STATEMENT

on the consolidated annual financial statements of 2011

and on the Report of the Management

Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)

and Act CXX of 2001 on the Capital Market

STATEMENT
on the consolidated annual financial statements of 2011
and on the Report of the Management
Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)

MKB Bank Zrt (hereinafter: Bank) declares concerning its consolidated annual financial statements – accepted by the Annual General Meeting of the Bank on April 25, 2012 and audited by an independent auditor - the following statement:

The Bank declares that the consolidated annual financial statements have been compiled in accordance with the applicable accounting rules. The consolidated annual financial statements compiled based on the best knowledge of the Bank's competent experts and decision making managers present a realistic and reliable picture on the assets, liabilities, financial position, as well as profits and losses of the Bank as an issuer of securities and of the consolidated enterprises.

The Bank declares furthermore that the consolidated Report of the Management provides a reliable picture of the position, situation, development and performance of the Bank as an issuer of securities and of the consolidated enterprises, and describes the key risks and uncertainty factors.

Budapest, 27. April 2012.

MKB Bank Zrt.

Dr Pál Simák
Chairmen & Chief Executive

Csaba Szekeres
Executive Director

KPMG Hungária Kft.
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Independent Auditors' Report

To the shareholders of MKB Bank Zrt.

Report on the Consolidated Financial Statements

We have audited the accompanying 2011 consolidated financial statements of MKB Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the consolidated statement of financial position as at 31 December 2011, which shows total assets of MHUF 2,943,961, the consolidated statement of comprehensive income, which shows loss for the year of MHUF 121,026, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG Hungária Kft., a Hungarian limited liability company and
a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.
Company registration: Budapest, Fővárosi Bíróság, no: 01-09-063183

KPMG

Opinion

We have audited the consolidated financial statements of MKB Bank Zrt., its components and elements and their documentary support in accordance with Hungarian National Standards on Auditing and gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MKB Bank Zrt. and its consolidated subsidiaries as of 31 December 2011, and of their consolidated financial performance and of the consolidated result of their operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 5 which describes that as at December 31, 2011 the Bank did not comply with the capital adequacy requirements set out in the Act CXII of 1996 on Credit Institutions and Financial Enterprises and the measures the Bank's shareholders have taken and plan to take to restore and maintain the Bank's compliance with these capital adequacy requirements in 2012.

Report on the Consolidated Business Report

We have audited the accompanying 2011 consolidated business report of MKB Bank Zrt.

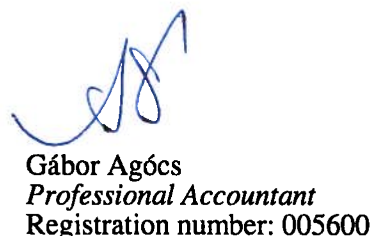
Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Act on Accounting and accounting principles generally accepted in Hungary. Our responsibility is to assess whether this consolidated business report is consistent with the 2011 consolidated annual report. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated annual report, and did not include a review of any information other than that drawn from the audited accounting records of the Company.

In our opinion, the 2011 consolidated business report of MKB Bank Zrt. is consistent with the data included in the 2011 consolidated annual report of MKB Bank Zrt.

Budapest, 20th March 2012

KPMG Hungária Kft.
Registration number: 000202

Robert Stöllinger
Partner



Gábor Agócs
Professional Accountant
Registration number: 005600

M K B B a n k Z r t.
G r o u p

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statistic code

Consolidated Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 20 March, 2012

December 31, 2011

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MKB Bank Zrt.
Consolidated Statement of Financial Position as at December 31, 2011

	Note	2011	2010
Assets			
Cash reserves	**6**	321 677	222 442
Loans and advances to banks	**7**	85 052	75 780
Trading assets	**8**	57 648	43 787
Derivative assets held for risk management	**9**	-	-
Investments in securities	**10**	288 925	253 237
Loans and advances to customers	**11**	1 994 633	2 177 770
Assets from discontinued operations as held for sale	**42**	73 889	-
Other assets	**12**	32 681	27 007
Goodwill	**13**	-	26 224
Deferred tax assets	**26**	4 079	9 465
Investments in jointly controlled entities and associates	**14**	8 459	11 750
Intangibles, property and equipment	**15**	76 918	91 726
Total assets		**2 943 961**	**2 939 188**
Liabilities			
Amounts due to other banks	**16**	977 326	965 684
Current and deposit accounts	**17**	1 463 472	1 467 245
Trading liabilities	**18**	33 463	29 692
Derivative liabilities held for risk management	**19**	262	276
Liabilities of discontinued operations as held for sale	**42**	68 994	-
Other liabilities and provisions	**20**	30 856	26 476
Deferred tax liability	**26**	5 868	2 480
Issued debt securities	**21**	171 145	144 701
Subordinated debt	**22**	108 486	96 561
Total liabilities		**2 859 872**	**2 733 115**
Equity			
Share capital	**23**	20 733	20 733
Reserves	**24**	56 762	178 805
Total equity attributable to equity holders of the Bank		**77 495**	**199 538**
Non-controlling interests	**25**	6 594	6 535
Total equity		**84 089**	**206 073**
Total liabilities and equity		**2 943 961**	**2 939 188**

Budapest, 20 March, 2012

Tamás Erdei
Chairman & Chief Executive

MKB Bank Zrt.
Consolidated Statement of Comprehensive Income for the year ended December 31, 2011

	Note	2011	2010
Income statement:			
Interest income	**27**	168 792	176 564
Interest expense	**28**	91 765	90 105
Net interest income		**77 027**	**86 459**
Net income from commissions and fees	**29**	14 060	19 431
Other operating income / (expense)	**30**	6 696	(4 917)
Impairments and provisions for losses	**31**	126 363	136 167
Operating expenses	**32**	74 703	67 157
Share of jointly controlled and associated companies' profit / (loss) before taxation		(997)	(935)
Profit /Loss before taxation		**(104 280)**	**(103 285)**
Income tax expense	**33**	11 731	(10 417)
Profit / Loss for the year from continuing operation		**(116 011)**	**(92 868)**
Profit for the year from discontinued operation	**42**	(5 015)	(15 296)
PROFIT / LOSS FOR THE YEAR		**(121 026)**	**(108 165)**
Other comprehensive income:			
Share of other comprehensive income of joint-ventures and associates		-	56
Revaluation on AFS financial assets	**10**	(3 988)	(9 228)
Revaluation of equity put option	**24**	(4 166)	-
Exchange differencies on translating foreign operations		7 091	1 649
Other comprehensive income for the year net of tax		**(1 064)**	**(7 523)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(122 090)**	**(115 688)**
Profit attributable to:			
Profit for the period from continuing operation		(116 231)	(92 359)
Profit for the period from discontinued operation		(4 561)	(13 887)
Shareholders of the bank		**(120 792)**	**(106 246)**
Profit for the period from continuing operation		220	(510)
Profit for the period from discontinued operation		(454)	(1 409)
Non-controlling interests		**(234)**	**(1 919)**
Total comprehensive income attributable to:			
Total comprehensive income from continuing operation		(118 337)	(100 204)
Total comprehensive income from discontinued operation		(4 068)	(13 713)
Shareholders of the bank		**(122 405)**	**(113 917)**
Total comprehensive income from continuing operation		720	(381)
Total comprehensive income from discontinued operation		(405)	(1 391)
Non-controlling interests		**315**	**(1 772)**
Net income available to ordinary shareholders		(120 792)	(106 246)
Average number of ordinary shares outstanding *(thousands)*		20 733	15 635
Earnings per Ordinary Share *(in HUF)*	**34**		
Basic		(5 826)	(6 795)
Fully diluted		(5 826)	(6 795)
Dividend per Ordinary Share *(in HUF)*		-	-

Budapest, 20 March, 2012

Tamás Erdei
Chairman & Chief Executive

MKB Bank Zrt.
Consolidated Statement of Changes in Equity for the year ended December 31, 2011

	Note	Share capital	Share premium	Translation of foreign operations	Retained earnings	Revaluation on AFS financial assets	Revaluation of equity put option	Non-controlling interests	Total equity
At 1 January 2010		**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)**
Profit for the year		-	-	-	(106 246)	-	-	(1 919)	**(108 165)**
Other comprehensive income for the year		-	-	1 526	57	(9 252)	-	147	**(7 524)**
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**	**206 074**
Issue of share capital and share premium	**23, 24**	-	-	-	-	-	-	347	**347**
Dividend for the year 2010		-	-	-	(39)	-	-	(203)	**(242)**
Profit for the year		-	-	-	(120 792)	-	-	(234)	**(121 026)**
Other comprehensive income for the year		-	-	6 767	-	(3 979)	(4 166)	315	**(1 063)**
First / (final) consolidation of subsidiaries		-	-	-	-	-	-	-	**-**
Change in non-controlling interests during the period		-	-	-	167	-	-	(167)	**-**
At 31 December 2011		**20 733**	**184 089**	**3 331**	**(114 095)**	**(12 397)**	**(4 166)**	**6 594**	**84 089**

Budapest, 20 March, 2012

Tamás Erdei
Chairman & Chief Executive

MKB Bank Zrt.
Consolidated Statement of Cash Flows for the year ended December 31, 2011

	Note	2011	2010
Cash flows from operating activities			
Profit / Loss before taxation		**(104 280)**	**(117 821)**
Adjustments for:			
Depreciation, amortisation and impairment	**15**	18 681	11 021
Impairment on other assets	**12, 13**	30 986	16 570
Provisions for off-BS items	**20**	1 620	4 406
Impairment on financial assets (loans Customers)	**7, 11**	79 477	117 047
Impairment on AFS securities	**10**	883	(4)
Impairment on jointliy controlled entities (GW)	**14**	1 527	-
Deferred tax movement	**33**	8 774	(10 158)
Net Interest income		(54 365)	(45 829)
Dividends on available for sale securities		(75)	(131)
Foreign Exchange movement	**7, 11, 13, 15, 20, Change in Equity**	14 896	2 739
		(1 876)	(22 160)
Change in loans and advances to banks (gross amounts)	**7**	(8 956)	(10 238)
Change in loans and advances to customers (gross amounts)	**11**	104 630	(24 365)
Change in trading assets	**8**	(13 861)	(418)
Change in AFS securities (without revaluation and impairment)	**10**	(40 559)	90 002
Change in other assets (gross amounts)	**12**	(7 237)	9 143
Change in amounts due to banks	**16**	11 642	(177 195)
Change in current and deposit accounts	**17**	(3 773)	61 248
Change in other liabilities and provisions (without provision charge of the year)	**20**	2 820	(12 000)
Change in trading liabilities	**18**	(409)	9 673
Interest received		132 706	131 765
Interest paid		(78 340)	(85 936)
Dividends received		75	130
Income tax paid		(11 731)	9 656
		87 007	1 465
Net cash used in operating activities		**85 131**	**(20 695)**
Cash flow from investing activities			
Investment in group companies	**10, 13, OCI**	1 764	(335)
Disposals of group companies	**10, 13**	-	-
Purchase of property and equipment	**15**	(4 585)	(8 254)
Disposals of property and equipment	**15**	16 419	445
Purchase of intangible assets	**15**	(21 219)	(6 869)
Disposals of intangible assets	**15**	3 335	4 328
Net cash used in investing activities		**(4 286)**	**(10 685)**
Cash flow from financing activities			
Increase in issued securities	**21**	26 444	5 121
Increase in subordinated liabilities	**22**	11 925	(8 023)
Issuance of new shares and proceeds from share premium	**23, 24**	347	69 860
Dividend paid	**Change in equity**	(242)	(128)
Net cash from financing activites		**38 474**	**66 830**
Net increase/decrease of cash and cash equivalents		**119 319**	**35 450**
Cash reserves at 1 January	**6**	**222 442**	**185 687**
FX change on cash reserve		250	1 305
Discontinued operation		(20 334)	-
Cash reserves at December 31	**6**	**321 677**	**222 442**

Budapest, 20 March, 2012

Tamás Erdei
Chairman & Chief Executive

Notes to the Financial Statements

(from page 8 to page 96)

1 General information

MKB Bank Zrt. ("MKB" or "the Bank") is a commercial bank domiciled in Hungary, organised under the laws of Hungary and registered under the Hungarian Banking Act. The address of MKB is Váci u. 38., HU-1056 Budapest, Hungary.
The consolidated financial statements of the Bank as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group conducts its domestic and cross-border financial services businesses through banking and non-banking subsidiaries. For further information on consolidated subsidiaries please see Note 39.
MKB is a member of the BayernLB Group, domiciled in Germany. The address of BayernLB's Head Office is Brienner Str. 18, D-80333 Munich, Germany.

2 Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

IFRSs comprise accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

These financial statements are presented in Hungarian Forint (HUF), rounded to the nearest million, except if indicated otherwise. These financial statements were authorised for issue by the Board of Directors on 20 March, 2012.

3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value through other comprehensive income
- Other financial instruments are measured at amortised cost

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 36.

4 Summary of significant accounting policies

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

a, Financial statement presentation

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

b, Consolidation

Subsidiaries

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

Special purpose entities

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

Funds management

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

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised

losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c, Investments in jointly controlled entities and associated companies

Jointly controlled entities

Where the Group is a party to a contractual arrangement whereby, together with one or more parties, it undertakes an economic activity that is subject to joint control, the Group classifies its interest in the venture as a joint venture. Jointly controlled entities are included in the consolidated financial statements using equity method of accounting, from the date that joint control effectively commences until the date that joint control effectively ceases. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the Group's share of net assets.

Associates

MKB classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates. For the purpose of determining this classification, control is considered to be the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Associates are accounted for under the equity method of accounting except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case it is accounted for under the cost method. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in MKB's share of net assets. For consolidation purpose MKB uses financial statements of an associate within a three months limit if the reporting period of the entity is different as at the end of year.

Profits on transactions between MKB and its associates and joint ventures are eliminated to the extent of MKB's interest in the respective associates or joint ventures. Losses are also eliminated to the extent of MKB's interest in the associates or joint ventures unless the transaction provides evidence of an impairment of the asset transferred.

A list of the Group's significant jointly controlled and associated companies is set out in Note 14.

d, Intangible assets

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

Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries, and on the acquisition of interests in joint ventures and associates, when the cost of acquisition exceeds the fair value of Group's share of the identifiable assets, liabilities and contingent liabilities acquired. If Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost of acquisition, the excess is recognised immediately in the statement of comprehensive income.

Goodwill was amortised over five years using the straight-line method till the end of 2004. From 2005, goodwill is not amortised but annually tested for impairment.

For the purpose of impairment testing, goodwill is allocated to one or more of the Group's cash-generating units, that are expected to benefit from the synergies of the business combination, irrespective whether other assets or liabilities are assigned to them. Impairment testing is performed at least annually, and whenever there is an indication that the cash-generating unit may be impaired, by comparing the present value of the expected future cash flows from a cash-generating unit with the carrying amount of its net assets, including attributable goodwill. Goodwill is stated at cost less accumulated impairment losses. Impairment losses recognized for goodwill are charged to the statement of comprehensive income and are not reversed in a subsequent period.

Goodwill on acquisitions of interests in joint ventures and associates is included in ‘Investments in jointly controlled entities and associates’.

At the date of disposal of a business, attributable goodwill is included in the Group’s share of net assets in the calculation of the gain or loss on disposal. For further details on the assumptions used in the calculation, please see Note 13.

Other intangible assets

Intangible assets that have a finite useful life are measured initially at costs and subsequently carried at costs less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their estimated useful lives not exceeding 15 years - except of the base system, which has a licence until 2026 - from the date when the asset is available for use, applying the straight-line method.

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. This impairment test may be performed at any time during the year, provided it is performed at the same time every year. An intangible asset recognised during the current period is tested before the end of the current year.

Expenditure on internally developed intangible asset (software) is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

e, Property, plant and equipment

Items of property and equipment including leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The estimated useful lives of property, plant and equipment are as follows:

- freehold land is not depreciated;
- components of freehold buildings are depreciated over 0-100 years
- leasehold buildings are depreciated over the unexpired terms of the leases, or over their remaining useful lives.

The estimated residual value of some of the buildings is higher than the book value and therefore not depreciated.

Equipment, fixtures and fittings (including equipment on operating leases where MKB Group is the lessor) are stated at cost less any impairment losses and depreciation calculated on a straight-line basis to write off the assets over their useful lives, which run to a maximum of 20 years but are generally between 5 years and 10 years.

Depreciation of property, plant and equipment are included in „Operating expenses" line in statement of comprehensive income.

Property, plant and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Net gains and losses on disposal or retirement of property and equipment are included in other income, in the year of disposal or retirement.

f, Cash reserve

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

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

g, Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the initial fair value will be based on other observable current market transactions in the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading gain or loss on inception of the financial instrument. When unavailable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the statement of comprehensive income but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Group enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by

using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For financial instruments, fair values may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Positive fair values of OTC derivative instruments are adjusted with counter party risk revaluation. If the counterparty has a rating worse than 11 the the positive fair value shall be adjusted by PD, and the adjustment shall be recognized in gains or loss. Where a portfolio of financial instruments has quoted prices in an active market, the fair value of the instruments are calculated as the product of the number of units and quoted price and no block discounts are made.

If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset.

The fair values of financial liabilities are measured using quoted market prices where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the Group's liabilities.

h, Loans and advances to banks and customers

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

i, Impairment of loans and advances

At the end of each reporting period the Group assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

Individually assessed loans and advances

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

Collectively assessed loans and advances

Impairment is assessed on a collective basis for homogeneous groups of loans that are not considered individually significant.

Loans not assessed on an individual basis, or where the individual assessment resulted in no specific provision, are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. However, losses in these groups of loans are recorded on an individual basis when loans are written off, at which point they are removed from the group.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked

Renegotiated loans

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

Write-off of loans and advances

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

Reversals of impairment

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

Assets acquired in exchange for loans

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

j, Trading assets and trading liabilities

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

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

k, Financial instruments designated at fair value

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

Long-term deposit

The interest payable on certain fixed rate long-term deposits from investment funds has been matched with the interest on 'receive fixed/pay variable' interest rate swaps and cross-currency swaps as part of a documented interest rate risk and FX risk management strategy. An accounting mismatch would arise if the deposits were accounted for at amortised cost,

because the related derivatives are measured at fair value with changes in the fair value recognised in the statement of comprehensive income. By designating the long-term deposits at fair value, the movement in the fair value of the long-term deposits is also be recognised in the Statement of comprehensive income.

Structured Bonds

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

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

l, Investments in securities

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value (Note 4 k,), are classified as available-for-sale. The held to maturity category is not applied at the Group level. Financial investments are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in equity in the ‘Revaluation reserve’ (Note 24) until the securities are either sold or impaired. When available-for sale securities are sold, cumulative gains or losses previously recognised in equity are recognised in the statement of comprehensive income as “Other operating income”.

At the end of each reporting period an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset or group of assets. This usually arises when circumstances are such that an adverse effect on future cash flows from the asset or group of assets can be reliably estimated. If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset’s acquisition cost (net of any principal repayments and amortisation) and its current fair value, less any impairment loss on that asset previously recognised in the statement of comprehensive income) is removed from equity and included in the statement of comprehensive income. In case of impaired government bonds, the carrying amount can not be reduced more than its nominal amount, except the entity intends to sell it in the near future, or the government shall be regarded as insolvent by EU common policies.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any

subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

m, Derivatives

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the statement of comprehensive income.

Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

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

Equity put options shall be checked before evaluation whether the non-controlling interest (NCI) has an access to the future economic benefit and they can practice its owner rights. If NCI have present access to the ownership benefits that are subject to the put option on initial recognition of the liability, the debit entry is to a separated equity element. Subsequent to initial recognition changes in the fair value of an NCI put liability shall be recognized in other comprehensive income. Gains or losses from currency translation shall be recognized directly in currency translation reserve of foreign operation. This application of this method has no impact on the “normal” accounting treatment of NCI.

n, Hedge accounting

As part of its asset/liability management activities, the Group uses interest rate swaps and cross currency interest rate swaps, to hedge existing foreign currency and interest rate exposures. A hedging relationship qualifies for special hedge accounting if, and only if, all of the following conditions are met:

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

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

Fair value hedge

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

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

Hedge effectiveness testing

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

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

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

o, Derecognition of financial assets and liabilities

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

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

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

p, Offsetting financial assets and financial liabilities

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

q, Finance and operating leases

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

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

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

r, Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

The Group carries some deposits, debt securities and subordinated liabilities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (Note 4 k,).

s, Provisions

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

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

t, Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they arise in the same entity and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

Deferred tax relating to fair value remeasurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is

subsequently recognised in the statement of comprehensive income when the deferred fair value gain or loss is recognised in the statement of comprehensive income.

u, Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading and kept in trading book are recognised in 'Interest income' and 'Interest expense' in the statement of comprehensive income using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income is recognised on available-for-sale securities using the effective interest rate method, calculated over the asset's expected life. Dividends are recognised in the statement of comprehensive income when the right to receive payment has been established.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

v, Fees and commission

Fee and commission income is accounted for as follows:

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

w, Other income

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

x, Dividends

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

y, Employee benefits

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

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

z, Segment reporting

MKB formed its reporting segments in line with IFRS 8 “Operating Segments” which requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision-maker, in order to allocate resources to a segment and to assess its performance.

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Group allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm’s length terms and conditions. Please find further details on segment reporting in Note 41.

aa, Foreign currencies

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’).

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition and equity put options, are translated to HUF at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to HUF at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity, in the Currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

ab, Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

ac, Share capital

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

ad, Earnings per share

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

ae, New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements:

IFRS 9 – Financial Instruments was issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard will be effective for annual periods beginning on or after 1 January 2013, however it will be mandatory for the Group's consolidated financial statement after EU adoption. The Group will analyse the potential impact after IFRS 9 adoption by the EU.

IAS 8 – Transfers of Financial Asset requires disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities;
- and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The amendments are applicable for annual periods beginning on or after 1 July 2011, however early adoption is permitted.

The Group does not expect the amendments to IFRS 7 to have material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds.

5 Risk management

a, Introduction and overview

All the Group's activities involve some degree of risk assumption. The measurement, evaluation, acceptance and management of these risks are integral parts of the Group's daily operative activity.

Risk management is an integral part of the Group's operations and a crucial component of its business and overall financial performance. The MKB Group's risk management framework has been designed to foster the continuous monitoring of the changes of the risk environment and is supported by the strong commitment to a prudent risk management culture both on the strategy and business line levels.
The main principles and priorities of the Group's risk management function include the ultimate oversight by the Board of Directors (the approval of the Supervisory Board is also required for some specifically defined risk decisions), the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, limitation, monitoring and reporting of all risks. Decisions in respect of major

risk principles are approved at group level, and are implemented individually by the own decision making boards of the Group members.

The effective communication on risk and risk appetite, the on-going initiatives to better identify, measure, monitor and manage risks, the improvement of efficiency, user-friendliness and awareness of key risk processes and practices, and the employment of highly-skilled staff are the bases of running an effective risk management function in the Group.

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

- credit risk :
  The risk of lending comprises the potential risk of the business partner failing to fulfil its payment obligations or failing to do so on time as well as the risk of the value of the receivable diminishing because the business partner's credit rating decreases. Risks stemming from loans or other loan type commitments extended to associated enterprises are also included in the Bank's credit risk managing mechanism.

- country risk:
  The country risk generally refers to a potential loss triggered by an economic, political or other event which takes place in the particular country and cannot be controlled by MKB, as creditor or investor. As a result of such an event(s), the obligor cannot fulfil his obligation in time or at all, or the Bank is unable to enforce its rights against the obligor. The components of the country risk are transfer risk, sovereign risk and collective debtor risk.

- participations risk:
  The participations risk is defined as the risk related to the following events:
  - Potential losses from providing equity / equity akin financial products or subordinated loan capital; This involves potential losses realised during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment
  - Potential losses from a possible commitment/liability extended in addition to equity investment (i.e. profit/loss transfer agreements), letters of comfort, capital contribution commitments, additional funding obligations)
  - potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.

- market risks (including foreign exchange and interest rate risks):
  Market price risk comprises potential losses from changes in market prices in both the trading and banking books.

- liquidity risk:
  MKB defines liquidity as the ability to serve its payment obligations entirely as they fall due and to fund new business at all times without having to accept unplanned liquidation losses on the asset side or increased refinancing rates on the funding side.

- operational risks:
  Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk does not include business and reputational risks.

- legal risk:
  Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law or a delay in reacting to changes in legal framework conditions (including non-observance which is unavoidable or not attributable to one's own fault).

- reputational risk:
  Reputational risk is defined as the risk of a bank's reputation falling short of expectations, reputation being a bank's public image in terms of its competence, integrity and reliability as perceived by groups with a legitimate interest.

- real estate risk:
  Real estate risk covers potential losses that could result from fluctuations in the market value of real estate owned by MKB Group. Real estate risks arising from collateral provided for real estate loans are covered under credit risk.

- strategic risk:
  Strategic risk is defined as the negative impact on capital and income of business policy decisions, deficient or unsatisfactory implementation of decisions, or slow adjustment to changes in the economic environment.

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

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

b, Risk management governance

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, including approving the Risk Strategy (requiring final approval by the Supervisory Board), the relating policies and guidelines, and the monitoring activities relating to risks the Group exposed to.

The Group's Risk Strategy was set up in consistence with the Business Strategy, the regulations of the Hungarian Financial Supervisory Authority and BayernLB group standards. The tasks incorporated in the Risk Strategy aim at ensuring a balanced risk/return relationship, development of a disciplined and constructive control environment, defining the Bank's risk assumption willingness, risk appetite and the ongoing ability of the Group to manage its risks and the maintenance of its funds to cover risk exposures in the long term. This will also ensure the capital preservation and guarantee the solvency of the Group at any time. It defines the targets of the risk management of the Group's main business activities including mid-term planning, thus providing the annual profit and risk planning framework.

