STATEMENT

on the consolidated annual financial statements of 2012

and on the Report of the Management

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

and Act CXX of 2001 on the Capital Market

STATEMENT

on the consolidated annual financial statements of 2012
and on the Report of the Management
Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)

MKB Bank Zrt (hereinafter: Bank) declares concerning its consolidated annual financial statements – accepted by the Annual General Meeting of the Bank on April 2, 2013 and audited by an independent auditor - the following statement:

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

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

Budapest, ..05.. April 2013.

MKB Bank Zrt.

Dr Pál Simák
Chairmen & Chief Executive

Csaba Szekeres
Executive Director

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C, Hungary
H-1438 Budapest, P.O.Box 471, Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.com/hungary

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

To the Shareholders of MKB Bank Zrt.

Report on the Consolidated Financial Statements

We have audited the accompanying Consolidated Financial Statements of MKB Bank Zrt. (the "Bank") for the year 2012, which financial statements comprise the Consolidated Statement of Financial Position as at December 31, 2012, which shows total assets of HUF 2,579,173 million, and the related Consolidated Statement of Comprehensive Income, which shows a loss for the year of HUF 87,669 million, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of MKB Bank Zrt. as at December 31, 2012, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matters

The consolidated financial statements of MKB Bank Zrt. as at December 31, 2011 have been audited by another auditor. Its report, issued on March 20, 2012, contained an unqualified opinion.

Other Reporting Obligation: Report on the Consolidated Business Report

We have examined the accompanying consolidated business report of MKB Bank Zrt. for the year 2012.

Management is responsible for the preparation of this consolidated business report in accordance with the Hungarian Accounting Act.

Our responsibility is to assess whether the accounting information in the consolidated business report is consistent with that contained in the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to assessing the consistence of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank.

In our opinion, the consolidated business report of MKB Bank Zrt. for the year 2012. corresponds to the figures included in the consolidated financial statements of MKB Bank Zrt. for the year 2012.

Budapest, March 5, 2013

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Gion Gábor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.

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Horváth Tamás

registered statutory auditor
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statistic code

Consolidated
Financial
Statements

Prepared in accordance with the
International Financial Reporting Standards
as adopted by the EU

Budapest, 5 March, 2013

December 31, 2012

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Data in HUF million except stated otherwise

MKB Bank Zrt.
Consolidated Statement of Financial Position as at December 31, 2012

	Note	2012	2011
Assets			
Cash reserves	**6**	413 790	321 677
Loans and advances to banks	**7**	81 316	85 052
Trading assets	**8**	33 878	57 648
Investments in securities	**10**	229 230	288 925
Loans and advances to customers	**11**	1 658 357	1 994 633
Assets from discontinued operations as held for sale	**42**	66 173	73 889
Other assets	**12**	16 076	32 681
Deferred tax assets	**25**	433	4 079
Investments in jointly controlled entities and associates	**13**	7 686	8 459
Intangibles, property and equipment	**14**	72 234	76 918
Total assets		**2 579 173**	**2 943 961**
Liabilities			
Amounts due to other banks	**15**	674 216	977 326
Deposits and current accounts	**16**	1 389 037	1 463 472
Trading liabilities	**17**	21 835	33 463
Micro hedge derivative liabilities held for risk management	**18**	214	262
Liabilities of discontinued operations as held for sale	**42**	59 497	68 994
Other liabilities and provisions	**19**	27 507	30 856
Deferred tax liabilities	**25**	264	5 868
Issued debt securities	**20**	170 246	171 145
Subordinated debt	**21**	101 642	108 486
Total liabilities		**2 444 458**	**2 859 872**
Equity			
Share capital	**22**	108 936	20 733
Reserves	**23**	21 072	56 762
Total equity attributable to equity holders of the Bank		**130 008**	**77 495**
Non-controlling interests	**24**	4 707	6 594
Total equity		**134 715**	**84 089**
Total liabilities and equity		**2 579 173**	**2 943 961**

Budapest, 5 March, 2013

dr Pál Simák
Chairman & Chief Executive

MKB Bank Zrt.
Consolidated Statement of Comprehensive Income as at December 31, 2012

