4% to HUF 10.7 billion. At the end of 2010, the bank's customers in the retail banking numbered 191,254 in which 10,452 were SME clients and 180,802 were private individuals. Due to the huge decrease in the amount of customer accounts and deposits, the necessary funding was provided by during the year. This resulted in a shift in the 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, 2010, as a preliminary figure the Group had HUF 158.3 billion (2009: HUF 194.7 billion) under Hungarian Supervisory Regulation. Qualified general loan loss reserves may be included in Tier 1 Capital up to 1.25% of risk-weighted assets.

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. Unused subordinated may be considered in amount to 2/3 of market risk capital requirement. Total Tier 2 Capital is limited to 100% of Tier 1 Capital.

In 2010, Tier 2 Capital element decreased to HUF 57,833 million (including HUF 93,660 million subordinated debt with deduction of 50% core capital limit (HUF 14,513 million) and of up to 5 year maturity (HUF 2,509 million) In 2009, Tier 2 Capital elements was HUF 60,122 million which comprises HUF 104,273 million subordinated loan in accounting value. The subordinated loans had to be deducted by HUF 4,333 million due to the up to 5 year maturity and by HUF 2,595 million due to limit related to 50% core capital.

During this year there was capital increase in amount of EUR 208 million and at the same time there was transformation of subordinated loan to paid up capital in amount of EUR 40 million.

Risk-weighted assets including operational and market risk decreased by 13.9% from 2009 (HUF 2,476.9 billion) and amounted to HUF 2,132.9 billion.

At 2010 year-end, the Group's level of capital remained strong, with capital ratios (10.33%) in excess of regulatory minimum requirements. However there were significant additional impairments concern the credit business the capital adequacy ratio slightly increased to 10.33% from 10.28%. The Group's capital adequacy ratio safely exceeded the minimum legal supervisory requirements.

The CAR of MKB Unionbank decreased to 12.94% from 13.4% of previous year level under local supervisory regulation. The regulatory capital was HUF 23,373 million which was higher than the previous year-end figure (HUF 23,664 million) due to the additional subordinated loans derived from MKB Bank. Meanwhile the risk asset increased by 2.2% amounted to HUF 180,569 million (2009: HUF 176,644 million) according to local supervisory gap.

The CAR of MKB Romexterra Bank significantly increased to 15.21% from of previous year-end level 13.14% according to supervisory local gap. The regulatory capital was HUF 8,437 which was slightly lower than the previous year-end figure (HUF 13,227 million). Meanwhile the risk weighted asset decreased by 44.9% amounted to HUF 55,457 million from HUF 100,699 million in 2009. This was explained by the restructuring of MKB Romexterra Bank.

In frame of Group RWA management, the determined sings of economic downturn in the quality of credit exposures were counterbalanced with well capitalized position, which is controlled in respect of efficient use of allocated capital in the MKB Group.

2010

# Unconsolidated Key Figures of MKB Bank (IFRS)

| *Unconsolidated, IFRS* | | *HUF million* |
|---|---|---|
| | 2009 | 2010 |
| Total Assets | 2,906,836 | 2,733,482 |
| Loans and advances to customers[1] | 2,030,383 | 1,997,981 |
| Current and deposit accounts | 1,215,922 | 1,278,617 |
| Shareholder's equity | 257,752 | 195,444 |
| | | |
| Gross Operating Income | 119,076 | 88,565 |
| Operating Expenses | (55,499) | (56,594) |
| Operating profit | 63,577 | 31,970 |
| Provision Charges | (46,705) | (165,653) |
| | | |
| Profit Before Taxation | 16,872 | (133,683) |
| | | |
| Return on Average Equity (ROAE)[2] | 14.5% | -28.2% |
| Return on Average Assets (ROAA)[3] | 0.9% | -2.3% |
| Cost-to-income ratio | 46.6% | 63.9% |
| Capital adequacy ratio | 9.8% | 10.8% |

[1] Net loans.
[2] Excluding Investment, Impairments and Provision Charges for foreign auxiliaries.
[3] Excluding the total effect of foreign auxiliaries.

# Unconsolidated Financial Statements

2010

## Prepared under Hungarian Accounting Rules (HAR)

## Key Figures

| *Unconsolidated , HAR* | | *HUF million* |
|---|---|---|
| | **2009** | **2010** |
| Total Assets | 2,897,590 | 2,749,837 |
| Shareholders' equity | 234,133 | 140,400 |
| | | |
| Gross Operating Income | 114,454 | 94,142 |
| Operating Expenses | 50,448 | 52,738 |
| Provision Charge | 61,298 | 135,667 |
| | | |
| Profit Before Taxation | 342 | (112,812) |
| | | |
| Profit After Taxation | 298 | (112,787) |
| | | |
| Pre-tax Return on Average Equity (ROAE)[1] | 0.2% | -55.5% |
| Capital adequacy ratio | 9.8% | 10.8% |

[1] Average equity 2010: HUF 187,267 million, 2009: HUF 220,178 million.

# Unconsolidated balance sheet

*Hungarian Accounting Rules* — *HUF million*

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| | | **Assets** | | |
| 1 | 1. | Cash in hand, balances with central banks | 55,978 | 81,928 |
| 2 | 2. | Treasury bills | 396,022 | 334,937 |
| 3 | | a) held for dealing | 394,680 | 334,946 |
| | | b) held for investment | | |
| 5 | 2/A | Revaluation difference on treasury bills | 1,342 | -9 |
| 6 | 3. | Loans and advances to credit institutions | 158,436 | 113,602 |
| 7 | | a) due on demand | 10,642 | 11,104 |
| 8 | | b) other receivables from financial services | 147,789 | 102,412 |
| 9 | | ba) maturity up to one year | 76,636 | 95,318 |
| 10 | | Of which: – to affiliated undertakings | 71,247 | 84,775 |
| 11 | | – to other undertakings with participating interest | | |
| 12 | | – to the National Bank of Hungary | | |
| 13 | | – clearing house | 10 | 22 |
| 14 | | bb) maturity over one year | 71,153 | 7,094 |
| 15 | | Of which: – to affiliated undertakings | 67,452 | 7,094 |
| 16 | | – to other undertakings with participating interest | | |
| 17 | | – to the National Bank of Hungary | | |
| 18 | | – clearing house | | |
| 19 | | c) receivables from investment services | | 86 |
| 20 | | Of which: – to affiliated undertakings | | |
| 21 | | – to other undertakings with participating interest | | |
| 22 | | – clearing house | | 86 |
| 23 | 3/A | Revaluation difference on receivables due from credit institutions | 5 | |
| 24 | 4. | Loans and advances to customers | 2,017,525 | 1,985,475 |
| 25 | | a) receivables from financial services | 2,016,534 | 1,985,100 |
| 26 | | aa) maturity up to one year | 616,072 | 606,141 |
| 27 | | Of which: – to affiliated undertakings | 59,647 | 78,290 |
| 28 | | – to other undertakings with participating interest | 0 | 0 |
| 29 | | ab) maturity over one year | 1,400,462 | 1,378,959 |
| 30 | | Of which: – to affiliated undertakings | 96,903 | 93,866 |
| 31 | | – to other undertakings with participating interest | 0 | 0 |
| 32 | | b) receivables from investment services | 827 | 203 |
| 33 | | Of which: – to affiliated undertakings | | |
| 34 | | – to other undertakings with participating interest | | |
| 35 | | ba) receivables from investment service activities on the stock exchange | 101 | |

*HUF million*

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 36 | | bb) receivables from over-the-counter investment service activities | 591 | 166 |
| 37 | | bc) receivables from investment services to customers | 135 | 37 |
| 38 | | bd) receivables from clearing houses | | |
| 39 | | be) other receivables from investment services | | |
| 40 | 4/A | Revaluation difference on receivables due from customers | 164 | 172 |
| 41 | 5. | **Debt securities including fixed-income securities** | **37,474** | **38,137** |
| 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 | 37,190 | 37,831 |
| 46 | | ba) held for dealing | 37,190 | 37,831 |
| 47 | | Of which: – to affiliated undertakings | 46 | 45 |
| 48 | | – to other undertakings with participating interest | | |
| 49 | | – repurchased own debt securities | 23,688 | 30,382 |
| 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 | 284 | 306 |
| 54 | 6. | **Shares and other variable-yield securities** | **6,038** | **6,382** |
| 55 | | a) shares and equity stakes held for dealing | 96 | 285 |
| 56 | | Of which: – to affiliated undertakings | | |
| 57 | | – to other undertakings with participating interest | | |
| 58 | | b) other variable-yield securities | 5,887 | 5,962 |
| 59 | | aa) held for dealing | 5,887 | 5,962 |
| 60 | | bb) held for investment | | |
| 61 | 6/A | Revaluation difference on shares and other variable-yield securities | 55 | 135 |
| 62 | 7. | **Shares and participating interests held for investment purposes** | **305** | **456** |
| 63 | | a) shares and participating interests | 305 | 456 |
| 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 | | |

*HUF million*

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 68 | 8. | **Shares and participating interests in affiliated undertakings** | **133,183** | **123,017** |
| 69 | | a) shares and participating interests in affiliated undertakings | 133,183 | 123,017 |
| 70 | | Of which: – shares and participating interests in credit institutions | 51,007 | 36,715 |
| 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** | **31,382** | **23,440** |
| 74 | | a) intangible assets | 31,382 | 23,440 |
| 75 | | b) revaluation surplus on intangible assets | | |
| 76 | 10. | **Tangible fixed assets** | **2,446** | **3,869** |
| 77 | | a) tangible fixed assets for financial and investment services | 2,002 | 3,421 |
| 78 | | aa) land and buildings | 434 | 1,950 |
| 79 | | ab) technical equipment, fittings and vehicles | 1,566 | 1,452 |
| 80 | | ac) fixed assets in the course of construction | 2 | 19 |
| 81 | | ad) advance payments on constructions | | |
| 82 | | b) tangible fixed assets servicing non-financial and non-investment activities | 444 | 448 |
| 83 | | ba) land and buildings | 35 | 34 |
| 84 | | bb) technical equipment, fittings and vehicles | 409 | 414 |
| 85 | | bc) fixed assets in the course of construction | | |
| 86 | | bd) advance payments on constructions | 0 | 0 |
| 87 | | c) revaluation surplus on tangible fixed assets | | |
| 88 | 11. | **Own shares** | | |
| 89 | 12. | **Other assets** | **26,811** | **19,341** |
| 90 | | a) stocks (inventories) | 2,747 | 1,,118 |
| 91 | | b) other receivables ( from non-financial and non-investment securities) | 5,853 | 4,109 |
| 92 | | Of which: – to affiliated undertakings | 145 | 108 |
| 93 | | – to other undertakings with participating interest | | |
| 94 | 12/A | Revaluation difference on other receivables | | |
| 95 | 12/B | Positive revaluation difference on derivative transactions | 18,211 | 14,114 |
| 96 | 13. | **Prepayments and accrued income** | **31,990** | **19,253** |
| 97 | | a) accrued income | 27,817 | 17,929 |
| 98 | | b) prepayments | 4,173 | 1,324 |
| 99 | | c) deferred charges | | |
| **100** | **Total assets: (1+2+6+24+41+54+62+68+73+76+88+89+96)** | | **2,897,590** | **2,749,837** |
| 101 | | *From this:* - Current assets *(1+2/a+3/a+3/ba+3/c+4/aa+4/b +5/aa+5/ba+6/a+6/ba+11+12+2/A+3A+4A+5A+6/A+12/A+12B)* | 1,244,880 | 1,207,863 |
| 102 | | - Fixed assets *(2/b+3/bb+4/ab+5/ab +5/bb+6/bb+7+8+9+10+7A)* | 1,638,931 | 1,536,835 |