The directions incorporated in the Risk Strategy are specified in internal policies and instructions that must be adhered to in order to achieve the Risk Strategy goals and targets. The Risk Strategy is approved by the Supervisory Board.

The **Supervisory Board** on the highest level controls the harmonised and prudent operation of the Bank and the credit institutions, financial enterprises and investment companies under its controlling influence.
The Supervisory Board controls the management of the company, and steers the company's internal audit organisation. It analyses the regular and ad-hoc reports prepared by the Board of Directors, and exercises a right of approval with regards to certain risk decisions to be made by the Board of Directors as specified in the relevant regulation.

The **Risk Committee** of the Supervisory Board primarily performs tasks in portfolio-level risk supervision. It makes decisions related to the important developments and events affecting the risk position, as well as the tasks related to the comprehensive implementation of group-level risk management principles and guidelines, and checks the status of these. In this framework, the Committee evaluates the reports of the Board of Directors on risk management makes a decision on the risk relevant topics and findings of internal, external and regulatory audits.

It also reviews in advance and prepares for the Supervisory Board's approval the Risk Strategy and inclusive the country, industrial sector and product limit(s).

The **Board of Directors** is the company's operative managing body, it carries out management-related tasks and ensures the keeping of the company's business books in compliance with the regulations. Certain decisions of the Board of Directors of key importance require the approval of the Supervisory Board. Its most important tasks include:

- Tasks related to the general meeting, shares and dividend.
- Tasks related to the company's organisation and scope of activities.
- Tasks related to strategic planning (preparation of the business policy and financial plan, and risk strategy).
- Regulation tasks:
  - Approves the policies and regulations related to risk assumptions.
  - Prepares the Risk Decision Competence Regulation.

- Decision-making related to individual business deals.
- Evaluation of regular and ad-hoc risk reports.

The **Special Credit Committee** is the bank's organisation with the highest level risk decision authority regarding the customers handled by the Special Credits Unit (SCU), whose decision-making competency is extended to the following:

- Special credit decisions on deals handled by the SCU according to the Risk Decision Competence Regulation;
- Decision making on measures, becoming necessary to introduce with regards to the SCU portfolio exposures, based on the quarterly and other risk reports.

Committees made up by the Bank's managers can be found on the middle level of risk management.

The **LLP Committee** has the competence to make decisions on provisioning, within the frames of the Problematic Exposures and Provisioning Policy and the Risk Decision Competence Regulation.

The **Advisory Committee** is the permanent committee of Bayerische Landesbank (BayernLB), which, in order to ensure the group-level risk control of BayernLB, supports the decision-making of the Bank's decision-making bodies through the formulation of recommendations of non-binding effect for risk decisions above a certain value limit, and for risk reports and risk strategies.

The **Risk-Market Board** is the bank's permanent body with the highest delegated decision-making authority under the Board of Directors. This body has the authority to make decisions on credits case-by-case according to the Risk Decision Competence Regulation.

The **Credit Committees** are the bank's permanent bodies vested with delegated decision-making competences.
The competency of the *Wholesale and Retail Credit Committee* includes the making of case-by-case credit decisions according to the Risk Decision Competence- Regulation.

ALCO is responsible for the asset and liability management and for the management of the Group's liquidity, funding, capital adequacy and market risks. ALCO is responsible for the elaboration of policies in principle for the management of liquidity risk, interest rate risk, exchange rate risk (foreign exchange and securities), capital adequacy risk, and the submission of this policy to the Board of Directors at MKB and Group level. Such high level policies must include the following:

- measurement guidelines and limit system for the above risks;
- competence and decision-making mechanism;
- guideline for managing limit excess.

c, Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from the Group's lending, trade finance and leasing business, but also from certain off-financial position products such as guarantees, and from assets held in the form of debt securities.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk management

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

- Formulating the Group member's credit policy in consultation with business units by establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk.

- Establishing the authorisation structure for the approval and renewal of credit facilities. In order to establish an adequate credit decision-making system in which decisions are made on time, the limit amounts are established differently according to the customer segment, the customer quality and the business line, for the delegated

credit decision authorities and the boards and individual decision-makers of the Business and Risk Units.

- Monitoring the performance and management of retail and wholesale portfolios across the Group.

- Supervising the management of exposures to debt securities by establishing controls in respect of securities held for trading purposes.

- Establishing and maintaining the Group members' concentration risk management policies ensuring that the concentration of exposure does not exceed the limits stated in the internal and regulatory limit systems and concentration risks are effectively managed without any need for additional capital requirements if possible.

- Developing and maintaining the Group members' risk assessment systems in order to categorise the exposures according to the degree of the risk of financial loss faced and to manage the existing risks adequately. The purpose of the risk assessment system is to define when impairment provisions may be required against specific credit exposures. The risk categorisation system consists of several grades which reflect sufficiently the varying degrees of risk of default and the availability of collateral or other credit risk mitigation options with regard to a specific exposure (see Credit rating system subchapter).

- Providing position statements, guidance and professional support to the business units of the Group members in credit risk management.

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

In order to comply with the prudential requirements, MKB Bank developed its borrower group forming concept, in harmony with the relevant prescriptions of BayernLB. As part of that, the forming of Economic Groups in compliance with the BayernLB group level requirements is to be highlighted as well as the introduction of the borrower group-level monitoring concept as of 1 February 2011. According to the new processes, the complete risk assumption process must be executed at the level of borrower groups: in the case of the individual groups the limit proposal and monitoring process for each individual group members takes place at the same time based on the collective analysis and consideration of risks.

In 2010 and 2011 MKB Bank further strengthened the management of concentration risks. In addition to the group-level concentration risk management process (Klumpensteuerung) introduced as of 1 June 2009, the global concept of concentration risk limits was also put into place. As part of that, the Bank set up sector and product limits, in order to restrain the assumption of further risks arising from the characteristics/risks rooted in different sectors and the assumption of risks of products representing high or special risk. Aiming at avoiding high risk concentration within the portfolio, the concentration risk limit value has been established for the total bank portfolio, with the stipulation that the limits of the individual customers/customer groups may exceed this target value only in extraordinary and justified

cases, based exclusively on the strategic guidelines approved by the Supervisory Board and on the relevant decision by the Board of Directors. With regards to the management of concentration risks, MKB Bank fulfils the BayernLB Group requirements on the limitation of concentration risks.

As a reaction to the extended economic crisis, the Bank launched the operation of the Special Credits Unit (SCU) as of 19 September 2011 according to the decision of BayernLB and the MKB Bank Supervisory Board made on 14 July 2011. The key task of the unit is to mitigate the exposure of the riskful portfolio within its management, in harmony with the objectives of the Bank's risk strategy so that the Bank may focus its resources efficiently to active growth in the segments of basic strategic priority.
This organisational unit manages the Bank's real estate financing portfolio and provides services for a narrow circle of special corporate customers selected based on a defined system of criteria, embracing the normal, intensive and problem loan treatment of these deals. The unit management comprises all business and risk tasks related to the customers rendered into their competency. Their activities are also supported by a methodological group and a team of legal experts.

The table below shows the Group's exposure classified as credit risk at the end of the reporting period:

5.1

2011	Cash on hand	Loans and advances to Banks	Loans and advances to customer	Investment in debt securities	Derivative assets	OFF B/S exposures
Individually assessed						
Performing	-	-	150 926	-	-	2 343
Substandard	-	-	96 651	-	-	1 075
Doubtful	-	-	109 260	-	-	1 093
Bad	-	20	182 771	-	-	4 676
Total individually assessed gross amount	-	20	539 608	-	-	9 187
Total individually assessed allowance for impairment	-	(18)	(221 999)	-	-	(4 965)
Total individually assessed carrying amount	**-**	**2**	**317 609**	**-**	**0**	**4 222**
	0	0	0	0	0	0
Collectively assessed	0	0	0	0	0	0
Performing	-	29 264	1 169 069	-	-	372 339
Substandard	-	-	85 329	-	-	25
Doubtful	-	-	1 065	-	-	2
Bad	-	-	1 821	-	-	0
Total collectively assessed gross amount	-	29 264	1 257 284	-	-	372 366
Total collectively assessed allowance for impairment	-	(114)	(27 275)	-	-	(2 388)
Total collectively assessed carrying amount	**-**	**29 150**	**1 230 009**	**-**	**0**	**369 978**
	0	0	0	0	0	0
Past due but not assessed	0	0	0	0	0	0
Performing	-	-	20 650	-	-	-
Substandard	-	-	5 003	-	-	-
Doubtful	-	-	2	-	-	-
Bad	-	-	905	-	-	-
Total past due but not assessed carrying amount	**-**	**-**	**26 560**	**-**	**-**	**-**
Past due comprises:	0	0	0	0	0	0
up to 30 days	-	-	4 981	-	-	-
30 to 90 days	-	-	9 031	-	-	-
over 90 days	-	-	12 548	-	-	-
Total past due but not assessed carrying amount	**-**	**-**	**26 560**	**-**	**-**	**-**
	0	0	0	0	0	0
Neither past due nor assessed	0	0	0	0	0	0
Performing	321 677	55 900	419 334	288 738	22 785	29 405
Substandard	-	-	588	-	-	68
Doubtful	-	-	470	187	-	126
Bad	-	-	63	-	-	625
Total neither past due nor assessed carrying amount	**321 677**	**55 900**	**420 455**	**288 925**	**22 785**	**30 224**
Includes receivables with renegotiated terms					0	0
					0	0
Total gross amount	**321 677**	**85 183**	**2 243 907**	**288 925**	**22 785**	**411 778**
Total allowance for impairment	**-**	**(131)**	**(249 274)**	**-**	**0**	**(7 354)**
Total carrying amount	**321 677**	**85 052**	**1 994 633**	**288 925**	**22 785**	**404 424**

5.2

2010	Cash on hand	Loans and advances to Banks	Loans and advances to customer	Investment in debt securities	Derivative assets	OFF B/S exposures
Individually assessed						
Performing	-	-	231 759	-	-	5 529
Substandard	-	-	89 837	-	-	3 749
Doubtful	-	-	98 325	-	-	1 356
Bad	-	17	151 041	-	-	1 892
Total individually assessed gross amount	-	17	570 962	-	-	12 526
Total individually assessed allowance for impairment	-	(17)	(169 175)	-	-	(3 648)
Total individually assessed carrying amount	**-**	**-**	**401 787**	**-**	**-**	**8 878**
Collectively assessed						
Performing	2	40 788	1 280 582	-	-	415 442
Substandard	-	-	69 432	-	-	52
Doubtful	-	-	4 877	-	-	-
Bad	-	-	8 506	-	-	23
Total collectively assessed gross amount	2	40 788	1 363 397	-	-	415 517
Total collectively assessed allowance for impairment	-	(430)	(30 379)	-	-	(2 442)
Total collectively assessed carrying amount	**2**	**40 358**	**1 333 018**	**-**	**-**	**413 075**
Past due but not assessed						
Performing	-	-	835	-	-	88
Substandard	-	-	18	-	-	-
Doubtful	-	-	61	-	-	-
Bad	-	-	58	-	-	-
Total past due but not assessed carrying amount	**-**	**-**	**972**	**-**	**-**	**88**
Past due comprises:						
up to 30 days	-	-	706	-	-	89
30 to 90 days	-	-	12	-	-	-
over 90 days	-	-	254	-	-	-
Total past due but not assessed carrying amount	**-**	**-**	**972**	**-**	**-**	**89**
Neither past due nor assessed						
Performing	222 440	35 422	441 989	253 237	15 298	20 560
Substandard	-	-	2	-	-	44
Doubtful	-	-	2	-	-	-
Bad	-	-	-	-	-	62
Total neither past due nor assessed carrying amount	**222 440**	**35 422**	**441 993**	**253 237**	**15 298**	**20 666**
Includes receivables with renegotiated terms						
Total gross amount	**222 442**	**76 227**	**2 377 324**	**253 237**	**15 298**	**448 797**
Total allowance for impairment	**-**	**(447)**	**(199 554)**	**-**	**-**	**(6 090)**
Total carrying amount	**222 442**	**75 780**	**2 177 770**	**253 237**	**15 298**	**442 707**

Credit classification system

The Group's credit risk classification systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. For individually significant accounts, classifications are reviewed regularly and amendments, where necessary, are implemented at least quarterly in terms of provisions or exposure classification. If based on information available significant (over HUF 25 M) change of the provision amount is estimated, intra-quarter review must be carried out for the given customer. Exposures below specific amounts are assessed in groups, in relation to which the provisions are reviewed at least yearly or, more frequently if required, in line with the changes of the main economic conditions. Within the framework of individual valuation, the Group uses the following classification categories:

- Pass
- Special mention
- Substandard
- Doubtful
- Loss

In classification based on group assessment, the following three categories are applied:

- Pass
- Special mention
- Non-performing

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

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

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

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

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

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

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

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

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

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

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

The possible types of exposure handling are: normal, intensive and problematic. The type of exposure handling is determined by a set of criteria defined in internal regulation based on

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

Clients in normal, intensive and also in problematic treatment may be managed by the newly established Special Credit Unit.
In case of Wholesale clients, intensive care may be ensured either as the task of the originally competent Business and Risk Units (also executing normal management) or of its specialized intensive care units, depending on the volume of the exposure and the type of the problem

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

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

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

Impaired loans and securities, off-balance sheet items with provision allocated

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

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

In determining the provision of off-balance sheet items, for items subject to individual assessment, the probability of the potential losses is taken into account.

Individually allocated impairment and provision

In determining the level of allowances on individually significant loans, the Group applies the discounted cash flow method. The amount and timing of expected receipts and recoveries and the value of collateral and likelihood of successfully realizing it are considered in estimating the allowance.

Cash-flow calculations for items in normal care management, satisfying the criteria defined for the Pass rating category, are not mandatory to be performed in cases if

- a current limit review proposal or monitoring report not older than three months is available, and
- no such indicator or early warning signal has occurred as apparent from the above or during the period since then, or no such action has become necessary, which would require the consideration of transferring into intensive care or problem loan treatment based on the relevant regulations.

Regardless of the above, an individual impairment calculation has to be made by all means in the case of exposures outstanding to a customer affected by any of the below-listed criteria (objective evidence):

- Treasury default event
- Outstanding exposure regarded as a restructured loan
- Material delay in time in the case of projects
- „Balloon/bullet" type of financing structure
- Interest capitalisation
- Adverse change of collateral
- If any of the definition "Substandard" or worse client classification is applicable

In the case of customers in intensive care or problem loan treatment it is mandatory to carry out such calculations.

Individually assessed impairment allowances and provisions are only reversed when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively allocated impairment and provision

Collectively assessed provision is allocated for the following three main portfolios:

- on standard retail credit product, rated on a portfolio basis; and
- for homogeneous groups of balances that are not considered individually significant, such as
    - balances up to HUF 250 million in the case of wholesale customers managed in normal or intensive care,
    - customers with less than HUF 125 million total exposures, managed in problematic treatment, or
    - in the case of other retail exposures being not subject to problem loan treatment.
- In the form of portfolio based provisioning to cover potential, not yet identified losses for deals for which provisions have not been allocated individually (rated as Pass).

Retail products rated on a portfolio basis

The following products are assessed on a portfolio basis:

- Retail:
    - Credit cards
    - Open credit
    - Housing loans secured against real property (mortgage loans)
    - Loans for unlimited purposes, secured against real property
    - Personal loans

- Small corporate customers:
  - Széchenyi Card credit (state subsidised loans for special purposes)
  - 1×1 Micro-company current account overdraft in Problem loan treatment

In case of retail products assessed on portfolio basis the Bank accumulated provisions with regard to the following aspects:

- recovery expectations on problem loans,
- expected loss on performing loans.

Homogeneous groups of loans (group assessment)

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

Incurred but not yet reported impairment loss

In case of items where no specific provision has been set aside (neither in course of Individual evaluation, nor in Group evaluation), a portfolio-based provision is allocated to reflect those expected losses that may be suffered arising from damages not yet detected. In calculating the provision, the loss-related historic data of portfolios having similar credit risk attributes as well as the „loss identification period" (the estimated period between the occurrence of the provision and the establishment and allocation of the appropriate provision for the loan to cover the loss) are taken into account.

Past due but not impaired loans

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

Write-off policy

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

Collateral structure

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

The main collateral types are as follows:

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

The Bank establishes the coverage ratio required for individual exposures and makes its decisions on the basis of the so-called liquidation value of the collateral items instead of their market value. This amount reflects the estimated proceeds which may be obtained from the properly prepared and professionally executed forced sale of the collateral item. The use of this amount in the calculations also contributes to the prudent management of the existing risks, in line with the related procedures, laid down in the strictly defined responsibility and decision-making regulations.

Taking into account the EU and Hungarian regulatory environment and legal practices, and relying on its own experiences and known Hungarian experiences in the enforcement of the collateral items, the Bank restricted, as much as possible (within the limits of the economies of scale) the rules of acceptability of the various collateral items and the calculation of the liquidation values assigned to them. The regular monitoring and revaluation of the collateral items securing the individual exposures is an important pillar in the Bank’s monitoring system.

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

5.3

2011	Loans and advances to banks	Loans and advances to Corporates	Securities	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	-	20 935	-	14 137	188	1 210
Debt securities issued by						
Central governments	-	25	-	478	-	-
Companies	-	2 545	-	841	-	181
Others	-	8 552	-	-	-	-
Shares	-	-	-	-	-	-
Mortgage						
Building	-	1 154 524	-	25 329	6 689	22 170
Other	-	86 447	-	13 775	90	2 479
Guarantees from						
Central governments	-	84 615	-	2 446	6 421	11 244
Other banks	-	94 670	-	27 368	-	6 522
Companies	-	35 677	-	17 342	249	8 735
Others	-	32 214	-	4 247	-	13 963
Total collateral	**-**	**1 520 203**	**-**	**105 963**	**13 637**	**66 503**

2010	Loans and advances to banks	Loans and advances to Corporates	Securities	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	-	31 477	-	17 012	129	1 529
Debt securities issued by	-	-	-	-	-	-
Central governments	-	525	-	988	-	13
Companies	-	1 763	-	1 439	-	205
Others	-	7 496	-	-	-	143
Shares	-	917	-	-	-	-
Mortgage	-	-	-	-	-	-
Building	-	1 208 973	-	29 516	5 403	34 360
Other	-	109 037	-	16 933	63	8 274
Guarantees from	-	-	-	-	-	-
Central governments	-	85 528	-	2 732	-	9 466
Other banks	-	124 832	-	55 322	-	4 219
Companies	-	34 449	-	12 748	226	8 087
Others	-	33 378	-	822	1	2 340
Total collateral	**-**	**1 638 376**	**-**	**137 513**	**5 822**	**68 637**

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

5.4

	2011	2010
Non-financial assets		
Properties*	9 905	8 734
Inventories	3 097	1 872
Other	5	-
Total assets obtained	**13 007**	**10 606**

Thereof properties from discounted activity: HUF 529 million. The management and processes related to assets obtained are regulated in Debt to Asset Policy.

Concentrations

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

5.5

2011	Cash on hand	Loans and advances to banks	Loans and advances to customer	Investment in debt securities	Derivative assets	OFF B/S exposures
Category I - without country risk	-	51 855	75 086	2 530	0	5 615
Category II - with low to medium country risk	-	2 904	46 006	8 441	-	4 804
Category III - with medium to high country risk	0	571	158 137	-	-	13
Total exposure	**0**	**55 330**	**279 229**	**10 971**	**0**	**10 432**

2010	Cash on hand	Loans and advances to banks	Loans and advances to customer	Investment in debt securities	Derivative assets	OFF B/S exposures
Category I - without country risk	-	30 302	112 330	41	5 416	15 001
Category II - with low to medium country risk	-	8 628	177 893	-	1 012	14 893
Category III - with medium to high country risk	-	-	161	-	-	16
Total exposure	**-**	**38 930**	**290 384**	**41**	**6 428**	**29 910**

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

This categorization is based on BLB rating.

5.6

2011	Cash on hand	Loans and advances to banks	Loans and advances to customer	Investment in debt securities	Derivative assets	OFF B/S exposures
Aerospase	-	-	705	-	-	32
Automotive	-	-	58 790	-	446	14 772
Aviation	-	-	20 283	-	-	2 301
Banks	271 802	82 678	29 920	4 751	9 217	14 084
Chemicals	-	-	18 636	-	19	4 871
Construction	-	-	63 839	-	508	97 635
Consumer Durables	-	-	13 382	-	30	3 724
Defence	-	-	2	-	-	45
Food + Beverages	-	-	137 146	-	276	30 908
Gas	-	-	6 692	-	-	720
Health Care	-	-	9 480	-	-	5 549
Hotels	-	-	18 237	-	-	826
Insurance companies	-	-	398	-	-	2 102
Logistic	-	-	69 361	-	2 141	23 816
Manufactoring and Engineering	-	-	22 604	-	182	6 201
Media	-	-	9 040	-	-	3 829
Metals +Mining	-	-	9 205	-	13	3 158
Oil	-	-	9 575	-	-	29 500
Pharmaceuticals	-	-	17 975	-	859	8 592
Pulp + paper	-	-	15 365	-	-	807
Real Estate	-	-	843 582	-	7 972	18 276
Retail	-	-	56 281	-	0	23 841
Sovereigns	33 643	0	12 109	275 733	38	20 568
Steel	-	-	7 287	-	-	40
Technology	-	-	30 322	-	629	24 217
Telecom	-	-	31 786	-	-	10 387
Textiles + Apparel	-	-	10 243	-	6	2 094
Tourism	-	-	1 710	-	-	2 534
Utilities	-	-	50 319	-	66	30 561
Non profit organization	-	-	2 058	-	-	75
Without sector	16 232	2 505	7 178	8 441	32	16 924
Privat	-	-	660 395	-	351	8 790
Total exposure	**321 677**	**85 183**	**2 243 907**	**288 925**	**22 785**	**411 778**

2010	Cash on hand	Loans and advances to banks	Loans and advances to customer	Investment in debt securities	Derivative assets	OFF B/S exposures
Aerospase	-	-	650	-	-	31
Automotive	-	-	62 071	-	26	15 918
Aviation	-	-	20 439	-	-	2 598
Banks	1	58 055	37 664	13 606	3 160	17 548
Chemicals	-	-	28 170	-	-	6 887
Construction	-	-	71 129	-	92	115 808
Consumer Durables	-	-	13 814	-	8	3 046
Defence	-	-	147	-	-	343
Food + Beverages	-	-	131 709	-	18	26 219
Gas	-	-	5 014	-	-	205
Health Care	-	-	25 684	-	-	7 584
Hotels	-	-	36 976	-	9	2 812
Insurance companies	-	-	254	-	1	2 213
Logistic	-	-	73 491	-	-	28 120
Manufactoring and Engineering	-	-	22 846	-	2	7 414
Media	-	-	9 017	-	-	3 734
Metals +Mining	-	-	14 124	-	-	4 555
Oil	-	-	5 893	-	-	8 889
Pharmaceuticals	-	-	13 622	-	135	7 726
Pulp + paper	-	-	18 209	-	-	1 254
Real Estate	-	-	821 175	2 398	1 626	35 755
Retail	-	-	77 206	-	-	35 725
Sovereigns	205 661	15 985	19 794	222 573	159	23 730
Steel	-	-	21 058	-	-	598
Technology	-	-	28 664	83	53	22 478
Telecom	-	-	37 172	-	15	13 206
Textiles + Apparel	-	-	10 144	223	-	2 235
Tourism	-	-	1 829	-	-	2 549
Utilities	-	-	51 011	-	19	34 053
Non profit organization	-	-	5 880	-	-	521
Without sector	16 780	2 187	11 771	14 354	9 911	4 203
Privat	-	-	700 697	-	64	10 840
Total exposure	**222 442**	**76 227**	**2 377 324**	**253 237**	**15 298**	**448 797**

d, Liquidity risk

Liquidity risk is the risk that the Group's cash flows may not be adequate to fund operations and meet commitments on a timely and cost-effective basis. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk

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

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

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

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

Contractual maturity of liabilities

5.7

	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	33 463	-	-	-	-	-	-
Deposits from banks	977 326	1 372 980	112 661	21 052	293 353	655 776	290 138
Deposits from customers	1 463 472	1 536 607	924 351	319 801	235 637	56 540	278
Debt securities issued	171 145	174 412	16 266	9 106	62 855	86 184	-
Subordinated liabilities	108 486	139 724	150	606	4 707	35 013	99 248
Derivative liabilities							
Trading: outflow	-	(454 564)	(175 543)	(100 893)	(111 197)	(41 694)	(25 238)
Trading: inflow	-	452 439	174 069	94 896	116 726	42 124	24 624
Risk management: outflow	-	(3 180)	(0)	(117)	-	(3 062)	-
Risk management: inflow	-	2 981	0	11	49	2 922	-
Unrecognised loan commitments	-	217 926	10 774	9 771	104 478	20 525	72 377
Loans and advances	2 079 685	-	-	-	-	-	-

	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	19 958						
Deposits from banks	1 142 879	1 217 727	24 512	130 181	208 631	746 121	108 282
Deposits from customers	1 405 996	1 420 846	829 856	344 652	169 753	73 470	3 115
Debt securities issued	139 580	150 582	3 799	313	14 990	111 434	20 046
Subordinated liabilities	104 584	125 890	230	-	2 696	22 280	100 684
Derivative liabilities							
Trading: outflow	-	(550 559)	(80 130)	(66 204)	(170 576)	(196 255)	(37 394)
Trading: inflow	-	517 716	72 622	50 417	166 519	191 027	37 131
Risk management: outflow	-	(25 448)	(14)	(2 873)	(19 480)	(3 081)	-
Risk management: inflow	-	25 276	13	2 754	19 513	2 996	-
Unrecognised loan commitments	-	353 790	36 053	42 610	169 068	23 385	82 674
Loans and advances	-	-	-	-	-	-	-

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

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

Expected maturity of liabilities

5.8

	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	33 463	-	-	-	-	-	-
Deposits from banks	977 326	1 372 356	112 661	21 489	295 411	652 658	290 138
Deposits from customers	1 463 472	1 559 800	118 146	51 271	41 072	15 713	1 333 598
Debt securities issued	171 145	174 412	16 266	9 106	62 855	86 184	-
Subordinated liabilities	108 486	139 724	150	606	4 707	35 013	99 248
Derivative liabilities							
Trading: outflow	-	(454 564)	(175 543)	(100 893)	(111 197)	(41 694)	(25 238)
Trading: inflow	-	452 439	174 069	94 896	116 726	42 124	24 624
Risk management: outflow	-	(3 180)	(0)	(117)	-	(3 062)	-
Risk management: inflow	-	2 981	0	11	49	2 922	-
Unrecognised loan commitments	-	68 995	15 821	30 205	22 969	-	-
Loans and advances	2 079 685	-	-	-	-	-	-

	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	19 958						
Deposits from banks	1 142 879	1 217 727	24 512	130 181	208 631	746 121	108 282
Deposits from customers	1 405 996	1 420 846	829 856	344 652	169 753	73 470	3 115
Debt securities issued	139 580	150 582	3 799	313	14 990	111 434	20 046
Subordinated liabilities	104 584	125 890	230	-	2 696	22 280	100 684
Derivative liabilities							
Trading: outflow	-	(550 559)	(80 130)	(66 204)	(170 576)	(196 255)	(37 394)
Trading: inflow	-	517 716	72 622	50 417	166 519	191 027	37 131
Risk management: outflow	-	(25 448)	(14)	(2 873)	(19 480)	(3 081)	-
Risk management: inflow	-	25 276	13	2 754	19 513	2 996	-
Unrecognised loan commitments	-	353 790	36 053	42 610	169 068	23 385	82 674
Loans and advances	-	-	-	-	-	-	-

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

e, Market risk

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

Management of market risks

As part of the Risk strategy, the Board of Directors approves the maximum amount and scope of market risks incurable by the Bank, ensured by a comprehensive limit structure broken down by relevant portfolios. The main market risk limit is arising from the annual capital allocation process based on ICAAP requirements.