	Note	2012	2011
Income statement:			
Interest income	26	158 586	168 069
Interest expense	27	95 210	91 765
Net interest income		**63 376**	**76 304**
Net income from commissions and fees	28	13 537	14 034
Other operating income / (expense)	29	(3 299)	6 567
Impairments and provisions for losses	31	87 650	125 411
Operating expenses	32	60 114	74 138
Restructuring expenses	30	6 718	-
Share of jointly controlled and associated companies' profit / (loss) before taxation		(449)	(997)
Loss before taxation		**(81 317)**	**(103 642)**
Income tax (credit) / expense	33	(1 505)	11 777
Loss for the year from continuing operation		**(79 812)**	**(115 419)**
Loss for the year from discontinued operation	42	(7 857)	(5 607)
LOSS FOR THE YEAR		**(87 669)**	**(121 026)**
Other comprehensive income:			
Revaluation on AFS financial assets	10	14 409	(3 988)
Revaluation of equity put option	23	(383)	(4 166)
Exchange differencies on translating foreign operations		(1 731)	7 091
Other comprehensive income for the year net of tax		**12 295**	**(1 064)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(75 374)**	**(122 090)**
Profit attributable to:			
Profit for the period from continuing operation		(82 865)	(115 670)
Profit for the period from discontinued operation		(3 906)	(5 122)
Shareholders of the bank		**(86 771)**	**(120 792)**
Profit for the period from continuing operation		3 053	251
Profit for the period from discontinued operation		(3 951)	(485)
Non-controlling interests		**(898)**	**(234)**
Total comprehensive income attributable to:			
Total comprehensive income from continuing operation		(70 822)	(115 065)
Total comprehensive income from discontinued operation		(4 339)	(7 340)
Shareholders of the bank		**(75 161)**	**(122 405)**
Total comprehensive income from continuing operation		4 128	900
Total comprehensive income from discontinued operation		(4 341)	(585)
Non-controlling interests		**(213)**	**315**
Net income available to ordinary shareholders		(86 771)	(120 792)
Average number of ordinary shares outstanding *(thousands)*		108 936	20 733
Earnings per Ordinary Share *(in HUF)*	34		
Basic		(797)	(5 826)
Diluted		(797)	(5 826)
Dividend per Ordinary Share *(in HUF)*		-	-

Budapest, 5 March, 2013

dr Pál Simák
Chairman & Chief Executive

Data in HUF million except stated otherwise

MKB Bank Zrt.
Consolidated Statement of Changes in Equity as at December 31, 2012

	Note	Share capital	Share premium	Translation of foreign operations	Retained earnings	Revaluation on AFS financial assets	Revaluation of equity put option	Non-controlling interests	Total equity
At 1 January 2011		**20 733**	**184 089**	**(3 436)**	**6 570**	**(8 418)**	**-**	**6 535**	**206 074**
Issue of share capital and share premium	**22, 23**	-	-	-	-	-	-	347	**347**
Dividend for the year 2010		-	-	-	(39)	-	-	(203)	**(242)**
Loss for the year		-	-	-	(120 792)	-	-	(234)	**(121 026)**
Other comprehensive income for the year		-	-	6 767	-	(3 979)	(4 166)	315	**(1 063)**
Change in non-controlling interests during the period		-	-	-	167	-	-	(167)	**-**
At 31 December 2011		**20 733**	**184 089**	**3 331**	**(114 095)**	**(12 397)**	**(4 166)**	**6 594**	**84 089**
Issue of share capital and share premium	**22, 23**	88 203	38 797	-	-	-	-	-	**127 000**
Dividend for the year 2011		-	-	-	(37)	-	-	(114)	**(151)**
Loss for the year		-	-	-	(86 771)	-	-	(898)	**(87 669)**
Other comprehensive income for the year		-	-	(1 499)	(2 189)	14 389	1 806	(212)	**12 295**
Change in non-controlling interests during the period		-	-	-	(185)	-	-	(664)	**(849)**
At 31 December 2012		**108 936**	**222 886**	**1 832**	**(203 277)**	**1 992**	**(2 360)**	**4 706**	**134 715**

Budapest, 5 March, 2013

dr Pál Simák
Chairman & Chief Executive

Data in HUF million except stated otherwise

MKB Bank Zrt.
Consolidated Statement of Cash Flows for the year ended December 31, 2012

