MKB Group's Report 2011

MKB BANK

Miklós Barabás (1810–1898) A Travelling Gipsy Family in Transylvania, 1843

oil on canvas, 108 x 134 cm

Vándor élet.

Szabad az életünk,
Adót nem fizetünk,
Lakunk az égi bolt stb
Szigligeti.

Szent Kleófás!....
Millyen karaván.
Nem lehet más,
Mint oláh czigány.
Avvagy e szép útazási rend
S pőre purdék serge mit jelent?

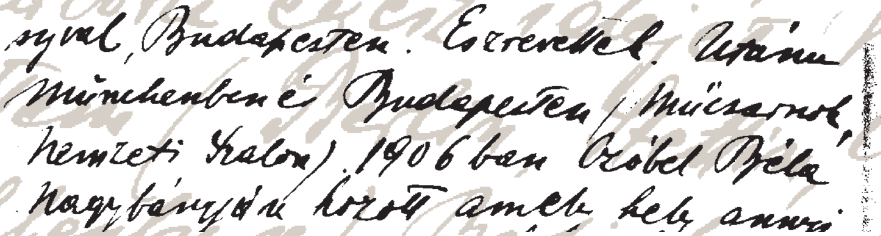
Ott huzódik a diszes csapat
Hosszu sorban erdőszég alatt;
A családfő vén, hehes lovon,
Kit kötőfékszárnál fogva von
Üggyel bajjal egy izmos legény.
Nő hisz izzad még az is, szegény!
Mert bizony már régen lehete,
Hogy zabánczuk és csikófogas
Elhullatta.... s most mi élete?
Koplalásban tölt gyásznapokat.
Ily esetben aztán ép erő,
Nem tudom, hogy volna nyerhető.
S a mi több, ki rája nehezül,
Nem csak a jó dáde egyedül:
Oldalán egy egy tarisznya lóg,
S mindenikben rajkók láthatók,
Kikidugván borzas fejöket,

Miklós Barabás's painting was displayed at the exhibition in Pest alongside Sándor Petőfi's poem "Wayfarers' life", which was inspired by the painting.

Contents

Sándor Ziffer (1880–1962) Cinterem at Nagybánya, 1912

oil on canvas 90 x 130 cm



nyal, Budapesten. Érzenettel. Utána
Münchenben és Budapesten (Műcsarnok,
Nemzeti Szalon) 1906ban Czóbel Béla
Nagybányára hozott amely hely anni

Sándor Ziffer paid his first visit to Nagybánya
in 1906 together with Béla Czóbel,
who was travelling from Paris to Nagybánya with a brief
stop in Budapest. In 1908 he made it his permanent home,
spending the rest of his life at the artists' colony.

Key Figures

	2010	2011	HUF million MKB Bank *IFRS* *unconsolidated* Change	HUF million MKB Group *IFRS* *consolidated* 2011	Eur million MKB Group *IFRS* *consolidated* 2011
BALANCE SHEET					
Total assets	**2,733,482**	**2 694,824**	**-1.41%**	**2,943,961**	**9,462**
Securities and NBH	403,009	586,806	45.61%	596,357	1,917
Loans and advances to credit institutions	128,730	119,515	-7.16%	85,183	274
Loans and advances to customers, o.w.	2,166,332	2,000,982	-7.63%	2,243,907	7,212
Corporate loans	1,358,418	1,246,009	-8.28%	1,190,368	3,826
Loans to private individuals	597,537	573,527	-4.02%	751,560	2,416
Risk provisions for loans and advances	(168,930)	(190,479)	12.76%	(249,433)	(802)
Bank deposits and refinancing balances	963,909	962,588	-0.14%	977,326	3,141
Customer accounts and deposits, o.w.	1,278,617	1,311,684	2.59%	1,463,472	4,704
Corporate accounts and deposits	678,610	616,560	-9.14%	628,910	2,021
Accounts and deposits of private individuals	600,006	695,124	15.85%	834,561	2,682
Debts securities issued	146,609	170,688	16.42%	171,145	550
Subordinated capital	96,561	108,486	12.35%	108,486	349
Shareholder's equity	195,444	78,865	-59.65%	84,089	270
INCOME STATEMENT					
Net interest income	75,790	66,774	-11.90%	77,027	276
Net commission income	16,777	10,716	-36.13%	14,060	50
Other income	(4 003)	9,783	-344.40%	6,696	24
Gross operating income	88,565	87,274	-1.46%	97,784	350
General administrative expenses	(56,594)	(60,288)	6.53%	(74,703)	(267)
Operating profit	31,970	26,986	-15.59%	23,080	83
Impairments and write-offs	(165,653)	(130,523)	-21.21%	(126,363)	(452)
Profit /Loss before taxation	(133,683)	(103,537)	-22.55%	(104,280)	(373)
Profit / Loss for the year	(122,673)	(112,740)	-8.10%	(121,026)	(433)

[1] HUF/ EUR exchange rate: BS: 311,13; P&L: 279,27.

			MKB Bank	MKB Group
			IFRS unconsolidated	*IFRS consolidated*
HUF million	2010	2011	Change	2011
BUSINESS FRANCHISE				
Corporate clients ow. [2]	48,394	54,052	11.7%	73,088
Large corporates [3]	3,057	3,003	-1.8%	-
SMEs	9,535	9,813	2.9%	-
Micro corporates	35,802	41,236	15.2%	-
Private individuals [2]	348,748	360,805	3.5%	548,927
Pension fund clients	136,100	97,826	-28.1%	-
Health care fund clients	33,500	144,000	7.9%	-
Corporate loans and deposits market share	13% / 11.2%	12.6% / 9.9%	-0.4 / -1.3 pps	-
Loans to and deposits from private individuals market share	6.5% / 5.9%	6.2% / 6.2%	-0.3 / 0.3 pps	-
Investment funds market share	4.2%	4.4%	0.2 pps	-
Issued bonds of domestic Fin. Inst. held by resident households [4]	14.2%	14.2%	0 pps	-
LIQUIDITY & SELF FINANCING				
Liquid assets ratio	19.87%	26.67%	6.80%	24.82%
Loans-to-Primary Funds (LTPF) Ratio	152.00%	134.99%	-17.01%	137.27%
Loans-to-Deposits (LTD) Ratio	169.43%	152.55%	-16.88%	153.33%
CAPITAL MANAGEMENT [5]				
Total core capital	251,393	198,808	-20.9%	183,254
Core capital (Tier 1)	167,365	132,502	-20.8%	121,656
Solvency ratio	10.8%	9.17%	-1.6%	9.03%
Tier 1 ratio	9.0%	7.08%	-1.9%	5.85%

[2] Total clients of MKB Bank, MKB Romexterra Bank and MKB Unionbank regarding MKB Group data.
[3] Including institutional clients.
[4] Excluding mortgage bonds.
[5] Regulatory capital whitout deductions, according to HAR; after EUR 200 million capital increase.

				HUF million
			MKB Bank	MKB Group
			IFRS unconsolidated	IFRS consolidated
	2010	2011	Change	2011
PORTFOLIO QUALITY				
Total NPL ratio	11.3%	19.0%	7.7 pps	20.7%
Corporate NPL ratio	9.6%	18.6%	9 pps	20.7%
Private individuals NPL ratio	8.9%	21.0%	2.1 pps	20.9%
Loan loss reserves/NPL	54.19%	46.96%	7.2 pps	53.92%
Collateral coverage/NPL	37.06%	41.12%	4.1 pps	40.46%
PROFITABILITY				
ROAE	-47.85%	-40.62%	7.2 pps	-41.88%
ROAA	-4.74%	-3.81%	0.9 pps	-3.68%
EFFICIENCY AND OPERATION				
CIR	63.90%	69.08%	5.2 pps	80.53%
Number of employees	2,198	2,244	2.1%	3,912
Number of branches	87	88	1.1%	187
SHARE RELATED INFORMATION				
Earnings per share (in HUF)	(7,846)	(5,438)	-30.70%	(5,837)
Book value per share	9,427	3,804	-59.65%	-
Number of shares	20,732,902	20,732,902	0,00%	20,732,902

Awards and Recognitions 2011

Best of Call Centers

After coming first in two categories last year, this year MKB Bank's Call Center turned out to be the best in all categories in the TOP10 Call Center contest, with which it earned the *"Best of Call Centers"* title. GfK Hungária Piackutató Intézet (Market Research Institute), and Humán Erőforrás Alapítvány (Human Resources Foundation) organised a contest for retail customers services, call and contact centres for the second time this year. The service providers competed by division in the TOP10 Call Center contest based on the so-called mystery call method. In this method, trained mystery customers assess not only the general customer handling practice, but also problem solving and sales on the phone. In the high-ranked corporate contest, our Bank's Call Center came out at the top in all categories beating its peers, beating its competitors in general customer services, problem solving and sales support. This result beat our last year's performance when we won two categories, as in 2011 MKB was awarded the *"Best of Call Centers"* title in the sector.

MKB Bank became a HungarianBrand again

Superbrands Hungary launched a pioneer initiative last year when it undertook the collection, evaluation and awarding of Hungarian brands within the HungarianBrands programme. The brands awarded the HungarianBrands title were selected from the trademark database and the applying brands.

The values attached to the HungarianBrands may bring obvious advantages that raise the reliability and recognition of products among customers and clients. The HungarianBrands trademark may be obtained through application, according to pre-defined standard criteria. Similarly to the international principles of Superbrands, the companies and their products participating in the Hungarian program are awarded the title based on a decision of a committee of voluntary, independent experts. Professional and trade interest representation organisations are widely represented in the Committee. Following the Superbrand award won several times in recent years, and after the 2011 HungarianBrands qualification, MKB Bank became a *HungarianBrand* again. Based on the objective corporate data (tradition, ownership, management, awareness, employment), and the subjective decision of the HungarianBrand Panel of independent experts (reputation and identity) MKB Bank is an essential Hungarian brand. We are proud to receive the award of this newly introduced program focusing on the most excellent domestic brands this year too.

First place in the category of "Bank card series of 2011"

After winning the first prize in "The Retail Bankcard of 2010", MKB's team managed to win at the annual creative competition of bank cards: plastic cards with coverage from the Bank's art collection gained first place in the category of *"Bank card series of 2011"*.
MKB Bank entered the 2011 competition for current and standardized bank and credit cards with a set of 5 cards, a result of a visual experiment. The aim of this experiment was to open up spectacular details on each card from the treasures of the Bank's painting collection. The set invites the "visitor" to a visual tour through which the viewer passes the apple tree flowers of István Csók and fruit trees' of István Boldizsár, going through the garden of János Vaszary and reaching the water with Róbert Berény to finally explore the touching Danube bend of István Szőnyi.

Special award in the Website of the Year 2011 Contest

MKB's Otthonkereső (Home Search) mobile application was granted a special award in the Website of the Year 2011 Contest in the Mobile Marketing Applications Category.
The Hungarian Marketing Association and the Internet Marketing Section organised the *"Website of the Year"* Contest for the tenth time this year.
In this year's contest, MKB's Otthonkereső mobile application was granted a special award in the Mobile Marketing Applications Category.
According to audience votes, MKB Bank produced the third best advertising campaign in 2011. In the vote organised by Kreatív magazine, the leading paper in marketing communications, MKB Bank Otthonkereső (Home Search) campaign came third by receiving hundreds of votes.

Special awards to MKB Scholarship Scheme

MKB Bank received a special award in the contest of the Hungarian Donors' Forum: the expert jury granted the Social Investments Award to the MKB Scholarship Programme, with which our Bank supports one hundred disadvantaged talented students in their studies from primary school until they complete their higher education studies. The purpose of the renewed award of the professional umbrella organisation comprising Hungarian business and non-profit organisations that support social issues is to recognise exemplary corporate social investment programmes.

Miklós Barabás (1810–1898) Hungarian Noblewoman, 187 (Portrait of Baroness Kata Radák)

oil on canvas, 97.5 x 73 cm

Rétyi Antos Jánosné
Báró Radák Kata.
26 éves korában.
sz. 1834 nov. 25. + 1897 jun. 15.
fest. Barabás Miklós.

This painting is proof of Miklós Barabás's artistic greatness. He was asked to paint a rejuvenated portrait of the elderly Mrs János Antos Kata Radák by taking around twenty years off her appearance, to commemorate her engagement. Was he successful?

Chairman's Statement

2011 marked partially compelled continuation of unorthodox crisis management in the Hungarian economy which, parallel to the re-escalation of the debt crisis of the euro zone in the summer, resulted in a negative judgement and loss of confidence on international and financial markets towards Hungary, reflected in lower foreign exchange rates, downgrading into the junk category by all credit rating agencies at the end of the year and a constraint to contact the IMF for a financial safety net. In parallel with a decline in domestic demand, the 1.7% economic growth will turn into stagnation and the implementation of the announced longer-term structural reforms will be postponed amidst considerable loss of political confidence. In addition, the transformation of the pension system required the banking sector to make intensive adjustments on the liability side, while the Government's Home Protection Programme components set the same demand for retail lending, but both steps and numerous other processes progressively and significantly reduced the income generating capacity of the sector.

Following the development of 13 years with impressive results in the environment described above, which made the Hungarian banking sector one of the best in the region from many aspects, the aggregated net loss of the banks is expected to be higher than HUF 160 billion at the end of 2011. The bank tax and the other subsequent government measures imposed disproportionately high burden on the sector. Due to additional external factors, the sector is basically unable to operate as a catalyst facilitating the recovery of the national economy and a new start of its considerable growth with sufficient financing. The main issue of 2012 is whether the Hungarian economic policy intends to rely on the banking sector as a partner and if so to what extent in order to support the stimulation of the economy and together regain the confidence of parent banks, customers and financial markets.

MKB Bank and the Group's 2011 business year in a nutshell: in spite of the vague promise of recovery and growth in the first six months of 2011 active crisis management, adjustment and prudent financing in terms of economic policy management and regulations continued in an extremely hectic and unfavourable environment. With remarkable efforts, MKB Bank has time proportionately and successfully over-performed its two fundamental strategic targets, the efficient risk weighted asset (RWA) management and strengthening of self-financing – including the gradual improvement of the balance sheet structure terms of both maturities and FX – with huge contributions from all business lines. The Bank successfully managed the tasks of transformation of the pension system and lump sum repayments. It should be highlighted that all those steps only slightly eroded the market position. With the preservation of the Bank's values and long-term customer relationships, and with improving performance, the Bank intends to remain one of the leading institutions of the Hungarian financial sector in the long run.

Hungarian business area 2011: delayed recovery, unorthodox policies under international pressure [1]

For the Hungarian economy 2011 was a year of partial failure of the unorthodox crisis management economic policy, thus, the 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 was 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 double-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 a 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 to 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 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 peaked 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 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 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.

[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 February 2012.

Romania, Bulgaria: turned the corner [2]

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 the 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 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 GDP growth in 2010 was followed by a 1.7% 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.

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

Hungarian banking sector: a disproportionate burden on the sector and unfavourable growth outlook led to losses, hibernation strategies and exits

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: very few loans were extended and extremely few new loans were approved.

The impact of the exchange rate fluctuation on the volumes in HUF was significant; apparently the total loan portfolio hardly shrank at all, while on a 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 of FX loans). Naturally, those credit processes, as well as the developments in funding, supported the strategies promoting stronger self-financing ability. Due to the overall impact of the positive (self-care considerations of private individuals and higher net income in the affluent segment) and negative factors (corporate outlook, cancelled capital investments), the total amount of customer funds grew by 4.9% in the sector. Primarily the deposit portfolios expanded (resources channelled back from funds). At the same time, being downgraded into the non-investment category and the record high country risk premium (expressed in CDS) obviously raised the cost of parent banks' FX resources.

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 the default loans ratio, 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 all these factors banks recognised 56.5% more provisioning than the already high figures of 2010.

Although the gross operating income of Hungarian corporate banks increased by 7.7% (including exchange rate effects), of which profit on financial operations and investment services increased by 28.5%, interest incomes decreased only by 0.5%, fee and commission incomes decreased by 11.4%. As a result the Hungarian banking sector made a loss in 2011; the sectoral profit after taxation was HUF -167.3 billion. The Hungarian banking sector made a loss after 13 years with a significant difference that it was not caused by one single huge loss, but several actors lost their capital simultaneously.