The Board has established the Asset and Liability (ALCO) committee, which is responsible for developing and monitoring Group market risk management policies. ALCO has the overall

responsibility for establishing and managing market risk policies for the Bank, within the framework of internal policies, covering risk management, assessment of risk and related limits, competence and decision-making mechanism, and regulation for breaches of limits, approved by the Board of Directors. The members of the ALCO are senior executives who have principal decision-making responsibilities for businesses throughout the whole Group. At the operational level, market risk is managed by the Money and Capital Markets Directorate on a group-wide basis.

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

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

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

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

Exposure to market risks – trading portfolios

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

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

The VaR model used is based mainly on historical data. Taking account of market data from the previous 187 business days, and observed relationships between different markets and prices, the model calculates both diversified and undiversified total VaR, and VaR by risk factors such as interest rate, equity and currency VaR.

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

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- VAR only covers "normal" market conditions.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

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

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

5.9

2011	Average	Maximum	Minimum
Foreign currency risk	715	1 527	327
Interest rate risk	650	1 252	295
Equity risk	11	16	7
Overall	**1 376**	**2 795**	**629**
Credit spread risk of trading book	1 192	1 621	867

2010	Average	Maximum	Minimum
Foreign currency risk	924	1 708	445
Interest rate risk	1 685	4 068	734
Equity risk	13	41	7
Overall	**2 622**	**5 817**	**1 186**

Important notes in connection with the table above:

- MKB applies parametric VaR for general market risk according to Risk metrics methodology (1 day holding period;99% confidence level, 0,94 decay factor, number of observation: 187 business days)
- MKB calculates specific interest rate risk (credit spread risk) separately from general interest rate risk based on the swap and bond yield curve spread.
- The table contains only VaR of the trading book position.
- There is no commodity in MKB Group position.
- MKB Group does not have significant open position from options therefore there is no volatility VaR calculation.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows of financial instrument because of a change in market interest rates.

The management of interest rate risk is supplemented by monitoring the sensitivity of the financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point parallel fall or rise in all yield curves worldwide.

The ALCO is the monitoring body for compliance with approved limits and is assisted by Risk Management in its monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

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

5.10

As at 31 December 2011

Fixed rate instruments	in HUF millions
Financial assets	683 212
Financial liabilities	(1 238 607)
Total fixed rate instruments	**(555 395)**

Variable rate instruments	Denominated in				
	HUF	CHF	EUR	USD	Other currencies
Financial assets	501 953	620 704	1 153 119	33 165	70 446
Financial liabilities	(349 551)	(511 612)	(634 304)	(55 556)	(11 508)
Total variable rate financial instruments	**152 402**	**109 092**	**518 815**	**(22 391)**	**58 938**

As at 31 December 2010

Fixed rate instruments	in HUF millions
Financial assets	509 317
Financial liabilities	(1 154 834)
Total fixed rate instruments	**(645 517)**

Variable rate instruments	Denominated in				
	HUF	CHF	EUR	USD	Other currencies
Financial assets	416 457	667 090	1 156 943	23 822	68 865
Financial liabilities	(351 617)	(407 582)	(729 178)	(44 644)	(10 418)
Total variable rate financial instruments	**64 840**	**259 508**	**427 765**	**(20 822)**	**58 447**

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

5.11

As at 31 December 2011

	Effect on equity	Effect on P/L
HUF		
200 bp increase	(698)	(1 751)
200 bp decrease	736	726
CHF	-	-
200 bp increase	(14)	(704)
200 bp decrease	(45)	(4 315)
EUR	-	-
200 bp increase	952	(3 006)
200 bp decrease	(758)	(612)
USD	-	-
200 bp increase	237	(1 037)
200 bp decrease	(122)	930
Other currencies	-	-
200 bp increase	412	(1 804)
200 bp decrease	(326)	1 448

As at 31 December 2010

	Effect on equity	Effect on P/L
HUF		
200 bp increase	280	(2 630)
200 bp decrease	(274)	1 993
CHF		
200 bp increase	186	(203)
200 bp decrease	(67)	(5 614)
EUR		
200 bp increase	(681)	3 650
200 bp decrease	63	(3 204)
USD		
200 bp increase	368	(2 163)
200 bp decrease	(167)	863
Other currencies		
200 bp increase	307	836
200 bp decrease	(361)	1 592

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

5.12

	2011	2010
Changes during the reporting period	2	1 472
Changes cumulatively (since designation of the financial liabilities)	(454)	(455)
Difference between the financial liability's carrying amount and the amount contractually required to pay at maturity	(7 272)	(2 763)
	(7 724)	**(1 746)**

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

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

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

(c) The difference between the observed market price of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observed (base rate in the relevant market) interest rate.

Exposure to other market risks – non-trading portfolios

The Group is exposed to foreign exchange risk through its holdings of financial instruments denominated in foreign currencies. Exchange risk management aims to reduce the adverse impact of potential changes in the market value of foreign currency financial instruments induced by exchange rate fluctuations. The Group's financial position in foreign currencies at the end of the reporting periods was as follows:

5.13

2011	In functional currencies	In foreign currencies				Total
		USD	EUR	CHF	Other	
Financial assets except for derivatives	1 013 732	49 451	1 123 675	563 947	193 156	2 943 961
Financial liabilities except for derivatives	1 147 615	177 598	962 667	517 077	139 004	2 943 961
Net derivative and spot instruments (short) / long position	124 557	125 777	(172 976)	(47 252)	(30 106)	(0)
Total net currency positions	**(9 326)**	**(2 370)**	**(11 968)**	**(382)**	**24 045**	**-**

2010	In functional currencies	In foreign currencies				Total
		USD	EUR	CHF	Other	
Financial assets except for derivatives	618 939	43 682	1 324 992	682 753	268 822	2 939 188
Financial liabilities except for derivatives	854 321	156 486	1 265 755	472 096	190 530	2 939 188
Net derivative and spot instruments (short) / long position	178 519	109 507	(59 748)	(206 586)	(21 692)	-
Total net currency positions	**(56 863)**	**(3 297)**	**(511)**	**4 071**	**56 600**	**-**

f) Credit spread risk

Credit spread risk is the risk of changing market price of the bonds due to change in spread of bonds' issuer which may have negative impact on the Group's performance.

Managing and monitoring credit spread risk

The framework of credit spread risk management is defined in the risk strategy. According to this risk strategy credit spread risk may be taken only within the approved limits. Credit spread risk is managed on operative level by the Money and Capital Market Directorate. Group's Risk Unit is responsible for measuring credit spread risk, controlling limit utilisations and reporting it to ALCO.

Risk measurement

Similar to the general interest rate risk measurement the Group establishes the credit spread risk figures based on the present value of the future cash flows.
The applied credit spread stress test values are revised regularly, but at least bi-yearly. The length of liquidation periods used for the calculations are matched to the required liquidation time of the products.

g, Operational risks

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk does not include business and reputational risks.

Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law or a delay in reacting to changes in legal framework conditions (including non-observance which is unavoidable or not attributable to one's own fault).

Procedure

The principles, rules and procedures that serve to properly identify, manage and monitor operational risk are defined in the BayernLB OpRisk Guidelines, in the Risk Strategy and in the OpRisk policy, operative directive and CEO directive established by also considering the local requirements.

Risk measurement

The operational risk capital requirement of MKB Bank Zrt. is calculated by using The Standardised Approach (TSA) both at individual and group level since January 1st 2008. According to the Standardised Approach the operational risk capital requirement is the average of the preceding three years' total of the weighted governing indicators of the business lines (gross income).

Risk management and monitoring

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

At group level the Centralised OpRisk Management of MKB determines the operational risk regulations required from the subsidiaries, and the framework for operational risk management at group level and in this respect supervises the subsidiaries as well. The centralised and decentralised operational risk management units have also been established in the subsidiaries that have loss data collection and reporting obligation towards the Centralised OpRisk Management of MKB.

The Centralised OpRisk Management of MKB prepares a report on the current status of the operational risk management of the Bank and of the subsidiaries for the Board of Directors on a quarterly basis. Besides, an oprisk risk report is prepared at group level for BayernLB, also on a quarterly basis (as a part of the so-called group risk report). The Bank fulfils COREP data delivery to HFSA on a quarterly basis at group level.

Risk management methods and tools

<u>Loss data collection</u>

MKB Bank Zrt. has been performing operational risk loss data collection continuously which includes the electronic reporting and managing of operational risk loss events.

OpRisk Self-Assessment – ORSA

The Bank performs the oprisk self-assessment unit by unit, with the help of a questionnaire, in order to recognise and understand the operational risks related to the work processes and to increase the level of risk-awareness of the units.

Key Risk Indicators - KRIs

Those performance/risk ratios suitable for revealing areas and factors critical for operational risk, the change of value of which indicates the change of factors important from the point of view of risk occurrence. By defining and monitoring the values of the suitable indicators the Bank intends to help forecasting, preventing and reducing operational risks.

Business Continuity Planning

In order to undisturbedly maintain the Bank's operational processes it is necessary to evaluate the potential threats of the certain processes, their probability of occurrence and the potential damages resulting from the fallout of the processes. This risk analysis and the procedures needed to maintain the functionality of the Bank's organisation is included in the Business Continuity Plan (BCP). The Disaster Recovery Plan (DRP) is based on the BCP. The DRP includes measures that have to be taken when those processes and (eg. IT) resources supporting the processes, that are critical regarding the Bank's operation, get damaged or become unmaintainable.

Membership of the Hungarian Interbank Operational Risk Database (HunOR)

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

h, Capital management

The Group's lead regulator, the Hungarian Financial Supervisory Authority sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

In June 2006, the Basel Committee on Banking Supervision ('the Basel Committee') published the final comprehensive version of 'International Convergence of Capital Measurement and Capital Standards' ('Basel II') which replaced Basel I. The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing substantive changes in the treatment of credit risk. Moreover, an explicit new capital charge for operational risk has also been introduced, as well as increased supervisory review and extended public disclosure needs.

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

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

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

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-financial position exposures.

Capital allocation

It is the Group's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Group also maintains a strong discipline over its investment decisions and where it allocates its capital, seeking to ensure that returns on investment are appropriate after taking account of capital costs. The Group recognises the effect on shareholder returns of the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity that are possible with greater leverage.

In 2008, the Group introduced the Economic Value Added (EVA) method for capital allocation and budgeting purposes.

Economic Value Added is a financial performance method to calculate the true economic profit of a corporation. EVA can be calculated as net operating profit after taxes minus a charge for the opportunity cost of the capital invested.

EVA is an estimate of the amount by which earnings exceed or fall short of the required minimum rate of return for shareholders or lenders at comparable risk. EVA can be calculated for a divisional (Strategic Business Unit) level.

The basic formula for calculating EVA is:

Operating Income
- Operating Expenses

Operating Profit
- Impairment and provision

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

Economic Value Added (EVA)

By taking all capital costs into account, including the cost of equity, EVA shows the financial amount of value a business has created or destroyed in a reporting period.

The Group has identified the following as being the material risks faced and managed through the Capital Management Framework: credit, market, operational, and asset and liability management risks.

Basel II

The supervisory objectives of Basel II are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The Capital Requirements Directive ('CRD') implements Basel II in the EU.

For credit risk, the Group has adopted the standardised approach to Basel II with effect from 1 January 2008

Basel II also introduces capital requirements also for operational risk. The Group currently has adopted the standardized approach to the determination of Group operational risk capital requirements.

The table below summarises the Bank's capital status as at 31 December 2011 and 2010 on group level. There was a share issuance in progress which had not been registered by the Court yet, but the related amount had been paid by BayernLB. Therefore the table separates the capital status on group level with and without the new shares being issued.

5.14

	2011 Basel II before capital increase	2011 Basel II after capital increase	2010 Basel II
Share capital	20 733	43 937	20 733
Nominal value of repurchased own shares	-	-	-
Issued, but unpaid	-	-	-
Outstanding share capital	*20 733*	*43 937*	*20 733*
General reserves	62 410	101 206	185 448
Intangible assets	(24 827)	(24 827)	(34 516)
Reserve for general banking risk	1 340	1 340	1 320
Tier 1: Net core capital	**59 656**	**121 656**	**172 985**
Considerable subordinated debt	29 828	60 828	86 493
Revaluation reserves	55	55	345
Goodwill	715	715	(21 659)
Tier 2: Supplementary capital	**30 598**	**61 598**	**65 179**
Other deductions	(17 786)	(110)	(465)
Participations in financial institutions	(1 773)	(1 773)	(2 720)
Unused subordinated loan for market risk	6 523	6 523	7 167
Regulatory capital	**77 218**	**187 894**	**242 146**
Risk-weighted assets (RWA)	1 726 412	1 726 412	1 753 293
Operational risk (OR)	232 138	232 138	239 663
Market risk positions (MR)	122 312	122 312	139 975
Total risk weighted assets (RWA +12.5*(MR+OR))	**2 080 862**	**2 080 862**	**2 132 931**
Regulatory capital / Total assets	2,62%	6,38%	8,24%
Capital adequacy ratio	**3,94%**	**9,59%**	**12,15%**
Capital adequacy ratio (including market risk)	**3,71%**	**9,03%**	**11,35%**

Unconsolidated capital adequacy ratio is 2,09% before capital increase and 9,17% after capital increase.

The capital adequacy ratio did not reach the minimum level described by local regulations neither on stand-alone nor on consolidated level. However, the capital increase made subsequently (see note 43 about significant subsequent events) resolved this situation and the ratios are above minimum level again.

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

- Credit concentration risk
- Country risk

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

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

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

Due to the unforeseeable events of the domestic market and significant impairments, the Bank's strong capital position became volatile over the last 2 years. Consequently, the bank has put capital stability as one of the ultimate strategic objectives going forward.

The Bank is undertaking a set of capital preservation priorities to create a sufficient capital buffer to manage the unforeseen developments of the future. The main elements of this capital preservation strategic initiative are:

- Stringent execution of an all encompassing cost cutting exercise
- Strict monitoring of capital limits within a capital limit framework, driven by efficiency based (EVA/RAROC) allocation approach
- Evaluating and implement strategic options to carve-out or ring-fence certain capital intensive parts of the bank's portfolio, in collaboration with the owners and the regulator.

The shareholders of the Bank are strongly committed to maintain the capital adequacy and will take all necessary actions. The management believes that the Bank will be able to keep the capital adequacy requirements above the minimum level based on the above mentioned strategic measures.

6 Cash reserves

6.1

	2011	2010
Cash and balances with Central Banks	74 386	121 925
Treasury bills and bills eligible for refinancing by Central Banks	247 291	100 517
Cash reserves	**321 677**	**222 442**

The Group is required to maintain a minimum reserve with the National Bank equivalent to 3% (2010: 3%) of certain deposits. The balance of the minimum reserve is based on the period end balance of these deposit accounts and amounted to HUF 38,469 million as at 31

December 2011 (2010: HUF 36,870 million). At 31 December 2011, cash on hand amounted to HUF 49,108 million (2010: HUF 67,243 million).
Treasury bills, categorized as available-for-sale, amounting to NIL (2010: HUF 396 million) were pledged as collateral for stock exchange and credit card transactions and according to the Group accounting policy, are presented also as cash reserve.

7 Loans and advances to banks

7.1

	2011	2010
Current and clearing accounts	8 550	12 162
Money market placements	23 656	38 334
Loans and advances	52 977	25 731
Less collective allowances for impairment	(131)	(447)
Loans and advances to banks	**85 052**	**75 780**
Collective allowances for impairment		
Balance at 1 January	**(447)**	**(16)**
Impairment loss for the year:		
Charge for the year	(102)	(433)
Reversal	429	17
Effect of foreign currency movements	(11)	-
Unwinding of discount	-	-
Reclassification	-	(15)
Write-offs		
Balance at 31 December	**(131)**	**(447)**

From the balance of Current and clearing accounts, HUF 521 million (2010: 471 million) was due from a shareholder with a significant influence and was granted at market rate.

8 Trading assets

8.1

	2011 Cost	2011 Accumulated unrealised result	2011 Book value	2010 Cost	2010 Accumulated unrealised result	2010 Book value
Debt and equity instruments						
Government Treasury bills	6 361	-	6 361	8 873	(8)	8 865
Government bonds	24 530	(457)	24 073	15 689	150	15 839
Hungarian corporate sector bonds	2 790	296	3 086	2 280	329	2 609
Foreign corporate sector bonds	769	34	803	841	59	900
Hungarian equities	547	(8)	539	285	(9)	276
Foreign equities	-	-	-	-	-	-
Total debt and equity instruments	**34 997**	**(135)**	**34 862**	**27 968**	**521**	**28 489**
Derivative instruments by type						
FX-based derivatives instruments	-	8 802	8 802	-	4 777	4 777
Index-based derivative instruments	-	7	7	-	47	47
Interest-based derivative instruments	-	12 171	12 171	-	8 085	8 085
Credit default swaps	-	-	-	-	-	-
Options	1 958	(152)	1 806	842	1 547	2 389
Total derivative instruments	**1 958**	**20 828**	**22 786**	**842**	**14 456**	**15 298**
Total trading assets	**36 955**	**20 693**	**57 648**	**28 810**	**14 977**	**43 787**

9 Derivative assets held for risk management

Fair value hedges of interest rate risk

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

Other derivatives held for risk management

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

10 Investments in securities

10.1

	2011	2010
Available-for-sale		
Hungarian Government bonds	273 582	209 569
Hungarian corporate sector bonds	6 066	5 550
Foreign Government bonds	5 525	27 654
Foreign corporate sector bonds	4 765	3 963
Hungarian equities	-	6 332
Foreign equities	92	391
Less specific allowances for impairment	(1 105)	(222)
Investment in securities	**288 925**	**253 237**
Specific allowances for impairment		
Balance at 1 January	(222)	(226)
Impairment loss for the year:		
Charge for the year	(883)	-
Reversal	-	4
Effect of foreign currency movements	-	-
Unwinding of discount	-	-
Write-offs	-	-
Balance at 31 December	**(1 105)**	**(222)**

At 31 December 2011, HUF 74,409 million (2010: HUF 33,606 million) from the total amount of Investments in securities were pledged as collateral for stock exchange and credit card transactions in the ordinary course of business.

The total revaluation effect excluding deferred taxes in equity comprises HUF 12,397 million loss (2010: HUF 8,449 million loss) and HUF NIL million deferred tax asset and HUF NIL million deferred tax liability (2010: HUF 37 million deferred tax asset and HUF 4 million deferred tax liability).
In 2011 HUF 2,620 million loss was recognized in the income statement relating to AFS securities, which is a reclassification from other comprehensive income into profit or loss.

Due to the downgrading of Hungary by rating companies at the end of November the market prices of government issued securities dropped. In line with accounting policy (see Note 4.l) impairment was recognized on government bonds up to the level of nominal amount, and amounted to HUF 883 million (2010: NIL) at the end of the reporting period.
As at 31 December 2011, the carrying amount, the fair value and the amortized cost of all investments in debt instruments (included either in cash reserves or investments in securities), other than those classified as FVTPL are as follows:

10.2

2011	Carrying amount	Fair value	Amortized cost
Investments in debt instruments classified as:			
Loans and receivables	-	-	-
Held-to-maturity investments	-	-	-
AFS financial assets	533 618	533 618	546 660
Total	**533 618**	**533 618**	**546 660**

2010	Carrying amount	Fair value	Amortized cost
Investments in debt instruments classified as:			
Loans and receivables	-	-	-
Held-to-maturity investments	-	-	-
AFS financial assets	347 252	347 252	354 714
Total	**347 252**	**347 252**	**354 714**

11 Loans and advances to customers

Loans and advances to customers at amortised cost

11.1

2011	Gross amount	Specific allowances for impairment	Collective allowances for impairment*	Carrying amount
Corporate				
Overdrafts	62 984	(1 942)	(356)	60 685
Trading and industrial	352 341	(12 864)	(6 789)	332 688
Real estate	775 043	(70 521)	-	704 522
Total corporate	**1 190 368**	**(85 327)**	**(7 146)**	**1 097 895**
Small- and medium sized enterprises (SME)				
Overdrafts	36 055	(5 544)	(194)	30 318
Trading and industrial	239 960	(73 348)	-	166 612
Real estate	17 502	(8 153)	-	9 348
Credit card	8 462	(295)	(76)	8 091
Total SME	**301 979**	**(87 341)**	**(270)**	**214 369**
Retail				
Overdrafts	16 891	(3 824)	(883)	12 184
Residental mortgage	558 229	(24 950)	(16 195)	517 084
Credit card	19 585	(17)	(558)	19 011
Personal	1 846	(5)	(535)	1 306
Employees	11 447	(2)	(8)	11 438
Trading and industrial	143 562	(20 534)	(1 680)	121 347
Total retail	**751 560**	**(49 332)**	**(19 859)**	**682 369**
Loans and advances to customers	**2 243 907**	**(221 999)**	**(27 275)**	**1 994 633**

Collective impairment contains incurred loss and other portfolio based provisions.

2010	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate				
Overdrafts	54 612	(1 211)	(297)	53 105
Trading and industrial	435 750	(20 720)	(2 530)	412 500
Real estate	744 905	(41 674)	(2 044)	701 187
Total corporate	**1 235 267**	**(63 605)**	**(4 871)**	**1 166 792**
Small- and medium sized enterprises (SME)				
Overdrafts	38 238	(4 503)	(434)	33 301
Trading and industrial	290 036	(69 908)	(1 924)	218 204
Real estate	14 460	(4 377)	(44)	10 039
Credit card	6 864	(125)	(42)	6 697
Total SME	**349 598**	**(78 913)**	**(2 444)**	**268 241**
Retail				
Overdrafts	21 851	(4 089)	(3 084)	14 678
Residental mortgage	582 337	(2 309)	(16 027)	564 001
Credit card	20 316	(9)	(930)	19 377
Personal	2 972	(14)	(771)	2 187
Employees	12 457	(50)	(92)	12 315
Trading and industrial	152 527	(20 187)	(2 161)	130 179
Total retail	**792 460**	**(26 658)**	**(23 065)**	**742 737**
Loans and advances to customers	**2 377 325**	**(169 175)**	**(30 379)**	**2 177 770**

The following table presents the amounts expected to be recovered or settled after more than one year and within one years:

11.2

	2011		2010	
	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year
Loans and advances to banks	85 028	24	62 063	13 717
Loans and advances to customers	623 113	1 371 520	575 838	1 601 932
Trading assets	25 500	32 148	30 654	13 133
Investments in AFS securities	84 083	204 842	9 836	243 401

Early final repayment of Mortgage Loans denominated in foreign currencies

The Hungarian Parliament adopted Act CXXI of 2011 on the amendment of certain laws related to home protection on 19 September 2011, and the new rules became effective on 29 September. This amendment has made it possible for a certain group of customers having foreign currency based loan agreements, as defined by law, to pre-pay in full their loans at a fixed exchange rate that is significantly lower than the actual market forex rate, in other words to repay in full their outstanding loans in a lump sum before the original contractual maturity. The FX rates which should be used during the conversion were CHF/HUF 180, EUR/HUF 250 and JPY/HUF 2.5. The lending financial institutions were obligated to administer such final repayments without charging extra fees or commissions, at a fixed exchange rate, subject to the fulfilment of certain conditions defined by law, which results for the financial institution in the realisation of loss on the defined exchange rate differing significantly from the market rate valid at the time of such final repayment. Credit institutions had the opportunity to minimize their losses through submitting competitive tender bids from time to time to the Hungarian National Bank for buying EUR at market rate. The matter the conversion of EUR into CHF or JPY was done at market rates.

The final deadline for submitting the requests for the early repayment was 30 December 2011, which allowed for the Bank to have factual data regarding the loss realised. The Bank was entitled to refuse an application for early final repayment, should the debtor fail to attach to his/her submitted application by 30 January 2012 at the latest either a binding promissory note issued by another credit institution on granting a loan that is sufficient to cover the necessary sum of the early repayment, or the placement of sum in cash sufficient to cover the early repayment on the debtor's account kept at the creditor bank.