	Note	2012	2011
Cash flows from operating activities			
Loss before taxation		**(81 317)**	**(104 280)**
Adjustments for:			
Depreciation, amortisation and impairment	14	12 980	18 681
Impairment on other assets	12	526	30 986
Provisions for off-BS items	19	1 591	1 620
Impairment on financial assets (loans and advaces)	7, 11	68 146	79 477
Impairment on AFS securities, net	10	(845)	883
Impairment on jointliy controlled entities (GW) and Change in post acquisition reserve of jointly controlled entities and associates	13	773	1 527
Deferred tax movement	33	(1 958)	8 774
Net Interest income		(41 414)	(54 365)
Dividends on available for sale securities		(76)	(75)
Foreign Exchange movement	7, 11, 14, 19, Change in Equity	(7 315)	14 896
		(48 909)	(1 876)
Change in loans and advances to banks (gross amounts)	7	3 798	(8 956)
Change in loans and advances to customers (gross amounts)	11	280 736	104 630
Change in trading assets	8	23 770	(13 861)
Change in AFS securities (without revaluation and impairment)	10	74 949	(40 559)
Change in other assets (gross amounts)	12	16 066	(7 237)
Change in amounts due to banks (short term)	15	(259 985)	(58 931)
Change in current and deposit accounts	16	(74 435)	(3 773)
Change in other liabilities and provisions (without provision charge of the year)	19	(5 113)	2 820
Change in trading liabilities	17	(9 871)	(409)
Interest received		129 683	132 706
Interest paid		(88 269)	(78 340)
Dividends received		76	75
Income tax paid		1 505	(11 731)
		92 910	16 433
Net cash from operating activities		**44 001**	**14 558**
Cash flow from investing activities			
Investment in group companies	10, 13, OCI	(3 038)	1 764
Disposals of group companies	10, 13	-	-
Purchase of property and equipment	14	(7 014)	(4 585)
Disposals of property and equipment	14	950	16 419
Purchase of intangible assets	14	(3 593)	(21 219)
Disposals of intangible assets	14	867	3 335
Net cash used in investing activities		**(11 828)**	**(4 286)**
Cash flow from financing activities			
Increase in issued securities	20	(899)	26 444
Increase in subordinated liabilities	21	(6 844)	11 925
Change in amounts due to banks (Borrowings)	15	(43 125)	70 573
Issuance of new shares and proceeds from share premium	22, 23	127 000	347
Dividends paid	Change in equity	(151)	(242)
Net cash from financing activites		**75 981**	**109 048**
Net increase of cash and cash equivalents		**108 154**	**119 319**
Cash reserves at 1 January	6	**321 677**	**222 442**
FX change on cash reserve		(2 579)	250
Discontinued operation		(13 462)	(20 334)
Cash reserves at December 31	6	**413 790**	**321 677**

Budapest, 5 March, 2013

dr Pál Simák
Chairman & Chief Executive

Notes to the Financial Statements

(from page 8 to page105)

1 General information

MKB Bank Zrt. ("MKB" or "the Bank") is a commercial bank domiciled in Hungary, organised under the laws of Hungary and registered under the Hungarian Banking Act. The address of MKB is Váci u. 38., HU-1056 Budapest, Hungary.
The consolidated financial statements of the Bank as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group conducts its domestic and cross-border financial services businesses through banking and non-banking subsidiaries. For further information on consolidated subsidiaries please see Note 39.
MKB is a member of the BayernLB Group, domiciled in Germany. The address of BayernLB's Head Office is Brienner Str. 18, D-80333 Munich, Germany.
This financial statement is prepared for general purposes as defined in the Act C of 2000 about Accounting and the IFRSs published in Official Journal of European Union; they are not intended for the purposes of any specific user or consideration of any specific transactions related to the investment in shares of MKB Bank. Accordingly, users should not rely exclusively on the financial statements when making such investment decisions.

2 Compliance with International Financial Reporting Standards

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

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

These financial statements are presented in Hungarian Forint (HUF), rounded to the nearest million, except if indicated otherwise. These financial statements were authorised for issue by the Supervisory Board on 5 March, 2013.

3 Basis of measurement

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

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

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

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

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

4 Summary of significant accounting policies

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

a, Financial statement presentation

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

b, Consolidation

Subsidiaries

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

Special purpose entities

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

Funds management

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

Transactions eliminated on consolidation

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

c, Investments in jointly controlled entities and associated companies

Jointly controlled entities

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

Associates

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

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

A list of the Group's significant jointly controlled and associated companies is set out in Note 13.

d, Intangible assets

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

Goodwill

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

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

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

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

At the date of disposal of a business, attributable goodwill is included in the Group's share of net assets in the calculation of the gain or loss on disposal.

Other intangible assets

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

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

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

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

e, Property, plant and equipment

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

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

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

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

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

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

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

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

Investment properties are held by the bank to earn rentals and for capital appreciation.

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

- components of buildings are depreciated over 25-100 years
- connecting equipments are depreciated over 20 years

Depreciation of investment property is included in „Other operating income / (expenses)" line in statement of comprehensive income.

The fair value of the investment properties shall be supervised yearly by an independent appraiser. Should the fair value be much lower than the carrying amount, impairment loss shall be recognized through profit or losses.

Net gains and losses on disposal or retirement of property is disclosed as the own used properties.

f, Cash reserve

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

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

g, Determination of fair value

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

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For financial instruments, fair values may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

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

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

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

h, Loans and advances to banks and customers

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

i, Impairment of loans and advances

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

Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.
Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the statement of comprehensive income. The carrying amount of impaired loans at the end of the reporting period is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed loans and advances