In the end, the lump sum repayment affected 168,000 debtors (17.7%), and HUF 921 billion loans at the lump sum repayment exchange rate (23.5%), causing HUF 336 billion direct loss to the sector immediately. These measures lowered the mid-term profitability of the retail business line considerably, as they supported the early repayment of good debtors, the margins denominated in CHF were lost, the margin on the refinancing HUF loans (HUF 113 billion) was lower and the cost of channelling the used financial savings will be higher in 2012. At the same time, the Hungarian Financial Supervisory Authority also pushed for the strengthening of the capital position of the banking sector in the spirit of mid-term preparations for Basel III, by potentially increasing the minimum capital adequacy requirement to 9% and in the mid-term to 10%. The parent banks ensured capital or made capital hike to offset the losses from the lump sum repayment and, in many banks, from ordinary operation despite the record high loss 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 good capital adequacy and good liquidity positions in banks. It also became clear 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 fundamental requirements, capital preservation, self-financing (which became a priority for all actors) and loss avoidance in their Hungarian subsidiaries. They do not consider the Hungarian market as attractive in the medium term, which is why they decided 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 reduction in real terms! Several large banks closed branches and made redundancies and will continue in 2012 (more than 60 branches will be closed). The number of employees in the banking sector fell by 308 to 30,788 by the end of 2011, to be followed by further major redundancies in 2012. The other key macro-level impact is that in its current form the sector is unable to fulfil its function of catalysing the recovery of the national economy and its new durable and considerable growth with sufficient financing. The main dramatic issue of 2012 without any exaggeration: whether the Hungarian economic policy intends to rely on the banking sector as a partner and if so to what extent in order to support the stimulation of the economy and together regain the confidence of parent banks, customers and financial markets becomes a truly dramatic question without any exaggeration.

Romanian and Bulgarian banking sector

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 fortyone commercial banks operated in Romania.

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 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.

Performance of MKB Group in 2011, affected by unfavourable economic and regulatory environment

In 2011, MKB Group continued the implementation of its strategic programme formulated at the beginning of the crisis aiming a medium-term attractivity on the capital market. The main components of the strategy were strengthening of the fundamental aspects of banking operation, focusing primarily on capital preservation, improvement of self-financing capacity, continued portfolio restructuring, increasingly effective operation with risk weighted assets, medium-term improvement in the maturity and currency structure of the balance sheet, prudent risk management and greater operational efficiency. The Bank also made prudent progress in building its business future by expanding primary banking relations, making selective acquisitions, transforming the wholesale business line with intensive restructuring in co-operation with customers, performed by a separate organisational unit, further improvement of internal processes and, last but not least, through considerable efforts of the staff of the MKB Group.

However, the business and financial performance of the MKB Group was significantly and unfavourably affected by the extended impact on portfolio quality of the slow economic recovery process of the CEEU region, the European debt crisis, which escalated by the end of the year, and the regulatory environment and unpredictable economic policy in Hungary. The MKB Group attained the above objectives even in the extremely hectic environment. In the extended crisis, MKB Bank and the Group had selective lending activity. The unconsolidated total assets of MKB Bank, which is a dominant member of the Group, shrank by 1.4% to HUF 2,695 billion, the net loan portfolio dropped by 9.4% to HUF 1,811 billion, yet the deposit portfolio picked up by 2.6% and reached HUF 1,312 billion at the end of 2011. The increase of deposits was completed by HUF and FX-based bond issues: In 2011, the total face value of bonds, calculated in HUF, was HUF 140.2 billion. The resource diversification was further strengthened by investment funds whose total assets value was HUF 111.6 billion at end 2011.

The IFRS unconsolidated interest, fee and commission income of the Bank decreased by 16.3% to HUF 77.5 billion. The gross operating income compared to 2010, decreased by 1.5% to HUF 87.3 billion. The Bank's operating costs rose by 6.5%. MKB Bank started sooner than its competitors and has been gradually restructuring its portfolio and provisioning since 2009. There was a 21.2% drop in provisions even though the HUF 130.5 billion already contains the provisions recognised for the loss of lump sum repayments. The Bank recorded HUF 103.5 billion unconsolidated annual loss before taxation according to the international accounting standards, which was much lower than the figure of the previous year (2010: HUF 133.7 billion loss).

Business volumes of the MKB Group in 2011 were the following: the net loan portfolio shrank by 8.4% (to HUF 1,995 billion), the total assets increased only by 0.2% to HUF 2,944 billion at the end of 2011. The deposits dropped slightly by 0.3% to HUF 1,463 billion. At group level, MKB reported HUF 104.3 billion consolidated loss before taxation on IFRS basis, partly due to the high provisioning in Hungary and partly due to the still critical position of its Romanian subsidiary (MKB-Nextebank). Out of the other main affiliates, MKB-Unionbank contributed positively to the performance of the Group, as it increased its profit before tax by 8.2% compared to 2010. In the still unfavourable vehicle market and stagnating leasing market environment, the MKB-Euroleasing Group after a minor loss in 2010, contributed again positively to the performance of the Group.

The Bank's HAR unconsolidated statements reflect tendencies similar to IFRS: the Bank's profit before tax was HUF -111.3 billion (loss; 2010: HUF 112.8 billion loss), and the profit after tax accounted to HUF -111.4 billion (loss; 2010: HUF 112.8 billion loss) in 2011.

Increasing its market shares was still not priority for MKB Bank in 2011, yet it achieved its primary strategic goals in 2011 with some erosion in its overall market position, which result should definitely be underlined in the current environment. MKB Bank achieved 13.8% and 6.2% market shares in non-financial corporate and retail lending (2010: 14.3% and 6.5%). The increase in the share of the retail savings market is significant, reaching 6.3% market share (2010: 5.9%), of which 7% in primary sources (2010: 6.5%) and 6.2% in retail deposits (2010: 5.9%). As a few large individual deposits were withdrawn in the first half of 2011, the Bank's market share in non-financial corporate deposits reduced to 10.2% (2010: 11.8%).

The main shareholder, BayernLB, continued to provide refinancing and capital as required for the MKB Group also in 2011, despite the regulatory changes (e.g., lump sum repayment of foreign currency loans at a discounted exchange rate). As a result of the EUR 200 million capital increase in January 2012 the capital position of MKB Bank and the Bank Group is safe and capital adequacy reflects higher level than the regulatory requirement.

At the end of 2011, with its 88 branches, MKB Bank served 12,800 large corporates, SME and institutional customers, nearly 361,000 private individual customers and more than 41,200 small companies, while together with the foreign subsidiaries, the Bank served in 187 branches a total of 16,000 large corporates, SME and institutional customers, 550,000 private individual customers and 57,100 small companies in 3 countries of the region. By adding also the strategic participations and partner network, the customer base grows by further hundreds of thousands of customers.

Human resources

There were no changes in the staff management of MKB Group in 2011, and therefore the headcount figure of the Group was 3,912 employees on 31 December 2011 including also the foreign subsidiary banks, which was 20 employees lower than the closing figure reported for 2010. Within the Group the headcount figure at MKB Bank is 2,244 employees, the total staff of foreign subsidiaries (MKB Unionbank, MKB Nexte Group) is 1,350 employees, lower than the figure of the previous year by four employees. Within that total the 15-member staff increase at MKB Unionbank was offset by the redundancies made at Nextebank. No major changes occurred at the Hungarian subsidiaries either, where the total number of employees of the current year was 318, which is 17 employees lower than the closing figure of 2010.

In 2011, the human resource development priorities were determined by the requirement and necessity of the direct impact of business activities on profitability. In this context, developments focused on professional training as well as two additional areas: sales development and boosting of motivation.

Sales development was concentrated on the corporate division in line with the business requirements. The sales skills were developed based on the prior definition of exact internal work processes and corporate best practices, which brought a breakthrough in the methodology and introduced a new HR activity. The special training provided to corporate managers and sales support teams for measuring and monitoring changes was another innovation in the field.

In terms of the boost to, and longer-term sustainability of, motivation, the internal incentives of the key experts were defined within the framework of the two-year Career Management Programme and the multi-year motivation schemes launched in strategic divisions.

Hungary needs a trust building, more sustainable economic policy from 2012

The growth in Germany, which is of key importance for the Hungarian economy, is contracting less than projected earlier. Within the overall deceleration of export dynamism, the three major motor industry projects and the start of production of their suppliers in 2012 can contribute a great deal to the Hungarian exports. The status of the construction industry and services is not improving, while decline is also projected also in agriculture, which is expected to perform above average due to last year's favourable weather conditions. The extremely low performance of the real estate sector is expected to continue this year.

Due to the overall impact of the demand and supply factors there will be no relevant increase in the banks' lending activity either. Companies tend to postpone their capital investments and still focus strongly on cost management. Despite those tendencies the actual unemployment rate is not expected to decrease at all, or only slightly in 2012, because although the redundancies announced for the public sector will give a boost to unemployment, statistically it could be offset by the increasing number of people participating in community work program. With such employment outlook and as a result of the lump sum debt repayment the residents remain prudent, the savings ratio is historically high and the net savings position is strengthening further. Despite a major increase in minimum wages, real wages are falling, resulting in further cuts in consumption and preserving the declining tendency in retail sales. The overall less dynamic European purchase market, the limited domestic demand and hibernation of credit supply can only be sufficient to keep the Hungarian GDP at its current level.

Not only the external economic environment turned out to be more unfavourable than projected in 2011, the boost of domestic demand did not bring any results either. There were also significant delays in the implementation of the required but not sufficient medium-term structural reforms of the Széll Kálmán Plan in 2011. Thus the components of the plan improving the budget balance could not be integrated into the 2012 budget. To offset the negative trends, further restrictive measures were introduced at the beginning of this year. The general VAT rate was increased to 27%, the highest in Europe, and the special tax imposed on certain food products was also raised ('chips tax'). The introduction of the flat rate personal income tax system was delayed again (full termination of the semi-super gross wage calculation method), rules on taxes and contributions applied to the cafeteria components were strengthened and the health insurance contribution was also raised. The attempts to destroy the still existing private pension funds have continued by transferring the contributions into the state pillar, thus preserving the lack of coverage of the operating costs. So the state treasury will receive more funds from the portfolio of the forced fund switchers.

The above described measures and the excise duty, which was also raised in February, will also have an unfavourable impact on the inflationary outlook in 2012 through the energy prices and imported products, resulting in approximately 5% annual average inflation. The HUF exchange rate and the prime rate will continue to be driven primarily by the progress in the negotiations with the International Monetary Fund and the EU, as well as by the processes of the international financial markets.

The only way to achieve the overall objective of growth orientation in the Hungarian economic policy and national debt reduction is to regain international trust by strengthening legal certainty and by consistently implementing long delayed structural reforms, which requires the IMF safety net, improvement of investors' mood and lower country risk premium. 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 promoting economic development.

Acknowledgements

Last year witnessed several personnel changes in the governing bodies of the Bank. Let me thank hereby, without naming them individually, the former and the newly elected members of the Board of Directors and of the Supervisory Board, as well as those members with extended mandate for their committed activity throughout the year. I wish to thank the employees for their devoted and efficient work in 2011 in this extraordinarily challenging environment. Last, but not least, I also wish to thank our customers and shareholders for their continuous trust and support.

Following more than 29 years of joint work, after a thorough consideration and in mutual agreement with the owner and also in respect to the fact that MKB Bank requires transformation due to the economic and financial crisis, in 2012 I decided to pass on my CEO position in the Bank.

MKB has been dominant in my professional career, and even more, it was my second home. For me the years spent at MKB were coincidental with the establishment and extremely dynamic development of the modern Hungarian financial sector. I am proud that, with its over 60-year history, under my guidance MKB Bank has developed from a small foreign trade bank into a recognised large domestic financial institution, one of the leading institutions of the Hungarian banking sector, a valuable 'asset' well worth preserving and developing further. I wish every success in that task to all my Colleagues and my successor, Dr. Simák Pál, who has been elected as Chairman of MKB Bank by the Extraordinary General Meeting held on 8th March 2012.

Tamás Erdei

Vilmos Aba-Novák (1894–1941) Circus, 1941

tempera on paper, 56 x 70 cm

Gróf Esterházy József úrnak
nagyrabecsülésem jeléül
Aba Novák.

Vilmos Aba-Novák gave this painting to count József Esterházy on 17 September 1941 as a wedding present. The painter died on 29 September, so this work can be regarded as his last dedication.

Business Report

Although, the first half of the year held a vague hope for recovery and growth, in all, MKB Bank's 2011 financial year was still characterised by active crisis management, adjustment and cautious financing activity in respect to the hectic economic policy and regulatory measures in an extremely unfavorable environment. With remarkable efforts, MKB Bank has successfully overperformed its two fundamental strategic targets, the efficient risk weighted asset (RWA) management and strengthening of self-financing (decrease its LTPF ratio), including the gradual improvement of the balance sheet structure in terms of both maturities and FX mismatch, with huge contributions from all business lines.

Extremely intensive adjustment was required on the liability side concerning the re-nationalisation of the compulsory private pension system, and also in household lending on the asset side due to the Government's Home Protection Program, but the Bank more than adequately managed these challenges. In this environment it was a remarkable result that MKB Bank succeeded in reaching the aforementioned key strategic objectives and manage the challenges with just some minor erosion of its market share in key client volumes with the exception of retail savings market share, where it showed impressive growth.

In most of the business segments, consolidation continued, together with customer-focused crisis management and collateral strengthening. Parallel to that, differentiated identification of the options for future business breakthrough directions are on the agenda as well. In that context the strengthening of the organisation conditions in the corporate division, centralised support to business development, the growing tendency in primary banking relationships, the success of factoring and certain Treasury products, the private banking business, the dynamically increasing penetration of electronic services and the performance of the Bank Group in self-care type savings were remarkable achievements. The fine-tuning of business processes in various business lines formed a good basis for the Bank's business performance to improve sustainably and efficiently in a consolidating macro-economic environment.

Performance of the individual business lines [1]

Companies and institutional customers [2]

During 2011, in an environment showing the signs of a slow, strongly differentiated recovery, the Bank's business policy focused on two goals: continuation of proactive relationship management focusing on the quality indicators of the existing portfolio and exploitation of different acquisition opportunities in line with the status of the Hungarian economy, concentrating mainly on the driving sectors. In the latter case most attention was paid to a complex service portfolio including complex financial advisory services rather than a simple extension of the customer base, and the same focus will also remain in 2012. In case of the corporate customers the restructuring activity, collateral-strengthening and, in relation to that, the reduction of the risk-weighted assets, essentially by exploiting internal resources intensively, continued to remain priorities. For achieving these goals efficiently MKB established an individual organizational background. Besides, in 2011 the Bank continued serving its customers that were unfavorably affected by the crisis yet showed growth potential in the medium to long term and reasonably applied for financing.

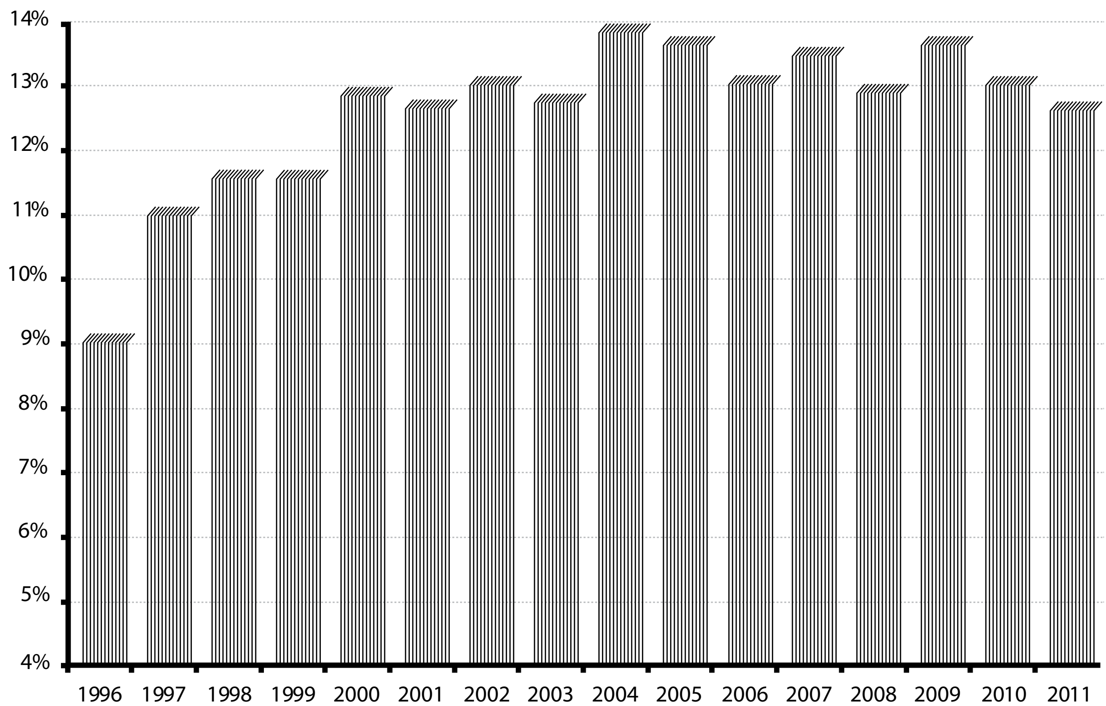
Corporate loan portfolio based on transactions showed a decrease in the sector due to the state of the economy

[1] The key business line figures are from MIS.
[2] For business segmentation reasons, small enterprises are a separate business line at MKB Bank. However, due to sector statistics the corporate market share calculations contain their loan and deposit portfolio. This chapter basically includes the client numbers, loans, accounts and deposits of the corporate portfolio in growth focus. The 'total'market share data include total volume.

and renewals were still more typical. Tendencies at MKB Bank were in line with the sector trend, and the deviation of its currency and maturity structure is the explanation for the more moderate real decrease.