MKB recognized a HUF 37,251 million loss due to this early repayment scheme, which included HUF 15,357 million direct write off. The 11,426 customers who made final repayment belong to the high-quality debtors (with better than rating 14) and the main source of the final repayment at MKB was their own funds, albeit the relevant part of it was not savings (deposits, bonds, investment funds) held in MKB.

Financial institutions subject to the payment of special banking tax were entitled to deduct from their special tax 30% of their losses arising from early final repayments at preferential exchange rates. Should the bank not be able to deduct the 30% of his losses arising from early final repayment from the special tax remaining losses could be utilised by other financial institution in the group.

Allowances for impairment

11.3

	2011	2010
Specific allowances for impairment on loans and advances to customers		
Balance at 1 January	169 175	94 073
Impairment loss for the year:		
Charge for the year	119 467	131 052
Reversal	(33 991)	(30 691)
Aqiusition of subsidiaries		
Utilisation	(25 848)	(28 863)
Recoveries	*4 316*	*1 777*
Effect of foreign currency movements	9 932	750
Unwinding of discount	(8 842)	(5 024)
Reclassification	327	7 878
Discontinoued operation	(8 221)	-
Balance at 31 December	**221 999**	**169 175**
Collective allowances for impairment on loans and advances to customers		
Balance at 1 January	30 379	23 786
Impairment loss for the year:		
Charge for the year	11 301	28 237
Reversal	(8 442)	(6 071)
Recoveries		
Utilisation	(2 940)	(7 629)
Effect of foreign currency movements	1 610	738
Unwinding of discount	-	(880)
Reclassification	(16)	(7 802)
Discontinoued operation	(4 617)	-
Balance at 31 December	**27 275**	**30 379**

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

11.4

Sectors 2011	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Real Estate	843 582	(96 898)	-	746 684
Private	660 395	(12 664)	(18 779)	628 952
Food + Beverages	137 146	(22 521)	-	114 625
Logistics	69 361	(5 611)	(425)	63 325
Automotive	58 790	(4 961)	(297)	53 532
Trade and sevices	56 281	(6 496)	(352)	49 433
Construction	63 839	(14 961)	(260)	48 618
Utilities	50 319	(1 935)	(182)	48 202
Telecom	31 786	(457)	(193)	31 136
Other	46 645	(13 573)	(5 948)	27 123
Technology	30 322	(5 327)	(388)	24 608
Financial services	30 318	(9 037)	(76)	21 205
Pharmaceuticals	17 975	(433)	(72)	17 470
Manufactoring and Engineering	22 604	(6 243)	(64)	16 297
Oil and gas	16 267	(1 552)	(5)	14 710
Chemicals	18 636	(3 982)	-	14 654
Pulp + paper	15 365	(1 317)	-	14 048
Hotels	18 237	(5 363)	-	12 873
Sovereigns	12 109	(137)	(52)	11 920
Consumer Durables	13 382	(2 166)	(76)	11 139
Textiles + Apparel	10 243	(2 555)	(51)	7 638
Media	9 040	(1 774)	(7)	7 259
Metals +Mining	9 205	(1 997)	(35)	7 172
Non profit organizations	2 058	(37)	(11)	2 009
Loans and advances to customers	**2 243 907**	**(221 999)**	**(27 275)**	**1 994 633**

Sectors 2010	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Real Estate	820 993	(59 688)	(2 636)	758 669
Private	700 696	(15 318)	(20 127)	665 252
Food + Beverages	131 709	(22 962)	(838)	107 909
Other	82 018	(9 571)	(362)	72 085
Trade and sevices	77 206	(5 693)	(586)	70 927
Logistics	73 491	(4 864)	(596)	68 031
Construction	71 128	(12 278)	(1 048)	57 802
Automotive	62 071	(4 832)	(579)	56 660
Utilities	51 010	(1 395)	(480)	49 135
Financial services	37 665	(1 562)	(248)	35 855
Telecom	37 172	(1 710)	(219)	35 243
Hotels	36 977	(4 575)	(340)	32 062
Chemicals	28 170	(2 613)	(96)	25 461
Technology	28 664	(5 348)	(578)	22 738
Sovereigns	19 794	(491)	(299)	19 004
Pulp + paper	18 209	(1 581)	(160)	16 467
Manufactoring and Engineering	22 845	(6 257)	(202)	16 386
Pharmaceuticals	13 622	(133)	(80)	13 409
Metals +Mining	14 123	(1 860)	(175)	12 088
Consumer Durables	13 815	(2 267)	(275)	11 273
Oil and gas	10 907	(881)	(116)	9 910
Textiles + Apparel	10 144	(1 699)	(97)	8 348
Media	9 017	(1 401)	(225)	7 391
Non profit organizations	5 880	(196)	(17)	5 668
Loans and advances to customers	**2 377 329**	**(169 175)**	**(30 379)**	**2 177 774**

At 31 December 2011 the carrying amount of loans designated as hedged item in a fair value hedge relationship was HUF 3,003 million, while their amortised cost amounted to HUF 2,835 million.

Finance lease receivables

As part of its financing activities, the Group enters into finance lease transactions as a lessor. At December 31, 2011 and 2010, the reconciliation of the Group's gross investment in the lease, and the net present value of minimum lease payments receivable by relevant remaining maturity periods are as follows:

11.5

2011	up to 1 year	1 year to 5 years	over 5 years	Total
Gross investment in the lease	18 938	18 335	6 701	43 974
Unearned finance income	(2 006)	(2 814)	(668)	(5 488)
Present value of minimum lease payments	16 932	15 521	6 033	38 486
Accumulated allowance for uncollectible minimum lease payments	(4 350)	(168)	(16)	(4 534)
Finance leases as per balance sheet date	**12 582**	**15 353**	**6 017**	**33 952**

2010	up to 1 year	1 year to 5 years	over 5 years	Total
Gross investment in the lease	16 686	20 680	7 907	45 273
Unearned finance income	(2 098)	(3 247)	(1 216)	(6 561)
Present value of minimum lease payments	14 588	17 433	6 691	38 712
Accumulated allowance for uncollectible minimum lease payments	(2 892)	(254)	(53)	(3 199)
Finance leases as per balance sheet date	**11 696**	**17 179**	**6 638**	**35 513**

In 2011, HUF 548 million contingent rents were recognized in finance income (2010: HUF 432 million), and unguaranteed residual value amounted to HUF 421 million (2010: NIL).

Contracts original maturity ranges from 1 year to 10 years. Most of the leasing agreements are CHF and EUR based. The contracts earn interest on variable rates linked to the relating BUBOR, LIBOR, EURIBOR. In general hotels, office buildings and vehicles are leased. No guaranteed residual value exists.

12 Other assets

12.1

	2011	2010
Prepayments and other debtors	18 486	13 678
Inventory	1 697	1 991
Collaterals held in possession	14 618	11 411
Corporate income tax refundable	38	329
Other taxes refundable	751	946
Specific allowances for impairment	(2 909)	(1 348)
Other assets	**32 681**	**27 007**

Specific allowances for impairment		
Balance at 1 January	(1 348)	(352)
Impairment loss for the year:		
Charge for the year	(1 830)	(1 197)
Reversal	8	55
Utilization	0	146
Effect of foreign currency movement	(14)	-
Unwinding of discount	-	-
Reclassification	273	
Write-offs		
Balance at 31 December	**(2 909)**	**(1 348)**

At 31 December 2011, HUF 3,456 million (2010: HUF 10,396 million) non – current asset have been acquired through enforcement of security over loans and advances.

13 Goodwill

13.1

Goodwill	2011	2010
Cost		
Balance at 1 January	51 730	50 473
Acquisitions through business combinations	-	-
Acquisition of minority interest	-	-
Other acquisitions – internally developed	-	-
Effect of movements in exchange rates	5 751	1 257
Disposal of subsidiaries	-	-
Balance at 31 December	**57 481**	**51 730**
Impairment losses		
Balance at 1 January	(25 506)	(9 860)
Impairment loss	(29 165)	(15 428)
Effect of movements in exchange rates	(2 810)	(218)
Balance at 31 December	**(57 481)**	**(25 506)**
Carrying amounts		
As at 1 January	26 224	40 613
At 31 December	**0**	**26 224**

Impairment testing for cash-generating units:

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

13.2

	2011	2010
Bulgarian market	0	25 373
Hungarian leasing market	4 486	7 953
-thereof subsidiaries	*0*	*851*
Goodwill	**4 486**	**33 326**

In 2011 Goodwill relating to subsidiaries amounted to NIL (2010: HUF 26,224 million).

The Bulgarian market contains MKB Unionbank AD. The Hungarian leasing market includes MKB Euroleasing Zrt. group members. MKB Euroleasing Zrt. is consolidated using the equity method, and based on this fact the total carrying amount is tested.

The recoverable amount of each cash-generating unit has been calculated based on its value in use.
Value in use has been calculated by discounting the future cash flows generated from the continuing operation of the cash generating unit. By estimating the expected future cash-flows from operation, the Group used its own method. The values assigned to the key assumptions represent management's assessment of future trends in the Bulgarian, Romanian banking industry and in the Hungarian leasing industry and are based on both external sources and internal sources (historical data). The management expect 15 years return period for strategic investments, which is reflected also in the model. Except for the Romanian market, which was totally written off in 2010. Should MKB use exit strategy on a market, expected selling price is also taken into account by calculating of cash flows.

Key assumptions applied in the estimation process were as follows:

Bulgarian market

According to the prolonged depression of the Europe-wide economies, that are generally burdened by high central budget deficits and debts, and the current general views that the recovery of theirs and the return to a higher pace of economic growth in Europe will be a longer than previously expected process, the economic prospects of the overall Bulgarian market have also been revised downwards, which is reflected in the increased discount factor used by the market and more conservative business targets and financial plans were set in the case of the Bulgarian market CGU as compared to last years. Simultaneously, an increased risk profile as reflected in the higher discount factor was taken into account during the current impairment test calculations. Furthermore, the achievable price on the exit was revised and lowered to a prudent range as well.

On the above grounds, cash flows were estimated based on actual operating results and a five-year business plan. Based on its revised exit strategy, MKB intends to sell MKB Unionbank in 2016. The best estimation for selling price amounted to HUF 33,806 million, which was taken into account in the cash flows for the year 2016. According to the business plan, profit before tax has been estimated to reach HUF 1,702 million in 2012, and it should constantly grow reaching HUF 5,554 million by the end of 2015. We expect a continuous, though more moderate, rise in net interest income and, as a parallel effect, the non-interest income is also expected to increase. Due to the financial crises ongoing in 2012 as well, NPL ratio is expected still high resulting in a massive provisioning level in an amount of HUF 4,215 million which may only slightly decrease in the following years.
A pre-tax discount rate of 8.4 percent was applied in determining the recoverable amount of MKB Unionbank. The discount rate was estimated based on a weighted average cost of capital.

Considering that the Bulgarian market has itself still some growing potential, while the overall European economic climate has got an unfavourable impact, we believe that both the five-year projection and the selling price are realistic and faithfully reflect our best estimates.

According to the cash-flow projection, Bulgarian market CGU has a value in use less than its carrying amount, therefore impairment was needed which amounted to HUF 28,313 million.

Hungarian leasing market

Cash flows were estimated based on actual operating results and a five-year business plan. According to the business plan, a loss in an amount of HUF 851 million has been estimated in the first year, and it should reach HUF 611 million profit before tax by the end of the fifth year.

In line with the market trends, we expect a similar net interest income with similar market share from 2012 to 2016. As a parallel effect, the non-interest income is expected to be on the same level. It is calculated with still high impairment loss, but with a decreasing tendency after the financial crises, which resulted in a steeper fall in the expected profitability compared the previous years' expectations.
A pre-tax discount rate of 9.2 percent was applied in determining the recoverable amount of Hungarian leasing market CGU. The discount rate was estimated based on weighted average cost of capital.

A decreasing growth rate is used to extrapolate cash flow projections beyond the period covered by the most recent business plan for the first five years, and a constant rate is used for the period from 2016.

Albeit MKB Euroleasing is a market leader in the field of car and fleet leasing, a still stagnant economic environment is expected, which is reflected in the five-year projection. We believe that this five-year projection is realistic and faithfully reflects our best estimates.

According to the cash-flow projection, Hungarian leasing market CGU has a value in use less than its carrying amount, therefore impairment was needed which amounted to HUF 2,379 million.

14 Investments in jointly controlled entities and associates

14.1

	2011	2010
Cost	13 590	11 783
Goodwill arising on acquisition	1 528	1 528
Goodwill impairment	(1 528)	-
Share of post acquisition reserves	(3 603)	(1 561)
Investments in jointly controlled entities and associates	**8 459**	**11 750**

General and financial data of the jointly controlled entities and associates are as follows:

14.2

	MKB Euroleasing Zrt.	MKB Euroleasing Autópark Zrt.	Ercorner Kft.	GIRO Zrt.	Pannonhalmi Borház Termelő és Szolgáltató Kft.	MKB Általános Biztosító Zrt.	MKB Életbiztosító Zrt.	MKB Autopark OOD
General data								
Ownership (%)	50,00%	49,99%	50,00%	22,19%	45,48%	37,50%	37,47%	37,29%
Involvement	equtiy	equtiy	equtiy	equtiy	equtiy	equtiy	equtiy	equtiy
Financial data								
Current assets	2 612	7 439	8	3 512	212	2 333	7 817	1 424
Non-current assets	9 516	17 162	10 793	3 928	1 182	194	37	2 474
Total assets	**12 128**	**24 601**	**10 801**	**7 440**	**1 394**	**2 527**	**7 854**	**3 898**
Current liabilities	2 649	8 107	7 807	288	437	127	42	492
Non-current liabiliti	10	16 395	0	0	45	1 259	6 665	3 389
Total liabilities	**2 659**	**24 502**	**7 807**	**288**	**482**	**1 386**	**6 707**	**3 881**
Equity	**9 469**	**99**	**2 994**	**7 153**	**912**	**1 141**	**1 147**	**17**
Revenues	428	12 249	125	4 224	261	1 230	3 284	912
Expenses	499	12 293	316	2 977	326	2 227	3 709	954
Profit/Loss	**(76)**	**(347)**	**(191)**	**1 042**	**(65)**	**(997)**	**(425)**	**(21)**

15 Intangibles, property and equipment

15.1

2011	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	35 989	51 331	49 625	136 945
Additional from first consolidation		185	-	185
Additions – including internally developed	21 219	2 226	2 359	25 804
Disposals	(8 071)	(3 891)	(19 567)	(31 529)
Effect of movements in exchange rates	173	58	236	467
Balance at 31 December	**49 310**	**49 909**	**32 653**	**131 872**
Depreciation and impairment losses				
Balance at 1 January	13 408	7 900	23 911	45 219
Additional from first consolidation	-	8	-	8
Depreciation for the year	4 456	1 739	3 256	9 451
Impairment loss	13 150	302	609	14 061
Reversal of impairment loss	-	-	(4 831)	(4 831)
Disposals	(4 674)	(1 322)	(3 218)	(9 214)
Other additions	-	-	-	-
Effect of movements in exchange rates	90	12	158	260
Balance at 31 December	**26 430**	**8 639**	**19 885**	**54 954**
Carrying amounts				
At 1 January	22 580	43 431	25 714	91 725
At 31 December	**22 880**	**41 270**	**12 768**	**76 918**

Based on external evidences (i.e. the valuation of MKB Group by an appraisal at BayernLB), corporate assets, primarily software assets, of the Group had to be tested for impairments at 2011 year-end.

During these impairment calculations, the replacement cost approach was applied. The replacement costs of the most significant, key software assets were defined on the basis of current license fees, estimated necessary internal resources as well as external consultants' costs at currently available prices that should be incurred during different phases of the implementation of new software assets with exactly the same functionalities as the existing ones. In addition, the replacement costs of smaller, less significant software assets were defined at the average impairment rate calculated in the case of key software assets as detailed above.

According to these calculations, a total impairment of HUF 5,907 million for the Group's software assets had to be accounted for as at 2011 year-end.

Besides the above, as part of its normal annual routine the Group also revised the useful economic lives of all assets at 2011 year-end. According to this revision, additional impairments of HUF 2,980 million (2010: HUF 259 million) and HUF 3 million (2010: HUF 687 million) were necessary for Intangible assets and Equipments, respectively.

2010	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	34 030	48 024	47 865	129 919
Acquisitions through business combinations				
Additions – including internally developed	6 869	3 810	4 442	15 121
Other additions				-
Disposals	(4 945)	(555)	(2 790)	(8 290)
Effect of movements in exchange rates	35	52	108	195
Balance at 31 December	**35 989**	**51 331**	**49 625**	**136 945**
Depreciation / amortisation and impairment losses				
Balance at 1 January	10 564	6 251	20 812	37 627
Acquisitions through business combinations				
Depreciation / amortisation for the year	3 185	1 587	5 131	9 903
Impairment loss	259	124	734	1 117
Reversal of impairment loss				
Disposals	(617)	(77)	(2 824)	(3 518)
Other additions				-
Effect of movements in exchange rates	17	15	58	90
Balance at 31 December	**13 408**	**7 900**	**23 911**	**45 219**
Carrying amounts				
At 1 January	23 466	41 773	27 053	92 292
At 31 December	**22 581**	**43 431**	**25 714**	**91 726**

16 Amounts due to other banks

16.1

	2011	2010
Due on demand	3 567	5 942
Money market deposits	627 279	683 835
Borrowings	346 480	275 907
Amounts due to other banks	**977 326**	**965 684**

17 Current and deposit accounts

17.1

	2011	2010
From corporate clients	628 910	741 424
From retail clients	834 562	725 821
Current and deposit accounts	**1 463 472**	**1 467 245**

As at 31 December 2011, from the amount of current and deposit accounts, HUF 28,832 million (2010: HUF 22,751 million) has been measured as a fair value through profit or loss.

18 Trading liabilities

18.1

	2011			2010		
	Cost	Accumulated unrealised result	Book value	Cost	Accumulated unrealised result	Book value
Derivative instruments by type						
FX-based derivatives instruments	-	15 090	15 090	-	19 625	19 625
Index-based derivative instruments	-	10	10	-	37	37
Interest-based derivative instruments	-	12 517	12 517	-	7 726	7 726
Credit default swaps	52	422	474	52	89	141
Options	324	5 048	5 372	888	1 275	2 163
Total derivative instruments	**376**	**33 087**	**33 463**	**940**	**28 752**	**29 692**
Total trading liabilities	**376**	**33 087**	**33 463**	**940**	**28 752**	**29 692**

19 Derivative liabilities held for risk management

19.1

	2011			2010		
	Cost	Accumulated unrealised result	Book value	Cost	Accumulated unrealised result	Book value
FX-based derivatives instruments	-	-	-	-	-	-
Interest-based derivative instruments	-	262	262	-	276	276
Derivatives held for risk management	**-**	**262**	**262**	**-**	**276**	**276**

20 Other liabilities and provision

20.1

	2011	2010
Accruals and other creditors	21 533	18 079
Corporate income tax payable	-	1
Other taxes payable	1 600	2 306
Dividends payable	-	-
Provision for contingencies and commitments	7 723	6 090
Other liabilities and provisions	**30 856**	**26 476**

Provision for contingencies and commitments

20.2

	2011	2010
Balance at 1 January	6 090	2 152
Provisions set up during the year	5 963	5 959
Provisions used during the year	(47)	(456)
Provisions reversed during the year	(4 343)	(1 553)
Effect of foreign currency movements	185	(12)
Unwinding of discount	-	-
Discontinued operations	(125)	
Balance at 31 December	**7 723**	**6 090**

Provisions of HUF 535 million (2010: HUF 684 million) have been made in respect of costs arising from contingent liabilities and contractual commitments (see Note 35), guarantees of HUF 2,511 million (2010: HUF 1,557 million) and commitments of HUF 4,677 million (2010: HUF 2,024 million)

Finance leases as a lessee

As part of its business activities, the Group enters into finance lease transactions as a lessee. At 31 December 2011 and 2010, the reconciliation of the Group's future minimum lease payments at the end of the reporting period and their present value by relevant remaining maturity periods was the following:

20.3

2011	up to 1 year	1 year to 5 years	over 5 years	Total
Future minimum lease payments	1 884	7 793	29 238	38 915
Unpaid finance expense	(1 440)	(6 133)	(23 938)	(31 511)
Present value of minimum lease payments	**444**	**1 660**	**5 300**	**7 404**
Finance leases as a lessee	**444**	**1 660**	**5 300**	**7 404**

2010	up to 1 year	1 year to 5 years	over 5 years	Total
Future minimum lease payments	1 806	7 139	28 591	37 536
Unpaid finance expense	(1 266)	(5 373)	(22 864)	(29 503)
Present value of minimum lease payments	**540**	**1 766**	**5 727**	**8 033**
Finance leases as a lessee	**540**	**1 766**	**5 727**	**8 033**

from discontinued operation:

2011	up to 1 year	1 year to 5 years	over 5 years	Total
Future minimum lease payments	102	32	-	134
Unpaid finance expence	(5)	(1)	-	(6)
Present value of minimum lease payments	**97**	**31**	**-**	**128**
Finance leases as a lessee	**97**	**31**	**0**	**128**

In 2011, no contingent rents were recognized in finance expense (2010: HUF NIL). The net carrying amount of the leased office equipment amounted to HUF 232 million at the end of the reporting period (2010: HUF 294 million), and the net carrying amount of the lands and buildings used by the reporting entity was HUF 7,404 million (2010: HUF 7,846 million).

Operating lease as a lessee

The Group leases some of its branches in the form of operating lease. At 31 December 2011 and 2010, the total amount of future minimum lease payments under non-cancellable operating leases by relevant remaining period was the following:

20.4

2011	up to 1 year	1 year to 5 years	over 5 years	Total
Minimum lease payments	2 199	4 068	5 436	11 703
Non-cancellable operating leases	**2 199**	**4 068**	**5 436**	**11 703**

2010	up to 1 year	1 year to 5 years	over 5 years	Total
Minimum lease payments	2 740	5 161	5 411	13 312
Non-cancellable operating leases	**2 740**	**5 161**	**5 411**	**13 312**

from discontinued operation:

2011	up to 1 year	1 year to 5 years	over 5 years	Total
Minimum lease payments	839	1 293	19	2 151
Non-cancellable operating leases	**839**	**1 293**	**19**	**2 151**

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

In 2011, lease and sublease payments were recognised as an expense in the period amounted to HUF 3,043 million (2010: HUF 2,028 million). Furthermore no contingent rents (2010: HUF 91 million) and no sublease payments were recognised.

The leasing contracts original maturity ranges from 5 year to 25 years. The contracted lease payments are usually linked to the customer price index. There are no purchase options or restrictions.

21 Issued debt securities

21.1

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2011	Carrying amount 2010
MKB EURO FIX	Fixed rate	11 201	2.03.2010	9.12.2013	No	9 675	7 487
MKB FIX 5X5% EUR	Fixed rate	4 168	18.11.2011	18.11.2016	No	4 098	-
MKB EURO Indexált	Structured	11 350	28.09.2010	12.03.2015	No	10 449	855
MKB Kiszámítható EUR Kötvény	Fixed rate	4 970	30.05.2011	5.03.2013	No	4 479	-
MKB EUR D120504	Zero Coupon	1 245	12.05.2011	4.05.2012	No	1 189	-
MKB USD FIX 20120924	Fixed rate	1 229	22.09.2011	24.09.2012	No	1 229	-
MKB Hazai Részvény Index Kötvény	Structured	449	26.07.2010	30.07.2012	No	395	434
MKB HUF Indexált	Structured	12 423	31.01.2011	4.10.2013	No	11 337	-
MKB V. kötvény	Floating rate	20 470	30.10.2009	26.10.2012	Yes (BÉT)	19 414	19 986
MKB VI. kötvény	Floating rate	9 299	4.11.2010	19.12.2014	Yes (BÉT)	8 706	416
MKB VII. kötvény	Floating rate	9 350	4.11.2010	16.12.2016	Yes (BÉT)	8 381	300
MKB VIII. kötvény	Floating rate	24 000	13.12.2011	10.10.2014	Yes (BÉT)	19 842	-
MKB FIX + 2013	Fixed rate	3 000	15.02.2006	15.02.2013	Yes (BÉT)	309	326
MKB FIX + 2016	Fixed rate	3 000	15.02.2006	15.02.2016	Yes (BÉT)	93	91
MKB Kiszámítható Kötvény	Fixed rate	21 704	26.08.2010	5.03.2013	No	21 135	4 720
MKB FIX 20120202	Fixed rate	615	2.02.2010	2.02.2012	No	562	593
MKB FIX 20120612	Fixed rate	6 000	24.09.2010	12.06.2012	Yes (BÉT)	4 829	5 395
MKB FPIK	Structured	978	26.04.2010	2.04.2015	No	831	394
MKB TARTÓS KAMATELŐNY 2013/2015	Fixed rate	12 300	20.04.2010	17.12.2015	Yes (BÉT)	10 789	11 384
MKB D120111 and D120404	Zero Coupon	26 698	16.06.2011	4.04.2012	Yes (BÉT)	25 929	-
Accrued interest of the bonds						2 746	2 073
MKB Unionbank AD		2 386	N.A.	N.A.	No	4 659	6
Accrued interest of the bonds issued by subsidiaries						69	-
MKB Bonds matured in 2011							90 241
Issued debt securities		**186 834**				**171 145**	**144 701**

Bonds with similar characteristic are grouped, so the due date does not reflect the on repayment date. The dates which are disclosed are the first issuance and the last maturity in the group. Cash outflows can be seen in Note 5.8.

The Group use fair value revaluation through profit or loss for structured bonds, as they are related to assets, which share the same risk that give rise to opposite changes in fair value. At 31 December 2011 the carrying amount of FVTPL own issued bonds amounted to HUF 23,143 million (2010: HUF 2,577 million).