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

Collectively assessed loans and advances

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

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

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

Renegotiated loans

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

Write-off of loans and advances

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

Reversals of impairment

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

Assets acquired in exchange for loans

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

j, Trading assets and trading liabilities

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

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

k, Financial instruments designated as fair value through profit or loss

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

Long-term deposit

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

Structured Bonds

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

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

l, Investments in securities

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

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

At the end of each reporting period an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset or group of assets. This usually arises when circumstances are such that an adverse effect on future cash flows from the asset or group of assets can be reliably estimated. If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset’s acquisition cost (net of any principal repayments and amortisation) and its current fair value, less any impairment loss on that asset previously recognised in the statement of comprehensive income) is removed from equity and included in the statement of comprehensive income.
When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

m, Derivatives

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

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

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

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

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

n, Hedge accounting

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

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

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

Fair value hedge

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

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

Hedge effectiveness testing

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

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

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

o, Derecognition of financial assets and liabilities

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

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

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

p, Offsetting financial assets and financial liabilities

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

q, Finance and operating leases

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

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

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

r, Deposits, debt securities issued and subordinated liabilities

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

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

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except for the items which at initial recognition are designated by the Group to fair value through profit or loss category.

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

s, Provisions

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

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group, and present obligation that arises from past events but is not recognised, because it is not porbable that an outflow of resources embodying economic benefits will be require to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

t, Income tax

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

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

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

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

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

Deferred tax relating to fair value remeasurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of comprehensive income when the deferred fair value gain or loss is recognised in the statement of comprehensive income.

u, Interest income and expense

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

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

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

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

v, Fees and commission

Fee and commission income is accounted for as follows:

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

w, Other income

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

x, Dividends

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

y, Employee benefits

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

Short-term benefits

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

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

z, Segment reporting

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

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

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

aa, Foreign currencies

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

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

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

ab, Financial guarantees

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

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

ac, Share capital

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

ad, Earnings per share

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

ae, New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2015),

  IFRS 9 was issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

  IAS 39 will hold until outstanding parts of IFRS 9 finalised. The application of IFRS 9 might have significant impact on the group financial statement, the group will analyse the impact after the adoption of the standard by EU.

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

  The objective of IFRS 10 is to provide a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and Interpretation 12 of the Standing Interpretations Committee (SIC) *Consolidation—Special Purpose Entities* (SIC-12).

  The adoption of the above presented new Standard would have no impact on the financial statements.

- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

  IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement, and replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities–Non-monetary Contributions by Venturers*.
  The adoption of the above presented new Standard would have no impact on the financial statements.

- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

  IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

  The adoption of the above presented new Standard may result in extended disclosure requirements.

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

  On 12 May 2011, the IASB issued IFRS 13 *Fair Value Measurement* (hereinafter "IFRS 13"). IFRS 13 sets out a single IFRS framework for measuring fair value and provides comprehensive guidance on how to measure the fair value of both financial and non-financial assets and liabilities. IFRS 13 applies when another IFRS requires or permits fair value measurement or disclosures about fair value measurements.
  The adoption of the above presented new Standard would result in extended disclosure requirements.

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

  The requirements relating to consolidated financial statements are deleted and moved to IFRS 10 where appropriate. The accounting and disclosure requirements for separate financial statements remain in IAS 27; the title is amended to *Separate Financial Statements*, the remaining paragraphs are renumbered sequentially, the scope is adjusted and other editorial changes are made. The accounting and disclosure requirements remaining in IAS 27 (as amended in 2011) are also updated to reflect the guidance in IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as amended in 2011).

The adoption of the above presented Amendment would have no significant impact on the financial statements.

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

  The adoption of the above presented Amendment would have no significant impact on the financial statements.

- **IFRS 1 (Amendment) "First-time Adoption of IFRS" -** Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

  On 20 December 2010, the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard ('IFRS') 1 First-time Adoption of International Financial Reporting Standards - *Severe Hyperinflation and Removal of Fixed Dates for First- time Adopters* (hereinafter "the amendments to IFRS 1"). The objective of the amendments to IFRS 1 is to introduce a new exemption in the scope of IFRS 1 – namely, entities that have been subject to severe hyperinflation are allowed to use fair value as the deemed cost of their assets and liabilities in their opening IFRS statement of financial position. In addition, those amendments also replace the references to fixed dates in IFRS 1 with references to the date of transition.
  The adoption of the above presented Amendment would have no significant impact on the financial statements.

- **IFRS 7 (Amendment) "Financial Instruments: Disclosures" -** Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),

  On 16 December 2011, the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard (IFRS) 7 Financial Instruments: Disclosures –Offsetting Financial Assets and Financial Liabilities. The amendment to IFRS 7 aims to require the provision of additional quantitative information in order to allow the users to better compare and reconcile the disclosures under IFRS and the Generally Accepted Accounting Principles (GAAP) of the United States.

  The adoption of the above presented Amendment would have no significant impact on the financial statements.

- **IAS 1 (Amendment) "Presentation of financial statements" -**Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),

On 16 June 2011, the International Accounting Standards Board (IASB) published Amendments to IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (hereinafter "the amendments to IAS 1"). The objective of the amendments to IAS 1 is to make the presentation of the increasing number of items of other comprehensive income clearer, and to assist the users of financial statements in distinguishing between the items of other comprehensive income that can be reclassified subsequently to profit or loss, and those that will never be reclassified to profit or loss.
The adoption of the above presented Amendment would have no impact on the financial statements.