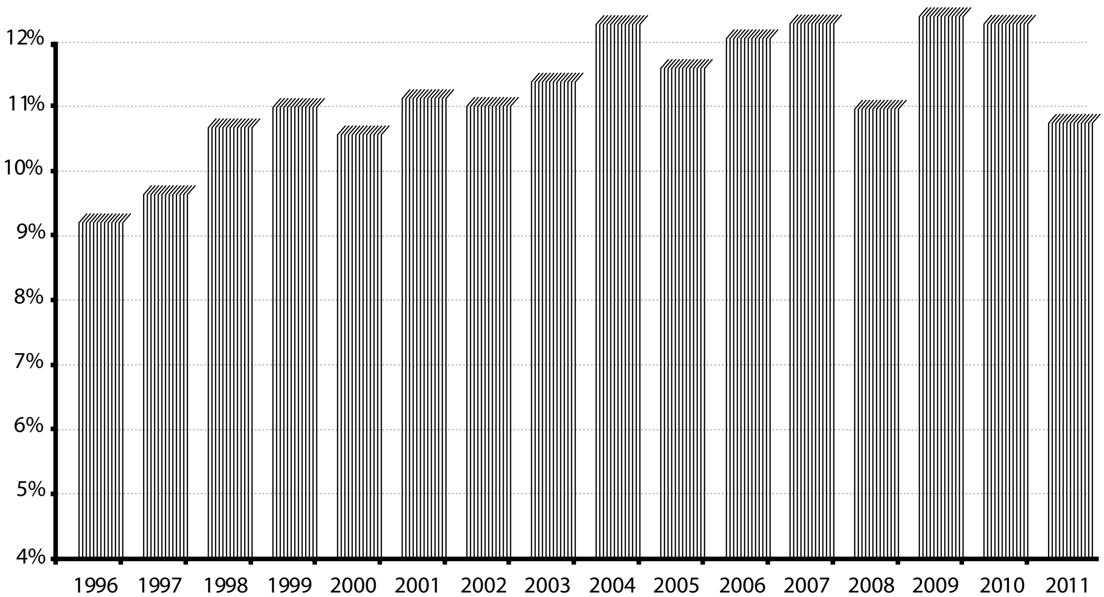
The total wholesale corporate loan portfolio of MKB Bank decreased by 7.3% and reached HUF 1,430.4 billion. Thus, MKB Bank's market share in domestic corporate lending fell by 0.4pps to 12.6%, while in the strategic segment of non-financial corporates the Bank reached a market share of 13.8% (2010: 14.3%). As for the portfolio in business and growth focus – in line with the shrinking market - loans disbursed to the Bank's large and mid-corporate project and institutional customers decreased by 12.1% to HUF 573.2 billion by the end of 2011. Consequently, the market share calculated for the non-financial corporate portfolio with growth focus was 6.5% at the end of 2011 (2010: 7.3%).

MARKET SHARE IN TOTAL CORPORATE LENDING



The total wholesale corporate accounts and deposits of MKB Bank decreased by 6% and reached HUF 617.4 billion. Thus, MKB Bank's market share in domestic corporate funding fell by 1.3pps to 9.9%, while in the strategic segment of non-financial corporates the Bank reached a market share of 10.2% (2010: 11.8%). The accounts and deposits from the business and growth focus portfolio of the Bank, large and mid-corporate project and institutional customers decreased by 1.4% to HUF 586.1 billion by the end of 2011, partly due to decline in some large individual deposits. Consequently, the market share calculated on the basis of the non-financial corporate portfolio with growth focus was 9.6% at the end of 2011 (2010: 10.8%). The total number of corporate customers (including small enterprises) with an account of MKB Bank almost exceeded 53,000 (2010: around 47,600), out of which the number of large, medium companies and institutional customers exceeded 12,000. (2010: around 11,800).

MARKET SHARE IN CORPORATE DEPOSITS



In 2011 strengthening of the business activity, apart from the normal acquisition and product development activities, manifested in establishing the organisation background facilitating business activity. With the help of centralised support to business development, a model promoting the synergy of the business lines was implemented offering a more cost effective business development solution for operation than just the more effective exploitation of cross selling opportunities. The Bank considered further development of the infrastructure background of the corporate sales activity as a part of its medium-term strategy, thus, it introduced new IT applications and further developed existing ones, e.g. the electronic channels. The Bank's preparations in 2011 for putting in place the conditions required to comply with the Basel III requirements affected the wholesale division significantly. The payment turnover and electronisation continued to develop dynamically. Around 12,700 corporate customers are active users of the MKB PCBankár service. The number of corporate Tele-BANKár (Contact Center) contracts exceeded 21 thousand growing by 15.6%. NetBANKár Business is used by 60.3% of the corporate customers. The number of issued business bank cards by MKB Bank is around 31,000 (+24.8%). The establishment of the card acquiring business line was a major development project in 2011, as a result of which MKB Bank joined the banks supplying POS. MKB Bank became a member of the SEPA (Single Euro Payments Area) standardised payments zone. Since the end of 2010 corporate and institutional customers, by using the MKB Online Trader internet based foreign exchange trading system, are able to follow changes in the exchange rate real-time, as well as to give orders for prompt foreign exchange transactions on their bank accounts kept with MKB Bank, with extended trading period, in several number of currencies and with other further developed services.

Large and upper-mid corporates, non-real estate project financing and institutional customers

This is the traditional business segment of MKB Bank with the highest customer penetration, the number of customers, including institutional ones, exceeds 3,200 with a penetration of 35.7% in account relations. As a favorable factor, despite the crisis the portfolio deteriorated only to a limited extent, in terms of large and upper-mid clientele, where their fundamentally more favorable financial background and higher export orientation played an important role. At the same time the financing activity and the demand for new loans declined, therefore in 2011 the emphasis was rather on the renewal and the management of the existing portfolio. Consequently, the closing balance of the large, upper-mid corporate, non-real estate project and institutional loans decreased by 11.3% to HUF 409 billion (2010: HUF 461.2 billion). In 2011, the accounts and deposits from this segment increased by 6% to HUF 444.9 billion (2010: HUF 419.8 billion). In addition to the collection of deposits, MKB Bank, in line with its efforts to generate cross selling and fee income, offered open-ended investment funds, own-issued bonds and a wide selection of government securities for liquidity management and investment purposes to its wholesale customers. The growing tendency in Treasury product sales is also worth mentioning.

In the segment of upper-medium-size companies MKB has a 31.8% penetration in account relations, and offers a full-range of tailor-made services. The number of upper-medium-sized companies increased by 33.9% to 604 in 2011. The Bank considers this segment as strategic, satisfying its customers' needs with increasingly complex services. The Bank offers cross-border services to these companies in their international expansion and to their export activities, (e.g. export-factoring, documentary operations, export financing). The segment managed to remain relatively stable during the economic crisis, and could show some growth opportunities in the longer term. On the financing side MKB Bank is able to provide adequate medium-term financing to such companies either from its own funds, as well as with refinanced programs and state subsidised schemes. Through the Bavarian and SCountry Desk, MKB Bank, as Central and Eastern European bridgehead, provides cost-effective home bank services to Bavarian and German companies basically belonging to this segment.

MKB Bank has traditionally wide relationships with primarily domestic institutional clients. Insurance companies, pension funds, health care funds, municipalities, chambers, interest representation bodies, church organisations, associations, foundations and other organisations of the civil society provide significant renewing long-term funding diversifying MKB's funding base. It is important to note that, unlike many Hungarian banks, MKB Bank followed a different strategy and it intentionally did not take part in the direct financing or the CHF-based bond financing of the municipality sector, and therefore it was not affected by the debt problems which escalated in 2011. It also kept its indirect exposure low and denominated in HUF.

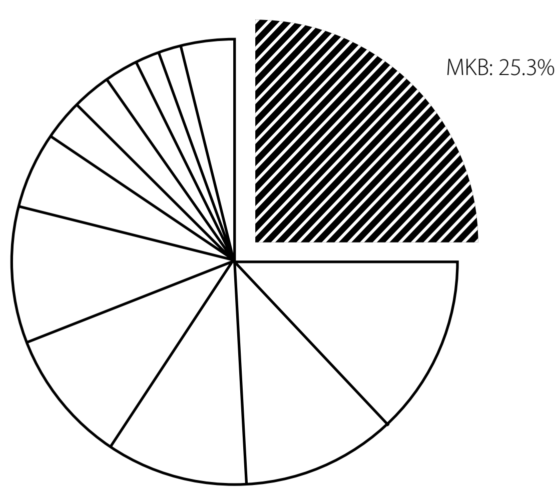
Lower-mid market enterprises

For MKB Bank lower-mid market enterprises represent special and dynamically growing clientele in the long term. At the same time the majority of these companies are heavily exposed to the domestic demand, which continued to shrink considerably in 2011. The vulnerability of the segment is similarly shown by higher default rate than in the upper-mid corporate segment. In addition, the business policy concentrated not only on the existing portfolios and their improvement, but also on the acquisition of selected companies and on the partially standardised supply of a wider possible range of services. The above clients are engaged in "crisis resistant" activities using innovative solutions. In 2011 MKB Bank continued fine-tuning its lower-mid corporates (LMC) specific service model partly to provide more efficient customer services.

In 2011 the number of LMC customers of MKB Bank increased only very slightly. The penetration in account relations was 22.9% in the lower-mid corporate segment. Following the 13.9% decline in the aggregated loans of the business segment from 8,873 customers the portfolio shrank to HUF 164.2 billion (2010: HUF 190.6 billion), while their account and deposit balance decreased by 19.3% and amounted to HUF 141.2 billion (2010: HUF 174.8 billion). The declining loan portfolio reflects the more moderate and selective financing activity of the Bank and also the already declined demand, which is also reflected by the decrease of accounts and deposits. In the LMC segment there are more companies exposed to weak domestic demand, which explains best the above development of their banking portfolios in 2011.

The Bank's special strategic objective is to assist, to the highest extent possible, small and medium sized enterprises in having access to state, EU and international development funds (refinancings) through its services including specifically designed co- and pre-financing MKB products. Similar to previous years, domestic enterprises may have access to the programs of MFB with state subsidy (New Hungary Enterprise Development Credit Program) and with favorable interest terms as well as to the EIB mid-loan credit program through MKB Bank. During the recent period the involvement of credit guarantee institutions also increased in the practice of MKB Bank, assisting small and medium sized domestic enterprises to obtain loans despite the unfavorable environment. Also for MKB Bank one of the adequate means of financing the mid-corporate segment is factoring, in which the Bank has been the market leader for years. In 2011 the total factoring turnover of the factoring association increased by

MKB BANK'S MARKET SHARE IN FACTORING BY TURNOVER, 2011



3.3% to HUF 888 billion. MKB Bank's gross factoring turnover decreased by 0.3% to HUF 224.7 billion (2010: HUF 225.3 billion), but its market leader position has not changed. The crisis environment naturally left its mark on the dynamics in the LMC segment. The portfolio decreased by approximately 20.5%, but the number of customers increased by 3.6%. The agreement between MKB Bank and Deutsche Leasing Hungária for the sale of financial leasing, leasing and asset-based loan products related to EU subsidies is properly functioning; however, the economic environment and in 2011 the still declining investment activity obviously affected the leasing market as well.

Special credit unit

Apart from the prudent management of the unfavorable impacts of the crisis, MKB Bank will focus on active growth again in its strategic segments. Consequently, in September 2011 a new organisation unit was established within the framework of strategic restructuring in order to separate the customers requiring normal and special treatment. The Special Credit Unit (SCU) concentrates specifically on borrowers requiring special treatment. The activities of the new unit include all market and risk functions related to the customers managed, from debtor rating through daily relationship and services to complaint handling. SCU contributes to the Bank's business goals by minimising losses and elaborating and implementing adequate special credit management procedures.

Small enterprises

In 2011 the economic environment is still characterised by high default rate and weak domestic demand; both required unchanged cautious expansion in the business line that had been started previously. The focus was still put on quality growth, primary banking relationship, account keeping, and the sale of account and payment products, thus, ensuring excess funds. In the meantime, MKB Bank carried out its lending activities gradually and selectively by a range of state guaranteed and refinanced products, basically. The number of small enterprise customers grew by 15.2% and reached 41,236 by the end of 2011. (2010: 35,802). The bank had 8,105 new customers in 2011. The account turnover of new customers made up 16.4% of the total small corporate account turnover, indicating the success of building primary relationships. The credit portfolio decreased by 9% from HUF 29.4 billion to HUF 26.7 billion due to the impacts of the economic crisis and the consequent more careful lending policy, while its liabilities grew by 14.1% and amounted to HUF 144.0 billion (2010: HUF 126.2 billion). Within the extension of the product range, the development of sector specific service packages was a main priority in 2011. In 2011 the Széchenyi Card (SZK) overdraft with favorable collateral background continued to be the hook-product of the bank's small company financing. The Bank's market share in the case of new customers shrank from 19% to 14%, yet the average new loan amount has not changed (2011: HUF 10 million). The chamber and VOSZ offices forwarded 3,392 applications (2010: 3,478) (including 18% new applications) to the Bank, of which the ratio of successfully realised deals increased to 89% in 2011. (2010: 78%). MKB Bank was among the first institutions to introduce the Stability loan at the end of 2011, facilitating focused crisis management with a state guarantee. With the extension of the government's Széchenyi Program aimed at the development of small and medium-sized companies, MKB Bank also continued the sale of the 2 new credit products with preferential interest rates secured by Garantiqa Hitelgarancia Zrt. The Széchenyi Working Capital Loan is used not only to solve the temporary liquidity problems but, due to its 36-month maturity, it is also explicitly suitable for the financing of working capital loans. The Széchenyi Investment loan serves the enterprises' operation and competitiveness in the long term and its maximum 10-year duration is adequate with the return period of investments. In addition, in the small company segment the sale of MKB Insurance Multivédelem product and the products of MKB-Euroleasing continued in 2011.

Private individuals

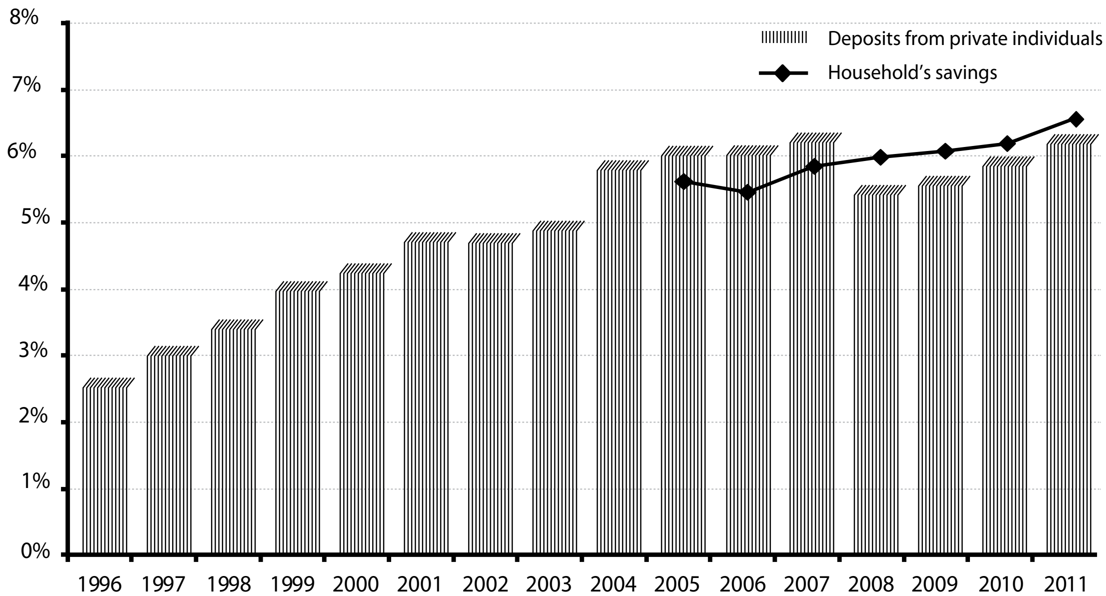
This business line, both its asset and liability side and including all customer segments was strongly affected by the economic policy measures and partly as a consequence, the unfavorable financial market developments. 2011 was determined by extreme adjustments, which MKB mastered professionally, while there was much less space for organic business building. Partly because of the slower than expected recovery from the crisis, the Bank defined the intensification of customer relations and the enhance of 'customer experience' as primary goals for 2011, and remained strongly committed to the "Personally for You" business principle; flexibly responding to the challenges of the environment in its product structure and service model. With its performance in the retail segment in 2011 MKB put in place its capacities to improve its market position further in a more favorable environment.