22 Subordinated debt

22.1

2011	Borrowed on	Amount in original currency	Original currency	Interest	Due date	Listed	Carrying amount
Subordinated loans from the shareholders							
BAYERISCHE LANDESBANK	30.10.2002	50 000 000	EUR	6M EURIBOR+3.12%	30.10.2017	No	15 688
BAYERISCHE LANDESBANK	10.06.2005	45 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	14 003
BAYERISCHE LANDESBANK	21.10.2008	50 000 000	EUR	6M EURIBOR+5%	22.10.2018	No	15 750
BAYERISCHE LANDESBANK	24.11.2010	5 000 000	EUR	6M EURIBOR+5.5%	24.11.2020	No	1 566
BAYERISCHE LANDESBANK	13.12.2011	148 224 000	CHF	3M CHFIBOR+6.25%	31.07.2017	No	38 045
Subordinated notes issued							
BAYERISCHE LANDESBANK	31.07.2007	75 000 000	EUR	3M EURIBOR+0.92%	31.07.2017	No	23 434
Subordinated debt							**108 486**

2010	Borrowed on	Amount in original currency	Original currency	Interest	Due date	Listed	Carrying amount
Subordinated loans from the shareholders							
BAYERISCHE LANDESBANK	30.10.2002	50 000 000	EUR	6M EURIBOR+3.12%	30.10.2017	No	14 046
BAYERISCHE LANDESBANK	10.06.2005	45 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	12 545
BAYERISCHE LANDESBANK	21.10.2008	50 000 000	EUR	6M EURIBOR+5%	22.10.2018	No	14 097
BAYERISCHE LANDESBANK	24.11.2010	5 000 000	EUR	6M EURIBOR+5,5%	24.11.2020	No	1 402
Subordinated notes issued							
BAYERISCHE LANDESBANK	04.10.2006	120 000 000	EUR	3M EURIBOR+1.01%	04.10.2016	No	33 495
BAYERISCHE LANDESBANK	31.07.2007	75 000 000	EUR	3M EURIBOR+0.92%	31.07.2017	No	20 976
Subordinated debt							**96 561**

The above debts are direct, unconditional and unsecured obligations of the Group, and are subordinated to the claims of the Group's depositors and other creditors.

23 Share capital and share premium

The Bank's authorised, issued, called up and fully paid share capital comprises 20,732,902 (2010: 20,732,902) ordinary shares of HUF – 1,000 (2010: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

24 Reserves

Currency translation reserve

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

Share premium

Share premium comprises of premiums on share capital issuances. (See Note 23.)

Retained Earnings

Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entity less any dividend payment. MKB discloses general risk reserve and general reserve included in retained earnings defined by the local governments.

There is no available Retained Earnings for distribution for the parent of the holding company.

A / General risk reserve

Local legislation allows the Group to set aside a general risk reserve up to 1.25% of risk weighted assets and off-financial position exposures against inherent risk exposures in addition to those losses which have been specifically identified and those potential losses which experience indicates are present in the portfolio of loans and advances. Such amounts are treated as an expense for statutory purposes and are tax deductible; for IFRS purposes, they form part of retained earnings, net of the related tax effects (see Note 33). The Bank did not choose this option between years 2003 and 2008. From the 2009 financial year onwards, the Bank decided to set aside again additional general risk provisions up to the level of 0.1 % of the risk-weighted assets and off-balance sheet items. The Bank gradually utilizes the outstanding amount for uncovered loans, securities and investments, inventories and other off-balance sheet losses during the actual financial year.

B / General reserve

According to the Act on Credit Institutions and Financial Enterprises (Banking Act), banks shall set aside as general reserve 10% of Profit after taxation. Dividends can be paid only after recognition of general reserve. This reserve can be utilized only for losses derived from ordinary activity. Credit institution can reclassify part or total of its retained earnings into general reserve. Supervisory authority can allow the entity not to set aside the amount calculated as above stated.

The Group discloses general reserve as part of retained earnings. In 2011 MKB recognized as general reserve NIL (2010: NIL).
General reserve set aside by foreign entities domiciled in Romania amounted to HUF 1,529 million. In 2011 there were NIL (2010: NIL) general reserve recognized. In Bulgaria there was NIL general reserve recognized.

Revaluation reserves

A / Revaluation on AFS financial assets

AFS financial assets' revaluation reserve includes the cumulative net change in the fair value of available - for - sale investments until the investment is derecognized or impaired.

B / Revaluation of equity put option

Equity put option's revaluation reserve includes cumulative net change in fair value excluding gains or losses from currency translation of any equity put options which gives a right to the non-controlling interest to sell its shares with a premium.

This separated reserve contains equity put option of non-controlling interest (NCI) which has a right to call this option at any time. The price of purchase is calculated by using a multiplier on the net asset value in 2009 and interest payment on each capital injection from 2009. The fair value of the option is calculating by purchase price on the reporting day less NCI's net asset value. The reason of the initial measurement is that MKB expects more likely that NCI will exercise its right to call this option in the near future and the negative fair value of the option became material in this year due to the full write-down of Unionbank's goodwill.

25 Non-controlling interest

During 2011 dividend payments out of the group decreased Non - controlling interest by HUF 203 million. Capital injection into MKB Unionbank AD and MKB Romexterra Bank SA increased Non – controlling interest by HUF 347 million. In 2011 MKB Bank Zrt. took over the control of MKB Romexterra Leasing IFN S.S from MKB Romexterra Bank S.A. Through this purchase MKB Bank Zrt. acquired 94,78% ownership in this entity which also decreased the Non – controlling interest. The retained earnings of non – controlling interest were accounted as equity transfer between MKB and non – controlling interest, which increased the post acquisition reserve of the Group.

26 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

26.1

	2011			2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangibles, property and equipment	-	696	(696)	1	779	(778)
Investments in subs., jointly contr. entities and associates	-	-	-	-	46	(46)
Available-for-sale securities	9	335	(326)	55	44	11
Loans and advances to customers	230	2 997	(2 767)	-	1 470	(1 470)
Allowances for loan losses	243	1 079	(836)	502	-	502
Amounts due to customers	-	-	-	63	-	63
Issued debt securities	-	267	(267)	6	-	6
Provisions (included general risk reserve)	3	-	3	94	-	94
Derivatives	-	-	-	-	-	-
Other items	50	494	(444)	56	141	(85)
Tax loss carry-forwards	3 544	-	3 544	8 688	-	8 688
Net tax assets (liabilities)	**4 079**	**5 868**	**(1 789)**	**9 465**	**2 480**	**6 985**

27 Interest income

27.1

	2011	2010
Cash reserves	15 343	11 181
Loans and advances to banks	2 723	3 032
Loans and advances to customers	128 133	138 336
Derivatives	10 533	14 412
Investments in securities	12 060	19 259
Interest income	**168 792**	**186 220**

Included within various captions under interest income for the year ended 31 December 2011 is a total of HUF 8,842 million (2010: 5,904) accrued on impaired financial assets.

28 Interest expense

28.1

	2011	2010
Amounts due to other banks	22 995	22 154
Deposits from customers	51 227	55 251
Issued debt securities	10 094	8 772
Subordinated liabilities	3 428	2 980
Other fees and commisions similar to interest expenses	99	589
Derivatives	3 922	4 719
Interest expense	**91 765**	**94 465**

Included within interest income there is NIL interest income from derivatives held in a qualifying fair value hedging relationship, and included within interest expense is HUF 76 million from qualifying fair value hedging relationship.

The only components of interest income and expense reported above that relate to financial assets or liabilities carried at fair value through profit or loss are the income and expense on derivative assets and liabilities held for risk management purposes.

29 Net income from commissions and fees

29.1

	2011	2010
Commission and fee income	**25 658**	**28 336**
Payment and account services	9 829	10 138
Credit related fees	4 299	5 324
Card services	2 675	2 485
Brokerage fees and other securities business	3 985	5 029
Other commission and fee income	4 870	5 360
Commission and fee expense	**11 598**	**7 613**
Payment and account services	2 769	2 918
Credit related fees	5 866	2 186
Card services	1 082	903
Brokerage fees and other securities business	658	726
Other commission and fee expense	1 223	880
Net income from commissions and fees	**14 060**	**20 723**

Brokerage fees include fees from trust management and other securities services in the amount of HUF 2,275 million (2010: HUF 2,543 million). For further information on the Group's fund management activity, please see Note 40.

In order to decrease the credit risk BayernLB provided guarantee for some clients' exposures in an amount of HUF 122,164 million at the end of 2010. The concerned credit fees paid by the Bank amounted to HUF 3,154 million among credit related fees.

30 Other operating income

30.1

	2011	2010
Gain on trading securities	656	1 240
Gain / (loss) on sale of available-for-sale securities	(1 293)	4 761
Net gain on trading derivative transactions	4 178	5 635
Gains and losses on fair value hedges		
Gains and losses on hedging instruments	3	(40)
Gains and losses on underlying transactions	(5)	64
Fair Value results from FVTPL revaluation (FVO)	1 794	(16)
Net income from collaterals held in possession	(17)	191
Expenses relating to bank levies	(2 601)	(13 960)
Other	3 981	(2 253)
Other operating income / (expense)	**6 696**	**(4 378)**

The result from fair value revaluation of structured bonds designated at fair value through profit or loss was HUF 1,495 million loss (2010: 64 million loss), and it amounted to HUF 299 million gain regarding long term deposits designated at fair value (2010: 48 million gain).

In 2010 the government levied special tax for financial institutions called banking tax . This special tax has different tax base depending on the type of the financial institutions:

- in the case of banks, the adjusted balance-sheet total calculated based on the annual local account for 2009 The tax levy can be decreased by 30% of the loss from FX – Loan repayments, in 2011. ;
- in the case of other financial institutions the sum of net interest income and income from fees, charges and commissions, but charges and commission expenses can not exceed the income from fees and commission. Calculation must be based on the annual local account for 2009.
- for investment fund management companies, the combined total of the net asset value of the funds they manage, shown on 31 December 2009 and the value of assets of funds and other portfolios shown on 31 December 2009.

The rate of special tax used by the entities in the group is also different depending on the tax base. This banking tax is shown under other expenses as it does not meet the criteria of current income tax.

Financial institutions operating on 1 January, 2011 shall be liable to pay this tax in the whole amount also in 2011 according to the Act. The government intends to levy this special tax also in 2012, but due to an agreement with the Hungarian Banking Association only half of the rate is expected in 2013, and further decrease in 2014.

31 Impairments and provisions for losses

31.1

	Note	2011	2010
Impairment loss on			
Loans and advances to banks	**7**	(327)	416
Loans and advances to customers	**11**	72 977	122 527
Investments in securities	**10**	883	-
Goodwill	**13**	30 693	15 428
Other assets	**12**	1 822	1 142
Direct write off		18 695	4 718
Provision on			
Guarantees and contingencies	**20**	1 620	4 406
Impairments and provisions for losses		**126 363**	**148 637**

HUF 37,251 million loss was recognized due to FX –Loans repayment scheme, the realised loss as of 31.12.2011 amounted to HUF 15,357 million among Direct write off.

32 Operating expenses

32.1

	2011	2010
General and administration expenses	11 552	15 387
Wages and salaries	20 885	23 269
Compulsory social security obligations	5 899	6 578
Occupancy costs	26 254	19 513
Marketing and public relations	2 267	3 075
Communication and data processing	7 846	8 527
Operating expenses	**74 703**	**76 349**

In 2011, the Group's average statistical employee number was 3,796 (2010: 3,816).
Occupancy costs significantly increased due to the impairment on Intangible assets which amounted to HUF 8,319 million (2010: 259 million).

33 Income tax

Income tax expense recognized in the Statement of Comprehensive Income

33.1

	2011	2010
Current tax expense	*2 823*	*619*
Hungarian corporation tax charge – on current year profit	620	551
Romanian corporation tax charge – on current year profit	2 136	4
Bulgarian corporation tax charge – on current year profit	67	64
Deferred tax expense/(income)	8 908	(10 275)
Origination (reversal) of temporary differences	14 159	(8 599)
Effect of changes in deferred tax rates	(5 251)	(1 676)
Income tax	**11 731**	**(9 656)**

In the reporting period 10% current income tax rate applied under HUF 500 million taxable profit and 19% tax rate above this amount in Hungary. Due to this calculation method 10% current income tax rate applied in the Hungarian market as current income tax rate, and 18.6% deferred tax rate was calculated based on five years plans.

In Romania, the current income tax rate for 2011 was 16% (2010: 16%) and the deferred tax rate used was the same. In Bulgaria, the current income tax rate for 2011 was 10% (2010: 10%), and the deferred tax rate is the same.

Reconciliation of effective tax rate

33.2

	2 011		2 010	
	%	MHUF	%	MHUF
Profit / Loss before income tax		(109 295)		(117 821)
Income tax using the domestic corporation tax rate	18,60%	(20 329)	10,00%	(11 782)
Effect of tax rates in foreign jurisdictions	-7,46%	8 150	7,33%	(8 634)
Effect of changes in tax rates	-0,17%	183	2,20%	(2 595)
Movement of unrecognized temporary differences	-1,46%	1 590	-1,22%	1 442
Unrecognized tax losses for the reporting period	-15,50%	16 939	-3,36%	3 957
Tax Losses expiring in current year	-1,15%	1 261	-4,72%	5 562
Non-deductible expenses	-0,88%	958	-0,69%	809
Tax exempt income	0,19%	(204)	0,14%	(164)
Effects due to permanent differences	-	-	-0,06%	67
Other tax effects	-2,91%	3 183	-1,43%	1 682
Income tax	**-10,73%**	**11 731**	**8,20%**	**(9 656)**

MKB used a prudent approach concerning tax losses. Workout companies was not allowed to recognize any deferred tax assets above the limit of deferred tax liability in their books, and the relating tax income and other companies used their five years plan for calculation the upper limit. In 2011 legal base of tax loss changed and due to this fact tax losses can be used at maximum the 50% of the tax base in the future. Although the deferred tax rate increased, but due to the change in legal base resulted HUF 4,609 million depreciation of deferred taxes. Based on this calculation, deferred tax asset on tax loss carry forwards totalled at HUF 4,079 million (2010: 8,688 million).

At 31 December 2011, the Group had unused tax losses amounting to HUF 256,166 million (2010: HUF 119,286 million) with the following maturity:

33.3

	2011	2010
Without maturity	227 500	117 611
Mature within 1 year	-	19
Mature between 1 and 5 years	1 678	79
Mature between 5 and 10 years	-	-
Mature over 10 year	-	1 577
Corporation tax loss carryforwards	**229 178**	**119 286**

The Group also has HUF 234,262 million (2010: HUF 38,392 million) tax losses carried forward, on which no deferred tax asset was recognised.

In 2011, the Group reversed all the deferred tax asset and deferred tax liability (2010: HUF 37 million deferred tax asset and HUF 4 million deferred tax liability), which was booked directly against equity.

34 Earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of HUF -120,792 million (2010: HUF -106,246 million) and a weighted average number of ordinary shares outstanding of 20.733 million (2010: 15.635 million)

The calculation of fully diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after any adjustment for the effects of all dilutive potential ordinary shares. In 2011 and 2010 there were no dilution factor that might cause an adjustment in the weighted average number of ordinary shares, therefore basic and diluted EPS were equivalent.

35 Contingencies and commitments

35.1

	2011	2010
Contingencies		
Guarantees and similar obligations	148 772	174 305
Obligations from letters of credit and other short term trade related items	633	11 933
Other contingent liablities (including litigation)	10 495	3 859
Total contingencies	**159 900**	**190 097**
Commitments		
Undrawn commitments to extend credit	233 594	252 611
Total commitments	**233 594**	**252 611**

From discontinued operation:

	2 011
Contingencies	
Guarantees and similar obligations	1 387
Obligations from letters of credit and other short term trade related items	-
Other contingent liablities (including litigation)	-
Total contingencies	**1 387**
Commitments	
Undrawn commitments to extend credit	3 017
Total commitments	**3 017**

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

36 Use of estimates and judgements

Management discusses with the Group Supervisory Board the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 5).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see Note 4 i,).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical

experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Impairment test of Goodwill

The recoverable amount of each cash-generating units have been calculated based on their value in use.
Value in use has been calculated by discounting the future cash flows generated from the continuing operation of the cash generating unit. By estimating the expected future cash-flows from operation, the Group used its own method. The values assigned to the key assumptions represent management's assessment of future trends in the Bulgarian, Romanian banking industry and in the Hungarian leasing industry and are based on both external sources and internal sources (historical data). Should MKB use exit strategy on a market, expected selling price is also taken into account by calculating of cash flows.

Determining fair values

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

Critical accounting judgements in applying the Group's accounting policies

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

Valuation of financial instruments

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other

valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. Positive fair value of OTC derivatives are adjusted with counter party risk adjustment if the counterparty has a rating worse than 11. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of the reporting period that would have been determined by market participants acting at arm's length.

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

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

The Group discloses for the first time the fair value of Equity put option of the non-controlling interest using valuation techniques with significant unobservable inputs. Equity put options are initially recognized in a separated equity element and the subsequent measurement is at fair value through other comprehensive income.
In the current pressed market environment there is no active market for selling financial institutions and no observable inputs are available for the fair value measurement of this kind of option, the valuation is based on contractual terms. The price of purchase is calculated by using a multiplicator on the net asset value in 2009 and interest payment on each capital injection from 2009. The fair value of the option is calculating by purchase price on the reporting day less NCI's net asset value. The reason of the initial measurement is that MKB expects more likely that NCI will exercise its right to call this option in the near future.
Remarkable increase of EURIBOR used for interest payment calculation on capital injections and knowing the exact date when NCI intend call this option (e.g. during 2013) would change the fair value significantly.

The table below analyses financial instruments carried at fair value, by valuation method:

36.1

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
31 December 2011					
Trading assets	**8**	34 978	22 670	-	57 648
Derivative assets held for risk management	**9**	-	-	-	-
Loans and advances to customers	**11**	-	-	-	-
Current and deposit accounts	**17**	-	28 832	-	28 832
Trading liabilities	**18**	102	29 195	4 166	33 463
Derivative liabilities held for risk management	**19**	-	262	-	262
Issued debt securities	**21**	-	23 143	-	23 143
31 December 2010					
Trading assets	**8**	28 711	15 076	-	43 787
Derivative assets held for risk management	**9**	-	-	-	-
Loans and advances to customers	**11**	-	-	-	-
Current and deposit accounts	**17**	-	22 751	-	22 751
Trading liabilities	**18**	212	29 480	-	29 692
Derivative liabilities held for risk management	**19**	-	276	-	276
Issued debt securities	**21**	-	2 577	-	2 577

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

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

37 Accounting classifications and fair values

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

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

37.1

2 011	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Financial assets							
Cash reserves	**6**	-	-	247 291	74 386	321 677	321 677
Loans and advances to banks	**7**	-	85 052	-	-	85 052	84 187
Measured at fair value		-	-	-	-	-	-
Measured at amortised cost		-	*85 052*	-	-	*85 052*	*84 187*
Trading assets	**8**	57 648	-	-	-	57 648	57 648
Derivative assets held for risk management	**9**	-	-	-	-	-	-
Investments in securities	**10**	-	-	288 925	-	288 925	288 925
Loans and advances to customers	**11**	-	1 994 633	-	-	1 994 633	2 134 465
Measured at fair value		-	*3 002*	-	-	*3 002*	3 002
Measured at amortised cost		-	*1 991 631*	-	-	*1 991 631*	2 131 462
Financial liabilities							
Amounts due to other banks	**16**	-	-	-	977 326	*977 326*	959 664
Current and deposit accounts	**17**	*28 832*	-	-	*1 434 640*	1 463 472	1 413 140
Measured at fair value		*28 832*	-	-	-	*28 832*	28 832
Measured at amortised cost		-	-	-	*1 434 640*	*1 434 640*	1 384 307
Trading liabilities	**18**	33 463	-	-	-	33 463	33 463
Derivative liabilities held for risk management	**19**	262	-	-	-	262	262
Issued debt securities	**21**	23 143	-	-	148 002	171 145	186 552
Measured at fair value		*23 143*	-	-	-	23 143	23 143
Measured at amortised cost		-	-	-	*148 002*	148 002	163 409
Subordinated debt	**22**	-	-	-	108 486	108 486	109 052

2 010	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Financial assets							
Cash reserves	**6**	-	-	100 516	121 926	222 442	222 442
Loans and advances to banks	**7**	-	75 780	-	-	75 780	76 221
Measured at fair value		-	-	-	-	-	-
Measured at amortised cost		-	*75 780*	-	-	*75 780*	76 221
Trading assets	**8**	43 787	-	-	-	43 787	43 787
Derivative assets held for risk management	**9**	-	-	-	-	-	-
Investments in securities	**10**	-	-	253 237	-	253 237	253 237
Loans and advances to customers	**11**	-	2 177 770	-	-	2 177 770	2 343 657
Measured at fair value		-	*6 411*	-	-	*6 411*	6 411
Measured at amortised cost		-	*2 171 359*	-	-	*2 171 359*	2 337 246
Financial liabilities							
Amounts due to other banks	**16**	-	-	-	965 684	965 684	1 216 604
Current and deposit accounts	**17**	22 752	-	-	1 444 493	1 467 245	1 566 614
Measured at fair value		*22 752*	-	-	-	*22 752*	*22 752*
Measured at amortised cost		-	-	-	*1 444 493*	*1 444 493*	*1 543 862*
Trading liabilities	**18**	29 692	-	-	-	29 692	29 692
Derivative liabilities held for risk management	**19**	276	-	-	-	276	276
Issued debt securities	**21**	2 577	-	-	142 124	144 701	150 758
Measured at fair value		*2 577*	-	-	-	*2 577*	*2 577*
Measured at amortised cost		-	-	-	*142 124*	*142 124*	*148 181*
Subordinated debt	**22**	-	-	-	96 561	96 561	97 237

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

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

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

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

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

Investments in securities

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

Loans and advances to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by coupon rates. In general, contractual cash flows are discounted using risk free discount rate. The rediscounted cash flows are decreased by the recognized impairment, and it is considered as fair value of the loan portfolio.

Current and deposit accounts

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

Issued debt securities and Subordinated debt

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

38 Related parties

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

Transactions with related parties

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

38.1

	Parent company and its group		Non-consolidated subsidiaries		Jointly controlled entities		Associates		Key Management Personnel		Other related parties	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Assets												
Amounts due from other banks	46 259	25 825	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	4 875	2 751	45 298	38 449	714	2 981	855	799	1 151	1 327
Derivative financial assets	3 123	3 670	-	-	-	7	-	-	-	-	-	6
Other assets	-	98	-	337	-	-	-	-	-	-	-	-
Liabilities												
Amounts due to other banks	816 087	840 692	-	-	-	-	-	-	-	-	-	-
Current and deposit accounts	328	881	759	1 262	913	1 381	886	710	-	-	60 607	33 446
Borrowed funds and debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	108 486	96 561	-	-	-	-	-	-	-	-	-	-
Derivative finacial liabilities	16 319	17 765			-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Income statement												
Interest income	4 099	6 639	127	189	1 965	1 653	66	401	23	22	66	73
Interest expense	22 391	23 703	30	41	69	66	10	43	-	-	982	1 734
Other net income / (expense)	(6 365)	(3 327)	19	11	27	81	12	14	(1 217)	(863)	30	31
Contingencies and commitments												
Undrawn commitments to extend credit	2 000	2 000	13	608	2 368	2 692	10	220	-	-	672	1 738
Guarantees	497	497	-	-	65	1 178	-	-	-	-	2 056	2 056
Provision	35	113	1 479	30	2 692	3 858	5	257	-	-	25	25

In order to decrease the credit risk BayernLB provided guarantee for some clients' exposures in an amount of HUF 122,164 million.

The amount outstanding from Key Management Personnel represents mortgages and secured loans granted and these loans are secured over property of the respective borrowers.

The above transactions with other than Key Management Personnel were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Impairment losses and provisions against balances outstanding with related parties were recognized during ordinary course of impairment assessment. Incurred loss has been recognized on balance sheet items and off balance sheet items with related parties which were individually or collectively assessed and the test resulted NIL impairment at the end of the period.

Key management personnel compensation for the period comprised:

38.2

	2011	2010
Short-term employee benefits	1 217	863
Other long-term benefits	-	-
	1 217	**863**

39 Group entities

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

39.1

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
MKB-Euroleasing Autólízing Szolgáltató Kft.	60,79%	50%	Hungary	Car finance activity.
MKB-Euroleasing Autóhitel Zrt.	71,75%	50%	Hungary	Car and consumer finance activities.
MKB-Euroleasing Autópark Zrt.	74,97%	50%	Hungary	Car fleet management
MKB-Euroleasing Zrt.	50,98%	50%	Hungary	Holding of Euroleasing group.
MKB Üzemeltetési Kft.	100%	100%	Hungary	Property operation and maintenance.
MKB Unionbank AD	94%	94%	Bulgaria	Fully licenced commercial bank.
MKB Romexterra Bank S.A.	90,94%	92,42%	Romania	Fully licenced commercial bank.
MKB Romexterra Leasing IFN S.A.	94,78%	94,78%	Romania	Car and porperty leasing activity.
S.C. Corporate Recovery Management S.R.L.	100%	100%	Romania	Claims buying/factoring activity.
MKB Befektetési Alapkezelő Zrt.	100%	100%	Hungary	Investment fund management activity.
Resideal Zrt.	100%	100%	Hungary	Property investment and valuation.
Exter-Immo Zrt.	100%	100%	Hungary	Financial leasing activity.
Exter-Bérlet Kft.	100%	100%	Hungary	Wholesale trade.
Ercorner Kft.	50%	50%	Hungary	Property investments
Euro-Immat Üzemeltetési Kft.	100%	100%	Hungary	Intangible assets, license maintenance.
Extercom Vagyonkezelő Kft.	100%	100%	Hungary	Property investments

40 Funds management

The Group manages 20 close-ended (2010: 22) and 17 open-ended (2010: 17) investment fund via MKB Befektetési Alapkezelő Zrt, a fully owned and consolidated subsidiary. However, as the funds themselves are not controlled by the Group, they are not consolidated. For funds management services provided by the Group, funds should pay certain fees and commission that is presented as „Commission and fee income" (see Note 29). In 2011 and 2010, the volume of the funds, and transactions with the funds themselves were as follows:

40.1

	2011	2010
Managed funds (in HUF million)		
Open-ended funds	72 319	88 530
Close-ended funds	39 274	42 797
Commission and fee income from funds	2 410	2 699
Deposits from funds	74 732	100 681
Interest expense on deposits from funds	1 816	8 838

At the end of 2011 MKB held HUF 2,506 million Investment funds which is managed by the Group.