- **IAS 12 (Amendment) "Income Taxes" -** Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

  On 20 December 2010, the International Accounting Standards Board (IASB) published amendments to International Accounting Standard ('IAS') 12 Income Taxes - *Deferred Tax: Recovery of Underlying Assets* (hereinafter "the amendments to IAS 12"). The objective of the amendments to IAS 12 is to introduce an exception to the measurement principle in IAS 12 in the form of a rebuttable presumption that assumes that the carrying amount of an investment property measured at fair value would be recovered through sale and an entity would be required to use the tax rate applicable to the sale of underlying asset.
  The adoption of the above presented Amendment would have no impact on the financial statements.

- **IAS 19 (Amendment) "Employee Benefits" -** Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),

  On 16 June 2011, the International Accounting Standards Board (IASB) published Amendments to IAS 19 *Employee Benefits*, (hereinafter "the amendments to IAS 19"). As to the amendments to IAS 19, they should help users of financial statements better understand how defined benefit plans affect an entity's financial position, financial performance and cash flows. The objective of the standard is to prescribe the accounting and disclosure for employee benefits.

  The adoption of the above presented Amendment would have no impact on the financial statements.

- **IAS 32 (Amendment) "Financial instruments: presentation"-** Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

  On 16 December 2011, the International Accounting Standards Board (IASB) published amendments to International Accounting Standard (IAS) 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities. The IASB amended IAS 32 to provide additional guidance to reduce inconsistent application of the standard in practice.

  The adoption of the above presented Amendment would have no significant impact on the financial statements.

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

  On 19 October 2011, the IASB issued Interpretation 20 of the International Financial Reporting Interpretations Committee ('IFRIC") *Stripping Costs in the Production Phase of a Surface Mine* ("IFRIC 20"). The objective of IFRIC 20 is to provide guidance on recognition of production stripping costs as an asset and on the initial and subsequent measurement of the stripping activity asset in order to reduce the diversity in practice as to how entities account for stripping costs incurred in the production phase of a surface mine.

  The Group does not expect IFRIC 20 to have material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds.

5 Risk management

a, Introduction and overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b, Risk management governance

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

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

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

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

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

It also reviews in advance and prepares for the Supervisory Board's approval the Risk Strategy of the Bank and the Bank Group.

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

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

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

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

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

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

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

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

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

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

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

The **Pricing Committee** has a leading role in forming the credit institution exchange rate policy and pricing system. The Pricing Committee shall be responsible for drawing up and submitting to the ALCO the exchange rate policy and the pricing system of the Bank. Its further task is to regularly review, during the execution, implementation of the annual business plan, whether the pricing of products, services, and the order of granting preferential conditions adequately support the Bank's business, profitability targets, to initiate the modification thereof, if necessary. The Pricing Committee shall regularly report to ALCO about its decisions adopted within its scope of tasks and authority.

c, Credit risk

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

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

Credit risk management

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

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

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

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

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

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

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

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

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

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

With regards to the management of concentration risks, MKB Bank Group fulfils the BayernLB Group requirements on the limitation of concentration risks. The group-level concentration risk management process (Klumpensteuerung), and the global concept of concentration risk limits is part of the concentration risk limitation. As part of the concept, the Bank set up sector and product limits, in order to restrain the assumption of further risks arising from the characteristics/risks rooted in different sectors and the assumption of risks of products representing high or special risk. Aiming at avoiding high risk concentration within the portfolio, the concentration risk limit value has been established for the total bank portfolio, with the stipulation that the limits of the individual customers/customer groups may exceed this target value only in extraordinary and justified cases, based exclusively on the strategic guidelines approved by the Supervisory Board and on the relevant decision by the Board of Directors.

The Bank introduced several further process related and regulatory aggravations and efficiency measures in 2012, taking into consideration the sustained financial and economic crisis. Among such measures the establishment of the Restructuring Department in June 2012 has to be highlighted. The mission of the department is to support the recovery of corporate customers dealing with material financial problems by transforming their processes/finances and furthermore restructuring their deals.