HUF million

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 103 | | **Liabilities** | | |
| 104 | 1. | **Liabilities to credit instiutions** | **1,127,509** | **963,183** |
| 105 | | a) due on demand | 3,664 | 5,549 |
| 106 | | b) liabilities from financial services with agreed maturity dates or periods of notice | 1,123,689 | 957,497 |
| 107 | | ba) maturity up to one year | 338,861 | 144,001 |
| 108 | | Of which: – to affiliated undertakings | 243,238 | 140,028 |
| 109 | | – to other undertakings with participating interest | | |
| 110 | | – to the National Bank of Hungary | | |
| 111 | | – clearing house | | |
| 112 | | bb) maturity over one year | 784,828 | 813,496 |
| 113 | | Of which: – to affiliated undertakings | 680,247 | 711,050 |
| 114 | | – to other undertakings with participating interest | | |
| 115 | | – to the National Bank of Hungary | | |
| 116 | | – clearing house | | |
| 117 | | c) liabilities from investment services | 156 | 137 |
| 118 | | Of which: – to affiliated undertakings | | |
| 119 | | – to other undertakings with participating interest | | |
| 120 | | – clearing house | 155 | 137 |
| 121 | 1/A | Revaluation difference on liabilities due to credit institutions | | |
| 122 | 2. | **Liabilities to customers** | **1,196,996** | **1,263,281** |
| 123 | | a) saving deposits | 300 | 194 |
| 124 | | aa) due on demand | | |
| 125 | | ab) maturity up to one year | 293 | 187 |
| 126 | | ac) maturity over one year | 7 | 7 |
| 127 | | b) other liabilities from financial services | 1,196,363 | 1,260,473 |
| 128 | | ba) due on demand | 346,567 | 392,436 |
| 129 | | Of which: – to affiliated undertakings | 3,684 | 36,677 |
| 130 | | – to other undertakings with participating interest | 57 | 58 |
| 131 | | bb) maturity up to one year | 825,901 | 837,814 |
| 132 | | Of which: – to affiliated undertakings | 3,286 | 1,915 |
| 133 | | – to other undertakings with participating interest | 314 | 250 |
| 134 | | bc) maturity over one year | 23,895 | 30,223 |
| 135 | | Of which: – to affiliated undertakings | | |
| 136 | | – to other undertakings with participating interest | | |
| 137 | | c) liabilities from investment services | 333 | 2,614 |
| 138 | | Of which: – to affiliated undertakings | | |
| 139 | | – to other undertakings with participating interest | | |
| 140 | | ca) liabilities from investment service activities on the stock exchange | | 11 |
| 141 | | cb) liabilities from over-the-counter investment service activities | | |

HUF million

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 142 | | cc) liabilities to customers from investment services | 333 | 2,603 |
| 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** | **164,545** | **175,145** |
| 147 | | a) issued bonds | 164,492 | 175,145 |
| 148 | | aa) maturity up to one year | 59,173 | 111,400 |
| 149 | | Of which: – to affiliated undertakings | 15,300 | 400 |
| 150 | | – to other undertakings with participating interest | | |
| 151 | | ab) maturity over one year | 105,319 | 63,745 |
| 152 | | Of which: – to affiliated undertakings | | 1,500 |
| 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 | | |
| 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 | 53 | |
| 169 | 4. | **Other liabilities** | **43,381** | **92,049** |
| 170 | | a) maturity up to one year | 24,074 | 62,064 |
| 171 | | Of which: – to affiliated undertakings | 34 | 44,675 |
| 172 | | – to other undertakings with participating interest | | |
| 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 | 19,307 | 29,985 |
| 178 | 5. | **Accruals and deferred income** | **23,018** | **14,563** |
| 179 | | a) accrued liabilities | 62 | 432 |
| 180 | | b) accrued costs and expenses | 22,890 | 14,064 |
| 181 | | c) deferred income | 66 | 67 |

HUF million

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 182 | 6. | Provisions | 3,735 | 5,047 |
| 183 | | a) provisions for pensions and similar obligations | 105 | 22 |
| 184 | | b) risk provisions for off-balance sheet items (for contingent and future labilities) | 1,556 | 3,453 |
| 185 | | c) general risk provision | 2,074 | 1,572 |
| 186 | | d) other provisions | | 0 |
| 187 | 7. | Subordinated liabilities | 104,273 | 96,169 |
| 188 | | a) subordinated borrowings | 104,273 | 96,169 |
| 189 | | Of which: – to affiliated undertakings | 101,836 | 96,169 |
| 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 | 14,765 | 16,038 |
| 196 | | Of which: repurchased own shares at face value | | |
| 197 | 9. | Subsribed but unpaid capital (-) | | |
| 198 | 10. | Capital reserves | 117,730 | 136,708 |
| 199 | | a) share premium | 117,669 | 136,647 |
| 200 | | b) other | 61 | 61 |
| 201 | 11. | General reserve | 17,832 | 0 |
| 202 | 12. | Retained earnings (accumulated profit reserve) (±) | 79,899 | 81,057 |
| 203 | 13. | Legal reserves | 2,097 | 1,207 |
| 204 | 14. | Revaluation reserve | 1,542 | 345 |
| 205 | | Value-adjusted reserves | | |
| 206 | | Revaluation reserves | 1,542 | 345 |
| 207 | 15. | Profit or loss for the financial year (±) | 268 | -94,955 |
| **208** | | **Total liabilities: (104+122+146+169+178+182+187+195+197+198+201+202+203+204+207+207/a+207/b)** | **2,897,590** | **2,749,837** |
| 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)* | 1,618,329 | 1,586,187 |
| 210 | | - Long term liabilities *0 (1/bb+2/ac+2/bc+3/ab+3/bb+3/cb+4/b+7+3/A)* | 1,018,322 | 1,003,640 |
| 211 | | - Equity (capital and reserves) *(8-9+10+11±12+13+14±15)* | 234,133 | 140,400 |

| Off balance sheet | 2009 | 2010 |
|---|---|---|
| Contingent liabilities: | 810,508 | 619,973 |
| Future receivables | 470,417 | 606,067 |
| Future liabilities: | 445,921 | 595,565 |
| Control number | 1,726,846 | 1,821,605 |

# Unconsolidated income statement

*Hungarian Accounting Rules* *HUF million*

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 1 | 1. | Interest receivable and similar income (2+5) | 162,858 | 135,354 |
| 2 | | a) interest income (receivable) from fixed-income securities | 25,594 | 26,847 |
| 3 | | Of which: – from affiliated undertakings | | |
| 4 | | – from other undertakings with participating interest | | |
| 5 | | b) other interest and similar income | 137,264 | 108,507 |
| 6 | | Of which: – from affiliated undertakings | 12,180 | 8,211 |
| 7 | | – from other undertakings with participating interest | | |
| 8 | 2. | Interest payable and similar charges | 113,573 | 79,481 |
| 9 | | Of which: – to affiliated undertakings | 30,376 | 21,436 |
| 10 | | – from other undertakings with participating interest | 58 | 53 |
| 11 | | Net interest income (1-8) | 49,285 | 55,873 |
| 12 | 3. | Income from securities (13+14+15) | 1,947 | 650 |
| 13 | | a) income from shares held for dealing (dividend, profit-sharing) | | |
| 14 | | b) income from shares in affiliated undertakings (dividend, profit-sharing) | 1,947 | 629 |
| 15 | | c) income from other shares and participating interests | 0 | 21 |
| 16 | 4. | Commission and fees income (17+20) | 21,071 | 22,432 |
| 17 | | a) from other financial services | 18,485 | 19,370 |
| 18 | | Of which: – from affiliated undertakings | 155 | 136 |
| 19 | | – from other undertakings with participating interest | 2 | 2 |
| 20 | | b) from investment services (except for income from trading activities) | 2,586 | 3,062 |
| 21 | | Of which: – from affiliated undertakings | 1,158 | 1,678 |
| 22 | | – from other undertakings with participating interest | 3 | 4 |
| 23 | 5. | Commission and fee expense (24+27) | 6,170 | 6,479 |
| 24 | | a) from other financial services | 5,840 | 6,084 |
| 25 | | Of which: – to affiliated undertakings | 12 | 35 |
| 26 | | – from other undertakings with participating interest | | |
| 27 | | b) from investment services (except for charges of trading activities) | 330 | 395 |
| 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) | 48,686 | 21,547 |
| 31 | | a) income from other financial services | 4,597 | 22,685 |
| 32 | | Of which: – from affiliated undertakings | | |
| 33 | | – from other undertakings with participating interest | | |
| 34 | | – valuation difference | | |

*HUF million*

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 35 | | b) expenses from other financial services | 7,120 | 499 |
| 36 | | Of which: – to affiliated undertakings | | 1 |
| 37 | | – from other undertakings with participating interest | | |
| 38 | | – valuation difference | | |
| 39 | | c) income from investment services (income from trading activities) | 119,183 | 51,488 |
| 40 | | Of which: – from affiliated undertakings | | |
| 41 | | – from other undertakings with participating interest | | |
| 42 | | – value re-adjustment (increase) of securities for trade (not more than acquisition value) | 365 | |
| 43 | | – valuation difference | 33,576 | 18,872 |
| 44 | | d) expenses from investment services (expenses from trading activities) | 67,974 | 52,127 |
| 45 | | Of which: – to affiliated undertakings | 32 | 11 |
| 46 | | – from other undertakings with participating interest | | |
| 47 | | – value adjustment (decrease) of securities for trade | | 7 |
| 48 | | – valuation difference | 23,224 | 33,909 |
| 49 | 7. | **Other operating income(46+49)** | **7,389** | **8,827** |
| 50 | | a) incomes from non-financial and non-investment services | 5,364 | 6,434 |
| 51 | | Of which: – from affiliated undertakings | 146 | 404 |
| 52 | | – from other undertakings with participating interest | | |
| 53 | | b) other income | 2,025 | 2,393 |
| 54 | | Of which: – from affiliated undertakings | | 1 |
| 55 | | – from other undertakings with participating interest | | |
| 56 | | – value re-adjustment (increase) of stocks (inventories) (not more than acquisition value) | | 41 |
| 57 | 8. | **General and administrative expenses (54+62)** | **47,716** | **49,573** |
| 58 | | a) Staff costs (55+56+59) | 24,316 | 20,721 |
| 59 | | aa) wages and salaries | 16,418 | 14,576 |
| 60 | | ab) other staff costs | 2,140 | 1,788 |
| 61 | | Of which: – social security contributions | 826 | 557 |
| 62 | | = pension costs | 128 | 136 |
| 63 | | ac) contributions on wages | 5,758 | 4,357 |
| 64 | | Of which: – social security contributions | 5,044 | 4,116 |
| 65 | | = pension costs | 4,136 | 3,672 |
| 66 | | b) Other administrative expenses (material-type expenses) | 23,400 | 28,852 |
| 67 | 9. | **Depreciation** (value adjustments in respect of assets items 9 and 10) | **2,732** | **3,165** |
| 68 | 10. | **Other operating expenses (65+68)** | **20,249** | **38,168** |
| 69 | | a) expenses from non-financial and non-investment services | 5,368 | 6,282 |
| 70 | | Of which: – to affiliated undertakings | | 1 |
| 71 | | – to other undertakings with participating interest | | |