41 Segment information

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

Business segments

The business segments identified by the Group represent the organizational structure as reflected in its internal management reporting systems. The Group is organized into four business lines, each with its own distinct market and products. Each business line has its own set of objectives and targets broken down by operating units, which are consistent with the Group's overall strategic direction. As of 31 December 31 2011, the Group's business segments and their main products were:

Corporate Banking

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

Institutional Banking

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

Retail and Private Banking

The Group provides a wide range of deposit and savings instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through 187 full-service branches and sub-branches (2010: 186 branches), ATMs, telephone and electronic channels.

Money and Capital Markets

The Group serves domestic institutions with sophisticated cash management and risk mitigation tools through money market products and derivative financial instruments, and manages the Group's liquidity, interest rate and foreign exchange positions. The Group provides capital market products, custody and asset management, pension fund and investment fund management, collaterised loan finance, and investment and other financial advisory services to large corporations and institutions, and manages the Group's market positions.

Other

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

41.1

2011	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves	**6**	-	-	-	-	321 677	321 677
Loans and advances to banks	**7**	-	34 380	-	50 672	-	85 052
Trading assets	**8**	-	-	-	57 648	-	57 648
Derivative assets held for risk management	**9**	-	-	-	-	-	-
Investments in securities	**10**	-	-	-	288 925	-	288 925
Loans and advances to customers	**11**	1 203 083	2 302	789 248	-	-	1 994 633
Assets from Discontinued operation	**42**	54 581	486	-	23	18 799	73 889
Other assets	**12**	-	-	-	-	32 682	32 681
Goodwill	**13**	-	-	-	-	-	0
Deferred tax assets	**26**	1 727	137	1 074	536	605	4 079
Investments in jointly controlled entities and associates	**14**	8 459	-	-	-	-	8 459
Intangibles, property and equipment	**15**	-	-	-	-	76 918	76 918
		1 267 850	**37 304**	**790 322**	**397 804**	**450 681**	**2 943 961**
Liabilities							
Amounts due to other banks	**16**	-	350 047	-	627 279	-	977 326
Current and deposit accounts	**17**	584 325	19 851	859 296	-	-	1 463 472
Trading liabilities	**18**	-	-	-	33 463	-	33 463
Derivative liabilities held for risk management	**19**	-	-	-	262		262
Liabilities of Discontinued operation	**42**	64 815	818	-	2 150	1 211	68 994
Other liabilities and provisions	**20**	5 213	235	25 206	65	137	30 856
Deferred tax liability	**26**	1 396	1 273	1 679	1 101	418	5 868
Issued debt securities	**21**	141 517	-	29 171	-	457	171 145
Subordinated debt	**22**	-	108 486	-	-	-	108 486
Shareholders' equity	**23, 24, 25**	-	-	-	-	84 089	84 089
		797 266	**480 710**	**915 352**	**664 321**	**86 312**	**2 943 961**
Income statement							
Gross revenue - external customers		61 317	52 716	91 069	3 330	(3 018)	205 414
Gross revenue - inter-segment		(20 880)	12 028	8 852	-	-	
Interest and commission expenditure		(17 863)	(51 496)	(29 823)	(4 180)	-	(103 362)
Impairment and provisions for losses	**31**	(36 741)	(33 111)	(53 734)	(4 444)	-	(128 030)
Operating costs		(1 598)	(16 037)	(41 112)	(2 224)	(13 733)	(74 703)
Expenses related to bank levies		(1 108)	(75)	(398)	(286)	(734)	(2 601)
Result from discontinued operation	**42**	(1 813)	(814)	(2 208)	(185)	5	(5 015)
Share of associates' profit		(997)					(997)
Segment result		**(19 683)**	**(36 789)**	**(27 354)**	**(7 989)**	**(17 480)**	**(109 295)**
Other information							
Capital expenditure		-	-	-	-	25 804	25 804
Depreciation and amortisation	**15**	7 459	253	10 969	-	-	18 681
Other non-cash expenses		19	191	490	27	164	890

2010	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves	**6**	-	-	-	-	222 442	222 442
Loans and advances to banks	**7**	-	45 407	-	30 373	-	75 780
Trading assets	**8**	-	-	-	43 787	-	43 787
Derivative assets held for risk management	**9**	-	-	-	-	-	-
Investments in securities	**10**	-	-	-	249 656	3 581	253 237
Loans and advances to customers	**11**	1 329 329	4 275	844 159	7	-	2 177 770
Other assets	**12**	-	-	-	-	27 007	27 007
Goodwill	**13**	(405)	26 629	-	-	-	26 224
Deferred tax assets	**26**	4 894	375	3 080	1 114	2	9 465
Investments in jointly controlled entities and associates	**14**	11 750	-	-	-	-	11 750
Intangibles, property and equipment	**15**	-	-	-	-	91 726	91 726
		1 345 568	**76 686**	**847 239**	**324 937**	**344 758**	**2 939 188**
Liabilities							
Amounts due to other banks	**16**	-	814 324	-	151 360	-	965 684
Current and deposit accounts	**17**	499 081	9 380	958 784	-	-	1 467 245
Trading liabilities	**18**	-	-	-	29 692	-	29 692
Derivative liabilities held for risk management	**19**	-	-	-	276	-	276
Other liabilities and provisions	**20**	5 411	10 961	5 077	-	5 027	26 476
Deferred tax liability	**26**	976	73	569	25	837	2 480
Issued debt securities	**21**	135 194	-	9 507	-	-	144 701
Subordinated debt	**22**	-	96 561	-	-	-	96 561
Shareholders' equity	**23, 24, 25**	-	-	-	-	206 073	206 073
		640 662	**931 299**	**973 937**	**181 353**	**211 937**	**2 939 188**
Income statement							
Gross revenue - external customers		94 674	15 904	80 526	34 954	-	226 058
Gross revenue - inter-segment		(11 704)	18 117	13 962	(20 375)	-	-
Interest and commission expenditure		(22 423)	(32 690)	(40 556)	(6 409)	-	(102 078)
Impairment and provisions for losses	**31**	(68 228)	(15 677)	(63 285)	(692)	(755)	(148 637)
Expenses related to bank levies		(7 934)	(6 748)	(41 415)	(5 714)	(14 538)	(76 349)
Operating costs		(7 129)	(532)	(3 133)	(1 459)	(1 707)	(13 960)
Share of associates' profit		(936)	-	-	-	-	(936)
Segment result		**(23 680)**	**(21 626)**	**(53 901)**	**305**	**(17 000)**	**(115 902)**
Other information							
Capital expenditure		-	-	-	-	15 123	15 123
Depreciation and amortisation	**15**	5 672	8	5 210	-	130	11 021
Other non-cash expenses		113	96	592	82	208	1 091

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of the assets.

41.2

2 011	Hungary	Romania	Bulgaria	Other	Total
Net interest income	71 088	2 976	7 634	(4 671)	77 027
Net commission income	11 143	700	2 913	(696)	14 060
Other operating income	(1 823)	(6 469)	517	9 456	1 681
Total revenue	**80 408**	**(2 793)**	**11 064**	**4 089**	**92 768**
Non current assets	76 714	3 131	1 802	-4 729	76 918

2 010	Hungary	Romania	Bulgaria	Other	Total
Net interest income	90 031	9 298	9 862	(17 435)	91 755
Net commission income	12 998	1 495	2 707	3 522	20 723
Other operating income	8 539	(1 243)	652	1 268	9 216
Total revenue	**111 568**	**9 550**	**13 221**	**(12 645)**	**121 694**
Non current assets	113 128	3 039	1 783	0	117 950

Measurement of segment profit or loss

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

Calculation of intersegment revenue

Intersegment revenues and expenses are calculated on market interest method. In the case of refinanced loans, as well as those linked to a deposit, are evaluated against the connected transaction. Revenues and expenses on refinanced loans and loans linked to deposit are calculated with reference to the interest of the underlying transaction.

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

42. Discontinued Operation

At the end of 2011 the management decided to sell MKB Romexterra Bank S.A, which represents the main business in the Romanian market. The management is committed to cease businesses which are categorised as non-core business by the group strategy. MKB expects to agree with potential investor in the first half of 2012.

Assets, liabilities and profit from discontinued operation include the followings:

42.1

	2011	2010
Assets		
Cash reserves	18 780	18 073
Loans and advances to banks	485	8 237
Trading assets	24	0
Derivative assets held for risk management	0	0
Investments in securities	26 791	25 474
Loans and advances to customers	27 790	31 169
Other assets	19	718
Deferred tax assets	0	37
Investments in jointly controlled entities and associates	0	126
Intangibles, property and equipment	0	2 562
Total assets	**73 889**	**86 395**
Liabilities		
Amounts due to other banks	818	4 140
Current and deposit accounts	66 963	71 723
Trading liabilities	2	157
Derivative liabilities held for risk management	0	0
Other liabilities and provisions	1 196	545
Deferred tax liability	15	178
Issued debt securities	0	7
Total liabilities	**68 994**	**76 749**

	2011	2010
Income statement:		
Interest income	6 367	9 656
Interest expense	3 098	4 359
Net interest income	**3 269**	**5 296**
Net income from commissions and fees	695	1 292
Other operating income / (expense)	(356)	539
Impairments and provisions for losses	(1 128)	12 470
Operating expenses	9 913	9 191
Profit /Loss before taxation	**(5 177)**	**(14 535)**
Income tax expense	(161)	761
PROFIT / LOSS FOR THE YEAR	**(5 015)**	**(15 296)**
Other comprehensive income:		
Revaluation on AFS financial assets	(61)	10
Exchange differencies on translating foreign operations	603	182
Other comprehensive income for the year net of tax	**542**	**192**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(4 473)**	**(15 104)**

Based on the management expectation the recoverable amount of the investment in MKB Romexterra Bank S.A may not achieve its net asset value. Due to this estimation secondary revaluation of the assets were necessary. Intangible and tangible, and other assets were assessed to impairment test, and impairment was recognized in an amount of HUF 3,358 million. MKB will reclassify the forex revaluation from currency translation reserve of foreign operation into profit or loss, which amounted to HUF 4,405 million loss at the end of the year.

43 Events after the end of the reporting period

1.) In December 2011, the main shareholders decided to increase the capital of the Bank through issuance of new shares. Based on this decision and approval of the European Commission the main shareholder transferred its contribution on 31 January 2012, and the procedure was successfully closed on 17 February, 2012. The total capital increase was HUF 62,000 million.

2.) In February, the main shareholder made a decision to recall Mr. Tamás Erdei from his position and Pál Simák dr., former CFO, was appointed to take over the Chairman and Chief – Executive role from 8 March, 2012. However Mr. Pál Simák dr. will be the chairman at the date of approval of Annual Financial Statement, Mr. Tamás Erdei is due for endorsement.

3.) Due to the agreement between the Hungarian Government and the Hungarian Banking Association, the following provisions are expected in 2012. The legislative processes are still ongoing while preparing the Annual Financial Statement for the year 2011.

3.1. In the case of FX-mortgage debtors who on 30 September 2011 had been delinquent for more than 90 days with an arrear that reached the sum of the minimum wage, members of the Hungarian Banking Association undertake to convert the FX-mortgage loan to a HUF mortgage loan, unless converted to a HUF mortgage loan previously, and cancel 25% of such clients' debts by 15 May 2012, provided that the total market value of real estate serving as collateral did not exceed HUF 20 million, when the FX-mortgage loan contract was concluded. (According to a latest initiative by the ruling political party, the threshold would be defined in the sum of the original loan as HUF 30 million. It went against the original agreement, and at the time of finalization of these Annual Financial Statements, there was no decision on this initiative.)

Credit Institutions on a consolidated basis shall be entitled to deduct 30% of their losses resulting from cancelled claims from their special tax due in 2012.

The Bank does not expect significant future losses from this initiative. However, any losses should not be recognised in these financial statement as the respective Law is not effective.

3.2. Unless the FX-mortgage loan has been converted to a HUF mortgage loan previously, the delinquent FX-denominated loan will be converted at the average of the mid-rates of the respective currencies published by the Hungarian National Bank for the period between 15 March 2012 and 15 April 2012. After the conversion, the Bank will cancel 25% of the debt.

The Government shall supplement the yet unpublished decree adopted on 28 September 2011 on the Home Creation Interest Rate Subsidy Scheme so that it shall provide a gradually decreasing interest rate subsidy to clients who have converted their loans into HUF, supposing the property securing the loan constitutes the debtor's main dwelling and registered address. A further condition of the interest rate subsidy scheme is that at the moment of the conclusion of the contract, the value of the property did not exceed HUF 20 million in Budapest, and HUF

15 million in the countryside, furthermore, there should be at least one minor child in the household. Debtors taking part in a rescheduling programme with a payment default related to the aforementioned programme exceeding 90 days in a value that reaches the sum of the minimum wage shall not be eligible to participate in the scheme.

The Bank has not prepared any analysis about expected future losses from this initiative. However, any losses should not be recognised in these financial statement as the respective Law is not effective.

3.3. Entering the exchange rate protection scheme shall be open to duly performing FX mortgage debtors as well as delinquent clients with a default under 90 days until the end of 2012. The exchange rate fixing as well as the accumulation of debts arising from the difference between exchange rates on the buffer account shall be available until June 30 2017. Regarding monthly instalments of FX-denominated mortgage loans under the scope of the scheme, within the ranges of CHF/HUF 180-270, EUR/HUF 250-340 and JPY/HUF 2.5-3.3 debtors shall pay their instalments calculated according to the lowest values of the ranges on the following condition: when actual exchange rates exceed the cap, the principal repayment of the monthly instalment shall be borne by the client in compliance with the effective buffer account regulations; In turn, 50% of the interest payments above the cap shall be borne by financial institutions and 50% by the State. Regarding the interests to be paid both by the banks and the State, the settling of accounts shall take place on a quarterly basis. In the event of exchange rate levels exceeding CHF/HUF 270, EUR/HUF 340 and JPY/HUF 3.3, exchange rate risks are entirely borne by the State. Clients with foreign exchange denominated mortgage loans entering the scheme shall have the right to opt out of the programme after three years.

Taking into consideration of the above provisions, MKB is confident that impairment recognized in the course of ordinary rating process will sufficiently cover its future losses expected from these new provisions, so there were no needs to book additional impairment for these purposes as at 2011 year-end.

BUSINESS REPORT
to the consolidated 2011 financial statements of
MKB Bank Zrt. (Prepared under IFRS)

In 2011, the scope of activities of MKB Bank Zrt's subsidiaries and jointly controlled companies comprised the following sectors

- **banking services**
- **finance and operating leases**
- **financial and investment services**
- **valuation and sales tasks related to work-out activities**
- **maintenance of buildings and fixed asset investments**
- **property investment**
- **other loans (motor, car and other vehicle loans)**
- **renting vehicles, trade and repair**
- **management of investment funds**

The activities of subsidiary companies and jointly controlled entities were tightly fit to the core credit institutional feature and, moreover, to MKB Bank Zrt's own business strategy and business policies.

In line with group-wide business policy targets elaborated early 2001, finance and operating lease activities were concentrated in MKB-Euroleasing Group and MKB Romexterra Leasing IFN S.A.

MKB Bank Zrt. acquired 1.63% stake in Romexterra Bank through issuance of new share capital. This is a fully licensed commercial bank domiciled in Romania. At the end of period 2011 the total interest in MKB Romexterra Bank S.A. is 92.42%. MKB acquired also 7.19% additional share in MKB Romexterra Leasing IFN S.A through indirect investment. The closing and the take-over of control over both mentioned two companies took place in 2006.

MKB Group's profit after taxation for 2011 under IAS/IFRS amounted to HUF 121,026 million loss.

Consolidated shareholders' equity was HUF 84,089 million at 2011 year-end.

At December 31, 2011, MKB Group held no repurchased own shares in its portfolio.

MKB Bank's corporate governance statement is attached in Enclosure 1.

In 2011, the Group accounted for HUF 290 million R&D costs.

After financial position date there occurred some significant events, which is presented in Note 43, but they may not have a material effect on volume and income figures set out in the consolidated financial statements for 2011.

Budapest, 20 March, 2012

Tamás Erdei
Chairman & Chief Executive

Enclosure 1

CORPORATE GOVERNANCE STATEMENT

On the basis of s.95/B of Act C of 2000 on Accounting

The Corporate Governance system applied by MKB Bank Zrt. (hereinafter: Company) is based on the effective Hungarian statutory regulations and the provisions of the Articles of Association.

The Shareholders' Meeting is the supreme governing body of the Company. Each share entitles to one vote at the Shareholders' Meeting.

The ordinary Shareholders' Meeting shall be held annually, at the latest by the end of May each year. Decision on issues conferred to the exclusive authority of the Shareholders' Meeting under the law, or the Articles of Association shall fall within the exclusive authority of the Shareholders' Meeting.

The Board of Directors is the operative management body of the Company. The members of the Board of Directors represent the Company with regard to third parties, at court and before other authorities.
The Board of Directors is entitled to take all actions permitted by the effective legal regulations and the resolutions of the Shareholders' Meeting except for matters falling within the exclusive authority of the Shareholders' Meeting or the Supervisory Board. Particular decisions of the Board of Directors listed in the Articles of Association may not be executed before the approval thereof by the Supervisory Board.

The Board of Directors shall hold its meetings whenever it deems necessary, but at least ten times a year in order to perform its duties properly. The Board of Directors shall draw up its By-laws to be approved by the Supervisory Board.

The members and the Chairman of the Board of Directors are elected and recalled, and their remuneration is determined by the Shareholders' Meeting.

The Board of Directors is responsible for the management of tasks related to the Company's affiliate banks abroad and specified in the Articles of Association.

The Chairman of the Board of Directors, as Chairman and Chief Executive shall decide on granting prior consent to undertaking board of directors or supervisory board membership by the Deputy Chief Executives of the Company in another business association with the exception of offices held in another business association pursuing activity identical to that of the Company.

The Board of Directors shall decide on the approval of the acquisition of shareholding and the acceptance of a mandate as executive officer by a member of the Company's Board of Directors in another business association pursuing activity identical to that of the Company. Such decision of the Board of Directors may not be executed before the approval thereof by the Supervisory Board.

The Board of Directors prepares a quarterly report on earnings and risk positions regarding strategic participations to be submitted to the Supervisory Board.

With the cooperation of the members of the Board of Directors the following committees function at the Company:

- Bank Development Committee
- LLP Committee
- CSR Committee
- Asset and Liability Management Committee
- Risk Market Board
- Special Credits Unit Committee

The tasks and scope of the Committees are stipulated in the by-laws approved by the Board of Directors.

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

The Supervisory Board shall draw up its By-laws to be approved by the Shareholders' Meeting.
The members of the Supervisory Board are elected and recalled, and their remuneration is determined by the Shareholders' Meeting.

The members of the Supervisory Board shall be elected by the Shareholders' Meeting for a period of no more than three years. One third of the members of the Supervisory Board shall be the representatives of the Company's employees nominated by the Works Council. Unless there is an agreement between the Works Council and the Board of the Directors to the contrary, one third of the members of the Supervisory Board shall be the representatives of the Company's employees nominated by the Works Council, to be elected by the first Shareholders' Meeting following the nomination, except for cases of disqualification stipulated by law, when a new nomination is required.

Pursuant to s.62. of the Capital Market Act the Supervisory Board shall pursue additional audit committee tasks.

With the cooperation of the members of the Supervisory Board the following Committees function at the Company:

- Risk Committee
- Audits Supervision Committee
- Remuneration Committee

The Risk Committee and the Audits Supervision Committee are responsible for decision preparing and supporting tasks, while in addition to these the Remuneration Committee also

deals with remuneration committee related tasks determined by the Credit Institutions and Financial Enterprises Act.

The list of the members of the Board of Directors and the Supervisory Board is enclosed hereto in Appendix 1. of the present Statement.

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. The internal audit system also performs group control tasks and in addition to its own directly performed audits supervises the operation and tasks of the internal audit functions of other group members.

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

MKB Bank's consolidated and non-consolidated Risk Strategies are reviewed annually by MKB Bank's Risk Control Unit with the cooperation of the involved areas. The Risk Strategies - adapting to the current economic environment and in accordance with the Bank's Business Strategy - incorporate the principles and objectives of the Bank's risk strategy in relation to each risk type, and determine the consolidated and non-consolidated Country, Sector, and individual limits. Following discussions with the Risk Committee it is the Supervisory Board of the Company that is entitled to give final approval on the Risk Strategy.

Within the framework of the Risk Implementation Project, in accordance with the basic requirements of the Basel II preparations, and following the guidelines of BayernLB the concept globally concerning the Company's risk bearing procedures was developed. Accordingly, with the modification of internal regulations, as of July 1, 2008 a new risk

bearing procedural rules entered into force whereby the Experience test of the implementation of the IRB method was officially launched.
The Excellence Wave III. / IRB Project was closed on December 31, 2011. The Project aimed to strengthen the risk management procedures within the MKB Bank Group based on the experiences on prevalidation of the Supervision. In addition to fine tuning of risk concept elements further elements were developed.

Main elements of the concept:

- Implementation of the Uniform Bank Segmentation categorisation applicable for the whole, risk product related clientele of the Company;
- Transformation of the decision making system according to the changes of the implemented risk assumption procedural rules;
- Development and implementation of Basel II conform rating tools and the development of analytic and behavioural 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;
- Elaboration of internal validation methodology and its annual performance (rating and scoring tools, validation of related processes);
- Monitoring process with a basic functionality IT support;
- 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.
- Regular executive reporting, back testing (RQR, IRB capital requirement, data quality).

The 31 group level risk management principles approved by the Board of Directors of the Company concern 5 main subjects: the organisation, credit deals, problematic customer management, trading transactions (including treasury) and the operational risks.
The most important risk management principles contain final control enforced at the level of the Board of Directors, independent control separated from the risk assumption areas and adequate measuring, diversification, monitoring and reporting of the risks.
Efficient communication of the risks and risk assumption willingness, continuous developments in the interest of the recognition, measurement, monitoring of risks, making the risk processes of key importance up-to-date and user friendly, enhancing their performance and the employment of well trained workforce are the tokens of the efficient risk management function of the Company.

The Articles of Association of the company are available for the public on the website of MKB Bank Zrt (www.mkb.hu) and in the registry of the Metropolitan Court of Budapest as Court of Registration; the By-laws of Supervisory Board are available for the public in the registry of the Metropolitan Court of Budapest as Court of Registration.

Appendix 1

THE BOARDS OF MKB BANK ZRT

SUPERVISORY BOARD

CHAIRMAN:
Stephan Winkelmeier (2010)
Member of the Board of Management
Bayerische Landesbank

MEMBERS:
Gerd Häusler (2010)
Chairman of the Board of Management
Bayerische Landesbank

Jochen Bottermann (2009)
Advisor
Board of Management
BAWAG P.S.K. AG

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

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

Marcus Kramer (2010)
Member of the Board of Management
Bayerische Landesbank

Lőrincz Ibolya (2007)
Head of Division
MKB Bank Zrt.

Dr. Mészáros Tamás (2009)
Professor
Corvinus University, Budapest

Nils Niermann (2011)
Member of the Board of Management
Bayerische Landesbank

Note: Beginning of membership in brackets

BOARD OF DIRECTORS

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

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

Dr. Kraudi Adrienne (2008)
Deputy Chief Executive for Corporate Governance end
Marketing Communication
MKB Bank Zrt.

Roland Michaud (2010)
Deputy Chief Executive for SCU
MKB Bank Zrt.

Michael Schmittlein (2011)
Chief Risk Officer
MKB Bank Zrt.

Dr. Simák Pál (2008)
Deputy Chief Executive for Strategy and Finance
MKB Bank Zrt.

Note: Beginning of membership in brackets

MANAGEMENT'S DISCUSSION & ANALYSIS

(International Financial Reporting Standards, IFRS)

The following section of the Annual Report provides a discussion and analysis of the Group's financial condition and results of operations so as to help the reader to assess any changes in the financial condition and profits for the year 2011. 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, 2011 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

By and large the economies of Central and South-Eastern Europe were stabilised in 2011. The growth in some of them was significantly higher than in the Western European countries. However, the pace and timescale of recovery was different in each country depending on the status of their internal market, export market and economic structure. Two of the three economies being the main operating environment of MKB Group (Romania and, expectedly from 2012 Hungary) will commence a new sustainable growth path with the financial assistance of the IMF and the EU. The economic growth in the 3 countries slowed down during the year due to the re-escalating eurozone debt crisis from the summer of 2011, the national currencies weakened (with the exception of Bulgaria), and the sovereign yields and country risk premiums (CDS) rocketed. Even so the Romanian GDP growth was one of the highest in the region. Following the former optimism, the outlook is less favourable for 2012, although 1-2% growth is projected for Romania and Bulgaria, which would in general exceed that of the Western European, while the Hungarian economy is expected to more or less stagnate. Export is the main growth driver in all three countries, but in Bulgaria and Romania even the domestic demand is likely to rise from 2012.