Data in HUF million except stated otherwise

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

5.1

2012	Cash reserves	Loans and advances to banks	Loans and advances to customers	Investment in debt securities*	Derivative assets	OFF B/S exposures
Individually impaired						
Performing (pass and special mention)	-	-	104 638	-	-	1 396
Substandard	-	-	79 904	-	-	1 390
Doubtful	-	-	142 124	-	-	385
Bad	-	18	160 047	-	-	452
Total individually impaired gross amount	-	18	486 713	-	-	3 623
Total individually impaired allowance for impairment	-	(18)	(218 190)	-	-	(1 907)
Total individually impaired carrying amount	**-**	**-**	**268 523**	**-**	**-**	**1 716**
Collectively impaired						
Performing (pass and special mention)	2	26 365	1 012 794	-	-	330 877
Substandard	-	-	96 330	-	-	23
Doubtful	-	-	9 662	-	-	19
Bad	-	-	4 595	-	-	-
Total collectively impaired gross amount	2	26 365	1 123 381	-	-	330 919
Total collectively impaired allowance for impairment	-	(50)	(42 250)	-	-	(2 407)
Total collectively impaired carrying amount	**2**	**26 315**	**1 081 131**	**-**	**-**	**328 512**
Past due but not impaired						
Performing (pass and special mention)	-	-	17 029	-	-	-
Substandard	-	-	2 312	-	-	-
Doubtful	-	-	230	-	-	-
Bad	-	-	1 214	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**20 785**	**-**	**-**	**-**
Past due comprises:						
up to 30 days	-	-	3 652	-	-	-
30 to 90 days	-	-	8 212	-	-	-
over 90 days	-	-	8 921	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**20 785**	**-**	**-**	**-**
Neither past due nor impaired						
Performing (pass and special mention)	413 788	55 001	285 905	229 230	20 973	25 606
Substandard	-	-	1 613	-	-	34
Doubtful	-	-	124	-	-	-
Bad	-	-	276	-	-	159
Total neither past due nor impaired carrying amount	**413 788**	**55 001**	**287 918**	**229 230**	**20 973**	**25 799**
Includes receivables with renegotiated terms						
Total gross amount	**413 790**	**81 384**	**1 918 797**	**229 230**	**20 973**	**360 341**
Total allowance for impairment	**-**	**(68)**	**(260 440)**	**-**	**-**	**(4 314)**
Total carrying amount	**413 790**	**81 316**	**1 658 357**	**229 230**	**20 973**	**356 027**

* Debt securities and other fixed income securities (incl. shares and other non fixed income securities)

Data in HUF million except stated otherwise

5.2

2011	Cash reserves	Loans and advances to banks	Loans and advances to customers	Investment in debt securities*	Derivative assets	OFF B/S exposures
Individually impaired						
Performing (pass and special mention)	-	-	150 926	-	-	2 343
Substandard	-	-	96 651	-	-	1 075
Doubtful	-	-	109 260	-	-	1 093
Bad	-	20	182 771	-	-	4 676
Total individually impaired gross amount	-	20	539 608	-	-	9 187
Total individually impaired allowance for impairment	-	(18)	(221 999)	-	-	(4 965)
Total individually impaired carrying amount	**-**	**2**	**317 609**	**-**	**-**	**4 222**
Collectively impaired						
Performing (pass and special mention)	-	29 264	1 169 069	-	-	372 339
Substandard	-	-	85 329	-	-	25
Doubtful	-	-	1 065	-	-	2
Bad	-	-	1 821	-	-	-
Total collectively impaired gross amount	-	29 264	1 257 284	-	-	372 366
Total collectively impaired allowance for impairment	-	(114)	(27 275)	-	-	(2 388)
Total collectively impaired carrying amount	**-**	**29 150**	**1 230 009**	**-**	**-**	**369 978**
Past due but not impaired						
Performing (pass and special mention)	-	-	20 650	-	-	-
Substandard	-	-	5 003	-	-	-
Doubtful	-	-	2	-	-	-
Bad	-	-	905	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**26 560**	**-**	**-**	**-**
Past due comprises:						
up to 30 days	-	-	4 981	-	-	-
30 to 90 days	-	-	9 031	-	-	-
over 90 days	-	-	12 548	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**26 560**	**-**	**-**	**-**
Neither past due nor impaired						
Performing (pass and special mention)	321 677	55 900	419 334	288 738	22 785	29 405
Substandard	-	-	588	-	-	68
Doubtful	-	-	470	187	-	126
Bad	-	-	63	-	-	625
Total neither past due nor impaired carrying amount	**321 677**	**55 899**	**420 455**	**288 925**	**22 785**	**30 224**
Includes receivables with renegotiated terms						
Total gross amount	**321 677**	**85 183**	**2 243 907**	**288 925**	**22 785**	**411 778**
Total allowance for impairment	**-**	**(131)**	**(249 274)**	**-**	**-**	**(7 354)**
Total carrying amount	**321 677**	**85 052**	**1 994 633**	**288 925**	**22 785**	**404 424**

* Debt securities and other fixed income securities (incl. shares and other non fixed income securities)

Credit classification system

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

- Pass
- Special mention
- Substandard
- Doubtful
- Loss

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

- Pass
- Special mention
- Problematic
- Materially problematic

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

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

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

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

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

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

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

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

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

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

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

The possible types of exposure handling are: normal, intensive and problematic. The type of exposure handling is determined by a set of criteria defined in internal regulation based on relevant indicators warning of the customer or the transaction being problematic. There is a correlation between the provision amount and handling types. Only such customers may be managed within the framework of the normal or intensive procedures, related to whom there is no individual (not Incurred Loss) provision booked. Individual provision making involves problematic handling parallel in each and every case.