HUF million

| | | Item | 2009 | 2010 |
|---|---|---|---|---|
| 72 | | b) other expenses | 14,881 | 31,886 |
| 73 | | Of which: – to affiliated undertakings | | 2 |
| 74 | | – to other undertakings with participating interest | | |
| 75 | | – value adjustment (decrease) of stocks (inventories) | 55 | 27 |
| 76 | 11. | Value adjustments in respect of loans and advances and provisions for contigent liabilities and for commitments (73+74) | 56,900 | 118,368 |
| 77 | | a) value adjustments (decrease) in respect of loans and advances | 55,626 | 115,128 |
| 78 | | b) provisions for contingent liabilities and commitments | 1,274 | 3,240 |
| 79 | 12. | Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments (76+77) | 10,286 | 29,576 |
| 80 | | a) value re-adjustments (increase) in respect of loans and advances | 9,424 | 28,249 |
| 81 | | b) use of provisions for contingent liabilities and commitments | 862 | 1,327 |
| 82 | 12/A. | General risk provision and use | 4,413 | 501 |
| 83 | 13. | Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests | 8,912 | 36,339 |
| 84 | 14. | 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 | 398 | -112,686 |
| 86 | | Of which:- Profit or loss of financial and investment services (1-2+3+4-5±6+7/b-8-9-10/b-11+12+12/A.-13+14) | 402 | -112,838 |
| 87 | | - Profit or loss of non-financial and non-investment services (7/a-10/a) | -4 | 152 |
| 88 | 16. | Extraordinary income | 87 | 0 |
| 89 | 17. | Extraordinary expense | 143 | 126 |
| 90 | 18. | Extraordinary profit or loss (16-17) | -56 | -126 |
| 91 | 19. | Profit or loss before taxation (±15±18) | 342 | -112,812 |
| 92 | 20. | Tax payable | 44 | -25 |
| 93 | 21. | Profit or loss after taxation (±19-20) | 298 | -112,787 |
| 94 | 22. | Addition to and use of general reserve (±) | -30 | 17,832 |
| 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)** | **268** | **-94,955** |

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This is an English translation of the Independent Auditors' Report on the "MKB Bankcsoport Beszámoló 2010" of MKB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails.

## Independent Auditor's Report on "MKB Group's Report 2010"

To the shareholders of MKB Bank Zrt.

The pages from 59 to 68 of the accompanying "MKB Group's Report 2010", which present the balance sheet as at December 31, 2010, the income statement for the year then ended (hereinafter referred to as "the financial statements"), are derived from the audited annual report of MKB Bank Zrt. (hereinafter referred to as "the Company") for the year ended December 31, 2010. We expressed an unmodified audit opinion on that annual report in our report dated March 21, 2011. That annual report and the financial statements do not reflect the effects of events that occurred subsequent to the date of our report on that annual report.

The financial statements do not contain all the disclosures required by the Act on Accounting. Reading the financial statements, therefore, is not a substitute for reading the audited financial statements of MKB Bank Zrt.

*Management's Responsibility for the Financial Statements*

Management is responsible for the presentation of the financial statements in the Report in accordance with the audited annual report.

*Auditor's Responsibility*

Our responsibility is to review whether the financial statements are consistent with the audited financial statements, based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

*Opinion*

In our opinion, the financial statements presented on the pages from 59 to 68 of "MKB Group's Report 2010" are consistent with the balance sheet as at December 31, 2010 and the income statement for the year then ended of the audited annual report of MKB Bank Zrt. for the year ended December 31, 2010. from which those statements were derived.

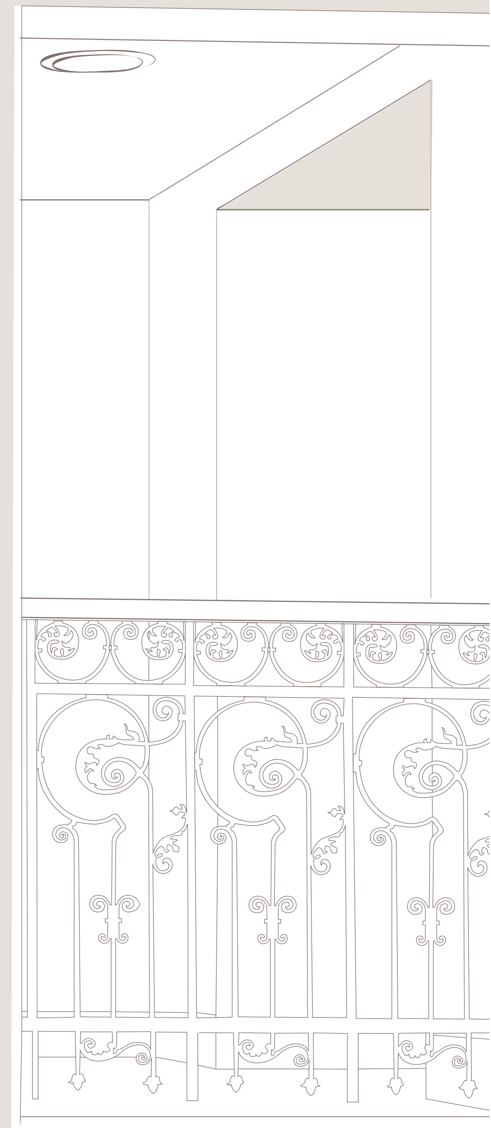
Budapest, 17th May 2011

KPMG Hungária Kft.
Registration number: 000202

Gábor Agócs
*Partner, Professional Accountant*
Registration number: 005600

Oszkár Glatz
(1872-1958)
Hills of Nagybánya
78.5x90 cm
oil on canvas

While Glatz was painting, he never deviated from the world he sensed; he simply arranged it. He created emphasis, condensed the space and gave a rhythm, and, as with the rolling hills and clouds, arranged the work into a unified whole. Meanwhile, happily playing with colours like a true connoisseur, he flecked the grass with wild flowers, and multiplied the shades of green with the shadows of the clouds.



# Individual Reports of MKB's Key Business Subsidiaries

2010

## Key figures

*Consolidated, IFRS* *HUF million*

| | MKB Bank | Bulgarian market | Romanian markett[1] | Hungarian leasing market[2] | Auxiliaries[3] | MKB Group |
|---|---|---|---|---|---|---|
| Total Assets | 2,733,482 | 246,789 | 151,848 | 89,507 | 85,977 | 2,939,188 |
| Share Capital | 20,733 | 11,391 | 32,134 | 2,093 | 73,648 | 20,733 |
| Reserves | 174,711 | 10,976 | (50,882) | 6,353 | (2,268) | 178,805 |
| Operating Income | 88,565 | 10,714 | 4,403 | 4,617 | 14,259 | 107,165 |
| Net interest income | 75,790 | 7,444 | 3,654 | 4,937 | 209 | 91,755 |
| Net commission income | 16,777 | 2,619 | 1,358 | (129) | 461 | 20,723 |
| Other | 9,556 | 651 | (609) | 176 | 13,622 | 8,646 |
| Banking Tax | (13,559) | - | - | (367) | (33) | (13,960) |
| Operating Expenses | (56,594) | (6,003) | (10,586) | (1,373) | (15,680) | (76,349) |
| Impairments and provision for losses | (165,653) | (4,037) | (35,102) | (3,428) | (1,114) | (133,209) |
| Goodwill impairment | - | - | - | - | - | (15,428) |
| Profit Before Taxation | (133,683) | 674 | (41,285) | (184) | (2,535) | (117,821) |
| Profit After Taxation | (122,673) | 600 | (42,073) | (336) | (2,875) | (106,246) |
| Pre-tax Return on Average Equity (ROAE) | -47.9% | 3.4% | -211.8% | -2.1% | -3.5% | -41.8%[4] |
| Earnings per Average Outstanding Share (EPS) | -784.6% | 6.1% | -166.6% | -16.1% | -4.1% | -679.5% |
| Pre-tax Return on Average Assets (ROAA) | -4.7% | 0.5% | -23.9% | -0.2% | -3.2% | -3.9% |
| Cost-to-income ratio | 63.9% | 56.0% | 240.4% | 29.7% | 110.0% | 70.6%[5] |
| Capital adequacy ratio | 10.81% | 12.94% | 15.21% | n.a | n.a | 10.33% |

[1] MKB Romexterra Bank, MKB Romexterra Leasing, CRM.
[2] Autóhitel, Autólízing.
[3] MKB Üzemeltetési, Befektetési Alapkezelő, Resideal, Exter-Immo, Exter-Bérlet.
[4] Average equity 2010: HUF 279,760 million, 2009: HUF 224,384 million.
[5] Adjusted with profit from equity consolidated companies.

2010

# The business and financial performance of the MKB-Euroleasing Group[1]

MKB-Euroleasing integrates the entire vertical system of car trading, vehicle financing, fleet management and insurance brokerage within one service chain in a unique way in Hungary, offering complex services to its customers. The bulk of its assets are made up of its shares held in the companies affiliated with the Group. Since 2001 MKB Bank has participated in the Group's operation as strategic partner and owner, and holds 50% of the shares of its leading company, MKB-Euroleasing Zrt.

Within the vehicle financing business line, MKB-Euroleasing Autóhitel Zrt. extends loans for the purchase of new and used vehicles and for optional use with vehicle collateral used as coverage. MKB-Euroleasing Autólízing Zrt. offers financial leasing for the purchase of vehicles by companies and private individuals, and for inventory financing by car dealers. Toyota Pénzügyi Zrt., a joint company set up with Toyota Financial Services in 2002, finances the domestic brand.

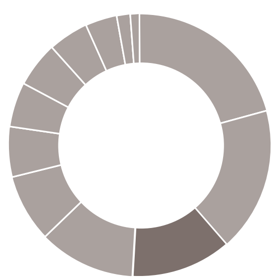
## Vehicle market

New car sales in 2010, after last year's drastic decline did not significantly decreased further, but the number of financed new vehicles was 40% less compared to 2009. With regard to the sales of new cars, which in 2010 fell to 50 thousand, the share in financing also dropped to an all-time low of cca. 25%, while the decline in the case of used car sales (cca. 480 thousand) amounted to 5% approximately. Market trends clearly suggest delayed demand (uncertain macro-economic situation, increased exchange rate risk, high HUF interest rates, stricter lending conditions). After touching bottom in 2010, the vehicle market is expected to slowly increase. According to expectations, by 2011 we can calculate with close to 65 thousand new cars on the market, but sales are expected to stabilise on a level of cca. 100-120 thousand only in the medium term, which even so is far under the pre-crisis level of 200 thousand new cars sold on an excessive market. The rate of financed vehicles may improve with safer structures and higher first instalments and in 2011 may approach the level of 30%. We also expect slight growth on the used car market in the upcoming years.
Under these terms and construction, MKB-Euroleasing is focusing on increasing its market share and in particular on enhancing its presence on the used car market. Changes in car finance activities introduced in 2010 are reflecting a lower-risk portfolio in the medium term.