The above factors are reflected in the 3.5% increase of the number of the Bank's household customers to 360,805 in 2011, lower than the dynamism observed in the previous years, yet customer churn remained very low. The clientele is evaluated as affluent, which is also indicated by one of the highest per capita savings in the sector, meaning close to 3.2 times the average, while 3.5 times in lending (compared to that of the biggest mass retail banks). One of the few positive direct impacts of the crisis was a remarkable change in household savings and in their self-care attitude. In this context MKB Bank is well positioned to become the flagship of that trend, as set in its strategy, intentionally. Due to amendments in the Personal Income Tax Act, the Hungarian household savings market expanded in 2011, but the surplus partly was absorbed by the rising installments due to CHF exchange rate rise and the financial savings used for lump sum repayments. Changes influenced basically differently the medium and the affluent clientele. Last but not least in the fourth quarter the sector had to handle the (potential) outflow of savings due to negative rumors that proved to be false to date. As a result, at the end of the year, the foreign currency deposits and the investment products' volume decreased. As a result of the restructuring of the pension system, the majority of households began to seriously consider long-term savings and financial self care. All these focus points were major factors in MKB Bank's retail fund-raising strategy in 2011. The improvement of the self financing capacity, strengthening of the portfolio approach, preference to regular savings and restructuring of the maturity structure became priority issues. The Bank defined its product portfolio and pricing strategy according to those focus points. The Duplacsavar (Double Twist) and Kóstoló Betét (Tasting Deposit) products also supported the same trend, highlighting the importance of the self care customer attitude and the development of a more sophisticated savings range. The Preliminary Pension Savings Account and the Long-Term Investment Accounts are key products in that aspect. Their popularity is also due to the favorable taxation conditions for customers.

The government system of preference for self-care, including some of its principal elements was reshaped from 2011 by the introduction of the 'Széchenyi' Cafeteria Card (SzÉP Card). The card is a part of the cafeteria system benefiting from the reduced tax conditions as an element of the government priorities. It facilitates the employer to assure employees a defined amount of fringe benefit for leisure, accommodation and from 2012 sport and catering purposes. In comparison to the earlier wide-spread cafeteria elements, purchase with the card is quicker, almost free of administration, transactions can better be controlled, more comfortable and more cost efficient. After the clarification of the details in legislation, MKB Group was among the first ones to set a SzÉP Card business line. The number of SzÉP card holders is growing continuously, from 2012 exponentially, reaching 47,000 customers from 2,500 employers in February 2012. The number of contracted service providers has been also growing dynamically approaching 3,000 in the beginning of 2012.

Household savings at MKB Bank increased by 10.8% to HUF 728.7 billion, the market share was 6.3% as a result of partly the growth of the number of customers, but mainly to the more intensive product penetration within the affluent clientele. Within this, the focus product household deposit increased by 11.3% to HUF 426.5 billion, the Bank's market share increased from the 2010 year-end 5.9% to 6.1 %, while the own bonds sold to private individuals reached HUF 126.8 billion at the end of 2011, resulting in 14.2% market share. The Bank's market share in FX accounts and deposits is 13.2%. Retail customers kept HUF 82.6 billion in Trezor Long-Term Accounts. At the same time, due to the focus on deposit and bond, the market share of MKB Bank in private individuals' investment fund savings decreased from 5.2% to 4.4%.

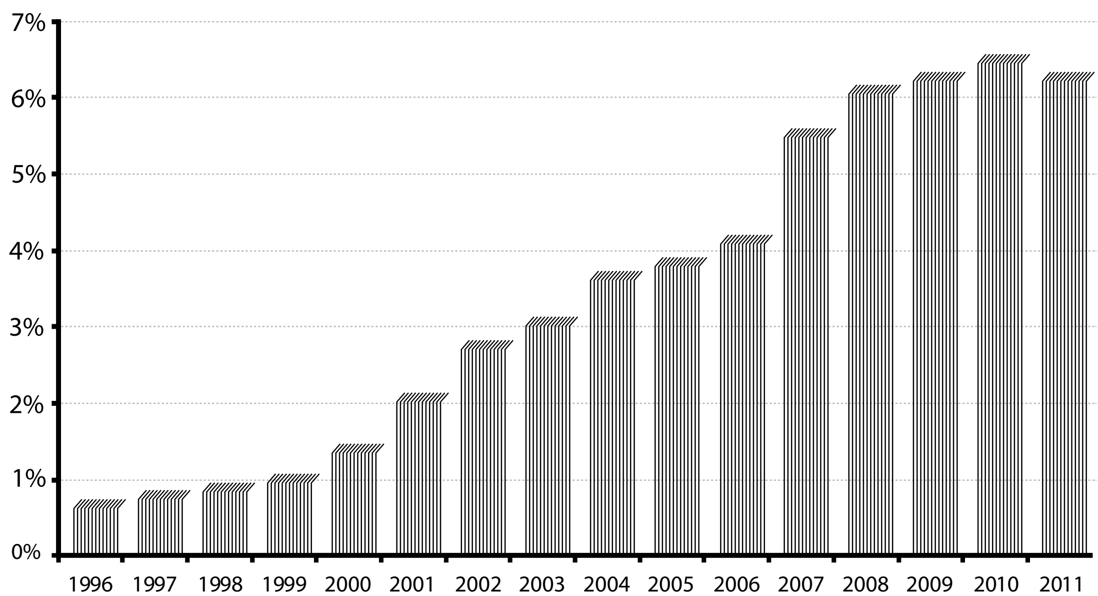
MARKET SHARES IN SAVINGS FROM HOUSEHOLDS



In 2011, the household lending market was driven primarily by legislative changes and challenges of the continuously shrinking market. MKB Bank considered the Home Protection Program a key priority in its whole network and also tried to ease the repayment difficulties of its customers by offering its own solutions apart from the options specified by law. As a result of those efforts, the Bank managed to assist more customers than the market average. The Bank paid special attention and provided assistance to the customers in the assessment of their debt burden in general and of the impact of any eventual interest rate changes till the maturity of the loan on their repayment ability. The last quarter of 2011 was clearly determined by the administration of lump sum repayments at a fixed exchange rate. Expectedly, until the enacted end of the repayment facility, till the 28th February the loan volume affected increases to HUF 104 billion at the repayment exchange rate, which means 12,647 clients (11.5% market share). As in the sector, most MKB customers used their private savings for repayments, most of which were not deposits kept by MKB. The Bank had 4.6% market share in the disbursed HUF substitution loans, of which MKB Bank disbursed 98% to its originally own debtors. The new loan market was extremely weak during the year; the portfolios were influenced primarily by the lump sum repayments and the exchange rate fluctuation. MKB's household loan portfolio, due to the different currency structure, fell over the market dynamics by 4.6% to HUF 531.1 billion, which caused the Bank's market share also to slightly decline to 6.2% at the end of 2011 (2010: 6.5%). Following 8.2% decrease the housing loan portfolio (64% proportion in all household loans) amounted to HUF 331 billion, which resulted in 7.8% market share at the end of 2011 compared to 8.3% at the end of 2010.

MKB Bank had already introduced more stringent risk criteria in retail lending prior to 2011, and therefore, contrary to its competitors, in 2011 it did not have to apply further restrictions. Preparations for the changes in the legislation (transparent pricing) effective from 2012 were also included in the main tasks of the last quarter of the year. Preservation and improvement of the quality of the loan portfolio are important priorities for MKB, and therefore in 2011 the Bank created a special unit dedicated to such tasks, which ensured at national level effective customer services with the highest possible quality. Apart from crisis management, MKB also continued to build its business in 2011 by being the first on the market to introduce a mobile phone application which made residential real estate search much easier for customers with smart phones, providing map assistance, a fee calculator and a banking relationship. This application was granted the special prize in The Website of the Year 2011 contest and the TV advertising spot prepared for it was selected in the group of the best Hungarian adverts of the year.

MARKET SHARES IN LOANS TO HOUSEHOLDS



The performance of the business line was supported by a network of 88 units including the new branch opened in Szeged Árkád shopping centre in 2011. 26 of MKB Bank branches are located in Budapest, 9 in its agglomeration and 53 in the countryside. Transactions through electronic channels have been rising by two digits irrespective of the crisis. At the end of 2011, the number of the Bank's household customers contracted for Telebankár increased by 9% and exceeded 132,000 (increasing penetration: 37%). The Call Centre was recognized with the awarded "Best of Call Centers" prize established by the Human Resources Foundation Call Center Club and GfK Hungária Market Research Institute based on mystery shopping experiences (MKB came out at the top also in problem solving, complaint management and sales in the banking sector). MKB NetBANKár, with facility for customers to make online appointments with their personal relationship managers from last year, was used by more than 182,000 customers (42%), 13.2% more than last year. The MKB Mobil NetBANKár service was renewed in October 2011 with a new customer layout, more and transparent information, simpler form of submitting transactions, faster and more reliable customer services. The number of MKB Bank cards held by private individuals in 2011 increased by 11% to 227,000. The number of MKB or co-branded retail credit cards was 15,000 at the end of 2011. All MKB Bank issued cards in 2011 are chip technology featured ones.

Private Banking

The number of MKB's Private Banking customers increased by 15.4% to 1,714 by the end of 2011. The assets managed reached HUF 240 billion at the end of 2011 growing by 17.4%. The average per capita asset of HUF 140 million is outstanding on the domestic market. The assets of the PB business line could increase in 2011, without deterioration in the managed wealth per client. In 2011 the reputation of MKB Private banking business line remained intact, contributing to reinforcing the customers' loyalty further.

The growth of the assets in 2011 is remarkable especially in light of the fact that the investors confidence in capital market instruments generally weakened as a consequence of the economic crisis. In addition, the political and economic-policy changes in Hungary further increased the investors' uncertainty mainly in the second half of the year, MKB made strong efforts to keep its clientele's financial investments in Hungary. At MKB Bank, however, the assets handled in the advisory structure with conservatively focusing on capital protection ensured the satisfaction of the customers, due to the very low level of risk exposure. According to the action plan developed in order to achieve a leading role on the domestic premium private banking market, in 2011 the new portfolio assessment module was used efficiently and the strengthening of cross-selling with the retail network and corporate business line also continued.

Money and capital markets, investment services

During 2011, in a volatile, but definitely deteriorating market and economic environment, the business line maintained the level of its business activity or even increased it in certain segments, significantly contributing to the Bank's business performance and the implementation of its strategic objectives. Due to the global economic crisis, the increasing problems of the Eurozone and their negative effects worsening the domestic problems, attention was focused on the traditional core tasks of the business line: in financing, in the effective asset-liability and liquidity management, just as in the management of interest and exchange rate risks. The business line continued to accomplish its medium-term strategic goals through significant product, system, process and organisation developments and through the increase of additional fee income generating business endeavors related to treasury and investment services cross-selling.

The market of the traded Hungarian instruments was characterized by lower level of volatility in the first half, and higher in the second half of 2011. The exchange rate of the Hungarian forint against the Euro moved in the range of HUF 261-317, with trading in a lower zone in the first half of the year followed by trading in the range of 280-317 EUR/HUF rate from the beginning of September, due to the bad mood on the emerging currency markets. The weaker HUF exchange rates had an adverse impact on the Hungarian government securities market, where yields rose significantly in the fourth quarter of the year. In the primary dealer auctions of government bonds, (expanding to 15 PD members during the year), MKB Bank achieved 5.5% market share, thus ranking 9th among the PDs. With the low volatility and strong HUF exchange rate prevailing in the first half of 2011 in prompt and derivative OTC exchange rate deals, corporate customers had moderate interest in FX transactions, but the higher volatility and nominal exchange rate in the second half of the year gave a boost to such deals, whereby the number of deals grew by 46% and the number of customers increased by 63% compared to 2010. This outstanding rise in the number of customers and transactions stemmed from the growing awareness and risk sensitivity of corporate customers, which made them manage their foreign exchange rate risk more actively. The forward FX transaction volume rose by 4.6% during the year. The open forward deals reached their peak in the autumn, when exporting corporate customers made deliberate risk management decisions and hedged their exchange rate risks related to their contract portfolios of the subsequent year in the range of 285-300 HUF/EUR rates. During the business year the low international interest rate levels and the market expectations of unchanged, or declining rates reduced appetite in hedging deals significantly. The quiet trading at stable exchange rates in the first half of the year was followed by the extraction of capital from the Hungarian equity market, triggered by the negative capital market sentiment. The decline in pension funds' activity was also reflected in the stock exchange turnover generated by MKB Bank. The Bank's BSE equity turnover dropped from HUF 205 billion to 85 billion, while equity trading on BÉT decreased only by 20%, which meant 1.9% market share of MKB Bank. Within the total prompt OTC security turnover MKB Bank reached 6.6% market share, and within this its share in the OTC trade of government securities was 7.7%. Besides these, the trade of foreign securities also showed a definite increase.

MKB Bank is still one of the leading issuers among domestic credit institutions. During the year the Bank ensured a wide range of investment products serving the customers' different needs in currency, maturity and interest conditions. MKB Bank renewed its public domestic issue program again and increased its bracket size to HUF 250 billion in December 2011.
In addition to its HUF issues, the Bank also launched Euro denominated bond-series regularly on the domestic market and also issued its first USD denominated bond during the year. The Bank provided opportunities for further diversification of customer portfolios by regularly issuing structured bonds during the year. The total nominal value of its bonds issued in 2011 is equivalent to HUF 140.2 billion, while the total portfolio of its 57 domestic bond series amounted to HUF 180.6 billion at the end of 2011 including also the interim maturities, which represents 12.4% growth compared to the end of the previous year. MKB Bank's share on the Hungarian credit institutions' bond market issues was 16.6% in the household and 60.2% in the corporate segment at the end of 2011.

2011 involved several challenges for asset management. Although the government effectively managed to channel the majority of private pension fund savings into the public system, more people than expected decided to keep membership of the private funds. The assets held by the remaining members represented nearly 10% of the volume of savings prior to the transformation of the second pillar. However, several private pension funds lost their members, shrinking below the legal minimum, which led to an accelerated process of consolidation of the private pension fund sector in the second half of the year. Due to this development our business line lost the asset management mandate for Honvéd Private Pension Fund, and thus the managed portfolio shrank from HUF 214 billion at the beginning of the year to HUF 153 billion by the end of it.