Clients in normal, intensive and also in problematic treatment may be managed by the Special Credit Unit (SCU) established in 2011.
In case of Wholesale clients outside of SCU, intensive care may be ensured either as the task of the originally competent Business and Risk Units (also executing normal management) or as the task of Restructuring units, depending on the volume of the exposure and the type of the problem.

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

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

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

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

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

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

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

Individually allocated impairment and provision

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

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

- a current limit review proposal or monitoring report not older than three months is available, and
- no such indicator or transfer criterion has occurred as apparent from the above or during the period since then, or no such action has become necessary, which would require the transfer into intensive care or problem loan treatment based on the Criteria catalogue of the monitoring and customer treatment type of wholesale clientele.

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

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

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

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

In case of provision calculation of contingent liabilities the likelihood of turning into a balance sheet item is to be defined and taken into consideration.

Collectively allocated impairment and provision

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

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

Retail credits rated on product basis

The following credits are assessed on product basis:

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

  - Personal loans
  - Loans taken over from Quality Financial
- Small corporate customers:
  - Széchenyi Card credit (state subsidised loans for special purposes)
  - 1×1 Micro-company current account overdraft in Problem loan treatment

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

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

Homogeneous groups of loans (group assessment)

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

Incurred but not yet reported impairment loss

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

Past due but not impaired loans

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

Write-off policy

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

Collateral structure

The Group applies the basic principle, whereby it extends loans primarily in relation to and based on the customer's repayment capacity, instead of relying too much on the available collateral. Depending on the customer's paying capacity and rating, as well as the product

Data in HUF million except stated otherwise

type, unsecured loans may be extended only in strictly regulated and controlled cases. Nevertheless, collateral may be an important mitigant of credit risk.
The main collateral types are as follows:

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

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

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

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

5.3

2012	Loans and advances to banks	Loans and advances to Customers	Securities	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	-	28 271	-	13 093	118	1 635
Debt securities issued by	-	-	-	-	-	-
Central governments	-	-	-	174	-	-
Companies	-	1 099	-	966	-	157
Others	-	4 848	-	-	-	-
Shares	-	-	-	-	-	-
Mortgage	-	-	-	-	-	-
Building (incl. plot)	-	919 800	-	19 495	3 931	17 270
Other (ship, patent, chattel, goods stock, lien on assets over total assets, etc.)	-	81 428	-	8 025	162	4 663
Guarantees from						
Central governments	-	59 679	-	1 469	-	9 488
Other banks	-	51 515	-	18 761	-	843
Companies	-	40 668	-	16 225	276	10 635
Others	-	47 631	-	163	-	17 191
Total collateral	-	1 234 939	-	78 371	4 487	61 882

Data in HUF million except stated otherwise

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

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

5.4

	2012	2011
Non-financial assets		
Properties	14 463	9 905
Inventories	1 373	3 097
Other	4	5
Total assets obtained	**15 840**	**13 007**
Thereof properties from discounted operation	3 315	529

The management and processes related to assets obtained are regulated in Debt to Asset Policy.

Concentrations

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

Data in HUF million except stated otherwise

5.5

2012	Cash reserves	Loans and advances to banks	Loans and advances to customers	Investment in debt securities*	Derivative assets	OFF B/S exposures
Category I - without country risk	-	36 004	53 545	598	6 368	14 808
Category II - with low to medium country risk	-	4 373	31 905	-	1 329	1 764
Category III - with medium to high country risk	-	7 049	129 148	-	6	312
Total exposure	**-**	**47 426**	**214 598**	**598**	**7 703**	**16 884**

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

* Debt securities and other fixed income securities (incl. shares and other non fixed income securities)

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

This categorization is based on BLB rating.