[1] This chapter of MKB Group's Report 2010 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 Group's Report 2010.

In 2010 MKB-Euroleasing Group's car financing business started to prepare for a gradually more favorable market environment after the crisis. Accordingly, it has worked with every effort on strengthening its trade business. IT developments serving the trade were priorities, a modern dealer-IT system was finished, the company's administration process to handle loan application became competitive, the commercial department's operation and personnel composition were transformed radically, an internet technology-based alternate sales group was established and web-based customer acquisition was launched.
Several long-term framework contract made are promising base for the future: the renewal of PSAFH BO co-operation; Honda Motor and Pappas Auto inventory financing.

Market share of MKB-Euroleasing in passenger car financing based on financed new value – 2010




## Vehicle financing

The Group's customer financing division has continued to be a dominant participant of the domestic vehicle financing market. Despite the sharp drop in loans granted, in 2010 the market share of MKB-Euroleasing financing companies in the financing of new cars is higher than 7%, while in the used car segment remained above 5%. With this performance, the Group ranks the 5th on the market. Its 12% market share calculated with that of its strategic partners TFSH and PSAFH makes the Group rank the 3rd on the market. The business line in 2010 financed cca. 74 thousand customers, out of which the portfolio of new loans made up HUF 13 billion with 5,400 new customer financing contracts.[2]

The intensifying role of the financial leasing structure both in the financing of car dealers and buyer financing was an important tendency in 2010 (its rate within the new contracts reaches 70%) and in the case of new buyer financing contracts (its rate is above 50%) HUF based financing strengthened against the Euro based structures. Co-operation with strategic partners –TFSH, and PSA Finance Hungária Zrt., the financier of the Peugeot and Citroën brands – in providing back-office services plays an important role in the profit generation of the business line. In addition to the co-operation with the FIAT sales centres, which looks back to a long history, one of the significant results of 2010 is that Honda Motor also chose MKB-Euroleasing as its wholesale inventory financing partner.

[2] MKB-Euroleasing Zrt. vehicle financing + TFSH + PSAFH lending.

2010

## Fleet management

The basic activities of MKB-Euroleasing Autópark Zrt., founded in 1999 with the 50% share of MKB Bank, includes the financing of the car fleets of companies and institutions in long-term lease structures, as well as the complete arrangement and management of their operation. The car fleet management business line of the Group has a permanent 20%+ market share and its cca. 9 thousand financed and managed cars makes it rank among the market leaders. MKB-Autopark OOD, the company's Bulgarian subsidiary, offers car fleet operation services, and related to that operative leasing financing, as well as financial leasing services, whose total operated portfolio increased from the year 2009 300 to 720 pieces.

## Car trading

Carnet-Invest Zrt. and the car trading business line comprising the related brand dealers operate as a multi-brand commercial network at 27 sales points, with 13 traded brands ensuring full range of commercial and service activities. Due to the losses suffered from the recession of the vehicle market from the second half of 2008, in 2010 a total of HUF 279 million impairment was accounted for the shares held in car dealers.

## Isurance brokerage

Eurorisk Kft., operating in the traditional insurance brokerage segment, in addition to its vehicle-related insurance brokerage activities, covers all branches and modes of insurance as an agent. In 2010 the controlling share of Netrisk Kft., the leading online insurance broker of the Hungarian market, was sold in a transaction of Euro 23 million, which until then also belonged only to the MKB-Euroleasing Group. Netrisk attracted several potential investors in 2009, who showed serious interest in the company. MKB-Euroleasing regarding the Hungarian economic environment and the expected evolution of the online insurance market were essentially looking for a professional owner, who is willing to cooperate with the company group. One of its first results beginning at spring 2011 is the claim settlement activity at MKB-Euroleasing Group's service stations, that can be extended for a significant customer base of Netrisk.

## MKB-Euroleasing Autóhitel Zrt. Balance Sheet[1]

*Unconsolidated, for the year ended December 31, 2010 , Hungarian Accounting Rules* — *HUF thousand*

| | 2009 | 2010 |
|---|---|---|
| Cash reserves | 2,211,914 | 1,252,018 |
| Loans and advances to customers | 72,072,403 | 58,724,939 |
| Investments in affiliated companies | 1,717,400 | 1,717,400 |
| Intangible assets | 35,010 | 12,115 |
| Tangible fixed assets | 115,737 | 93,188 |
| Other assets | 2,658,170 | 1,792,431 |
| Accured items | 3,077,446 | 3,058,269 |
| **Total assets** | **81,888,080** | **66,650,360** |
| Liabilities to credit institutions | 73,697,943 | 57,289,605 |
| Liabilities to customers | 385,549 | 255,446 |
| Other liabilities | 1,251,678 | 2,588,158 |
| Accrued liabilities | 386,210 | 350,451 |
| Shareholder's equity | | |
| Share capital | 1,211,100 | 1,211,100 |
| Reserves | 4,955,600 | 4,955,600 |
| Result for the year | 0 | 0 |
| **Total liabilities** | **81,888,080** | **66,650,360** |

## Income Statement[1]

*Unconsolidated, for the year ended December 31, 2010 , Hungarian Accounting Rules* — *HUF thousand*

| | | |
|---|---|---|
| Interest receivable and similar income | 8,638,718 | 6,372,286 |
| Interest payable and similar charges | 2,705,364 | 1,522,839 |
| Net interest income | 5,933,354 | 4,849,447 |
| Income from securities | 0 | 0 |
| Commission and fees income | 867,922 | 820,940 |
| Commission and fee expense | 1,810,044 | 1,645,753 |
| Net profit or net loss on financial operations | -306,441 | -139,919 |
| Other operating income | 2,157,399 | 1,285,519 |
| General and administrative expenses | 1,278,733 | 1,083,269 |
| Depreciation | 62,431 | 48,402 |
| Other operating expenses | 2,387,141 | 1,870,186 |
| Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments | 2,499,115 | 1,620,880 |
| Profit or loss on ordinary activities | 614,770 | 547,497 |
| Extraordinary profit or loss | -452,072 | -163,361 |
| Profit or loss before taxation | 162,698 | 384,136 |
| Tax payable | 46,738 | -21,147 |
| Profit or loss after taxation | 115,960 | 405,283 |

[1] Audited.

# MKB Insurance

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 Bank network plays an outstanding role, where more than 500 well prepared financial advisors are able to serve customers wishing to purchase insurance products. By the establishment of insurance companies MKB succesfully implemented its one-stop-shop insurance and bank services strategy, by which it reached a comprehensive universality on the domestic market. MKB Group is the only Group in Hungary, which is able to serve its customers with insurance products in one-stop-shop customer service through its own insurance companies.

In 2010 the economic environment was all in all unfavourable for the insurance sector in Hungary. The number of disasters was record high and the damage these caused was huge. As a result of this, the insurance companies in Hungary had to pay for claims equalling to HUF 40 billion. In addition to that, as one of the measures introduced by the new government, a special tax was levied on the insurance sector in the amount of HUF 38.6 billion. Consequently, the Hungarian insurance companies closed 2010 with a loss compared to the positive results of the year before the last. In year 2010 the revenues from premiums further increased, but the underlying tendencies were apparently different, as life insurance increased by 8%, while in the area of non-life insurance the decrease was 3%.

## MKB Life Assurance

MKB Life Assurance Zrt.'s premium revenue reached HUF 2.63 billion in 2010, which represents 4% growth compared to the previous year. HUF 806 million was realised from continuous premium payment, while HUF 1,820 million from up-front premium life insurance policies. The number of customers increased by 27.9 % to 12,196.
At the end of 2010 the company had 10,856 contracts with continuous premium payment, the total average premium of which reached HUF 862 million p.a.
1,849 up-front premium insurance policies linked to investment units were in effect, whose net asset value (investment portfolio) amounted to HUF 3.9 billion.

The revenues from the premiums of up-front premium insurance policies linked to investment units (MKB Treasury) showed a boost as a result of the sales of the last period. The performance of the joint product of the Bank and the Insurance Company with continuous premium payment 'MKB Értékmegőrző' was relatively lower in the unfavourable environment, especially due to the fallback of lending and the cancellations and repurchases at a higher level than planned. The situation was similar in the case of risk life insurance policies, typically taken out with credits (Életrevaló), while the sale results of the stand-alone mixed life insurance launched in October 2010 (Oktáv) are promising.
The total assets of the Life Assurance was HUF 6,047 million, its shareholders equity amounts to HUF 1,102 million, and its result for the year amounted to HUF -419 million.

## MKB General Insurance

MKB General Insurance Zrt. reached HUF 1,107 million premium revenues in 2010, which represents a 119% growth compared to the previous year. The number of customers increased by 48,2 % to 26,614.
In 2010 the company's customer reported 4,326 damages, which means 160% growth. The aggregated amount of the payment of claims and the change of damage reserves amounted to HUF 600 million in 2010, which resulted in 56.5% damage ratio compared to the accrued premiums.

## Property Insurance

At the end of 2010 the 'non-life' insurance company had a housing insurance portfolio of 16,767 contracts and its premium revenue amounted to HUF 481 million. Premium revenues amounted to HUF 392.8 million which exceeded that of the previous year by 53%.

The corporate insurance package called MKB Multi-védelem and the Mentsvár condominium insurance policy closed a very successful year. Their joint premium income increased from 2009 HUF 33.2 million by 344% to HUF 147.4 million. The company launched the sale of its independent liability (general and product) insurance product.

## Car insurance

The recession of the domestic vehicle sale and car financing as well as the fierce price competition made it difficult to boost the vehicle business line of the Insurance company as expected before.

At the end of 2010 the company held 5 978 Motor Vehicle Liability Insurance and 4 971 Casco Insurance contracts. In 2010, premium revenues of the Liability Insurance was HUF 215.9 million, while that of the Casco branch HUF 349.8 million, which represents 83% and 258% growth, respectively.

The total assets of the General Insurance was HUF 1,993 million, its shareholders equity HUF 1,294 million, and its result for the year amounted to HUF -775 million.

## MKB Életbiztosító (MKB Life Assurance) – Key figures[1]

*HUF thousand*

| | 2009 | 2010 |
|---|---|---|
| Total Assets | 4,323,224 | 6,047,525 |
| Investments | 1,473,911 | 1,818,348 |
| Insurance technical reserves | 401,667 | 723,594 |
| Insurasnce technical reserves for investments for the benefit of life assurance policyholder bearing the risk of investment | 2,682,030 | 3,909,132 |
| Equity | 885,297 | 1,099,485 |
| | | |
| Earned premium without counter-insurance | 2,516,615 | 2,610,823 |
| Insurance technical profit | -457,890 | -445,213 |
| Profit on non-insurance activities | -421,790 | -421,581 |
| Profit before taxation | -421,796 | -421,812 |

## MKB Általános Biztosító Zrt. (MKB General Insurance) – Key figures[1]

*HUF thousand*

| | 2009 | 2010 |
|---|---|---|
| Total assets | 1,820,138 | 1,992,660 |
| Investments | 1,407,436 | 1,450,017 |
| Insurance technical reserves | 103,915 | 203,021 |
| Equity | 1,362,025 | 1,294,180 |
| | | |
| Earned premium without counter-insurance | 229,823 | 505,565 |
| Insurance technical profit | -775,691 | -867,940 |
| Profit on non-insurance activities | -665,124 | -774,736 |
| Profit before taxation | -665,662 | -774,845 |

[1] Non-audited.