Fiscal consolidation and sustained fiscal control, as well as reduction of the sovereign debt are the main objectives of these three economies. The two factors coupled form the gravest problem in Hungary (less in Bulgaria), yet in Hungary they are associated most with the high indebtedness of customers in foreign currency (CHF). All three countries are committed to fiscal consolidation, and have shown very good results also in European comparison. In terms of the budget position Bulgaria has been among the most disciplined EU Member States. Romania has also taken definite measures towards the reduction of its deficit while in Hungary the budget statistics reflect a favourable picture as a result of one-off measures. The temporary increase in inflation is due to the required measures (e.g., in Hungary in 2012). The monetary policy is basically conservative, while any alleviation can be expected only in relation to some significant and sustainable decline of risk perception and risk factors. At the same time, the central banks (e.g., Hungary) are constantly looking for alternative ways to stimulate the economy with the involvement of the banking sector.

Following the elections the political confidence required for reforms seems strong in Bulgaria, while in Romania the Prime Minister and the government changed at the beginning of 2012 (general elections are scheduled in 2012). In Hungary the popularity of the governing party with two-thirds majority have declined considerably, while most voters are uncertain and have no party preferences. Consistent implementation of the started adjustment measures and their replacement with long-term structural reforms could further build trust in the countries of the region in the gradually improving international economic environment. It is especially important for Hungary to regain the confidence of investors in its real economy, that of financial markets and the financial sector. 2011 showed that the international rating agencies punished more the unorthodox, one-off actions and legal uncertainties

than the economic performance itself. Investors and the international rating agencies gradually downgraded Hungary in 2011, even below the level that would be justified based on the fundamental conditions of its economy. As opposite, while there is a clearly positive judgment of Bulgaria, all three large rating agencies classified Hungary into the non-investment category, even if the country may not deserve it.

In 2011 the banking sectors of the individual countries were still characterised by crisis management, basically due to the delayed impacts of the slow economic recovery on the portfolio quality. The tendency of non-performing loans (NPL) is still rising and provisioning is high. All those were accompanied by individual and economic policy factors, and therefore the banking sector posted a loss in Hungary (bank tax and lump sum FX loan repayment) and in Romania, but it remained profitable in Bulgaria. Self-financing is improving, also in foreign currencies, e.g., because of the lump sum repayments in Hungary, the internal savings are rising favourably, but the region still heavily depends on external refinancing. The capital position is stable due to the capital increases made by the parent banks, which confirmed their long-term commitments to the markets, the capital adequacy ratios are high and liquidity is good in local currencies. However, the financing capacity and business activity of the sector, as well as the eagerness of the parent banks weakened, which tendency is perhaps the strongest in Hungary. As a consequence, short-term strategy adjustments were made, expansion projects came to a halt, and "hibernation" with rationalisation began in Hungary. At the same time, the Greek banks consolidated their subsidiaries in the countries concerned. It applies to all three economies that the "financial fertilization", the local reflection of the eurozone crisis and the problems of WEU banks (periphery government securities portfolios and customer loans, capital, loan-to-deposit (LTD) objectives, etc.), coupled with strengthening financial regulations are making it more difficult for the CEEU region to make a fast recovery. Thus, the local banking sectors can support economic growth to a different extent. Even so, assuming an improving external environment, the outlook is clearly positive for the banking sectors from 2013.

HUNGARIAN BUSINESS AREA 2011: DELAYED RECOVERY, UNORTHODOX POLICIES UNDER INTERNATIONAL PRESSURE1

For the Hungarian economy 2011 was a year of partial failure of the unorthodox crisis management economic policy, thus, beginning of its initial correction. The explanation is that the favourable processes set as targets or described as feasible in the economic policy in 2010 did not take place in the real economy in 2011. The European debt crisis, which escalated by the end of the summer and accompanied by the negative judgements of the financial markets for Hungary and a considerably weaker HUF was an external factor in this process. At the same time, international, primarily EU pressure doubting the legitimacy of the one-off crisis measures and institutional restructuring was also growing. The country has been downgraded into the non-investment category for the first time since 1996 from all three major agencies.

Despite the rosy first months of the year, the performance of the Hungarian economy remained two-faced in 2011. The highly unpredictable Hungarian economic policy seemed a greater determining factor than the external developments. Thus the growth dynamism fell behind the projections and the 1.7% GDP growth was the result of a slight upturn of the external markets (primarily exports to Germany) and the Hungarian agriculture, which closed an excellent year. The export growth more than offset the decline in domestic demand, therefore the industrial output continued to grow, although at slower pace. There was an overall decline in investments due to the low investing appetite and a decline in public sectors' investment primarily. Vehicle manufacturing resulting from the recent large investments into the automotive industry and machinery and equipment were the main exceptions from the trend. Sectors producing for the domestic market and services stagnated at the most, while the performance of the excessively taxed trading and financial sectors, as well as the construction

[1] Macroeconomic data are from the Hungarian Central Statistical Office's regular data publication, banking sector data are from the Balance sheet and Income statement by HFSA published on the 23rd of February 2012.

industry, hit most by the crisis, declined heavily. The bankruptcy of small and lower-mid corporate entities remained high; such companies continued to absorb their reserves and generally did not benefit from the increasing exports. The additional income generated from the taxation and income policy favouring those with higher (official) incomes were absorbed in the higher instalments of the CHF mortgage loans at macro level. The unemployment ratio remained high, above 10% during the year. The small increase in real wages was reflected in financial savings. Households' consumption stagnated, and their net saving position grew slightly prior to the lump sum repayment of FX loans and extremely as a consequence of it.

One-off impacts, such as assets transferred from the private pension funds to the state and extra taxes imposed on various sectors contributed a great deal to the statistically reported state budget surplus. Nonetheless, the country is still subject to an excessive deficit procedure by the EU Commission due to the size of its fundamental deficit. The budget deficit as a percentage of GDP did not decrease even despite the transfer of a large amount of pension fund assets, which was due to the currency structure of the debt and the substantial deterioration of the HUF exchange rate.

Not only the decreasing credit demand, but also the credit crunch were contributing to the delay of sustainable dynamic economic growth. There was a credit crunch because the credit risks of banks remained high, pressure on banks' capital management increased, while the reduction of dependence on FX funds remained an objective, and the profitability shrank considerably. The lump sum FX repayment at a fixed exchange rate further deteriorated Hungary's assessment on the financial markets. The HUF exchange rate reached record low and by the end of the year the country risk premium (CDS) and the yield of Hungarian government securities peak unsustainably. At the end of 2011 and at the beginning of 2012 the three large international rating agencies downgraded Hungary into the non-investment category with a negative outlook, suggesting further possible downgrades. Due to the debt renewal risks the Government initiated negotiations with the IMF and the EU in order to conclude a standby facility agreement. But as contrary to the request of the IMF delegation, the Parliament passed important acts in the last days of the year (e.g., Act on the Central Bank), thus, the IMF and the EU are likely to apply extremely stringent primary requirements before they provide a safety net. In order to offset the money market risks, at the end of the year the NBH raised the base rate by 50-50 basis points on two occasions to 7%. This rate is much higher than the 3.9% inflation, which was driven primarily by energy and fuel prices, as well as the increasing food prices.

The Hungarian banking sector had already been stricken by the beginning of 2011, the third year of the crisis. The bank tax was an outstandingly disproportionate burden both in international and national comparison, the restructuring of the pension system also deprived the sector from direct revenues and indirect funding, while credit risks remained high due to the only slightly falling bankruptcy rates and hectic exchange rate fluctuation. The slight export-driven growth and the caution of private individuals could not give a boost to the lending market either: prolongations, renewals and extremely few really new loan origination were characteristic.

The impact of the exchange rate fluctuation on the volumes in HUF was significant but on transaction basis corporate loans declined by HUF 294.5 billion and retail loans by HUF 810.2 billion (of which 20.7% was not related to the lump sum repayment). Due to the overall impact of the positive (self-care attitude of private individuals and higher net income in the affluent segment) and negative factors (corporate outlook, delayed investments), the total amount of customer funds grew by 4.9% in the sector. At the same time, being downgraded into the non-investment category and the record high country risk premium (expressed in CDS) obviously has a cost raising effect on parent banks' FX funding provided to their local banks.

The situation worsened during the year when parallel with the escalation of the European debt crisis in the summer the HUF exchange rate began to weaken significantly. This led to an increase in NPLs, stress on capital positions while the lump sum repayment of FX loans scheme involving huge changes in portfolios, was only the last straw. The lack of confidence of the financial markets grew soon after the scheme had been announced, leading to the already known macroeconomic events. As a logical

consequence of these factors banks recognised 40.1% more provisions than the already high figures of 2010, which was the main reason why the Hungarian banking sector made a loss in 2011; the sectors' profit before taxation was HUF -46.5 billion. The Hungarian banking sector made a loss after 13 years of successful operation with a significant difference that it was not caused by an individual player, but several banks turned into red simultaneously.

In the end, the lump sum FX loan repayment affected 168,000 debtors (17.7%), and HUF 921 billion loans at the repayment exchange rate (23.5%), causing HUF 336 billion direct loss to the sector immediately. At the same time, the Hungarian Financial Supervisory Authority also pushed for the strengthening of the capital position of the banking sector in the wake of the mid-term preparations for Basel III, by potentially increasing the minimum local capital adequacy requirement to 9% and in the mid-term to 10%. The parent banks resolved the capital position or made capital hike to offset the losses from the lump sum repayment and, in many banks, from ordinary operation too, despite the record high loss ever reported by numerous banks.

Apart from resolving capital problems, the leading banks also confirmed their strategic commitment to the market. The Hungarian banking system remained stable with sound capital adequacy and good liquidity. It also became clear, however, that the parent banks of the leading Hungarian banks were also in a tense situation due to the eurozone crisis and therefore, they focus primarily on the reinforcement of the operating fundamentals, eg. capital preservation, self-financing (which became a priority for all actors) and avoiding further losses at their Hungarian subsidiaries. They do not consider the Hungarian market attractive in the short-to-medium term, which is why they decided in a sense to 'hibernate' their local activities by cutting back their expansion endeavours and transferring their limited resources to other markets. These developments led to unfavourable direct impacts such as 5.3% cost reduction in 2011, i.e., almost double-digit cut in real terms, accompanied by closing branches and lay-offs. The sector is basically unable to fulfil its function of supporting and catalysing the recovery of the national economy and its new sustainable and dynamic growth path with sufficient financing.

The only way to achieve the overall objective of growth orientation of the Hungarian economic policy and state debt reduction is to regain international confidence by strengthening legal certainty and by consistently implementing long delayed structural reforms, which requires the IMF safety net, improvement of investors' confidence and lower country risk premium. It is also necessary that the Hungarian economic policy rely on the banking sector as a partner and if so to what extent in order to support the stimulation of the economy and to regain the confidence of parent banks, customers and financial markets. In a more stable and predictably developing macroeconomic environment growing production, consumption and capital investments, a sustainably high savings ratio and rising payment transactions will provide support also to the banking sector enabling it to perform its basic functions effectively again by supporting the economic development.

ROMANIAN BUSINESS AREA: STABILISATION WITH IMF ASSISTANCE2

The Romanian economy, which slumped into strong recession after the crisis, began to grow again in 2011 (~ +2.5% GDP growth). Parallel with the 5.6% increase in the industrial output the construction industry also expanded by 2.8% due to the recovery of export demand. The external balance also improved. The foreign trade deficit dropped to 5.6% of GDP in 2011 (2010: 5.9%) and, similarly to 2010, the current account deficit equalled 4.5% of GDP. At the same time, the volume of foreign direct investments flown into the country shrank by 14% during the year, and covered only 34% of the current account deficit (2010: 40%). The budget deficit remained below the IMF target of 4.4% and reached 4.35% in 2011 (2010: 6.5%). In December 2011 IMF made available for disbursement an additional EUR 507 million to Romania under the EUR 20 billion two-year precautionary stand-by arrangement approved in 2009. The inflation continued to decline, in 2011 the average consumer price

[2] Data from National Bank of Romania, National Institute of Statistics – Romania, ISI Emerging Markets

index was 5.8% (2010: 6.1%). As a result of the disinflation process, the National Bank of Romania cut the monetary policy interest (from 6.25% to 6%) in November 2011. It was the first cut after 18 months (following further cuts made at the beginning of 2012, the interest rate in February 2012 was 5.5%). The unemployment rate decreased by 0.3 percentage points to 7.0% by the end of 2011. The rating agencies had different views on the economic processes. In July 2011 FitchRatings improved the rating of the long-term currency debt from BB+ to the investment grade BBB- (with a stable outlook). In November 2011 S&P downgraded the rating of the long and short-term debt denominated in the national currency by one notch to BB+, with a stable outlook. Moody's did not change its rating of the long-term currency debt (Baa3). So that Romania currently has investment-grade credit ratings by two rating agencies (Fitch and Moody's). Following the resignation of the prime minister on 6th February 2012 the new government will likely continue the reforms agreed with the IMF, so the growth of the gross domestic product could reach 1.5%-2.0%.

The longer lasting global financial and economic crisis hit the Romanian banking sector severely also in 2011. The sector continued to shrink in 2011 in real terms. Nominally, the total assets increased only by 3.5%, and the portfolio of household and corporate loans showed a 6.2% growth, exceeding the rate of inflation in 2011. The deteriorating portfolios of the banks are reflected by the fact that in 2011 the proportion of non-performing loans reached 14.1% (2010: 11.9%). The 5.2% growth of deposit portfolio grew under the inflation rate, in 2011. The loan to deposit ratio increased to 116.7% by the end of the year from 113.5% in 2010. In 2011 the cost efficiency ratio of the sector slightly deteriorated to 68.2% (2010: 64.9%). Romanian banks posted a loss of EUR 79 million in 2011, but all in all, the Romanian banking system is stable and at the end of the year the capital adequacy ratio reached 14.5%. In 2011 forty one commercial banks operated in Romania.

BULGARIAN BUSINESS AREA: TURNED THE CORNER?3

The GDP growth in 2010 was followed by a 1.6% growth in 2011 in Bulgaria. It is explained primarily by the upturn of the economy at the beginning of the year, producing for Western exports. However, the signs of the deepening crisis of the eurozone were reflected in the deceleration of the industrial output at the end of the year: growth was only 3.1% in Q3 2011. Exports rose extremely dynamically, while imports increased at a much slower rate. The current account balance closed with 1.9% surplus in 2011. According to the preliminary figures of the National Bank of Bulgaria the foreign direct investments decreased by 40.7% compared to the previous year. Yet the current account balance remained positive, thus increasing the reserves of the central bank. The budget deficit as a percentage of GDP was also reduced below the targeted 2.5%. This made Bulgaria one of the most disciplined Member States of the EU in terms of the budget. As a result of price increases in food, health services, education, hotel services and catering, the annual average inflation rate reached 3.4%. The trend of the unemployment rate increased, thus at the end of the year it reached 10.1%. In October 2011 the central right CEDB party won the presidential elections again, it won in the local election most of the districts, as well. Following the elections, the comprehensive restructuring of the social sector, developments in the power and infrastructure sector have continued. Bulgaria's rating was upgraded during the year to Baa2 by Moody's, one of the credit rating agencies, as a result of which the country falls in the investment category at all three credit rating agencies. S&P confirmed the sovereign rating (BBB), and FitchRatings revised the outlook from positive to stable at the end of the year (BBB-). Since 31 December 2010 the National Bank of Bulgaria increased the main policy rate by 0.04% to 0.22% by the end of 2011, retaining the stability of the Currency Council and the currency board fixed to the euro. The target budget deficit is 1.35%, expenditures are expected to grow by 5.9% to EUR 15.2 billion, 36.5% of the GDP for 2012.

In 2011, twenty-four commercial banks and seven branch offices of foreign banks operated in Bulgaria. In December 2011, the total assets of those banks amounted to BGN 76.8 billion, with a 4.2% annual growth. However, the slow economic recovery still held back the growth of the banking system. The total assets of the banking system rose by 4.1% (y/y) and reached BGN 56 billion in

[3] Data from Bulgarian National Bank, National Statistical Institute – Bulgaria, ISI Emerging Markets

2011. Within lending, corporate loans increased most (6.2% in an annual comparison). The customer deposit portfolio also expanded by approximately 5% to BGN 59 billion. Within funds collecting, households' deposit showed the most significant increase (13.9% year/year). In the challenging operating environment of the Bulgarian banking system, the non-performing loans ratio continued to rise. Although NPL dynamics is slowing, it will reach the volume ceiling only in 2012. Nonetheless, the Bulgarian banking system still had high, approximately 17.5% capital adequacy ratio (2011), with a liquid assets ratio of 25.6% (2011 Q3). Impairments and provisions for losses shrank by 2% in 2011 to BGN 1.29 billion, for the first time since the beginning of the crisis, while the profit amounted to BGN 586 million which is a 4.9% drop on an annual base.

In 2011, 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 position management. In the year 2011, MKB Group activities were again heavily affected by the adverse market environment.

FINANCIAL PERFORMANCE

In 2011, MKB Group had to cope with the negative impacts of the Europe wide macroeconomic environment and the strong focus on every element of risk management framework was characteristic for its operation. The Group's total operating income (net interest income plus non-interest income), increased by 8.28% to HUF 92,769 million (2010: HUF 85,677 million). Net interest income's share showed a decrease compared to the previous year (2011: 83.03%, 2010: 100.91%), and declined also in nominal terms mainly driven by the shrinking of interest income earned on loans and advances to customers. The decrease of Net interest income's share in gross operating profit was, however, mostly caused by the increase of other operating income, and partly was a result of the new disclosure of discontinued operations.

As per the end of 2011, Romexterra Bank, the Romanian subsidiary of MKB Bank, was disclosed as discontiued operation in the Financial Statements of MKB Group. This disclosure reflects the intention of MKB Bank to sell its investment in the Romanian subsidiary during 2012. Accordingly, the structure of the Consolidated Statement of Comprehensive Income has changed, but from management point of view the total result of Romexterra Bank was shown in this analysis as Result from discontinued operations, part of operating income. Compared to the loss of HUF 15,296 million last year, the result amounted to HUF 5,015 million loss in 2011. This remarkable development was caused that there was no need for further impairment loss for loans and advances, the loss derived from operating losses.

The falling interest income and net commission income of the Group reflected the shrinking lending businesses, the volatility of the Hungarian Forint, and the increased guarantee fee expenses deriving from the additional guarantees provided by the parent company.

In 2011, other operating income - including banking tax - showed a significant increase from HUF 4.9 billion loss in 2010 to HUF 6.7 billion gain, mainly due to the relief concerning expenses relating to bank levies, which allowed financial institutions to reduce the earlier defined bank levies by 30% of the loss recognized on the early repayment of foreign currency mortgage loans.

Slightly below the loss of HUF 103,285 million in 2010, the Group realized a negative profit before taxation from continuing operations of HUF 104,280 million for 2011. While gross operating income reflected an increase, operating expenses exceeded the pervious year's level, mainly caused by the impairment losses recognized due to the revaluation of intangible assets. The profit from equity consolidated participations decreased by HUF 61 million due to the lower profitability of joint ventures and associates. The most significant decline in profit appeared at MKB Euroleasing Zrt where losses amounted to HUF 208.2 million (2010: HUF 948.3 million profit). The profit before tax

in MKB's stand alone financial statements increased slightly compared to the previous year level (2011: HUF 103,537 million loss, 2010: HUF 133,683 million loss), and also some of the consolidated companies contributed to the shrinking losses of the Group. However, the losses recognized on the fixed repayment of foreign currency mortgage loans (HUF 15,357 million realized, HUF 21,894 million accounted for as impairment loss) set back the improvement of the profitability this year. This reflected also on net provision charge, which slightly increased from 6.25% to 6.34% during the reporting period. Due to the losses before tax for 2011, the pre-tax return on average equity ratio (ROAE) and the pre-tax return on average assets ratio (ROAA) are still negative.

Taxes on income amounted to HUF 11,731 million expense (2010: HUF 9,656 million income), which consisted of HUF 8,908 million net deferred tax expense and HUF 2,823 million current tax expense. The deferred tax expense included HUF 5,188 million loss, which was recognized at MKB Bank due to the depreciation of Deferred Tax Asset. The depreciation was necessary because of the changes in Hungarian tax laws restricting the utilization of tax losses carried forward (up to maximum 50% of the actual tax base) and the changes in the profitability expectations of the Bank resulting from deteriorating macroeconomic forecasts and further home protection legislative measures.

On the grounds of negative profit after taxation attributable to the shareholders of HUF 120,792 million for 2011, the Board of Directors proposes no dividend payment.

Key Figures 2011
(IFRS)
(HUF million)

	MKB Bank	Bulgarian Market *****	Romanian Market***	Hungarian Leasing Market*	Auxiliaries**	MKB Group
Total Assets	2 694 824	272 104	107 648	78 940	86 515	2 943 961
Share Capital	20 733	19 479	13 471	2 093	73 868	20 733
Reserves	58 132	12 863	(12 795)	6 117	(7 509)	56 762
Operating Income	87 274	11 112	(4 071)	4 056	12 816	92 769
Net interest income	*66 774*	*7 634*	*(169)*	*4 331*	*(17)*	*77 027*
Net commission income	*10 716*	*2 913*	*22*	*(38)*	*465*	*14 060*
Other	*11 905*	*565*	*(1 147)*	*210*	*12 401*	*9 297*
*Result from discontinued operations**** *	-	-	*(2 778)*	-	-	*(5 015)*
Banking Tax	(2 121)	-	-	(446)	(33)	(2 601)
Operating Expenses	(60 288)	(6 268)	(1 553)	(1 435)	(17 449)	(74 703)
Impairment and provision for losses	(80 490)	(4 068)	(5 015)	(2 314)	(3 969)	(95 671)
Goodwill impairment	(26 564)	-	-	-	-	(30 692)
Impairment of investments	(23 469)	(47)	-	-	(354)	(1 667)
Share of jointly controlled and associated companies' profit / (loss) before taxation	-	-	-	-	-	(997)
Profit Before Taxation from continuing operations	(103 537)	729	(7 861)	307	(8 956)	(104 280)
Profit After Taxation from continuing operations	(112 740)	650	(9 951)	169	(9 176)	(116 011)
Profit After Taxation attributable to the Shareholders	(112 740)	650	(12 728)	169	(9 176)	(120 792)
Pre-tax Return on Average Equity (ROAE)	-40,6%	2,7%	-42,8%	3,7%	-11,8%	-41,9%
Earnings per Average Outstanding Share (EPS)	-543,8%	4,2%	-55,8%	8,1%	-12,4%	-582,6%
Pre-tax Return on Average Assets (ROAA)	-3,8%	0,5%	-6,1%	0,4%	-10,4%	-3,7%
Cost-to-income ratio	69,1%	56,4%	-38,1%	35,4%	136,1%	80,5%
Capital adequacy ratio******	9,17%	13,34%	16,32%	n.a	n.a	9,09%

* Autóhitel, Autólízing
**MKB Üzemeltetési, Euro-Immat Üzemeltetési, Befektetési Alapkezelő,Resideal, Exter-Immo, Exter-Bérlet, Extercom
*** Romexterra Bank, Romexterra Leasing, CRM
****However the Management considered in 2011 Romexterra Bank as an integral part of the operation, due to the decision of the Management in December and according to IFRS the Result from discontinued operation is not included in Profit Before Taxation
***** MKB Unionbank AD
****** including capital increase in MKB Bank (see Note 5)

Key Figures 2010
(IFRS)
(HUF million)

	MKB Bank	Bulgarian Market *****	Romanian Market***	Hungarian Leasing Market*	Auxiliaries**	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	(19 769)	4 617	14 259	85 677
Net interest income	*75 790*	*7 444*	*(750)*	*4 937*	*209*	*86 459*
Net commission income	*16 777*	*2 619*	*67*	*(129)*	*461*	*19 431*
Other	*9 556*	*651*	*(1 183)*	*176*	*13 622*	*9 043*
*Result from discontinued operations*****	-	-	*(17 902)*	-	-	*(15 296)*
Banking Tax	(13 559)	-	-	(367)	(33)	(13 960)
Operating Expenses	(56 594)	(6 003)	(1 367)	(1 373)	(15 680)	(67 157)
Impairments and provision for losses	(93 030)	(4 013)	(20 911)	(3 428)	(259)	(120 738)
Goodwill impairment	(17 512)	-	-	-	-	(15 428)
Impairment of investments	(55 111)	(24)	-	-	(856)	(371)
Share of jointly controlled and associated companies' profit / (loss) before taxation	-	-	-	-	-	(936)
Profit Before Taxation from continuing operations	(133 683)	674	(24 145)	(184)	(2 535)	(103 285)
Profit After Taxation from continuing operations	(122 673)	600	(24 171)	(336)	(2 875)	(92 868)
Profit After Taxation attributable to the Shareholders	(122 673)	600	(42 073)	(336)	(2 875)	(106 246)
Pre-tax Return on Average Equity (ROAE)	-47,9%	3,4%	-123,9%	-2,1%	-3,5%	-42,1%
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%	-14,0%	-0,2%	-3,2%	-3,9%
Cost-to-income ratio	63,9%	56,0%	-6,9%	29,7%	110,0%	78,4%
Capital adequacy ratio	10,81%	12,94%	15,21%	n.a	n.a	10,33%

* Autóhitel, Autólízing
**MKB Üzemeltetési, Befektetési Alapkezelő,Resideal, Exter-Immo, Exter-Bérlet
*** Romexterra Bank, Romexterra Leasing, CRM
****However the Management considered in 2011 Romexterra Bank as an integral part of the operation, due to the decision of the Management in December and according to IFRS the Result from discontinued operation is not included in Profit Before Taxation
***** MKB Unionbank AD

The profit before tax of **MKB Bank** amounted to HUF 103,537 million loss in 2011, mainly due to the losses recognized on the early repayment of foreign currency mortgage loans, the banking tax and the impairment losses accounted for subsidiaries of the Bank. These facts were manifested in the pre-tax return on average equity, that remained negative in 2011 and CIR which increased from 63.9% in 2010 to 69.1% in 2011 due to the slight shrinkage in operating income and higher level of operating expenses driven mainly by impairment losses of intangible assets.