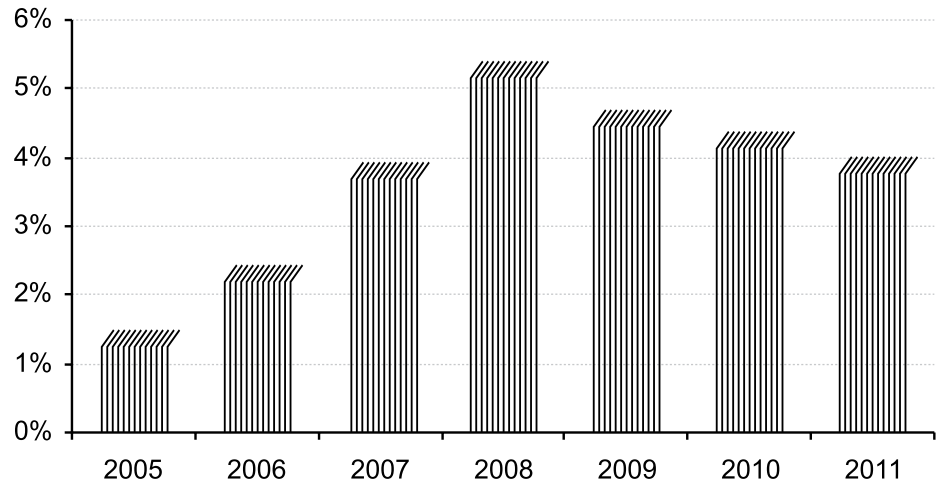
MKB is the asset manager of MKB Pension and Health Funds. The external environment of the pension funds has significantly deteriorated due to the members being shifted from compulsory private pension to social security: -5%, while the number of members in the "mandatory" pillar fell by 87.45% (previous year: +2%). In spite of this, the annual performance may still be regarded as impressive. The number of members of the two pension fund pillars together decreased by 28% from 136,108 to 97,826. Based on the total number of members, MKB had 7.2% market share, and by assets it had 9.1% market share. The tendency of previous years continued with a moderated intensity in the voluntary pillar as the number of its members decreased by a lesser extent, 3.4% (previous year: -5%). The income situation, the high number of people reaching the retirement age and the fading attractiveness of pension contribution within the cafeteria system continued to be strongly reflected in the voluntary fund pillar. The number of members in the voluntary pillar decreased to 94,478 yet it remained the 4th biggest fund. The number of new entrants and the growth in the per capita contribution was favorable, despite the increasingly difficult external conditions. In the private (mandatory) pension pillar, the number of members sank from 38,305 to 3,348. The share of members opted to keep private pillar membership was almost 8.5% for MKB private pension pillar, meanwhile only 3% proportion within the sector. The private (mandatory) pension pillar complied with the new laws regarding the shift of membership and made a settlement with its leaving members by paying out HUF 3.5 billion real yield and HUF 0.6 billion membership contribution supplement to them. HUF 50 billion was transferred to the Pension Protection Fund. The market value of the net assets also decreased from HUF 88 billion to HUF 84 billion in the voluntary pension pillar and the drop was 83% from HUF 63 billion to HUF 10.8 billion in the private pension pillar. The assets per capita are still one of the highest among the funds: HUF 0.9 million (voluntary), HUF 3.1 million (compulsory). The voluntary pension pillar ranks 4th by assets, with a market share of 10.1% (2011).

MKB Health Fund also prepared for a difficult operating environment in 2011 with stagnating number of members and falling revenues. Despite the unfavorable outlook, the Fund achieved outstanding results regarding all key figures in 2011. With 7.8% increase the number of members reached almost 144,000 by the end of the year. It is still 2nd in ranking by membership size (14.6% market share). After the previous year, the fund had again an impressive number of new clients, 13,589 entrants. The development in revenues was unfavorable, membership contributions eroded already in 2011, mostly due to the legislative limitation of service choice available for members, applicably from 2012. The Fund collected HUF 8,119 million revenues, only slightly lower than the HUF 8,173 million in the previous year. Remarkably, the volume of individual contributions has not changed and exceeded HUF 2 billion, their 25% proportion remained one of the highest among health funds. The employer contributions shrank by 0.8%, but still exceeded HUF 6 billion. The total assets of the Fund grew to HUF 9 billion by the end of the year. In 2011, the Fund accounted for 5% higher volume of services, worth HUF 8.3 billion from 1.4 million invoices. The number of transactions carried out with health cards reached 1.1 million, or 83.6% of the accounts settled. The number of cash invoices dropped slightly, while the number of invoices paid by card increased by 11.4%. The business relations of the Fund further expanded in 2011 to 4,723 employers (end of 2010: 4,164). The number of contracted health care service provider points increased close to 12,346 (2010: 11,400), there was no change in the number of service providers accepting of cards (6,281). The Fund had contracts for electronic settlement with 1,933 (92%) of the 2,100 public pharmacies.

The adverse developments in the investment environment, affected also by external and domestic events posed another challenge to the Bank. The deteriorating upturn outlook, the higher costs of debt renewal and the lack of success in the Hungarian economic policy all reduced the risk appetite of investors. In the third and fourth quarters market developments reached extremes, while a dramatic increase in the yield of Hungarian government securities led to low investment revenue realisation. Consequently, the real return desired by customers was available only in ultra-conservative fund portfolio types. However, in a sectorwide comparison 2011's performance of the MKB Pension Fund portfolios never were so outstanding. The assets under the management of the business line dropped to HUF 147 billion by 31 December due to market price movements. In future the state will also become a competitor in portfolio management, as the Board of Directors of the National Deposit Insurance Fund (NDIF) selected ÁKK as portfolio manager. MKB Bank managed HUF 29 billion assets for NDIF.

Today MKB Fund Manager offers 37 funds, including 17 open-end funds, and 20 closed-end capital guaranteed/capital protected funds (of which 17 are denominated in HUF and 3 are denominated in EUR). 7 new closed-end funds were launched in 2011 and 4 matured closed-end investment funds were transformed into open-end capital protected liquid funds. The total net asset value of the funds managed by MKB Fund Manager was HUF 111.6 billion at the end of 2011. Great uncertainty and considerable devaluation characterised the markets, based on the rather unfavorable conditions prevailed on the external and the internal markets throughout the year. Apart from the capital withdrawn by institutions, the portfolio managed by the funds remained relatively stable within the range of HUF 110-115 billion. Within the segment of closed ended moderate risk funds with guaranteed capital MKB Fund Manager finished the year with HUF 43.54 billion net assets, and 10.39% market share, ranking 3rd largest in that segment. The MKB investment funds had 3.74% market share at the end of the year.

MARKET SHARE IN INVESTMENT FUNDS 2005-2011

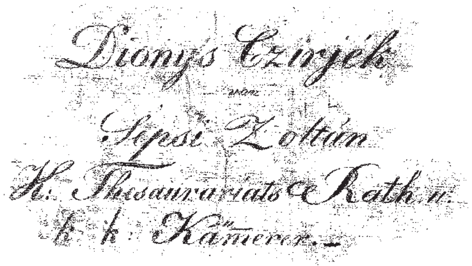


There were significant changes in the structure of customer assets under custody at the Bank in 2011. The changes in the private pension system alone led to 69% contraction in the institutional assets and, as a result of the portfolio shrinkage of the other entities (investment funds, voluntary pension funds) the net asset of institutions dropped to 30% of its former volume, to HUF 371.53 billion. Due to the specific situation of MKB Bank's custodian service, its relative position did not change significantly on the fund market. As the non-institutional customers continued to extend their investment scope geographically and increased the volume of FX portfolio, the services, provided earlier only to institutional customers, were also made available to retail and wholesale clients within the framework of custody management of foreign securities.

In accordance with the parent bank's and MKB Bank's strategy, lending to financial institutions/banks was terminated and was limited primarily to the funding of the subsidiaries after the outbreak of the crisis. In a more depressed economic and risk environment, the sustainable, well balanced, reciprocity based and reshaped relations with other banks came into focus. It should contribute to the accessibility of international refinance funds facilitating the MKB to assure finance for targeted client segments already in 2012 and widening, diversifying the liability structure of the Bank on the medium term. The focus also in 2011 was on the needs of MKB Bank's corporate clients related to international payments, foreign trade transactions and hedging against their market risks. In addition to those, emphasis was placed on the most prominent banking relationships in liquidity management, fund raising and treasury co-operation. The Bank selectively facilitates its bank partners to provide exporter clients with irrevocable letter of credit and guarantee transactions, and by using risk mitigating solutions (EBRD Trade Facilitation Program, MEHIB insurance).

Miklós Barabás (1810–1898) Portrait of Dénes Czirjék, 1833

oil on canvas, 100 x 78.5 cm



MKB Group and MKB Bank Figures

MKB Group financial figures (consolidated, IFRS)

Key figures

HUF million

	2010	2011
Total Assets	2,939,188	2,943,961
Loans and advances to customers	2,177,770	1,994,633
Current and deposit accounts	1,467,245	1,463,472
Shareholder's equity	199,538	77,495
Gross Operating Income	100,973	97,784
Operating Expense	(67,157)	(74,703)
Operating profit	33,816	23,080
Provision Charges	(137,102)	(127,360)
Profit Before Taxation	(103,286)	(104,280)
Return on Average Equity (ROAE)	-42.1%	-41.9%
Return on Average Assets (ROAA)	-3.9%	-3.7%
Cost-to-income ratio	78.4%	80.5%
Capital adequacy ratio [1]	10.33%	9.03%

[1] According to HAR.

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This is an English translation of the Independent Auditors' Report on the "MKB Bankcsoport Beszámoló 2011" of MKB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails.

Independent Auditor's Report on "MKB Group's Report 2011"

To the shareholders of MKB Bank Zrt.

The pages from 37 to 39 of the accompanying "MKB Group's Report 2011", which present the consolidated statement of financial position and the consolidated statement of comprehensive income (hereinafter referred to as "the financial statements") are derived from the audited consolidated annual report of MKB Bank Zrt. (hereinafter referred to as "the Company") for the year ended December 31, 2011. We expressed an unmodified audit opinion on that consolidated annual report in our report dated March 20, 2012, but our opinion consisted of an emphasis of matter. That consolidated annual report and the financial statements do not reflect the effects of events that occurred subsequent to the date of our report on that consolidated annual report.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements presented on the pages from 37 to 39 of "MKB Group's Report 2011" are consistent with the consolidated statement of financial position and the consolidated statement of comprehensive income included in the audited consolidated annual report of MKB Bank Zrt. for the year ended December 31, 2011, from which those statements were derived.

Without qualifying our opinion we drawn attention to Note 5 which described 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.

Budapest, 13 July 2012

KPMG Hungária Kft.
Registration number: 000202

Robert Stöllinger
Partner

Gábor Agócs
Professional Accountant
Registration number: 005600

MKB Group statement of financial position
(consolidated, 31.12.2011)

HUF million

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

MKB Group statement of comprehensive income
(consolidated, 31.12.2011)

HUF million

	2010	2011
INCOME STATEMENT		
Interest income	176,564	168,792
Interest expense	90,105	91,765
Net interest income	**86,459**	**77,027**
Net income from commissions and fees	19,431	14,060
Other operating income / (expense)	(4,917)	6,696
Impairments and provisions for losses	136,167	126,363
Operating expenses	67,157	74,703
Share of jointly controlled and associated companies' profit / (loss) before taxations	(935)	(997)
Profit /Loss before taxation	**(103,285)**	**(104,280)**
Income tax expense	(10,417)	11,731
Profit / Loss for the year from continuing operation	**(92,868)**	**(116,011)**
Profit for the year from discontinued operation	(15,296)	(5,015)
Profit / loss for the year	**(108,165)**	**(121,026)**
OTHER COMPREHENSIVE INCOME		
Share of other comprehensive income of joint-ventures and associates	56	-
Revaluation on AFS financial assets	(9,228)	(3,988)
Revaluation of equity put option	-	(4,166)
Exchange differencies on translating foreign operations	1,649	7,091
Other comprehensive income for the year net of tax	**(7,523)**	**(1,064)**
Total comprehensive income for the year	(115,688)	(122,090)

	2010	HUF million 2011
Profit attributable to		
Profit for the period from continuing operation	(92,359)	(116,231)
Profit for the period from discontinued operation	(13,887)	(4,561)
Shareholders of the bank	(106,246)	(120,792)
Profit for the period from continuing operation	(510)	220
Profit for the period from discontinued operation	(1,409)	(454)
Non-controlling interests	(1,919)	(234)
Total comprehensive income attributable to		
Total comprehensive income from continuing operation	(100,204)	(118,337)
Total comprehensive income from discontinued operation	(13,713)	(4,068)
Shareholders of the bank	(113,917)	(122,405)
Total comprehensive income from continuing operation	(381)	720
Total comprehensive income from discontinued operation	(1,391)	(405)
Non-controlling interests	(1,772)	315
Net income available to ordinary shareholders	(106,246)	(120,792)
Average number of ordinary shares outstanding (thousands)	15,635	20,733
Earnings per Ordinary Share (in HUF)		
Basic	(6,795)	(5,826)
Fully diluted	(6,795)	(5,826)
Dividend per Ordinary Share (in HUF)	-	-

MKB Bank financial figures (unconsolidated, IFRS)

Key figures

		HUF million
	2010	2011
Total Assets	2,733,482	2,694,824
Loans and advances to customers	1,997,981	1,810,633
Current and deposit accounts	1,278,617	1,311,684
Shareholder's equity	195,444	78,865
Gross Operating Income	88,565	87,274
Operating Expenses	(56,594)	(60,288)
Operating profit	31,970	26,986
Provision Charges	(165,653)	(130,523)
Profit Before Taxation	(133,683)	(103,537)
Return on Average Equity (ROAE) [1]	-28.2%	-31.2%
Return on Average Assets (ROAA) [2]	-2.3%	-2.4%
Cost-to-income ratio	63.9%	69.1%
Capital adequacy ratio	10.81%	9.17%

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

MKB Bank financial figures (unconsolidated, HAR)

Key figures

		HUF million
	2010	2011
Total Assets	2,749,837	2,696,991
Shareholders' equity	140,400	78,233
Gross Operating Income	94,142	83,768
Operating Expenses	52,738	52,080
Provision Charge	135,667	135,561
Profit Before Taxation	(112,812)	(111,339)
Profit After Taxation	(112,787)	(111,355)
Pre-tax Return on Average Equity (ROAE)	-55.5%	-101.9%
Capital adequacy ratio	10.8%	9.17% [1]

[1] During the capitalization process at the year end, HUF 62 bln capital injection was accomplished at the Bank. The decision about the capital increase was made in 2011. Nevertheless due to technical reasons the capitalization process took till 17th February 2012.

Balance sheet and income statement
(unconsolidated, HAR)

HUF million

BALANCE SHEET	2010	2011
ASSETS		
Cash in hand, balances with central banks	81,928	65,618
Treasury bills	334,937	550,843
Loans and advances to credit institutions	113,602	91,070
Loans and advances to customers	1,985,475	1,784,445
Debt securities including fixed-income securities	38,137	23,608
Shares and other variable-yield securities	6,382	3,108
Shares and participating interests held for investment purposes	456	450
Shares and participating interests in affiliated undertaking	123,017	105,034
Intangible assets	23,440	8,969
Tangible fixed assets	3,869	3,500
Own shares		
Other assets	19,341	38,764
Prepayments and accrued income	19,253	21,582
Total assets	**2,749,837**	**2,696,991**
LIABILITIES		
Liabilities to credit institutions	963,183	958,985
Liabilities to customers	1,263,281	1,295,031
Liabilities from issued debt securities	175,145	184,448
Other liabilities	92,049	45,831
Accruals and deferred income	14,563	19,420
Provisions	5,047	7,107
Subordinated liabilities	96,169	107,936
Registered capital	16,038	20,733
Reserves	219,317	168,855
Result for the year	-94,955	-111,355
Total liabilities	**2,749,837**	**2,696,991**
Of which: - equity	140,400	78,233

INCOME STATEMENT	2010	HUF million 2011
Interest receivable and similar income	135,354	127,292
Interest payable and similar charges	79,481	82,505
Net interest income	55,873	44,787
Income from securities	650	1,395
Commission and fees income	22,432	20,833
Commission and fee expense	6,479	9,424
Net profit or net loss on financial operations	21,547	21,720
Other operating income	8,827	8,595
General and administrative expenses	49,573	48,640
Depreciation	3,165	3,440
Other operating expenses	38,168	46,651
Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	118,368	96,708
Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments	29,576	41,182
General risk provision and use	501	-23
Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests	36,339	44,112
Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests	0	0
Profit or loss on ordinary activities	-112,686	-110,486
Extraordinary income	0	19,011
Extraordinary expense	126	19,864
Extraordinary profit or loss	-126	-853
Profit or loss before taxation	-112,812	-111,339
Tax payable	-25	16
Profit or loss after taxation	-112,787	-111,355
Addition to and use of general reserve	17,832	0
Retained earnings allocated for dividends	0	0
Dividends and profit-shares approved	0	0
Profit or loss for the financial year	-94,955	-111,355

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This is an English translation of the Independent Auditors' Report on the "MKB Bankcsoport Beszámoló 2011" of MKB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails.

Independent Auditor's Report on "MKB Group's Report 2011"

To the shareholders of MKB Bank Zrt.

The pages from 42 to 43 of the accompanying "MKB Group's Report 2011", which present the balance sheet as at December 31, 2011, the income statement for the year then ended (hereinafter referred to as "the financial statements"), are derived from the audited annual report of MKB Bank Zrt. (hereinafter referred to as "the Company") for the year ended December 31, 2011. We expressed an unmodified audit opinion on that annual report in our report dated March 20, 2012, but our opinion consisted of an emphasis of matter. That annual report and the financial statements do not reflect the effects of events that occurred subsequent to the date of our report on that annual report.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements presented on the pages from 42 to 43 of "MKB Group's Report 2011" are consistent with the balance sheet as at December 31, 2011 and the income statement for the year then ended of the audited annual report of MKB Bank Zrt. for the year ended December 31, 2011 from which those statements were derived.