# Business and financial performance of MKB Nextebank (formerly MKB Romexterra Bank)

## The romanian economy

Although recession in Romania significantly slowed down in 2010, but due to the direct impact of the prolonged crisis and the adjustment measures, GDP decreased by 2.5%. In line with the recovery of the main export markets, industrial production showed some increase in the second half of the year. However, in 2010, similarly to other CEEU countries, investments did not start to pick up. The current account deficit was high despite the weak domestic demand (EUR 4.2 billion), exceeding by close to one third of previous year's deficit, in which the 9-month high, 6% deficit of foreign trade also played a significant role. The foreign direct investments did not cover even half of it. Despite the low domestic demand (negative demand impact) the inflation was 6.1% through re-charging the 5% increase of the VAT rate (cost shock).

In 2010 government introduced a number of further fiscal measures in order to keep stable budget deficit, more acceptable by the EU, among others, it cut back the salaries of public employees, and used its credit line made available by IMF and the World Bank to finance budget deficit. At the same time, based on its long-term inflation expectations, the Romanian central bank gradually reduced the reference interest rate by a total of 175 bps, to 6.25%. As one of the signs of slow recovery, the unemployment rate decreased by 1 percentage point to 7.1% by the end of the year. Moody's and S&P did not change the rating of the long-term FX debts of Romania, however Fitch improved it to a stable BB+.

## Romanian banking sector

The economic crisis also hit the Romanian banking system extremely severely, which caused the sudden back drop of the previously high, credit-driven growth. The increasing external financing costs, corporate bankruptcies, lower bank volumes caused by shrinking export markets, decreasing domestic demand, and the caution of households, led to the deterioration of the quality of credit portfolios, and the significantly growing number of problematic loans and declining profitability. In order to at least partially counterbalance these, the emphasis was shifted to corrective measures such as massive cost cutting, the rationalisation of the branch network, stricter financing, building an optimal risk-weighted asset portfolio, improvement of loan to deposit ratios and preservation of capital.

The banking sector shrank in 2010 in real terms. Nominally, the total assets increased by 3.5% and the portfolio of retail and corporate loans showed a 4.3% growth in 2010. The proportion of problematic loans approached 32% by the end of the year, which represented an 8% point growth on a high basis. The 3% growth of deposit portfolio grew under the inflation rate, in 2010. Thus the loan to deposit ratio is still almost 120%. Despite the increasing margins due to the more risky profile, the profitability of the banking system dropped due to the effects of the shrinking volumes and provisions. The effect of the cost cuttings may become perceptible from 2011 due to the single-time effects (CIR 2010: 64.1% slightly deteriorated). All in all, the Romanian banking system is stable, and at the end of the year the capital adequacy ratio reached 14.7%.

## Business performance of MKB Nextebank (MKB Romexterra Bank)

In 2010 – generally similarly to other players of the Romanian banking market – MKB Nextebank was also characterised by a deteriorating portfolio quality and significantly increasing risk costs. The 'Profile Cleaning', worked out in 2009 and executed in 2010, was finished, as a result of which the bad-quality loss-making portfolio of the former MKB Romexterra Bank was transferred into a specialised debt management company directly taken over by MKB Bank during the year. This way the Bank was relieved from the losses accumulated as a obvious consequence of the recession of the Romanian economy, while the special handling of the bad-quality portfolio allows reducing further losses. According to the business concept approved in 2010, from 2011 the Bank plans business expansion mainly in the retail, small company and SME segments and will not focus on the large company segment.

The Bank further strengthened its credit portfolio monitoring activities and reviewed its financing policy in order to ensure quality growth in new loans. In case of problem loans proactive management was introduced, with reinforced intensive treatment and work-out activity. As a result of selective customer segment focus and the separation of the problematic portfolios the Bank's market share (based on total assets) decreased from 0.6% to 0.4% in 2010, thus it ranks the 24th in the whole system. As a result of portfolio and data cleaning, the number of the Bank's customers decreased by 16% to 194,954. At end-2010 the branch network contained 44 units.

In order to ensure the successful realisation of the business strategy from the 1st of November 2010, MKB Romexterra Bank appeared on the market with the rebranded name 'MKB Nextebank' a so-called new 'commercial brand'. Recognized Romanian experts joined the management of MKB Nextebank in order to successfully realise the business strategy. At the end of 2010 the number of active employees was 682, 23% lower than at the end of 2009. In 2010 the Bank Group and MKB Bank continued to transfer their expert skills and know-how, in particular with regards to the Bank's risk management practice, organisation and management. In addition to the enhancement of the risk methodologies, the transfer of techniques, methodologies and practice aiming at the increase of the efficiency of Retail sales proved to be especially useful.

## Financial performance of MKB Nextebank (MKB Romexterra Bank)[1]

In 2010, the activities of MKB Nextebank focused on the management of non-performing loans and the activation of the Corporate Recovery Management, a debt collection company founded by the Bank in 2007 as well as the preservation of a healthy loan portfolio.

The total assets of MKB Nextebank decreased by 46% to RON 1,578.7 million (2009: RON 2,942.5 million). The Bank's net loan portfolio decreased by 66% to RON 632.9 million. The accounts and deposits declined by 3% to RON 1,084.7 million. MKB Bank increased its share in MKB Nextebank through capital raise from 82.47% to 90.78%. The share capital – in two steps – was increased by a total of RON 185.7 million in February and September 2010, ensuring sound capital base for the Bank, with a capital adequate ratio reaching 14.75% according to the Romanian Accounting Standards.

The Bank's gross operating income increased to RON 229.1 million (2009: RON 206.8 million). Operating costs increased by 17% to RON 173.2 million. With the total provisioning of RON 294.3 million the bank realised a loss of RON 241,4 million pre-tax (2009: RON 109.8 million) and RON 247.3 million (2009: RON 103.4 million) after-tax.

Following the take-over of problematic loans and building out the company's active operation, Corporate Recovery Management accomplished the expected returns last year. In 2010 100% of the company was transferred into the ownership of MKB Bank. By the end of the year, the building up of the company's portfolio was completed in 95%, and to finance this activity MKB Bank raised capital twice in 2010. As a result of the capital raise the company's subscribed capital increased to RON 8,372,150.  The company's activity, after being set up, will evolve in 2011-2012.

## Outlook for 2011

Following the recession in 2010, the Romanian economy is expected to reach approximately 1.7% GDP growth in 2011 due to the intensification expected for the second half of the year, parallel to the further expansion of the European export markets and the boost of the domestic industrial production. According to the forecasts, in 2011 domestic demand may also start to increase, while reaching the pre-crisis volumes is evidently unlikely. The average inflation is expected to be around 6.1% during the year, while the unemployment ratio is not expected to drop significantly in the short-term.

The main challenge the bank system has to face in 2011 is the moderation of the risk costs that increased in the past two years and the reducing of endangered and non-performing loans. In line with that, outlook now suggest that emphasis will be put on increase of the asset portfolio through risk awareness. The credit portfolio of the bank system may increase by 7% next year exceeding the growth of

[1] The consolidated figures contain the data of the leasing subsidiaries.

the real GDP, and customer deposits may grow by roughly 5% in 2011. As a consequence of the above, the loan-to-deposit ratio may slightly deteriorate. Taking into account the cost saving measures introduced in the banking sector in 2010, no further significant efficiency improvement may be expected. In regard to negative sector level results of last year, and the provisioning costs peaking this year, no significant positive result is expected in the sector.

For MKB Nextebank, the key priority is still the efficient management of the cleaned portfolio, in order to preserve its quality. The Bank pays more attention to the quality and the value of loan collaterals. Strengthening the active management of loan exposures in early delinquency and pragmatic fast actions in late delinquency also play an important role. The Bank's new strategy focuses on the retail customer segment with the implementation of the differentiated service model and with particular emphasis on increased risk awareness, as well as business and operational efficiency. The Bank will primarily concentrate on deepening the customer relations and increasing the number of transactions in order to improve service quality and customer satisfaction. Better exploitation of cross-selling opportunities is also among the targets. All these have to be reflected in the improving tendency of the result.

## MKB Nextebank (MKB Romexterra Bank) – Key figures[1]

*Consolidated, International Financial Reporting Standards* — *RON thousand*

| | 2009 | 2010 |
|---|---|---|
| Total Assets | 2,942,480 | 1,578,735 |
| Customer loans (net[2]) | 1,886,964 | 632,854 |
| Customer accounts and deposits | 1,116,296 | 1,084,709 |
| Shareholders' Equity | 124,056 | 68,571 |
| Net interest income | 149,060 | 65,162 |
| Net fee & commission income | 43,708 | 27,785 |
| Other income | 9,738 | (23,829) |
| Gross operating income | 206,831 | 229,103 |
| Operating expenses | 148,256 | 173,225 |
| Impairments and provision charges | (167,261) | (294,320) |
| Profit before tax | (109,802) | (241,429) |
| Income tax | 6,383 | (5,823) |
| Profit after tax | (103 419) | (247,252) |
| ROAE - pre tax | -67.39% | -250.67% |
| ROAA - pre tax | -3.51% | -10.68% |
| Cost-to-income | 71.68% | 75.61% |
| Number of employees | 886 | 682 |

[1] Audited.
[2] Reduced by provisions.

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## Balance Sheet[1]

*Consolidated, International Financial Reporting Standards* — *RON thousand*

| | 2009 | 2010 |
|---|---|---|
| Assets | 2,942,480 | 1,578,735 |
| Cash and cash equivalents | 550,030 | 301,606 |
| Amounts due from other banks | 21,710 | 121,768 |
| Securities | 304,997 | 391,483 |
| Loans and advances to customers | 1,886,964 | 632,854 |
| Other assets | 92,581 | 57,738 |
| Participations | 9,077 | 1,935 |
| Property and equipment, intangible assets | 77,121 | 71,351 |
| Liabilities | 2,818,424 | 1,510,164 |
| Amounts due to other banks | 1,604,861 | 388,870 |
| Current and deposit accounts | 1,116,296 | 1,084,709 |
| Other liabilities and provisions | 14,378 | 14,722 |
| Deferred tax liability | 3,290 | 393 |
| Subordinated debt | 79,599 | 21,470 |
| Shareholders' equity | 124,056 | 68,571 |
| Share capital | 260,009 | 445,705 |
| Reserves | (135,953) | (377,134) |

[1] Audited.

## Income Statement[1]

*Consolidated, International Financial Reporting Standards* — *RON thousand*

| | 2009 | 2010 |
|---|---|---|
| Interest income | 381,383 | 162,838 |
| Interest expense | (232,323) | (97,676) |
| Net interest income | 149,060 | 65,162 |
| Net income from commissions and fees | 43,708 | 27,829 |
| Other operating income | 14,063 | 136,112 |
| Impairments and provisions for losses | (167,261) | (294,320) |
| Operating expenses | 148,256 | 173,225 |
| Profit before taxation | (109,802) | (241,429) |
| Taxation | 6,383 | (5,823) |
| Profit after taxation | (103,419) | (247,252) |

## Market shares

| | 2009 | 2010 |
|---|---|---|
| Corporate loans[2] | 0.88% | 0.25% |
| Retail loans[3] | 0.47% | 0.39% |
| Corporate deposits[2] | 0.59% | 0.60% |
| Retail deposits[3] | 0.84% | 0.64% |
| Total assets | 0.64% | 0.37% |

[1] Audited.
[2] Data includes respectively credits and deposits to companies.
[3] Data includes respectively only credits and deposits of individuals.
The consolidated figures contain the data of the leasing subsidiaries.