The pre-tax ROAE of **Bulgarian Market** decreased slightly and it amounted to 2.7% compared to 3.4% of the previous year-end. There was a moderate increase (2.8%) of pre-provision net operating profit amounting to HUF 4,844 million (2010: HUF 4,711 million). Comparing to previous year, the ROAA remained at the same level of 0.5% which reflected the impairment losses and conservative business activities that were consistent with the increased risk from the economic crisis. Despite, profit after tax reached HUF 650 million, the earnings per average outstanding share (EPS) reduced by 1.9% to 4.2% as, the share capital increased more (by HUF 8,089 million) than the profit at Unionbank. Cost to income ratio was better than at consolidated level (80.5%) but was slightly deteriorated to 56.4% from the 56.0% in 2010.

During 2011, the group of consolidation in the Bulgarian Market was enlarged with MKB Autopark OOD with 37.29% participation of MKB. The major shareholder is MKB Euroleasing Autopark Zrt with 74.6% participation. The principle activities of the company include rent and lease transactions

with motor vehicles and any servicing activities related to lease/rent agreements, transport and forwarding in Bulgaria and abroad. In 2011, the company's market share in the operating leases reached 20% (2010: 13%). The operating leasing portfolio increased by 91% in comparison to the pervious year. The targeted growth of the sales in the next business years, according to the approved business plan, will be 5% each year, as per the leasing market growth expectations.

The composition of **Romanian Market** changed in 2011 as MKB Bank is going to sell the participation of Romexterra Bank. According to IFRS 5, the Romanian company's figures are reclassified to discontinued operations in the consolidated financial statements. During the business year, also MKB Bank's ownership in Romexterra Leasing increased from 86.05% to 94.78%.
At the end of the reporting year, ROAA improved to -6.1% from -14% and ROAE increased to -42.8% (2010: -123.9%), though still remained in the negative range. The pre-provision net operating profit shows improvement from HUF -21.1 billion to HUF -5.6 billion but the figure is still negative due to the operating expenses exceeded the operating income.

The **Hungarian Leasing Market's** ROAE increased and amounted to 3.7% compared to the negative figure of the previous year-end. The ROAA slightly grew to 0.4% in 2011, due to the profit increased however the continuing crisis on the leasing market. The CIR moderately deteriorated to 35.4% in 2011 from 29.7% in the previous year, as the fall of operating income exceeded the increase of operating expenses. This was mainly the result of shrinking business activities in the car finance markets.

Net interest income

Net interest income, the most important component of revenue, amounted to HUF 77,027 million, 10.91% short of HUF 86,459 million in 2010. Exceeding the shrinkage in the previous year, the average interest-earning assets decreased also this year (by HUF 264 billion), driven by the reduction of average loans and advances (by HUF 225 billion). From one hand, the level of risk provisioning increased, while also the gross volume of loans and advances decreased compared to last year. The decline was caused partially by the strategically defined wholesale portfolio dismantling, however, in retail segment the final repayment of mortgage loans denominated in foreign currency contributed significantly to the decrease in the volume as well. This reduction counterbalanced the increase of the foreign currency portfolio driven by the deterioration of Hungarian domestic currency against EUR and CHF and the slight new business volume. Simultaneously, the net margin increased to 3.07% from 2.56%.

In contrast to the tendency in the previous year, the average interest-bearing liabilities decreased by HUF 182 billion. The reduction was driven by the average volume of customer accounts and deposits (by HUF 189 billion). As far as the closing volumes considered, the Bank deposits increased mainly due to the deposits at European Investment Bank and the increasing impact of foreign exchange fluctuations, while the total of Customer current and deposit account balances decreased slightly compared to last year. At the same time, Subordinated debts increased, mainly caused by the deterioration of Hungarian Forint as the subordinated debts of MKB Bank are denominated solely in EUR and CHF. The Current and deposit accounts of retail clients increased compared to the previous year level (HUF 109 billion growth) primarily in case of micro enterprises and affluent private clients, while corporate clients deposit decreased significantly (by HUF 113 billion) mostly driven by the shrinking deposit of funds.

Average interest asset/liabilities by main operating segments

million HUF

	MKB Bank		MKB Unionbank		MKB Group	
	2 011	**2 010**	**2 011**	**2 010**	**2 011**	**2 010**
Average Loans and advances	2 119 521	2 322 957	173 138	162 770	2 033 517	2 258 107
Average securities	456 252	437 131	7 121	6 037	255 296	294 486
Average interest-earning assets	**2 575 772**	**2 760 088**	**180 258**	**168 807**	**2 288 812**	**2 552 593**
Average interest rate %	*5,80*	*5,43*	*8,39*	*8,85*	*6,50*	*5,81*
Average customer and deposit accounts	2 153 843	2 327 157	210 991	209 787	2 354 878	2 543 405
Average issued securities	279 462	265 788	1 529	0	165 096	158 145
Average interest-bearing liabilities	**2 433 305**	**2 592 945**	**212 520**	**209 787**	**2 519 974**	**2 701 549**
Average interest rate %	*3,49*	*3,16*	*3,66*	*3,74*	*3,42*	*3,24*
Difference betwen average rates %	**2,31**	**2,27**	**4,73**	**5,12**	**3,07**	**2,56**

In 2011, **MKB Bank reported** HUF 66,774 million net interest income, which lagged behind the level in previous year (2010: HUF 75,790 million), following mainly the shrinking business volume and provisioning level. As a result, Interest income related to Loans and advances to banks/customers decreased by HUF 2,7 billion, while Interest expense on Customer/Banking deposits increased by HUF 1.5 billion, which growth was mostly influenced by the volatile changes of the exchange rate, given that most of the refinancing loans from parent company are denominated in foreign currencies.

In contrast to the tendency in the previous years, in 2011 the average volume of interest-bearing assets decreased from HUF 2,760 billion in 2010 by 6.7% to HUF 2,575.7 billion. The significant reduction was driven particularly by the volume of Loans and advances to customers. This shrinkage reflects the changes in MKB Bank's strategy aiming to reduce loss generating real estate project financing exposures and focusing on strengthening retail and SME segments. In addition to that, the Hungarian legislation enabled clients to repay their mortgage loans denominated in foreign currencies at fixed rates of FX, which had a substantial impact on MKB Bank's foreign currency mortgage portfolio, mainly because the clients of the Bank dispose of higher level of savings than the market average.

In 2011, the average portfolio of **interest-bearing assets of Unionbank** expanded from HUF 168.8 billion in 2010 by 6.8% to HUF 180.3 billion. The increase of the average portfolio was resulted from the growth in private segment (29.3%). Average loans grew by HUF 10.4 billion. The rise related to private individuals was mainly denominated in EUR. Meanwhile, in corporate segment (SME and Micro segment) there was a slight reduction (2.2%) in Unionbank's local currency. At the same time, average portfolio of securities rose by 17.9% and amounted to HUF 7,121 million.

The average portfolio of interest-bearing liabilities slightly increased from HUF 209.8 billion by 1.3% to HUF 212.5 billion compared to the higher growth in previous year (8%). In 2011, the average deposit portfolio remained almost at the same level and amounted to HUF 211 billion. Compared to previous year, the average volume of issued securities increased and reached HUF 1.5 billion in 2011 (2010: NIL). The moderate business activities and harsh competition on deposit markets resulted in a decrease of net interest margin from 5.12% to 4.73%.

Romanian Market's net interest expense reduced from HUF 0.8 billion to HUF 0.2 billion during 2011 due to the decrease of interest expenses on deposits from other banks by 59.3% at Corporate Recovery Management in 2011. The decline of lending business resulted that the net interest income dropped from HUF 0.7 billion to HUF 0.4 billion at Romexterra Leasing.

Hungarian Leasing Market's net interest income decreased by 12.3% to HUF 4.3 billion compared to previous year because of the drop of interest income from lending and money market business by 18.2% at MKB Euroleasing Autóhitel Zrt.

Non-interest income

For 2011, the total non-interest income increased to HUF 15,741 million (2010: HUF 782 million loss), representing 16.9% of gross operating income. The sharp increase of such income was the net result of different factors as detailed below.

Total net commission and fee income of HUF 14,060 million decreased by 27.64% from HUF 19,431 million in 2010. The slight growth of Commission income last year turned to a decrease of HUF 1,026 million this year. The income from payment transactions and card services though showed a moderate increase, commission income deriving from brokerage fees and other securities business dropped by HUF 1,044 million. The fees earned by MKB Bank on fund asset management decreased significantly, following primarily the changes in the private pension fund sector in Hungary.

Simultaneously, fee expenses showed a significant increase (by HUF 4,345 million) compared to previous year and reached HUF 11,598 million from the 2010 year-end figure of HUF 7,253 million. Mainly credit related fees rose, as during 2011 MKB Bank paid HUF 3,154 million fees to Bayern LB related to a special construction of guarantee granted by the parent company.

Other operating income of HUF 6.7 billion gain for 2011 was significantly above the total amount of HUF 4.9 billion net loss for 2010. This robust increase was mainly caused by the reduced level of Expenses relating to bank levies, which amounted to HUF 2,601 million in 2011 compared to the amount of HUF 13,960 million on MKB Group level last year. Following the agreement of the Hungarian Government and the Hungarian Banking Association the banks were allowed to reduce the earlier defined bank levies by 30% of the total loss suffered by the fixed repayment of foreign currency loans. At the same time, the result earned on securities and trading derivative transactions showed a remarkable decrease compared to 2010. Contributing to the increase, other income amounted to HUF 3,981 million profit opposite to the loss last year. This positive result includes a one-off gain of HUF 7,569 million, which was realized on the conversion of EUR 120 million subordinated bond to a subordinated loan denominated in Swiss franc.

Result from discontinued operations reflects the changed disclosure of Romexterra Bank as per the end of 2011. Romexterra Bank is disclosed as discontinued operation in the Financial Statements of MKB Group starting from this year-end because of the management of MKB Bank is committed to sell this Romanian subsidiary. As a result of this, the total result of Romexterra Bank was reclassified, and is disclosed among Result from discontinued operations as part of non-interest income. Compared to the loss of HUF 15,296 million last year, the result amounted to HUF 5,015 million loss in 2011. The remarkable growth was caused that there was no need for further impairment for loans and advances, the loss derives from operating loss.
Within **MKB's non-interest income**, the HUF 10,716 million net fee and commission income in 2011 lagged behind the previous year's level, which amounted to HUF 16,777 million. This decrease in net commission income derived mainly from the above detailed special guarantee fee payments to the parent company. The other operating income significantly increased due to relief related to banking tax (2011: HUF 2,121 million, 2010: HUF 13,559 million) and the subordinated debt conversion also discussed in the Group level analysis.

Unionbank's net commission and fee income was up 11.2% from HUF 2,619 million in 2010. The increase was eventuated due to extension of payment services (HUF 0.2 billion) and other commission income (HUF 0.08 billion) related to life insurances and collateral insurances. As a consequence of that, the total amount of net commission and fee incomes reached HUF 2,913 million at the end of year 2011.

Romanian Market's net commission and fee income declined from 67 million in 2010 to HUF 22 million in 2011, due to the fact that Romexterra Leasing recognized less commission and fee income from other commission (a fall of HUF 45 million). Romexterra Leasing disclosed HUF 114.4 million

profits due to the revaluation of currency related transactions. Expense from payment services increased to HUF 0.6 million at Corporate Recovery Management.

Impairments and provisions

Due to the down turning market environment further negative impacts were recognized during 2011. This situation enforce the Group to follow more prudent way in respect of credit risk portfolio management, which caused significant increase of loan loss provision in this year. There was a domestic market turbulence, which was originated from the Government's measures concerning FX residential mortgage repayment. The negative macroeconomic tendency also reflected in the impairment tests on goodwill during the second half of the year.

The total provision for losses in the year 2011 was HUF 126,363 million, mainly derived from Loans and advances and Goodwill impairment.

Concerning Loans and advances the Group set up HUF 72,975 million impairments and realized HUF 18,695 million direct write-off.

The total credit risk provisions amounted to HUF 257,156 million in the statement of financial position (2010: HUF 206,424 million). HUF 49,7 billion growth mainly derived from Corporate and Retail segments. As far as the corporate segment the significant increase of impairment stock was concentrated in Real estate finance. This portfolio amounted to HUF 26,8 billion increase due to the continued deterioration of real estate business in domestic market. The Group intended to manage this type of portfolio in frame of proactive handling way.
Regarding retail business the Group charged totally HUF 37,251 million impairments on mortgage loans denominated in CHF and EUR due to the FX repayment facility. The realized part was in amount of HUF 15,357 million as direct write off, the remaining part as was calculated as expected loss in the future (HUF 21,894 million) was allocated as specific provision.

As a result of goodwill impairment tests the Group recognized HUF 28,313 million impairment on Bulgarian Market's goodwill, and HUF 2,379 million impairment on that of Hungarian Leasing Market's. Compared to last year during the Goodwill impairment test calculation (see Note 13) cautious plan figures and - because of risk profile – higher discount factor was taken into consideration concerning Bulgarian CGU, which resulted the above mentioned level of goodwill impairment losses. Regarding Hungarian Leasing Market CGU goodwill impairment was necessary to be recognized according to cash flow projection.

Operating costs

In the adverse market environment, cost discipline remained a strong priority in 2011, that is why the level of Operating cost remained at the same level – aside from impairment of intangible assets – as it was in the previous year. During 2011 change of operating costs resulted 11.2% growth (HUF 74,703 million) than it was recognized in 2010 (HUF 67,157 million).

In case of the following three types of expenses: Occupancy costs increased while General and administration expenses together Marketing and public relations showed an opposite movements comparing 2010.

The occupancy costs increased extremely by 50.5% on MKB Group level, which resulted significant growth of expenses (HUF 8,429 million).On one hand Regular amortization increased at MKB by HUF 1,309 million because of patents and trademarks, and Impairment losses was higher by HUF

8,060 million: at MKB we realized HUF 4,654 million, at Romexterra Bank HUF 257 million and at Euro-Immat Kft HUF 3,406 billion additional impairment concerning softwares.

In nominal terms, General and administrative costs decreased by 15.4% compare to 2010. Decrease derived from IT cost, Legal and advisory services and other administrative expenses. IT cost decreased by HUF 729 million less expenses concerning our Subsidiaries. Legal and advisory cost decreased by HUF 1,137 million mainly because of less (HUF 1.322 million) Project expert fees at MKB. Other administrative expenses also decreased by HUF 741 million. Main reason of this effect is less fee at MKB for HFSA (by HUF 273 million) and less special local tax paid (by HUF 231 million).

Simultaneously, Market and public relations decreased by 23,8% in this year. Change was derived from less sponsor expenses (by HUF 228 million), marketing costs (by HUF 266 million) and support to foundation (by HUF 284 million).

The Group Cost to Income ratio (80.5%) significantly deteriorated compared to 2010 (78.4 %), which was caused by MKB's less efficient of CIR. Besides this fact Romanian Market has negative operating income and extremely high CIR ratio of Hungarian Leasing Market caused further destructions in Group CIR.

MKB Bank's operating costs amounted to HUF 60,288 million with a 6.53% nominal increase compared to the HUF 56,594 million total costs in 2010. While both Salaries and wages, and depreciation of intangible assets increased significantly (by 15.2%), it was compensated by the decrease (HUF 3,669 million) of other administrative expenses, that meant 11.15% shrinking compare to the previous year.

Regular salaries and wages increased by HUF 1,651 million mainly due to higher expenses relating to termination (HUF 577 million) and bonuses (HUF 667 million).

The main shrinking (43.6%) eventuated concerning occupancy cost (HUF 5,193 million), mainly due to depreciation and amortization of softwares (HUF 4,654 million) and also regarding impairment losses of operational and office equipments (HUF 570 million).

Concerning stand alone figure, less Other administration expenses was recognized at MKB (by HUF 3,669 million). Remarkable decrease in IT costs due to less IT operating and expert fees (HUF 1,074 million), in Publicity and advertising because of less sponsor and PR expenses (HUF 749 million) and in Legal and advisory services concerning lower amount of project expert fees. (HUF 937 million).

The Bank's cost to income ratio increased to 69.1% compared to the 63.9% in 2010, which was primarily driven by the higher growth of operating expense (by HUF 3,694 million) than increase of operating income (by HUF 1,291 million).

General and administrative cost of Unionbank slightly increased (by HUF 0.3 billion) from HUF 6 billion in 2010 to HUF 6.3 billion as per the end of 2011. Higher operating expenses are due to increased expenses for the Deposit Guarantee Fund (12.8%), social security costs in accordance with Bulgarian legislation (4.6%) and depreciation costs (18.2%). The other administrative expenses increased by 4.9% to HUF 3 billion. Higher level of IT costs (HUF 0.1 billion) explain the growth of administrative expenses. Amortisation and depreciation costs rose by 20.2% to 0.5 billion. The number of employees remained at the same level (700 employees) comparing to 2010. In line with it, salaries and wages stagnated at the previous year's level of HUF 2.4 billion. Due to the above mentioned circumstances the CIR relapsed from 56.0% to 56.4% in 2011.

General and administrative cost of Romanian Market's grew by 13.6% from HUF 1.4 billion to HUF 1.6 billion in 2011 due to the sharp increase of personnel expenses by 24.5% to HUF 0.6 billion at Corporate Recovery Management. Meanwhile, the number of employees has shrunk from 29 to 17 compared to 2010. Other administrative expenses rose by 2.3% to HUF 0.4 billion at CRM. On the other hand, at Romexterra Leasing general administrative expenses decreased by 2% to HUF 0.5 billion because of the salaries and wages reduced by 10.2%. Parallel with the decrease of personal expenses, the number of employees shrunk to 37 from 44 in 2010.

General and administrative cost of Hungarian Leasing Market's slightly increased by 4.5% to HUF 1,435 million compared to 2010. The main changes appeared at MKB Euroleasing Autólízing Zrt. where the expenses from legal and advisory services grew by HUF 18.7 million and other administrative expenses by HUF 21.5 million.

FINANCIAL POSITION MANAGEMENT

At the end of 2011, the Group's total assets despite of weakening of Hungarian Forint (by 12%) sustained at the same level HUF 2,944 billion compare to previous year level HUF 2,939.2 billion. The Group's loans and advances to customers decreased by 8.41% to HUF 1,994.6 billion. Despite of decrease of loans and advances the share of customer asset balances in the total slightly increased to 67.8% as at the previous year-end. One important reason of decrease was reclassification of the exposure of Romexterra Bank into the Discontinued operation (HUF 73,889 million). The other reason is FX repayment of residential mortgage loans which was partly completed in amount of HUF 46.3 billion.

The above mentioned decrease was counterbalanced by growth among Cash reserve (HUF 99.2 billion). According to IFRS 5 Romexterra Bank's figures (in amount HUF 18.8 billion) are reclassified to Assets from discontinued operations due to the fact that Romexterra Bank is held for sale from December. At MKB Cash with central banks decreased by HUF 31.8 billion, while volume of Hungarian Central Bank bonds held by MKB grew by HUF 147 billion. Further increase can be experienced concerning investment securities and trading assets in amount of HUF 49.55 billion. The most part of growth related to additional purchase of Hungarian Government Bonds.

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 4.9% amounted to HUF 1,463.5 billion (2010: HUF 1,395.5 billion).

The stagnating volumes of assets did not necessitated further liability increase from money market in 2011. The volume of deposits from domestic banks dropped down at MKB due to the payment of refinancing loans to BayernLB in amount EUR 440 million, which was disclosed among over one year deposits. At the end of 2011 the money market deposits totalling to HUF 977.3 billion.

At the end of 2011 **the total assets of MKB Bank** were HUF 2,694.8 billion, 1.4% lower than HUF 2,733.5 billion as at 2010 year-end.

The volume of the investment in securities held for AFS purposes was up to HUF 281.2 billion from HUF 221.0 billion in 2010, mainly because of the portfolio changes in Hungarian government bonds.

Among the assets, the customer loan portfolio decreased by 7,63% as it was in the last year.

Although in 2011 because of FX mortgage loan repayment the portfolio reduced by HUF 46 billion - more than 11,000 customer of MKB took the opportunity- , the dominance of the loans denominated in foreign currency (typically in EUR and CHF) to corporate and retail customers remained

significant, representing 76.0% in the total. The domestic currency was weakening for the 2011 year end and this effect was also reflected as an opposite change in the balance sheet.
The customer deposits slightly grew by 2.6% from HUF 1,278.6 billion in the previous year to HUF 1,311.7 billion. The main source of the final repayment in MKB was own funds, but the relevant part of it was not savings (deposits, bonds, investment funds) in MKB. The customers funds of the clientele, who made final repayment decreased only by HUF 7 billion. The corporate deposit decreased by 9.14% to HUF 616.6 billion while the retail clients' deposits increased by 15.8% to HUF 695.1 billion in 2011. The share of Micro SME segment's deposit was stagnated and its portfolio was HUF 84.2 billion at the end of the year.

The average portfolio of retail deposits grew to HUF 530.8 billion from HUF 477.3 billion in the previous year. Most of the deposits are denominated in EUR and HUF (86,38 % in the total retail portfolio), and this share remained at the same level as it was in 2010 (86.86%)

The money market financing derived directly from BayernLB in the amount of HUF 624.6 billion. The share of banking deposit in total was stagnated at the level of 42,33% (2010: 42,98%).

Portfolio of issued Bonds increased by HUF 24.08 billion due to the active issuing policy, mainly due to HUF 25.9 billion of Zero Coupon bonds issuance in 2011.

At the end of 2011, **Unionbank's total assets** increased by 10.3% from HUF 246.8 billion at previous year-end to HUF 272.1 billion. The bank decreased the share of its funding from MKB Bank and repaid its obligations of EUR 15 million. During 2011, the loan portfolio growth was at 13.2%, up to HUF 223.2 billion compared to the previous year. The retail segmentation which contains the micro companies & individual clients and households rose by 20% to HUF 96.2 billion from HUF 80.2 billion. Meanwhile, the total amount of loans to the corporate segment was up by 13.6% to HUF 42.1 billion.
The customer deposit increased by 9.7% to HUF 163.7 billion. Without FX effect decrease is visible on deposit account by 16.9% due to the shrunk of corporate segment by 9.6% to HUF 40.3 billion and the retail segment slightly reduced by 1% in amount HUF 1 billion. During the reporting period, Unionbank kept on extending its client base and reported a substantial rise in the number of clients. At the end of the year 2011, the number of active clients reached 110,132 up by 7.77%. The number of corporate clients rose by 5.7% and the number of individual clients increased by 11.8% compared to 2010.

In this financial year, **total assets of Romanian Market** decreased by 29.1% from HUF 151.8 billion to HUF 107.6 billion. The change appeared at Corporate Recovery Management where the total asset significantly reduced by HUF 30.1 billion to HUF 19 billion due to the shrunk of loans and advances to bank by HUF 23.7 billion to HUF 0.5 billion. Customer loans eventuated in the SME segment lagged behind by 22%, amounted to HUF 17.9 billion at CRM. The same shrinking appeared in the SME segment at Romexterra Leasing by HUF 4.5 billion to HUF 5.6 billion. The main factors of the decreasing were considerable provisioning of the assets.
Bank deposits dropped from HUF 71.3 billion to HUF 24 billion at Corporate Recovery Management. At Romexterra Leasing, amounts due to other banks decreased by 26% to HUF 10 billion.
The assets of Romexterra Bank in an amount of HUF 77.9 billion is presented under assets from discontinued operations.

Comparing to 2010, the **total assets of Hungarian Leasing Market's** reduced by 11.8% to HUF 78.9 billion due to the assets dropped from HUF 67.6 billion to HUF 53.5 billion at MKB Euroleasing Autohitel Zrt. as loans and advances to customers decreased by 20.3% to HUF 50.4 billion.

CAPITAL MANAGEMENT

MKB Bank's strong capital background contributes to its safety, promotes customer confidence, helps the Bank to manage the negative effects on its profitability which come form macroeconomic turbulences. 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, 2011, as a preliminary figure the Group had HUF 79.2 billion (2010: HUF 158.3 billion) under Hungarian Supervisory Regulation. In order that the Bank has ability to keep strong capital position in the domestic market the owners has increased the paid up capital with HUF 62 billion which was completed on 17th of February, 2012. Due to the huge increase the Bank has more regulatory capital (HUF 189.2 billion) than it was in 2010.

Risk-weighted assets including operational and market risk decreased by 2.4% from 2010 (HUF 2,132.9 billion) and amounted to HUF 2,080.8 billion besides approximately 12% deterioration of domestic currency.

The CAR of Unionbank increased to 13.34% from 12.94% of previous year level under local supervisory regulation. The regulatory capital was HUF 27,017 million which was higher than the previous year-end figure (HUF 23,373 million) due to the strengthening of Bulgarian domestic currency. There was additional capital increase in amount of BGN 40 million but which was completed by conversion of former subordinated debt. Regarding the growth of Regulatory Capital in BGN and improvement of CAR, the main reason was the accumulated profit for the year with BGN 4.5 million. Meanwhile the risk asset increased by 12% amounted to HUF 202,418 million (2010: HUF 180,569 million) according to local supervisory gap which could be explained by strengthening of Bulgarian domestic currency.

The CAR of Romexterra Bank significantly increased to 16.32% from of previous year-end level 15.21% according to supervisory local gap. The regulatory capital was HUF 7,765 which was slightly lower than the previous year-end figure (HUF 8,437 million). Meanwhile the risk weighted asset decreased by 14.2% amounted to HUF 47,578 million from HUF 55,457 million in 2010.

Due to the Group RWA management and well capitalized owners at the background, the bank has ability to counterbalance the losses which come from economic downturn and macroeconomic turbulences and achieve the stronger capital position till January, 2012

Budapest, 20 March, 2012

Tamás Erdei
Chairman & Chief Executive