Without qualifying our opinion we drawn attention to Note 2 which described 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.

Budapest, 13 July 2012

KPMG Hungária Kft.
Registration number: 000202

Robert Stöllinger
Partner

Gábor Agócs
Professional Accountant
Registration number: 005600

Individual reports of MKB's key business subsidiaries

Key figures of MKB Group 2011 (consolidated, IFRS)

HUF million

	MKB Bank	Bulgarian market [5]	Romanian market [3]	Hungarian Leasing market [1]	Auxiliaries [2]	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	91,771
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	8,300
Result from discontinued operation [4]		-	(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	(130,523)	(4,114)	(5,015)	(2,314)	(4,323)	(95,671)
Goodwill impairment	-	-	-	-	-	(30,692)
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 [6]	9.17%	13.34%	16.32%	n.a	n.a	9.03%

[1] MKB-Euroleasing Autóhitel Zrt., MKB-Euroleasing Autólízing Szolgáltató Zrt.
[2] MKB Üzemeltetési Kft., Euro-Immat Üzemeltetési Zrt., MKB Befektetési Alapkezelő Zrt., Resideal Zrt., Exter-Immo Zrt., Exter-Bérlet Kft., Extercom Kft.
[3] MKB Nextebank, MKB Romexterra Leasing IFN S.A., S.C. Corporate Recovery Management S.R.L.
[4] However the Management considered in 2011 MKB Nextebank 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.
[5] MKB Unionbank AD.
[6] After EUR 200 million capital increase; according to HAR.

Individual reports of MKB's key business subsidiaries

Key figures of MKB Group, 2010 (consolidated, IFRS)

HUF million

	MKB Bank	Bulgarian market [5]	Romanian market [3]	Hungarian Leasing market [1]	Auxiliaries [2]	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	84,742
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	8,107
Result from discontinued operation [4]			(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	(165,653)	(4,037)	(20,911)	(3,428)	(1,114)	(120,738)
Goodwill impairment	-	-	-	-	-	(15,428)
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%

[1] MKB-Euroleasing Autóhitel Zrt., MKB-Euroleasing Autólízing Szolgáltató Zrt.
[2] MKB Üzemeltetési Kft, MKB Befektetési Alapkezelő Zrt., Resideal Zrt., Exter-Immo Zrt., Exter-Bérlet Kft.
[3] MKB Nextebank, MKB Romexterra Leasing IFN S.A., S.C. Corporate Recovery Management S.R.L.
[4] However the Management considered in 2011 MKB Nextebank 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.
[5] MKB Unionbank AD.

The business and financial performance of MKB-Euroleasing Group

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

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

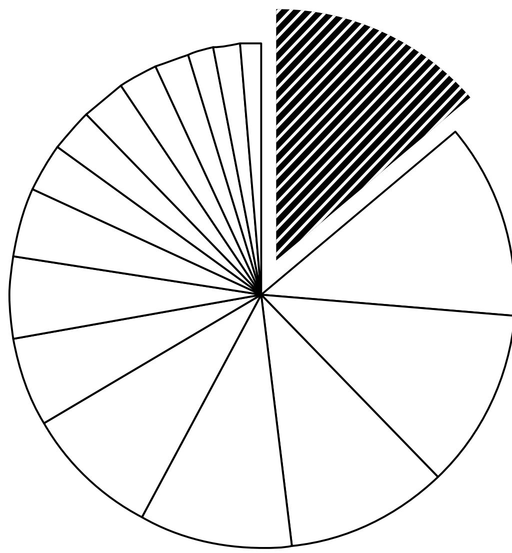
Vehicle market

Following the drastic decline of the previous years, the sale of new vehicles picked up slightly in 2011. The number of sold new cars increased by 7% compared to 2010. With regard to the 56,500 new passenger and small commercial vehicles sold in 2010, the financing ratio dropped from the approximately 24% estimated to be the lowest in 2010 to 20%, while the drop was around 5% in the sale of second-hand vehicles (509,000 in 2011). Market trends still suggest delayed demand (uncertain macro-economic situation, increased exchange rate risk, high HUF interest rates, stricter lending conditions).

The sales of new vehicles grew more slowly than expected following the lowest performance in 2010. MKB Euroleasing projects the sale of approximately 63,000 cars in 2012 and expects stabilisation of the sales figures at 100-120 thousand only in the mid-term. These figures are much lower than the sales volume of two hundred thousand vehicles on the overheated market prior to the crisis. No drastic increase can be projected in the ratio of financed cars in 2012. Under these terms and conditions, MKB-Euroleasing group is focusing on increasing its market share and primarily on enhancing its presence on the second hand car market.

[1] This chapter of MKB Group's Report 2011 shows the business performance of MKB-Euroleasing Group, in addition, it also includes the key financial figures of MKB-Euroleasing Autóhitel Zrt. being the most significant company in the vehicle financing business line of the Group. The consolidated financial statements of MKB-Euroleasing Group will be available after the edition (and likely the publication) of MKB Group's Report 2011.

MARKET SHARE OF MKB-EUROLEASING IN TOTAL CAR FINANCING BY NEW FINANCIAL VALUE, 2011



Vehicle financing

The Group's customer financing division has continued to be a dominant participant of the domestic vehicle financing market. Despite the sharp drop in loans granted, in 2011 the market share of MKB-Euroleasing financing companies in the financing of new cars was higher than 10%, while in the second car segment it was 8.4%. With this performance, the Group ranks 5th on the market. Its 14.7% market share calculated with that of its strategic partners TFSH and PSAFH ranks the Group 2nd on the market, while in new car financing it is ranked 1st. The business line in 2011 financed appr. 63,000 customers. Within the portfolio the new loans made up HUF 13 billion in 5,443 new customer financing contracts.[2]
Still very few private individuals take loans for vehicles. In terms of sales it seems that the still low sales figures to private individuals can be offset with fleet management, but this proportional shift has an unfavourable impact on profitability. The financing ratio remains very low on the second-hand market. Positive processes were observed in customer financing in terms of risks, the quality of our portfolio remained low despite the unfavourable exchange rates. Nonetheless, large amounts of impairment had to be recognised on deals which had been transferred to problem deal management earlier in relation to the restructuring required between the series of events. Despite the difficult situation faced by the dealers, no additional costs occurred in stock financing owing to the measures adopted earlier. In 2010 MKB-Euroleasing Group's car financing business started to prepare for a gradually more favourable market environment after the crisis. Accordingly, it has worked with every effort on strengthening its trade business. The state-of-the-art dealer IT system, completed in 2010, was further developed in 2011, the company's administration process to handle loan applications became more competitive, the structure of operation and staff composition of the commercial department were changed radically, an internet technology-backed alternate sales group was established to launch customer acquisition through the web. The development of open-end leasing product remained a priority, with a clear objective to have a competitive product, which is solid also in terms of legal aspects and taxation by the beginning of 2012.

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

Fleet management

The basic activities of MKB-Euroleasing Autópark Zrt., founded in 1999 with the 50% share of MKB Bank, includes the financing of the car fleets of companies and institutions in long-term lease structures, as well as the complete arrangement and management of their operation. The car fleet management business line of the Group has a permanent appr. 27% market share and its appr. 9,756 financed and managed cars make it among the first. MKB-Autopark OOD, the company's Bulgarian subsidiary, offers car fleet management services, and related to that operative leasing financing, as well as financial leasing services, (permitted even within the same company under the Bulgarian laws); its total operated portfolio increased from 720 vehicles in 2010 to more than 1,100 vehicles. The group earned the market leader position among the fleet management companies also in Bulgaria with that portfolio.

Car trading

Carnet-Invest Zrt. and the car trading business line comprising the related brand dealers operate as a multi-brand commercial network in terms of sales and servicing. The network responded to the losses suffered in relation to the contraction of the vehicle market since the second half of 2008 with immediate measures, which continued also in 2011: merging of sales sites, composition changes in brands, further staff rationalization. As a result of the measures, the group is likely to start generating profit in 2012.

Insurance brokerage

Eurorisk Kft., operating in the traditional insurance brokerage segment, in addition to its vehicle-related insurance brokerage activities, covers all branches and insurance products as an agent. The year-end portfolio of the three main insurance products included 61,500 MTPL contracts, 32,200 CASCO contracts and 8,500 home insurance contracts. These numbers are more or less the same as reported for 2010. The foundation of Claim Controll Kft. with the core activity of the performance of insurance inspections was a new event in the history of the company. At present, the new company has contracts with four insurers and conducted 450 inspections in 2011. The MTPL, CASCO and home insurance portfolio of Netrisk Kft., in which Euroleasing has 10% participation, grew by 50% in 2011, while its profit dropped slightly due to the higher expenses and falling portfolio charges.

Balance sheet and income statement of MKB-Euroleasing Autóhitel Zrt. (unconsolidated, HAR)

		HUF thousand
	2010	2011
BALANCE SHEET [1]		
Cash reserves	1,252,018	788,660
Loans and advances to customer	58,724,939	45,799,063
Investments in affiliated companies	1,717,400	1,717,400
Intangible assets	12,115	4,246
Tangible fixed asstes	93,188	95,111
Other assets	1,792,431	588,367
Accured items	3,058,269	3,704,905
Total assets	**66,650,360**	**52,697,752**
Liabilities to credit institutions	57,289,605	43,990,192
Liabilities to customers	255,446	232,750
Other liabilities	2,588,158	1,675,760
Accrued liavilities	350,451	410,703
Shareholder's equity		
Share capital	1,211,100	1,211,100
Reserves	4,955,600	4,955,600
Result for the year		221,647
Total liabilities	**66,650,360**	**52,697,752**
INCOME STATEMENT [1]		
Interest receivable and similar income	6,372,286	5,021,135
Interest payable and similar charges	1,522,839	1,313,903
Net interest income	**4,849,447**	**3,707,232**
Income from securities	0	0
Commission and fees income	820,940	699,623
Commission and fees expense	1,645,753	1,246,133
Net profit or net loss on financial operations	-139,919	-2,996
Other operating income	1,285,519	885,559
General and administrative expenses	1,083,269	1,131,473
Depreciation	48,402	26,691
Other operating expenses	1,870,186	1,400,143
Contingent liabilities and for commitments	l,620,880	l,202,322
Profit or loss on ordinary activities	**547,497**	**282,656**
Extraordinary profit or loss	**-163,361**	**-61,009**
Profit or loss before taxation	**384,136**	**221,647**
Tax payable		**-21,147**
Profit or loss after taxation	**405,283**	**221,647**

[1] Non-audited.

The business and financial performance of the MKB Insurance

MKB Általános Biztosító (MKB General Insurance) and MKB Életbiztosító (MKB Life Assurance) started their operation in October 2007. In their cooperation with MKB Bank, the Bank network plays an outstanding role, where more than 500 well prepared financial advisers welcome customers wishing to purchase insurance products. By the establishment of insurance companies MKB successfully implemented its one-stop-shop insurance and bank services strategy, by which it reached a comprehensive universality on the domestic market. MKB Group is the only Group in Hungary which is able to serve its customers with insurance products in one-stop-shop customer service through its own insurance companies. In 2011 the economic environment was all in all unfavourable for the insurance sector in Hungary as well. Growth and effective operation were impeded by the lower average premium resulting from fierce competition, low vehicle sales and capital expenditure figures, lump sum FX- repayment, volatile capital market, special tax, etc. In January-September 2011 the revenues from premiums decreased by 2.7% compared to the same period of the previous year, but the underlying tendencies were apparently different, as life insurance stagnated, and in the area of non-life insurance the decrease was 5%.

MKB Life Assurance

MKB Életbiztosító Zrt.'s premium revenue reached HUF 3.07 billion in 2011, which represents 17% growth compared to the previous year. HUF 871 million was realised from continuous premium payment, while HUF 2,198 million from up-front premium life insurance policies. The number of customers increased by 9% to 13,272.

At the end of year 2011 the company had 11,093 active contracts with continuous premium payment, of which the total average premium reached HUF 892 million p.a. 1,930 up-front premium insurance policies linked to investment units were in effect, whose net asset value (investment portfolio) amounted to HUF 5.1 billion. The revenues from the premiums of up-front premium insurance policies linked to investment units (MKB Treasury) showed a boost as a result of the sales of the last period. The performance of the joint life insurance product of the Bank and the Insurance Company with continuous premium payment, 'MKB Értékmegőrző', was relatively lower in the unfavourable environment, especially due to the decline in lending and the default triggered cancellations and repurchases at a higher level than planned. The situation was similar in the case of risk life insurance policies, typically taken out with credits (Életrevaló), while, in spite of the high cancellation ratio, the sale results of the stand-alone mixed life insurance products launched in October 2010 (Oktáv) were very promising.

MKB General Insurance

MKB Általános Biztosító Zrt.'s premium revenue reached HUF 2,309 billion in 2011, which represents 109% growth compared to the previous year. The number of customers increased by 222.5% to 85,827. With this performance the insurance company is the most dynamically growing actor on the Hungarian insurance market. The aggregated amount of the payment of claims and the change of damage reserves amounted to HUF 1,357 million in 2011, which resulted in 62.6% damage ratio compared to the accrued premiums.

Property Insurance

At the end of 2011 the "non-life" insurance company had a housing insurance portfolio of 22,882 contracts and its premium revenue amounted to HUF 637 million. Premium revenues amounted to HUF 530 million which exceeded that of the previous year by 35%. The corporate insurance package called MKB Multivédelem and the Mentsvár condominium insurance policy closed a very successful year. Their joint premium income increased from HUF 147.4 million in 2010 by 92% to HUF 283.5 million. The sale of the company's own (general and product) liability insurance products, launched in the autumn of 2010, was a huge success.

Car Insurance

Despite a decline in the domestic vehicle sales and financing, as well as fierce price competition, the company achieved considerable results in the car insurance business, primarily in Motor Vehicle Liability Insurance. At the end of 2011 the company managed 59,013 Motor Vehicle Liability Insurance and 6,739 CASCO Insurance contracts. Premium revenues of Liability Insurance were HUF 1,031 million, while that of the CASCO contracts was HUF 433 million in 2011, which corresponds to 378% and 24% growth, respectively.

MKB Life Assurance - Key figures [1]

	2010	HUF thousand 2011
Total Assets	6,047,525	7,853,741
Investments	1,818,348	2,224,175
Insurance technical reserves	723,594	1,116,526
Insurance technical reserves for investments for the benefit of life assurance policyholder bearing the risk of investment	3,909,132	5,132,390
Equity	1,099,485	1,146,676
Earned premium without counter-insurance	2,610,823	3,038,068
Insurance technical profit	-445 213	-429 894
Profit on non-insurance activities	-421 581	-424 806
Profit before taxation	-421 812	-424 809

MKB General Insurance - Key figures [1]

	2010	HUF thousand 2011
Total assets	1,992,660	2,553,072
Investments	1,450,017	1,769,935
Insurance technical reserves	203,021	603,271
Equity	1,294,180	1,167,175
Earned premium without counter-insurance	505,565	1,144,787
Insurance technical profit	-867,940	-1,036,308
Profit on non-insurance activities	-774,736	-971,005
Profit before taxation	-774,845	-971,005

[1] Non-audited.

The business and financial performance of MKB Nextebank

Romanian economy [1]

The Romanian economy, which slumped into strong recession after the crisis, began to grow again in 2011 (~ +2.5% GDP growth)[2]. 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 the GDP in 2011 (2010: 5.9%) and, similarly to 2010, the current account deficit equalled 4.5% of the 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%). The inflation continued to decline, in 2011 the average consumer price 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 - 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.

In July 2011, the Ministry of Finance sold EUR 1.5 billion in 5 Y EMTN at a yield of 5.3%. Romanian October road show for EMTN USD denominated issuance failed due to higher yields around 7% requested by investors. Unfavourable market conditions forced to postpone USD denominated EMTN issuance for the next year and forced the Ministry of Finance to cover budget shortfall from internal RON auctions.

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%.

[1] Data from National Bank of Romania, National Institute of Statistics – Romania, ISI Emerging Markets.
[2] Based on preliminary data of the Romanian Statistical Office. (17. 02. 2012.)

Romanian banking sector [3]

The extended 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 retail and corporate loans showed a 6.2% growth above 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 April 2011, NBR reduced the level of mandatory reserves in hard currency from 25% to 20% with positive effect on market liquidity. 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 was stable, furthermore the capital adequacy ratio reached 14.5% at the end of the year. In 2011 forty-one commercial banks operated in Romania; all of them successfully completed the preparations of the required implementation of new IFRS (International Financial Reporting Standards) accounting standards starting on 1st January 2012.