# Business and financial performance of MKB Unionbank

## The bulgarian economy

In Bulgaria 5% recession of the economy in 2009 was followed by a 0.5% growth of GDP in the third quarter of 2010. It is fundamentally explained by the increasing prosperity of the western export markets, which also plays a role in the 5.5% growth of industrial production, while domestic demand and the availability of credits are still weak. Export grew by 31.6% while the imported products and services increased by 8.8% yoy. The current account balance was positive in some months during 2010, but in annual term there will be a slight deficit of 0.8%. As a consequence of the crisis, the annual average inflation started to decelerate, however, in the second half of the year the inflationary pressure increased through the prices of energy and food, which was further amplified by the increase of salaries and wages on the labour market and of the excise taxes; inflation reached 4.6% at the end of 2010. The unemployment rate, following a decrease of 8 months in a row, started to increase again in November and reached 9.1% in annual terms, growing by 15 percentage points. Thus the number of the registered unemployed amounted to 366 thousand.

To improve the fiscal position and to set the budget deficit on a declining path, a number of anti-crisis measures and consolidation package were introduced. The medium-term budget course, both affecting the income and expenditure sides, may be sufficient to restore confidence in the country, e.g. reforms of the pension system, education, health care, state administration. The new government elected in summer 2009 and the Bulgarian National Bank, as part of the strategy aiming at the accession to the Euro zone in the upcoming years, declared the intention to maintain currency board. Despite the external environmental pressure, the country's foreign exchange reserves were stable, and at the end of 2010 amounted to Euro 13.2 billion thus ensuring sufficient coverage. Bulgaria's credit rating remained unchanged during the year; the country still remained in investment category with all three major credit rating agencies.

## The bulgarian bank sector

The Bulgarian banking system was seriously hit by the global financial and economic crisis, though to a lesser degree than some other countries of the CEEU region, which caused the sudden fallback of the previously high pace of growth. The banking sector suffered serious indirect and direct impacts, such as the permanently increasing external financing costs, the accelerating number of corporate bankruptcies, lower bank volumes caused by shrinking export markets, decreasing domestic demand, and the caution of households. All these factors led to the deterioration of the credit portfolios, and the significantly growing number of problematic loans and declining profitability. In order to at least partially counter-balance the unfavourable effects, the emphasis shifted to corrective measures such as the fine-tuning or modification of business models, reorganisation of branch networks, costs rationalisation. RWA-management, improvement of loan-to-deposit ratios and preservation of capital came into the focus.

In 2010 24 commercial banks and six branch banks operated in the country. The total assets of the system, reflecting the impacts of the global crisis, in November 2010, amounted to BGN 72.6 billion with a growth of 4.1%. The total credit portfolio reached BGN 52.5 billion. As a consequence of the deteriorating quality of the banks' credit portfolio caused by the crisis, the rate of problem loans to total credits increased to 14.1%. By November 2010 the sum of retail and corporate customer deposits reached BGN 46.5 billion, of which corporate customer deposits grew by 2.8%, while retail deposits by 13.5%, thus the loan to deposit ratio improved in line with the requirements of the parent banks. Although the level of provisioning was significantly higher than in 2009 (a total of BGN 1,170 million, which is 23% higher than a year earlier), the banking system was still able to produce profit in November 2010, and its net profit reached BGN 584 M. In 2010 the strict cost control continued: the ratio of costs to gross operating income improved to 49%, and the over 15% level of the slightly decreasing TIER1 capital adequacy is outstandingly high, safely complying with the legal regulations. All in all, the banking system is stable, and some risk ratios and figures already show the signs of improvement.

## Business performance of MKB Unionbank

In 2010 the Bank was able to develop, despite the prolonged economic recession. MKB Unionbank is one of those banks that were able to maintain and even increase their business activities on the Bulgarian banking market. In 2010 the Bank's total assets increased by 6.2% to BGN 1,732 million. Net loans grew by 5.4% and amounted to BGN 1,227.5 million. The biggest growth was apparent in the retail segment, and in corporate financing. As opposed to this, the micro company credit portfolio decreased. The unfavourable economic conditions impacted negatively the quality of the credit portfolio, and the ratio of standard credits decreased compared to a year before, understandably the rate of bad loans increased, but the Bank still managed to achieve a better credit portfolio quality than the banking sector average. The market share of corporate loans reached 2.9%, in retail loans 1.6%, owing to higher than the banking system growth of mortgage-based financing.

MKB Unionbank successfully accomplished the target set for 2010, namely, that it should accelerate deposit collection on the domestic markets beside the limited availability of external financing as a consequence of the global financial crisis. All in all, customer funds increased by close to 20% in 2010, improving the loan to deposit ratio. With this, the Bank's market share of corporate deposits was 3.5% (+0.5pps compared to 2009) in retail deposits was 1.4% with 0,2pps growth. The significant increase of the number of customers also contributed to the growth of customer funds in 2010. After 2009' 13.2% growth, at end-2010 the number of active customers reached 99,124 increasing by another 13.7%. Within this, the number of corporate customers increased by 5%, while of retail customers by 14.9%. At the end of 2010 the number of branches (54) did not change, nor the number of regional corporate customer centres. In 2010 the headcount of employees practically remained on the same level as one year before (698 FTE).

In 2010 the Bank Group and MKB Bank continued to transfer their expert skills and know-how, in particular with regards to the Bank's risk management practice, organisation and management. In addition to the enhancement of the risk methodologies, the transfer of techniques, methodologies and practice aiming at the increase of the efficiency of Retail sales proved to be especially useful.

## Financial performance of MKB Unionbank[1]

The Bank's gross profit increased by 20% to BGN 76.7 million and the net interest income (BGN 53.4 million), and the net fee and commission income (BGN 18.7 million) contributed to 69.6%, and 24.3% of this, respectively. Operating costs amounted to BGN 42.8 million in 2010, which represents 2.6% increase. As a result of the above mentioned, the Bank's cost efficiency jumped by approximately 10 percentage points to 55.7%. The net provisioning amounted to BGN 29.2 million. In 2010 the Bank's pre-tax profit was BGN 4.8 million. Thus MKB Unionbank almost preserved the value of its profitability ratios (ROAE: 3.3%, ROAA: 0.3%), which can be considered an explicitly good result given the period of crisis. Similarly, the 12.9% capital adequacy as per local standards, compared to the legally required 12%, reflects a safe and prudent level.

## Outlook for 2011

Following the stagnation in 2010, the Bulgarian economy is expected to reach cca. 2.8% GDP growth in 2011, parallel to the further expansion of the European export markets and the boost of domestic industrial production. According to the forecasts, in 2011 domestic demand may also start to increase, while reaching the pre-crisis volumes is naturally unlikely. The average inflation is expected to be around 3.2%, while the unemployment ratio is not expected to significantly drop in the short-term.

The main challenge of the banking system is to reduce the risk costs that increased in the past two years and to decrease the problematic and under risk loan volume. In line with that, outlooks now suggest that emphasis will be put on increasing risk weighted assets through risk awareness. The credit portfolio of the banking system, while not reaching the nominal GDP growth, may increase by cca. 4% next year, and on the liability side customer deposits may grow by 6-7% in 2011. As a consequence of the above, the loan to deposit ratio – in line with the requirements of the parent banks active in the region – may further improve, reducing to 115% on sector level. Taking into account the cost saving measures introduced in the bank sector in 2010, and the provisioning costs peaking this year, we may expect neither further significant cost-efficient improvement, nor profit growth on sector level.

The targets of MKB Unionbank set for 2011 includes to further improve business efficiency and to further strengthen prudent risk management. The Bank's business strategy continues to focus on the retail and SME segments in 2011, aiming primary bank relations through active cross-selling activities. In 2011, beside an increase of the total assets more moderate than before (1.5%), the goal is to reach a profit higher than in 2010. The engine of growth of the credit portfolio is mainly retail and mortgage loans. Corporate financing focuses on customers with proper track record. The planned growth may be achieved here through structured loans, arranging SME financing programs, including the funds provided by the Bulgarian Development Bank, and other funding opportunities available in various EU programs. In the micro-company segment the growth of the credit portfolio will be limited. Compared to 2010, having been extremely successful in fund raising, the planned increase is more moderate, however, maintaining a healthy loan to deposit ratio continues to be the target.

[1] Since 2010 MKB Unionbank has a wholly owned subsidiary – AMC Imoti. The main activity of the subsidiary is property acquisition and management and other related activities as research and valuation of properties, consulting services and others. Since its limited contribution to the Group performance unconsolidated data are presented (similarly to 2009).

## MKB Unionbank – Key figures[1]

| *Unconsolidated, International Financial Reporting Standards* | | *BGN thousand* |
|---|---|---|
| | 2009 | 2010 |
| Total Assets | 1,631,357 | 1,732,390 |
| | | |
| Customer loans (net[2]) | 1,164,889 | 1,227,459 |
| Customer accounts and deposits | 780,151 | 913,072 |
| | | |
| Shareholders' Equity | 133,323 | 157,873 |
| | | |
| Net interest income | 44,737 | 53,365 |
| Net fee & commission income | 15,844 | 18,655 |
| Other income | 3,316 | 4,707 |
| Gross operating income | 63,897 | 76,727 |
| Operating expenses | (41,660) | (42,756) |
| Impairments and provision charges | (17,218) | (29,170) |
| | | |
| Profit before tax | 5,019 | 4,801 |
| Income tax | (464) | (527) |
| Profit after tax | 4,555 | 4,274 |
| | | |
| ROAE - pre tax | 3.8% | 3.3% |
| ROAA - pre tax | 0.3% | 0.3% |
| Cost-to-income | 65.2% | 55.7% |
| CAR | 13.4% | 12.9% |
| Number of employees | 693 | 698 |

[1] Audited.
[2] Reduced by provisions.

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## Balance Sheet[1]

| *Unconsolidated, International Financial Reporting Standards* | | *BGN thousand* |
|---|---|---|
| | 2009 | 2010 |
| Assets | 1,631,357 | 1,732,390 |
| Cash balances and Amounts due from the National Bank | 194,882 | 265,814 |
| Amounts due from other banks | 200,588 | 157,923 |
| Securities | 56,024 | 58,505 |
| Loans and advances to customers | 1,164,889 | 1,227,459 |
| Other assets | 3,177 | 9,116 |
| Participations | - | - |
| Property and equipment | 11,797 | 13,573 |
| Liabilities | 1,498,034 | 1,574,517 |
| Amounts due to the National Bank | - | - |
| Amounts due to other banks | 84,105 | 137,106 |
| Current and deposit accounts | 780,151 | 913,072 |
| Certificates of deposit | - | - |
| Other liabilities and provisions | 8,370 | 8,764 |
| Deferred tax liability | 362 | 446 |
| Borrowed funds and debt securities | 577,461 | 475,351 |
| Subordinated debt | 47,585 | 39,778 |
| Shareholders' equity | 133,323 | 157,873 |
| Share capital | 60,412 | 79,912 |
| Reserves | 72,911 | 77,961 |

[1] Audited.