Business performance of MKB Nextebank

The management and the majority owner of MKB Nextebank were committed to take all the necessary measures to support the sustainability and growth of the Bank's business also in 2011. In 2011 concentration risk within the group decreased significantly compared to previous year as sale procedure related to this exposure (CRM portfolio) ended. The Bank was focusing on managing CAR RAS above 10%, as required by the Central Bank and the full regulatory acceptance of the subordinated debt. Participation owned by the Bank in affiliated company MKB Romexterra Leasing IFN S. A. was sold to MKB Bank Zrt. Hungary on 29th December 2011.

As a result of selective customer segment focus and the separation of the problematic portfolios the Bank's market share (based on total assets) decreased from 0.4% in 2010 to 0.3% in 2011, thus it ranks the 26th in the whole system. The number of the Bank's customers has halved to 96,000 in 2011 (2010: 194,500), the number of SMEs was 1,362, the number of micro companies was 5,651 and the number of private individual clients was 88,745. At end-2010 the branch network contained 47 units. The number of employees at the end of 2011 was 574.

In 2011 the MKB Group continued to transfer their expert skills and know-how, in particular with regards to the Bank's risk management practice, organisation and management. In addition to the enhancement of the risk methodologies, the transfer of techniques, methodologies and practice aiming at the increase of the efficiency of retail sales proved to be especially useful.

[3] Data from National Bank of Romania, ISI Emerging Markets.

Financial performance of MKB Nextebank

In 2011, the activities of MKB Nextebank focused on the preservation of the healthy loan portfolios. Total assets of MKB Nextebank decreased by 19.5% reaching RON 1,084.6 million (2010: RON 1,347.3 million). The net loan portfolio of MKB Nextebank decreased by 18.2% and reached RON 390.1 million; the accounts and deposits declined by 15.6% to RON 932.9 million. MKB Bank increased its share through capital raise in the MKB Nextebank from 90.78% to 92.42%. The shareholders' equity more than doubled from RON 40.5 million in 2010 to RON 83.7 million in 2011 ensuring a sound capital base of the bank with capital adequacy ratio reaching 13.44% by the end of the year. Gross operating income was RON 52.4 million which was lower by 17.1% than in the previous year (2010: RON 63.3 million). Despite the 21.2% decline in operating costs and the RON 16.4 million erased provision, the Bank realized a pre-tax loss of RON -40.9 million (2010: RON -262.8 million) in 2011.

Expectations for 2012

The overall outlook for the Romanian economy is improving, although the dependency on politics and events in the world economy are quite significant. To keep the balance between economic stimulation and continued internal consolidation will be the key task for the new government, in accordance with IMF and EU criteria. GDP growth will be positive between 1.5-2.0% in 2012. Exports are expected to increase further due to the conservative surge in external demand. The disinflation process is expected to continue. However, further improvement in the unemployment rate is not expected.

The main challenge the bank system has to face in 2012 is to reduce the non-performing and problematic loan portfolios and to solve the problem of the decreasing external financing. Due to deleveraging process, exposure on small and medium-size enterprises and also short term loans exposures will be reduced. A lower growth rate of new granted loans and a higher competition from local banks on credit products with longer maturities and with guarantees in order to reduce risk-weighted loans books are expected. In regard to the sector level loss in 2011, no significant positive profit is expected in the sector in 2012.

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

MKB Nextebank - Key figures (unconsolidated, IFRS)

RON thousand

	2010	2011
Total Assets	1,347,264	1,084,643
Customer loans (net)	476,826	390,113
Customer accounts and deposits	1,105,255	932,949
Shareholders' Equity	40,544	83,655
Net interest income	66,987	47,224
Net fee & commission income	19,785	10,286
Other income	(23,494)	(5,075)
Gross operating income	63,278	52,434
Operating expenses	(139,251)	(109,694)
Impairments and provision charges	(186,798)	16,392
Profit before tax	(262,771)	(40,867)
Income tax	(11,673)	(2,449)
Profit after tax	(274,444)	(38,418)
ROAE (%)	(323.58)	(61.86)
ROAA (%)	(14.81)	(3.16)
Cost-to-income (%)	220.10	209.20
CAR (%)	5.60	13.44

MARKET SHARES

Corporate loans	0.25%	0.16%
Retail loans	0.39%	0.34%
Corporate deposits	0.60%	0.49%
Retail deposits	0.64%	0.58%
Total assets	0.43%	0.31%

MKB Nextebank balance sheet and income statement (unconsolidated, IFRS)

	2010	*RON thousand* 2011
BALANCE SHEET		
Assets	**1,347,264**	**1,084,643**
Cash balances	39,418	260,584
Amounts due from other banks	127,024	15,361
Securities	374,546	353,617
Loans and advances to customers (net)	476,826	390,113
Other assets	26,197	21,087
Participations	25,060	6,368
Property and equipment	39,925	37,398
Liabilities	**1,306,720**	**1,000,987**
Amounts due to other banks	159,029	46,904
Current and deposit accounts	1,105,255	932,949
Other liabilities and provisions	18,277	20,930
Deferred tax liability	2,735	204
Subordinated debt	21,424	0
Shareholders' Equity	**40,544**	**83,655**
Share capital	445,745	145,150
Reserves	(405,161)	(61,494)
INCOME STATEMENT		
Interest income	147,517	96,145
Interest expense	(80,530)	48,921
Net interest income	66,987	47,224
Net income from commissions and fees	23,494	10,286
Other operating income	(24,747)	(5,075)
Impairments and provisions for losses	(186,798)	16,392
Operating expenses	(139,251)	(109,694)
Profit before taxation	(262,771)	(40,867)
Taxation	(11,673)	(2,449)
Profit after taxation	(274,444)	(38,418)

The business and financial performance of MKB Unionbank

Bulgarian economy in 2011 [1]

Driven mainly by higher exports, the Bulgarian economy registered relatively strong economic growth in the beginning of 2011, but due to deceleration of the principal European markets in the second half of 2011, Bulgarian GDP growth slowed down to an annual average of 1.7% real growth in 2011 amounted to BGN 75.3 billion. The debt crisis in the EU, which is a major trading partner for Bulgaria, softened external demand which affected the growth pace of exports. The unemployment rate was 10.1% at the end of the year, which is slightly higher than the 2010 level of 9.2%. The annual inflation rate went up to 3.4% in 2011. Industrial production slowed down to 2% year-to-year in 2011.

According to preliminary data the budget deficit for 2011 was 2.1% of the GDP, remaining below the planned target of 2.5%, as revenues were above the 2010 level. Appropriate government fiscal policy, ongoing budgetary consolidation, structural reforms and solid medium-term growth prospects supported by improving absorption of EU funds became the reason for Moody's to increase the Bulgarian credit rating to Baa2. At the end of 2011 Standard & Poor's affirmed the country's credit rating at BBB with a stable outlook, pointing out that future upgrade remains possible if the government sticks to its reform agenda.

Despite the intensification at the end of the year, FDI level remained below the pre-crisis levels, due to a high degree of uncertainty in the EU and the SEE region. Its total amount reached EUR 940 million at the end of 2011, or 40.7% lower than in the previous year. Due to economic stabilisation, the current account entered into a positive territory in 2011, registering its first surplus since 1998. The continuing process of deleverage lowered further the gross external debt to EUR 35.5 billion or slightly above 90% of GDP by November 2011. Despite pressure from the external environment, the country's foreign currency reserves were at a three-year high in 2011 (EUR 13.3 billion), providing good coverage for the stability of the currency board.

Bulgarian banking system in 2011 [2]

In 2011 twenty-four commercial banks and seven branches of foreign banks were operating in Bulgaria. As of December 2011 their total assets amounted to BGN 76.8 billion, marking an annual growth of 4.2%. The economic crisis and the slow recovery continued to set back the banking system growth. Total loan volume in the banking system reached BGN 56 billion, registering an annual increase of 4.1% as of December 2011. Total deposit at the same time amounted to BGN 59 billion, with an annual growth of 5%. The highest growth in lending was seen in loans to companies and credit institutions (+6.2% yoy), while within clients' funds the most significant growth was in household deposit (+13.8% yoy).

The challenging operating environment led to further growth of non-performing loans, although their monthly growth rate tended to decrease, and the ceiling point expected is to be reached during 2012. Nevertheless, the Bulgarian banking system continued to maintain a high level of capital adequacy of around 17.5% and stable liquid asset ratio of 25.6% in 2011.

In 2011 impairments and provisions for losses decreased by 2%, for the first time since the beginning of the crisis. Their volume amounted to BGN 1.29 billion, while that of net profit – to BGN 586 million, as of December 2011. Although the net profit in the banking system decreased by 4.9% on an annual basis, it managed to turn to positive growth twice during 2011.

[1] Data from National Statistical Institute – Bulgaria, ISI Emerging Markets.
[2] Data from Bulgarian National Bank, ISI Emerging Markets.

Business performance of MKB Unionbank in 2011

In 2011 the Bank pursued its business in the conditions of a complicated economic environment, mainly associated with significant risks in corporate lending. The credit downgrade of MKB Unionbank from Ba2 to Ba3 by Moody's in the beginning of the year adversely affected its assets growth. Another aspect of this action, according to the Bulgarian legislation the pension fund deposits had to be withdrawn. It resulted in contraction in the Bank's total assets and restricted possibilities for lending growth, whereby the amount of corporate loans was reduced by BGN 48.7 million in the first seven months of the year vis-à-vis 2010 year-end. At the same time, the Bank successfully pursued its key priority in accordance with its business and risk strategy for 2011 and preserved, even increased its share in loans to individuals, mainly by expanding in mortgage lending. Following an upgrade of the Bank's investment rating to BBB+ in August 2011 by FitchRatings, the Bank managed to recover the amount of its borrowed funds and moderated the decline to BGN 17.7 million compared to 2010 year-end, which in turn made it possible to increase its market share in loans to private individuals and improve its market positions in corporate loans. In 2011 the Bank reported a market share of 2.23% in total assets (2010: 2.35%). The market share in corporate loans slightly declined to 2.72% in 2011 (2010: 2.86%). The market share in household loans grew to 1.9% in 2011 (2010: 1.63%), and the market share in mortgage loans improved to 2.2% (2010: 1.92%).

The volume of loans increased by 2.8% driven by 15.7% or BGN 46.6 million growth in the credit portfolio of individuals, whereas the volume of the corporate credit portfolio decreased by 1.4%. Deterioration of the credit portfolio quality slowed down, despite the lack of significant growth in lending, particularly in terms of corporate loans. The proportion of standard loan portfolio fell by 3.7% in 2011 (-5.1% in 2010).

The downward trend in the volume of borrowed funds from money and capital markets continued in 2011 within the Bulgarian banking system, and the decline was BGN 3,375 million or 25.8% in the first 11 months of the year. The decline was fully offset by a growth in deposits of non-financial institutions, companies and individuals, increasing by BGN 4,457 million. MKB Unionbank also decreased the share of its funding from MKB and repaid its obligations of EUR 15 million. The Bank issued EUR 15 million mortgage bonds during the year. As a result of the downgrade at the beginning of 2011, the withdrawal of BGN 92 million pension fund deposits caused temporary decrease in the deposit base. After the new rating assignment and an upgrade of the Bank's credit rating a sizeable growth of borrowed funds from clients followed, and at the end of the year the level of borrowed funds from clients was 98.3% of that reported in 2010.

In 2011 the Bank reported a substantial growth in the number of clients. At the end of the year, the number of active clients reached 110,132, which is a 7.77%-growth. The number of corporate clients rose by 5.7% and the number of private individual clients increased by 11.8%. The trend toward optimization and improving the efficiency of the branch network continued in 2011. Two branches were consolidated with each other, while a distant branch was closed. At the end of 2011, the number of bank units for retail banking was 52, and the number of regional corporate centres remained unchanged at six.

Financial performance of MKB Unionbank in 2011

The Bank's standalone operating income for 2011 increased by 2% and by 1.69% on consolidated base. The reported net interest income on consolidated base (BGN 52.9 million) and fee and commission income (BGN 20.4 million) comprised 68% and 26.1% of its structure, respectively. The growth in fee and commission income was 9.4%, while net interest income rose by 0.3% on standalone base but decreased by 0.6% (BGN 0.31 million) on consolidated base, mainly due to a BGN 3 million increase in interest expenses relating to intra-group financing, compared to 2010. Operating expenses amounted to BGN 44 million on standalone base and to BGN 44.7 million on consolidated base in 2011, the latter grew by 4.34%. 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%), as well as a significant rise in expenses of the subsidiary AMC Imoti, while other costs were at equal or even lower levels than in 2010. Impairments and provisions amounted to BGN 28.3 million.

MKB Unionbank ended 2011 with a pre-tax profit of BGN 5,108 million on standalone base which is an annual rise of 6.4% compared to 2010 (BGN 4,892 million on consolidated base – a rise of 2.2%). Efficiency indicators for 2011 are: return on equity (ROAE), based on pre-tax profit – 2.82% (2.70% on consolidated base); on assets (ROAA) – 0.30% (0.28% on consolidated base), and CIR of 56.35% (57.37% on consolidated base). As of 31 December 2011, the total capital base increased to BGN 204,239 million, growing by 29.4%. The total capital adequacy ratio stood high at 13.35%, against the legally required 12%.

Outlook for 2012

Economy and banking sector outlook for 2012

Post-recession economic growth will remain moderate, but due to complex external environment and tightened fiscal policy of the government GDP increase is expected to stay below its potential level, reaching around 1.5% in 2012. Gradual recovery of individual consumption, which is already in progress, will support additionally the industry, as together with the export oriented sectors, there is already a positive trend in some other sectors. The gradual improvement of the labour market will slightly reduce unemployment below 10%. Bulgaria's 2012 state budget will put the country on a path of further reduction of the deficit, which is expected to be 1.3% of the GDP. The government Financial Stability Pact will further improve confidence in the Bulgarian economy and its prospects for economic recovery.

Bulgarian banks have to face almost the same challenges in 2012 as in 2011. Despite the expected stability of the banking system, the banks' credit portfolios will stay under pressure as a result of the economic difficulties which will limit growth and profitability in the sector. Growth rates are expected to remain close to 2011 levels. Foreign parent bank's financing will continue to be restricted so Bulgarian banks will rely more heavily on attracting deposits from the domestic market. Thus, growth of deposits will be higher than that of loans, which will lead to additional reduction of the loan-to-deposit ratio to levels close to 100% from previously higher ones. The strong increase in the volume of retail deposits in the last two years will eventually restrict their growth in 2012. On the other hand, consumer lending, which was contracting in the last two years, can again turn to positive.

One of the main challenges for the sector will remain the management of non-performing loans (NPL) and the impairments for provisions. The peak of NPL is expected by mid-2012. The consequences of the Greek crisis will lead to further consolidation between Greek banks, which will influence their subsidiaries in Bulgaria.

MKB Unionbank business plan for 2012

The planned targets and actions of MKB Unionbank for 2012 could not be regardless of the internal economic realities and the impact of the global financial situation. The business plan creates preconditions for further development of the Bank's business activity in an environment with low GDP growth and an adverse business climate. The planned asset growth is 3.6%, and 7.85% for the loan portfolio. The key focus in the loan portfolio growth is on loans to households and mortgage lending in particular. A priority in corporate lending will be the funding of clients with good credit history, with limited growth in certain sectors of the economy, according to the Bank's Risk Strategy. Planned growth is to be realized through well structured loans and under SME financing programs including funds from the Bulgarian Development Bank and other EU sources. The loan portfolio growth of micro companies sub-segment will be limited. The planned growth of funds from households and companies is 4.2%. The pre-tax profit for 2012 is to increase about two-fold and reach BGN 10.4 million. A significant improvement of the efficiency ratios is planned, whereby ROA is to reach 0.60% and ROE is to be 4.78%.