## Income Statement[1]

*Unconsolidated, International Financial Reporting Standards* *BGN thousand*

| | 2009 | 2010 |
|---|---|---|
| Interest income | 103,743 | 109,213 |
| Interest expense | (59,006) | (55,848) |
| Net interest income | 44,737 | 53,365 |
| Net income from commissions and fees | 15,844 | 18,655 |
| Other operating income | 3,316 | 4,707 |
| Impairments and provisions for losses | (17,218) | (29,170) |
| Operating expenses | (41,660) | (42,756) |
| Profit before taxation | 5,019 | 4,801 |
| Taxation | (464) | (527) |
| Profit after taxation | 4,555 | 4,274 |

## Market shares

| | 2009 | 2010 |
|---|---|---|
| Corporate loans[2] | 2.9% | 2.9% |
| Retail loans[3] | 1.2% | 1.6% |
| Corporate deposits[2] | 3.0% | 3.5% |
| Retail deposits[3] | 1.2% | 1.4% |
| Total assets | 2.3% | 2.4% |

[1] Audited.
[2] Data includes respectively credits and deposits to companies.
[3] Data include respectively only credits and deposits of individuals.

**István Csók**
(1865-1961)
**Apple tree blossoms**
51x51 cm
oil on canvas

There are few works by Csók that concentrate on the painterly form with such an abstract effect. With its flat ornamental character and Japanese-style composition it is a perfect example of the decorativeness of Art Nouveau.

# Information

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## Corporate Governance Statement

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 the Appendix of the present Statement.

The Supervisory Board shall hold its meetings whenever it deems necessary in order to perform its duties properly.

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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. One third of the members of the Supervisory Board shall be the representatives of the Company's employees nominated by the Works Council.

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 audit system of the Company

The system of internal control functions 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;
- Internal Audit System (therein: process integrated control, management control, management information system, and independent internal audit organisation);
- Compliance.

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 audit system 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. In addition the Company, in accordance with the relevant provisions of the law, operates an independent internal audit organization which is subordinated under the exclusive authority of the Supervisory Board and Chief Executive Officer of the Company.

## Brief presentation of the risk management system of the Company and the principles used during risk management

Since the end of 2006 the Company has been continuously developing its resk management procedures and methods, harmonizing them with the group level expectations of BayernLB, in order to further ensure meeting the validation requirements of Basel II and IRBF. The primary purpose was the conceptual renewal of the processes of the risk management, 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.

The above resulted that as of July 1, 2008 new risk bearing procedural rules entered into force the important elements of which were further fine tuned and clarified during 2010 within the framework of the Excellence Project that was realized with substantial support and cooperation from the parent bank.

Main elements of the concept:
- Implementation of the Uniform Bank Segmentation categorisation applicable for the whole, risk product related 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;
- Implementation of a standardized monitoring process and 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 applicable deal management types, the related tasks, procedural rules;
- Creation of a prudent provisioning system and methodology meeting the requirements of both the Hungarian accounting rules and IFRS.

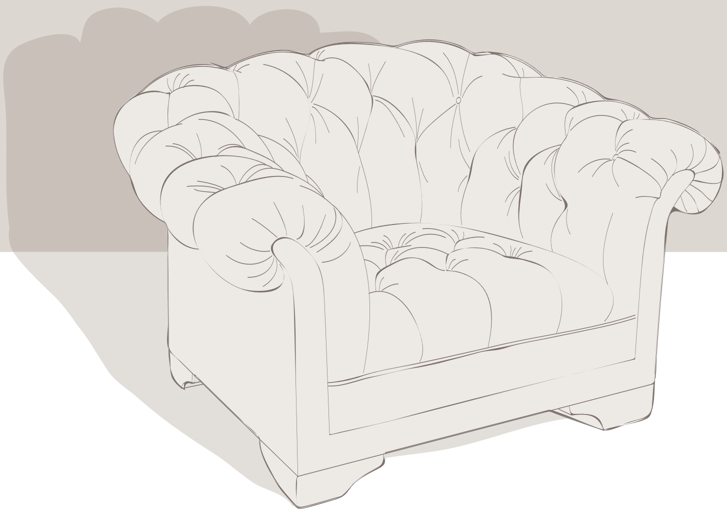
The 31 risk management principles approved by the Board of Directors of the Company concern 5 main subjects: the organisation, credit deals, problematic customer management, trading transactions (including treasury) and the operational risks.
During 2010, within the framework of the Excellence Project the Group Risk Guidelines were implemented comprising the standardized principles of the appropriate management of the different risk types, and which were elaborated by BayernLB.

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. As of May 2010, the preparation of substantial risk type decisions of the decision making bodies of the Company is supported by MKB Advisory Committee established by BayernLB.

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.

**János Kmetty**
(1889-1975)
**Large still life with flowers**
80x100 cm
oil on canvas

Kmetty was the most consistent follower of cubism in Hungary. Despite Cubism's disciplined search for stable structures, and strongly analytic character, its lyrical atmosphere makes this picture a fine example of stylistic softening.



# The boards and the auditor of MKB Bank

## Supervisory board[1]

**Chairman**
Stephan Winkelmeier (2010)[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)
*Branch Director, MKB Bank Zrt.*

Stefan Ermisch (2009)[3]
*Member of the Board of Management*
*Bayerische Landesbank*

Gerd Häusler (2010)[4]
*Chairman of the Board of Management*
*Bayerische Landesbank*

dr. Kotulyák Éva (2007)
*Legal Counsel, MKB Bank Zrt.*

Marcus Kramer (2010)[5]
*Member of the Board of Management*
*Bayerische Landesbank*

Lőrincz Ibolya (2008)
*Deputy Head of Department, MKB Bank Zrt.*

dr. Mészáros Tamás (2009)
*Rector, Corvinus University, Budapest*

## Board of Directors[6]

**Chairman**
Erdei Tamás (1991)[7]
*Chairman and Chief Executive, MKB Bank Zrt.*

**Members**
dr. Balogh Imre (2004)[8]
*Deputy Chief Executive for Business Management, MKB Bank Zrt.*

Gáldi György (2009)
*Deputy Chief Executive for Risk Management, MKB Bank Zrt.*

dr. Kraudi Adrienne (2008)[8]
*Deputy Chief Executive for Corporate Governance and Marketing & Communication, MKB Bank Zrt.*

Roland Michaud (2010)[9]
*External member of the Board of Directors*

dr. Simák Pál (2008)[8]
*Deputy Chief Executive for Strategy and Finance, MKB Bank Zrt.*

Note: Beginning of membership in brackets

## Risk committee

Marcus Kramer, Chairman
Stephan Winkelmeier
Jochen Bottermann

## Remuneration committee

Stephan Winkelmeier, Chairman
Stefan Ermisch
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)*

[1] Dr Ralph Schmidt resigned from his membership in the Supervisory Board with effect from April 30, 2010. Mr Hans Schaidinger resigned from his membership in the Supervisory Board with effect from September 14, 2010.
[2] Elected as member of the Supervisory Board by the Extraordinary General Meeting of October 1, 2010. Chairman of the Supervisory Board with effect from October 15, 2010.
[3] Chairman of the Supervisory Board between March 8, 2010 and May 14, 2010. Resigned from his membership in the Supervisory Board with effect from April 5, 2011.
[4] Chairman of the Supervisory Board between May 14, 2010 and October 15, 2010.
[5] Elected as member of the Supervisory Board by the Extraordinary General Meeting of July 7, 2010.
[6] Dr Patyi Sándor resigned from his membership in the Board of Directors with effect from July 1, 2010.
[7] Elected as member and Chairman of the Board of Directors by the Extraordinary General Meeting of March 30, 2011 for further three years.
[8] Elected as member of the Board of Directors by the Extraordinary General Meeting of March 30, 2011 for further three years.
[9] Elected as member of the Board of Directors by the Extraordinary General Meeting of November 30, 2010.

2010

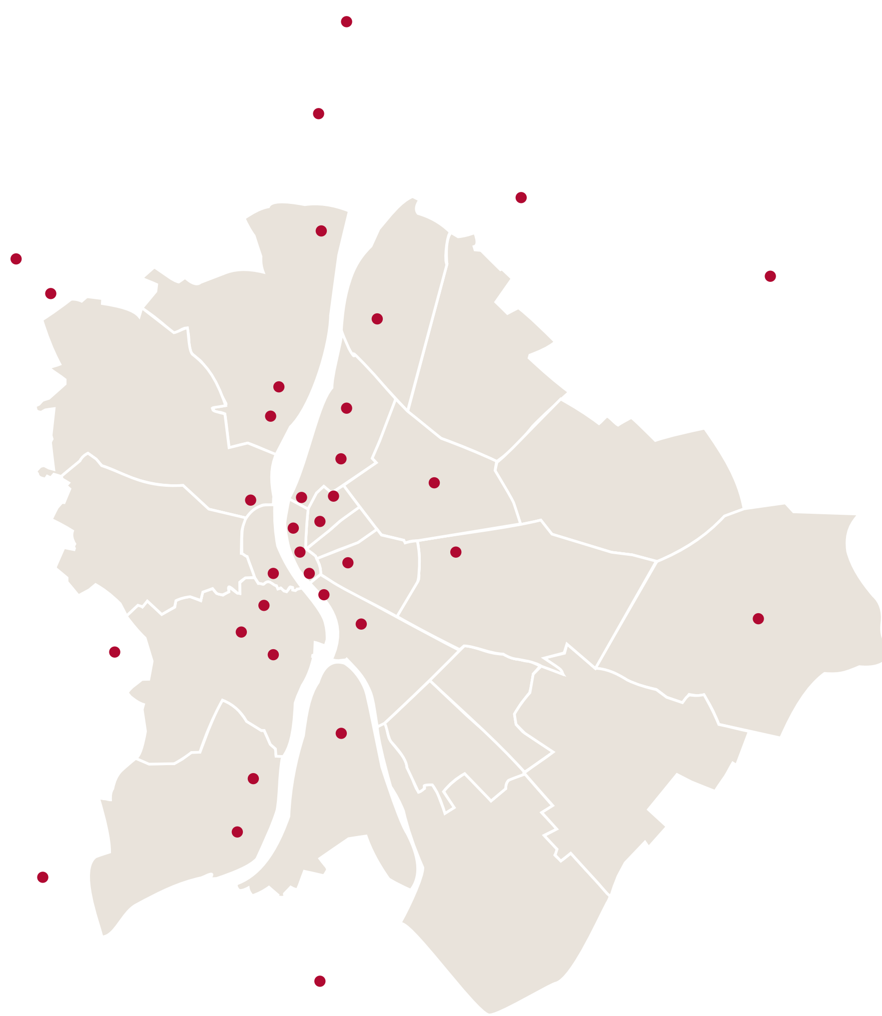
## MKB Bank Zrt.