MKB Unionbank – Key figures[1] (consolidated, IFRS)

	2010	2011
		BGN thousand
Total Assets	1,731,858	1,711,690
Customer loans (net [2])	1,213,788	1,247,760
Customer accounts and deposits	1,039,640	1,022,439
Shareholders' Equity	157,880	204,239
Net interest income	53,231	52,925
Net fee & commission income	18,654	20,399
Other income	4,708	4,560
Gross operating income	76,593	77,884
Operating expenses	(42,815)	(44,685)
Impairments and provision charges	(28,989)	(28,307)
Profit before tax	4,789	4,892
Income tax	(508)	(402)
Profit after tax	4,281	4,489
ROAE - before taxation	3.29%	2.70%
ROAA - before taxation	0.28%	0.28%
Cost-to-income	55.90%	57.37%
CAR	12.98%	13.35%
Number of employees	701	709

MARKET SHARES

Corporate loans [3]	2.86%	2.72%
Retail loans [4]	1.63%	1.90%
Corporate deposits [3]	3.46%	2.96%
Retail deposits [4]	1.38%	1.26%
Total assets	2.35%	2.23%

[1] Any significant extraordinary item shall be shown separately.
Key ratios and fulfilment of the profit plan shall be reported in both ways without and with such extraordinary item.
[2] Reduced by provisions.
[3] Data includes respectively credits and deposits to all companies.
[4] Data includes respectively only credits and deposits of individuals.

MKB Unionbank balance sheet and income statement (consolidated, IFRS)

BGN thousand

	2010	2011
BALANCE SHEET		
Assets	**1,731,858**	**1,711,690**
Cash balances	19,660	19,451
Amounts due from the National Bank	246,153	211,510
Amounts due from other banks	157,923	147,787
Securities	58,505	59,422
Loans and advances to customers	1,213,788	1,247,760
Other assets	22,236	13,348
Participations	0	0
Property and equipment	13,592	12,412
Liabilities	**1,573,978**	**1,507,451**
Amounts due to the National Bank		0
Amounts due to other banks	423,236	391,196
Current and deposit accounts	1,039,640	1,022,439
Certificates of deposit	0	0
Other liabilities and provisions	8,793	5,115
Deferred tax liability	446	457
Borrowed funds and debt securities	62,084	88,244
Subordinated debt	39,778	0
Shareholders' Equity	**157,880**	**204,239**
Share capital	79,912	122,465
Reserves	77,968	81,774

Note: The loans from BLB and from MKB are reported in the Amounts due from other banks'' position

MKB Unionbank balance sheet and income statement (consolidated, IFRS)

BGN thousand

	2010	2011
INCOME STATEMENT		
Interest income	109,074	107,330
Interest expense	(55,843)	(54,406)
Net interest income	53,231	52,925
Net fee & commission income	18,654	20,399
Other income	4,708	4,560
Impairments and provisions for losses	(28,989)	(28,307)
Operating expenses	(42,815)	(44,685)
Profit before tax	4,789	4,892
Taxation	(508)	(402)
Profit after taxation	4,281	4,489

eredményeket. Ennek az 1930-as gazdasági depresszió vetett véget.
1931-ben egy este intimebb baráti körben, ahol Kozma Lajos is jelen
volt, elég lehangoltan ecseteltem a nem nagyon rózsás kilátásaimat
a jövőt illetőleg. Akkor támadt az ötlete Kozmának, hogy indítsak
el egy iskolát, ahol a képzőművészet különböző ágait tanítanánk
ő vállalná a belső építészetet. Egy jómódú másik építész barátom
felajánlotta, hogy ő ad kölcsön pénzt a vállalkozás finanszírozásához.
Nagy lelkesedéssel fogtunk hozzá a tervezésnek, rövidesen találtunk
is megfelelő helyiséget a Személynök utcában és megalakult az "Atelier"
művészeti tervező és mühely iskola. A belső építészetet Kozma és Fábry
Pál, a grafikait Végh Gusztáv és Kner Berci, később Gergely Tibor, a kerámiát Gádor
István, később Illés és Gorka, a női divattervezést Vágó Zsófi, a kézimunka tervezést Lermai Anna
tanította. Később ez a névsor kibővült. Én a művészi rajzot taní-
tottam és adminisztráltam az iskolát. 1931-től -39-ig vezettem az
ügyeket amíg ki nem vándoroltam Ausztráliába. Bálakat, hajókirán-
dulásokat rendeztünk, hogy a jövedelemmel pótoljuk a kiadásokat,
mert bizony a tandíjak nem fedezték a költségeket, annak ellenére,
hogy a majdnem csak névleges fizetést ~~csak~~ csak azok a tagjai a
tanári karnak [illegible] vették fel akik rá v[...]
Megkezdődött az életem második szakasz[...]
hetőleg nehéz volt. Képet eladni akkor[...]
évben nem is festettem semmit. Hábor[...]
üzent Angliának ami által mi autom[...]
lettünk, de ez csak inkább kényelmet[...]
Hat hónapig szolgáltam mint közlegé[...]
egy különösen érdekes élmény volt az [...]
Később korommal fogva kiszupera[...]
az első gyűjteményes kiállításomat [...]

Dezső Orbán (1884–1986) Lonely Tree

oil on canvas, 72 x 97 cm

The young "cedar" by Dezső Orbán – one of the founding members of The Eight (Nyolcak) – stems from the same root as "The Lonely Cedar" by Tivadar Csontváry Kosztka. Every element and colour pattern of this relatively flat composition expresses the desire for order and calm.

Information

The boards and the auditor of MKB Bank Zrt.

Supervisory board [1]

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

Members
Jochen Bottermann (2009) [2]
Counsel to the Board of Management
BAWAG P.S.K.

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

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

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

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

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

Dr Mészáros Tamás (2009) [3]
Professor
Corvinus University, Budapest

Nils Niermann (2011) [4]
Member of the Board of Management
Bayerische Landesbank

[1] Mr. Stefan Ermisch resigned from his membership in the Supervisory Board with effect from April 5, 2011.
[2] Supervisory Board membership expired on March 31, 2012.
[3] Elected to member of the Supervisory Board for further three years by the Extraordinary General Meeting of March 8, 2012.
[4] Elected to member of the Supervisory Board by the Extraordinary General Meeting of July 29, 2011.

The boards and the auditor of MKB Bank Zrt.

Board of directors [5]

Chairman

Erdei Tamás (1991) [6]
Chief Executive Officer
MKB Bank Zrt.

Tagok

Dr Balogh Imre (2004)
Deputy Chief Executive for Business Management
MKB Bank Zrt.

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

Roland Michaud (2010)
Deputy Chief Executive for the Special Credits
MKB Bank Zrt.

Michael Schmittlein (2011) [7]
Deputy Chief Executive for Risk Management
MKB Bank Zrt.

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

Elected auditor

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

Persons liable for the audit

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

Note: Beginning of membership in brackets.

[5] Mr. Gáldi György resigned from his membership in the Board of Directors with effect from October 31, 2011.
[6] Resigned from his membership and Chairmanship of the Board of Directors with effect from March 8, 2012.
[7] Elected to member of the Board of Directors by the Extraordinary General Meeting of December 23, 2011.
[8] Elected to Chairman of the Board of Directors by the Extraordinary General Meeting of March 8, 2012.

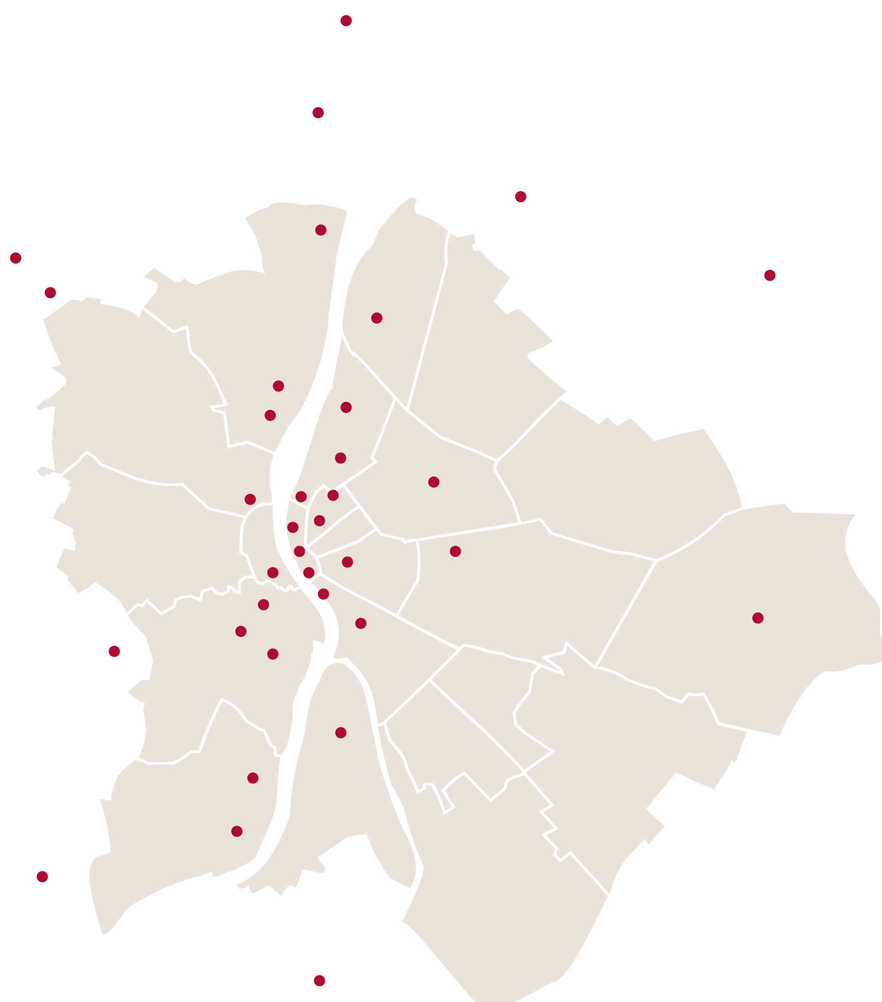
Branch network of MKB Bank in Budapest

MKB Bank Zrt.

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

Name	Address	Phone	Fax
Alagút utcai fiók	1013 Budapest, Alagút u. 5.	(1) 489-5930	(1) 489-5940
Allee bevásárlóközponti fiók	1117 Budapest, Október 23. u. 6-10.	(1) 381-4080	(1) 381-4099
Andrássy úti fiók	1061 Budapest, Andrássy út 17.	(1) 268-7066	(1) 268-7067
Arena Plaza fiók	1087 Budapest, Kerepesi út 9.	(1) 323-3870	(1) 323-3899
Árkád fiók	1106 Budapest, Örs vezér tere 25.	(1) 434-8110	(1) 434-8119
Békásmegyeri fiók	1039 Budapest, Pünkösdfürdő u. 52-54.	(1) 454-7700	(1) 454-7699
Budafoki fiók	1221 Budapest, Kossuth Lajos u. 25-27.	(1) 482-2070	(1) 482-2089
Budaörsi fiók	2040 Budaörs, Szabadság út 45.	(23) 427-700	(23) 427-719
Campona fiók	1222 Budapest, Nagytétényi út 37-43.	(1) 362-8180	(1) 362-8199
Csepel Plaza fiók	1211 Budapest, II. Rákóczi F. út 154-170.	(1) 278-5750	(1) 278-5769
Dévai utcai bankfiók	1134 Budapest, Dévai u. 23.	(1) 268-7424	(1) 268-7829
Duna Ház fiók	1093 Budapest, Soroksári út 3/C	(1) 216-2991	(1) 216-2992
Duna Plaza fiók	1138 Budapest, Váci út 178.	(1) 239-5110	(1) 239-5084
Dunakeszi fiók	2120 Dunakeszi, Fő út 16-18.	(27) 548-100	(27) 548-119
Érdi fiók	2030 Érd, Budai út 11.	(23) 521-840	(23) 521-859
EuroCenter fiók	1032 Budapest, Bécsi út 154.	(1) 439-3000	(1) 453-0822
Fehérvári úti fiók	1119 Budapest, Fehérvári út 95.	(1) 204-4686	(1) 204-4717
Gödöllői fiók	2100 Gödöllő, Kossuth Lajos u. 13.	(28) 525-400	(28) 525-419
Lajos utcai fiók	1023 Budapest, Lajos u. 2.	(1) 336-2430	(1) 336-3169
Mammut fiók	1024 Budapest, Széna tér 4.	(1) 315-0690	(1) 315-0672
Masped Ház fiók	1139 Budapest, Váci út 85.	(1) 237-1756	(1) 238-0135
MOM Park fiók	1124 Budapest, Alkotás út 53.	(1) 487-5550	(1) 487-5551
Nyugati téri fiók	1132 Budapest, Nyugati tér 5.	(1) 329-3840	(1) 329-3859

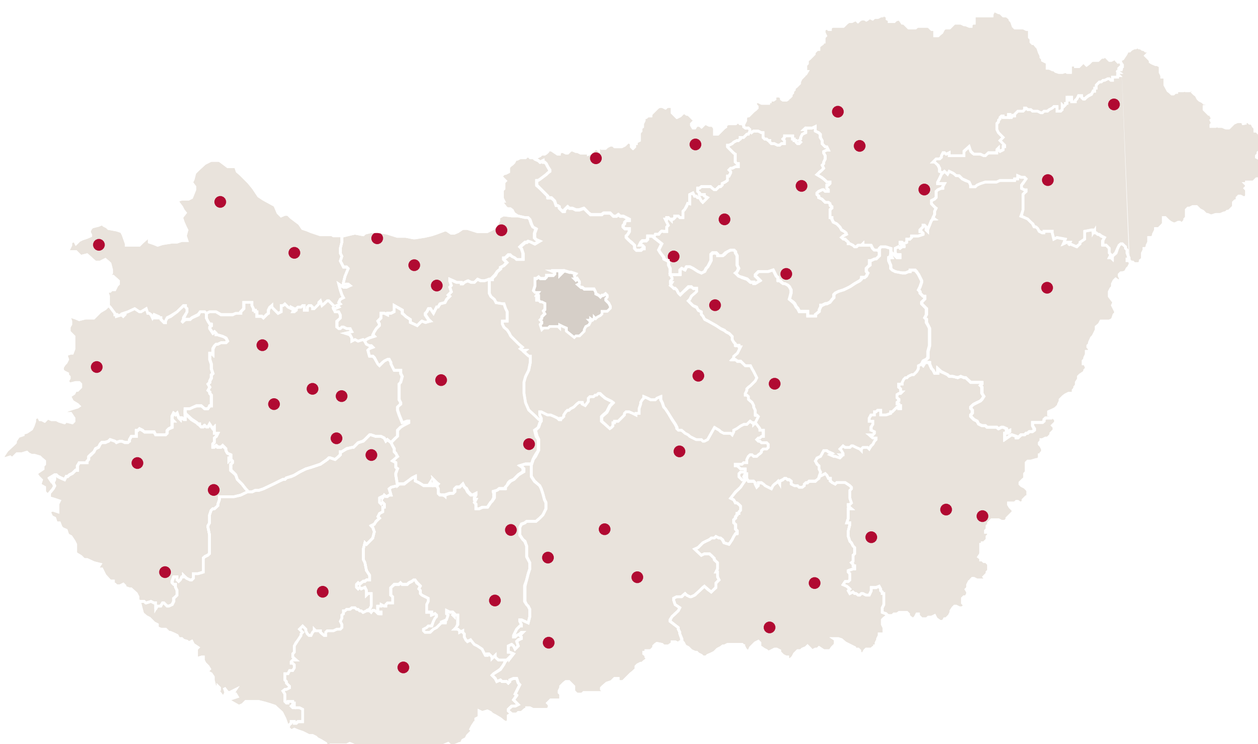
Name	Address	Phone	Fax
Pilisvörösvári fiók	2085 Pilisvörösvár, Fő u. 60.	(26) 538-988	(26) 538-989
Rákoskeresztúri fiók	1173 Budapest, Pesti út 237.	(1) 254-0130	(1) 254-0138
Siemens Ház fiók	1143 Budapest, Hungária krt. 130.	(1) 222-4126	(1) 422-4161
Solymári fiók	2083 Solymár, Terstyánszky u. 68.	(26) 560-650	(26) 560-669
Székház fiók	1056 Budapest, Váci utca 38.	(1) 268-8472	(1) 268-8079
Szent István téri fiók	1051 Budapest, Szent István tér 11.	(1) 268-7461	(1) 268-7131
Szentendrei fiók	2000 Szentendre, Kossuth Lajos u. 10.	(26) 501-400	(26) 501-399
Szigetszentmiklós	2310 Szigetszentmiklós, Gyári út 9.	(24) 525-660	(24) 525-679
Türr István utcai fiók	1052 Budapest, Türr István u. 9.	(1) 268-8219	(1) 268-7908
Újpesti fiók	1045 Budapest, Árpád út 183-185.	(1) 272-2444	(1) 272-2449
Váci fiók	2600 Vác, Március 15. tér 23.	(27) 518-670	(27) 518-699
WestEnd City Center fiók	1062 Budapest, Váci út 1-3.	(1) 238-7800	(1) 238-7801



Branch network of MKB Bank in Hungary

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

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



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