H-1056 Budapest, Váci utca 38.
Postal address: Budapest H-1821
MKB Retail TeleBANKár: 06 40 333 666, (00 36 1) 373 3333
MKB Wholesale TeleBANKár: 06 40 333 777
Swift-code: MKKB HU HB
Internet: www.mkb.hu
E-mail: info@mkb.hu

## 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 |

| Name | Address | Phone | Fax |
|---|---|---|---|
| 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 |
| Siemens Ház fiók | H-1143 Budapest, Hungária krt. 130. | (00 36 1) 222-4126 | (00 36 1) 422-4161 |
| Solymári fiók | H-2083 Solymár, Terstyánszky u. 68. | (00 36 26) 560-650 | (00 36 26) 560-669 |
| Székház fiók | H-1056 Budapest, Váci u. 38. | (00 36 1) 268-8472 | (00 36 1) 268-8079 |
| 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 |

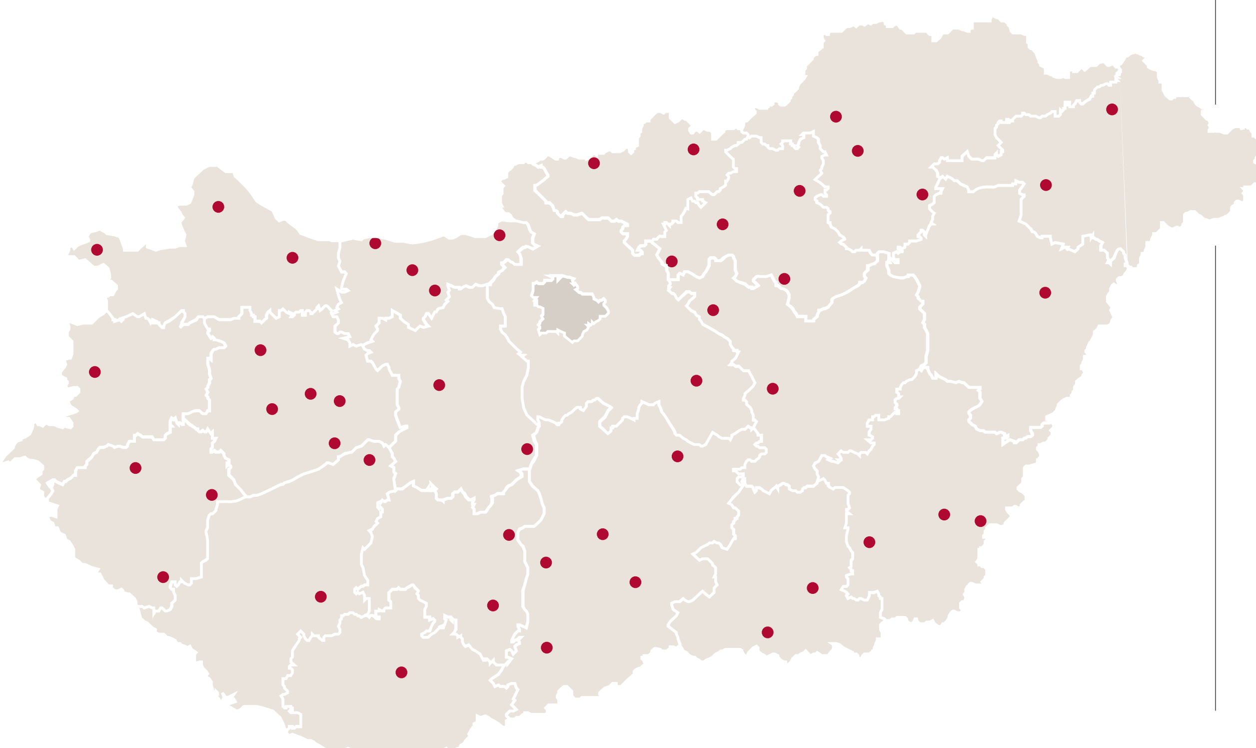


2010

# Branch Network of MKB Bank In Hungary

| Name | Address | Phone | Fax |
|---|---|---|---|
| Ajka | H-8400 Ajka, Csingeri út 2. | (00 36 88) 511-350 | (00 36 88) 511-379 |
| Baja | H-6500 Baja, Bartók B. u. 10. | (00 36 79) 521-330 | (00 36 79) 521-359 |
| Balassagyarmat | H-2660 Balassagyarmat, Kossuth L. u. 4-6. | (00 36 35) 501-340 | (00 36 35) 501-359 |
| Balatonfüred | H-8230 Balatonfüred, Kossuth L. út 9. | (00 36 87) 581-480 | (00 36 87) 581-499 |
| Békéscsaba | H-5600 Békéscsaba, Szabadság tér 2. | (00 36 66) 519-360 | (00 36 66) 519-379 |
| Cegléd | H-2700 Cegléd, Kossuth tér 8. | (00 36 53) 505-800 | (00 36 53) 505-819 |
| Debrecen | H-4024 Debrecen, Vár u. 6/C. | (00 36 52) 528-110 | (00 36 52) 528-119 |
| Debrecen - Piac u. | H-4025 Debrecen, Piac u. 81. | (00 36 52) 501-650 | (00 36 52) 417-079 |
| Dunaújváros | H-2400 Dunaújváros, Vasmű u. 4/B. | (00 36 25) 512-400 | (00 36 25) 512-429 |
| Eger | H-3300 Eger, Érsek u. 6. | (00 36 36) 514-100 | (00 36 36) 514-129 |
| Esztergom | H-2500 Esztergom, Bajcsy-Zsilinszky u. 7. | (00 36 33) 510-450 | (00 36 33) 510-479 |
| Gyöngyös | H-3200 Gyöngyös, Köztársaság tér 1. | (00 36 37) 505-460 | (00 36 37) 505-478 |
| Győr | H-9021 Győr, Bécsi kapu tér 12. | (00 36 96) 548-220 | (00 36 96) 548-259 |
| Győri Árkád | H-9027 Győr, Budai u. 1. | (00 36 96) 548-236 | (00 36 96) 548-249 |
| Gyula | H-5700 Gyula, Városház u. 18. | (00 36 66) 562-760 | (00 36 66) 562-779 |
| Hatvan | H-3000 Hatvan, Kossuth tér 4. | (00 36 37) 542-120 | (00 36 37) 542-139 |
| Herend | H-8440 Herend, Kossuth Lajos u. 140. | (00 36 88) 513-610 | (00 36 88) 513-618 |
| Heves | H-3360 Heves, Szerelem A. u. 11. | (00 36 36) 545-560 | (00 36 36) 545-569 |
| Hódmezővásárhely | H-6800 Hódmezővásárhely, Kossuth tér 2. | (00 36 62) 530-900 | (00 36 62) 530-909 |
| Jászberény | H-5100 Jászberény, Lehel vezér tér 16. | (00 36 57) 504-840 | (00 36 57) 504-849 |
| Kalocsa | H-6300 Kalocsa, Hunyadi János u. 47-49. | (00 36 78) 563-830 | (00 36 78) 563-859 |
| Kaposvár | H-7400 Kaposvár, Széchenyi tér 7. | (00 36 82) 527-940 | (00 36 82) 527-951 |
| Kazincbarcika | H-3700 Kazincbarcika, Egressy út 1/c. | (00 36 48) 510-700 | (00 36 48) 510-719 |
| Kecskemét | H-6000 Kecskemét, Katona József tér 1. | (00 36 76) 504-050 | (00 36 76) 504-053 |
| Keszthely | H-8360 Keszthely, Kossuth Lajos u. 23. | (00 36 83) 515-520 | (00 36 83) 515-529 |
| Kiskőrös | H-6200 Kiskőrös, Petőfi tér 2. | (00 36 78) 501-300 | (00 36 78) 501-319 |
| Kiskunhalas | H-6400 Kiskunhalas, Kossuth u. 3. | (00 36 77) 520-620 | (00 36 77) 520-625 |
| Kisvárda | H-4600 Kisvárda, Szt. László u. 51. | (00 36 45) 500-680 | (00 36 45) 500-689 |
| Komárom | H-2900 Komárom, Bajcsy-Zs. u.1. | (00 36 34) 541-060 | (00 36 34) 541-079 |
| Miskolc | H-3530 Miskolc, Széchenyi u. 18. | (00 36 46) 504-540 | (00 36 46) 504-545 |
| Miskolc Plaza, földszint | H-3525 Miskolc, Szentpáli u. 2-6. | (00 36 46) 504-580 | (00 36 46) 504-589 |
| Miskolc III. | H-3530 Miskolc, Corvin u. 8-10. | (00 36 46)504-550 | (00 36 46)412-663 |
| Mosonmagyaróvár | H-9200 Mosonmagyaróvár, Magyar u. 26-28. | (00 36 96) 577-400 | (00 36 96) 577-409 |
| Nagykanizsa | H-8800 Nagykanizsa, Erzsébet tér 8. | (00 36 93) 509-650 | (00 36 93) 509-661 |
| Nyíregyháza | H-4400 Nyíregyháza, Szarvas u. 11. | (00 36 42) 597-610 | (00 36 42) 597-611 |
| Orosháza | H-5900 Orosháza, Könd u. 38. | (00 36 68) 512-430 | (00 36 68) 512-439 |
| Paks | H-7030 Paks, Dózsa Gy. út 75. | (00 36 75) 519-660 | (00 36 75) 519-679 |

| Name | Address | Phone | Fax |
|---|---|---|---|
| Pápa | H-8500 Pápa, Kossuth u. 13. | (00 36 89) 511-770 | (00 36 89) 511-799 |
| Pécs | H-7621 Pécs, Király u. 47. | (00 36 72) 522-240 | (00 36 72) 522-255 |
| Salgótarján | H-3100 Salgótarján, Fő tér 6. | (00 36 32) 521-200 | (00 36 32) 521-209 |
| Siófok | H-8600 Siófok, Sió u.2 | (00 36 84) 538-150 | (00 36 84) 538-169 |
| Sopron | H-9400 Sopron, Várkerület 16. | (00 36 99) 512-920 | (00 36 99) 512-935 |
| Szeged | H-6720 Szeged, Kölcsey u. 8. | (00 36 62) 592-010 | (00 36 62) 592-029 |
| Székesfehérvár | H-8000 Székesfehérvár, Zichy liget 12. | (00 36 22) 515-260 | (00 36 22) 515-275 |
| Szekszárd | H-7100 Szekszárd, Garay tér 8. | (00 36 74) 505-860 | (00 36 74) 505-878 |
| Szolnok | H-5000 Szolnok, Baross u. 10-12. | (00 36 56) 527-510 | (00 36 56) 527-570 |
| Szombathely | H-9700 Szombathely, Szent Márton u. 4. | (00 36 94) 528-380 | (00 36 94) 528-362 |
| Tata | H-2890 Tata, Ady Endre u. 18. | (00 36 34) 586-730 | (00 36 34) 586-733 |
| Tatabánya | H-2800 Tatabánya, Fő tér 6. | (00 36 34) 512-920 | (00 36 34) 512-940 |
| Tiszaújváros | H-3580 Tiszaújváros, Építők útja 19. | (00 36 49) 505-680 | (00 36 49) 505-699 |
| Veszprém | H-8200 Veszprém, Óváros tér 3. | (00 36 88) 576-300 | (00 36 88) 576-302 |
| Zalaegerszeg | H-8900 Zalaegerszeg, Kossuth Lajos u. 22. | (00 36 92) 550-690 | (00 36 92) 550-695 |



2010

## Imprint


Publisher:
Dr. Adrienne Kraudi
Editor:
Dr. Pál Simák
Csaba Szekeres
Layout and photo:
robindesign.hu