5.6

2012	Cash reserves	Loans and advances to banks	Loans and advances to customers	Investment in debt securities*	Derivative assets	OFF B/S exposures
Aerospace	-	-	630	-	-	26
Automotive	-	-	57 582	-	-	12 755
Aviation	-	-	17 870	-	78	1 847
Banks	-	40 002	5 944	976	8 296	11 418
Chemicals	-	-	17 771	-	1	4 622
Construction	-	-	51 417	-	29	73 600
Consumer Durables	-	-	10 911	-	1	3 340
Defence	-	-	1	-	-	45
Food + Beverages	-	-	127 763	-	121	28 868
Gas	-	-	10 202	-	31	2 133
Health Care	-	-	6 029	-	-	2 924
Hotels	-	-	22 140	-	-	886
Insurance companies	-	-	513	-	-	873
Logistic	-	-	59 106	-	2 525	17 116
Manufactoring and Engineering	-	-	17 268	-	25	6 872
Media	-	-	7 975	-	-	3 845
Metals +Mining	-	-	8 235	-	1	2 929
Oil	-	-	15 426	-	-	24 905
Pharmaceuticals	-	-	13 614	-	158	9 838
Pulp + paper	-	-	13 294	-	-	480
Real Estate	-	-	724 414	-	9 423	4 255
Retail	-	-	47 765	-	7	26 746
Sovereigns	394 098	34 648	8 644	223 212	2	11 904
Steel	-	-	19 282	-	2	792
Technology	-	-	26 988	-	144	30 513
Telecom	-	-	3 117	-	-	20 013
Textiles + Apparel	-	-	10 380	-	3	1 553
Tourism	-	-	1 248	-	-	2 909
Utilities	-	-	47 905	-	-	35 381
Non profit organization	-	-	1 408	-	-	97
Without sector	19 692	6 734	5 545	5 042	42	5 498
Private	-	-	558 411	-	84	11 358
Total exposure	**413 790**	**81 384**	**1 918 798**	**229 230**	**20 973**	**360 341**

* Debt securities and other fixed income securities (incl. shares and other non fixed income securities)

Data in HUF million except stated otherwise

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

* Debt securities and other fixed income securities (incl. shares and other non fixed income securities)

d, Liquidity risk

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

Management of liquidity risk

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

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

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

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

Data in HUF million except stated otherwise

Contractual maturity of liabilities

5.7

2012	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	(21 835)	-	-	-	-	-	-
Amounts due to other banks	(674 216)	(852 620)	(26 381)	(10 227)	(227 118)	(467 831)	(121 063)
Deposits and current accounts	(1 389 037)	(1 453 687)	(844 303)	(283 833)	(261 197)	(58 371)	(5 983)
Issued debt securities	(170 246)	(168 415)	(3 759)	(11 191)	(24 138)	(129 327)	-
Subordinated debt	(101 642)	(122 190)	(62)	(548)	(3 547)	(86 876)	(31 157)
Derivative liabilities							
Trading: outflow	-	(277 113)	(58 232)	(20 755)	(97 779)	(90 014)	(10 333)
Trading: inflow	-	268 601	56 966	18 175	95 433	88 382	9 645
Risk management: outflow	-	(2 867)	-	(110)	-	(2 757)	-
Risk management: inflow	-	2 719	-	1	53	2 665	-
Loan commitments	-	(202 863)	(10 489)	(22 405)	(98 265)	(22 492)	(49 212)
Loans and advances	1 739 673	-	-	-	-	-	-

2 011	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	(33 463)	-	-	-	-	-	-
Amounts due to other banks	(977 326)	(1 372 980)	(112 661)	(21 052)	(293 353)	(655 776)	(290 138)
Deposits and current accounts	(1 463 472)	(1 536 607)	(924 351)	(319 801)	(235 637)	(56 540)	(278)
Issued debt securities	(171 145)	(174 412)	(16 266)	(9 106)	(62 855)	(86 184)	-
Subordinated debt	(108 486)	(139 724)	(150)	(606)	(4 707)	(35 013)	(99 248)
Derivative liabilities							
Trading: outflow	-	(454 564)	(175 543)	(100 893)	(111 197)	(41 694)	(25 238)
Trading: inflow	-	452 439	174 069	94 896	116 726	42 124	24 624
Risk management: outflow	-	(3 180)	-	(117)	-	(3 062)	-
Risk management: inflow	-	2 981	-	11	49	2 922	-
Loan commitments	-	(217 926)	(10 774)	(9 771)	(104 478)	(20 525)	(72 377)
Loans and advances	2 079 685	-	-	-	-	-	-

The above table shows the undiscounted cash flows on the Group's financial liabilities and loan commitments on the basis of their earliest possible maturity. The Gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a gross inflow and outflow amount for derivatives (e.g., forward exchange contracts and currency swaps).
The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and loan commitments are not all expected to be drawn down immediately. Due to the significant difference between the expected and the contractual cash-flows, the Group's risk management department use both analysis to manage liquidity risk. The expected, undiscounted cash-flows on the Group's financial liabilities were as follows:

Data in HUF million except stated otherwise

Expected maturity of liabilities

5.8

2012	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	(21 835)	-	-	-	-	-	-
Amounts due to other banks	(674 216)	(852 620)	(26 381)	(10 227)	(227 118)	(467 831)	(121 063)
Deposits and current accounts	(1 389 037)	(1 474 958)	(209 611)	(76 439)	(120 067)	(81 602)	(987 239)
Issued debt securities	(170 246)	(168 415)	(3 759)	(11 191)	(24 138)	(129 327)	-
Subordinated debt	(101 642)	(122 190)	(62)	(548)	(3 547)	(86 876)	(31 157)
Derivative liabilities							
Trading: outflow	-	(277 113)	(58 232)	(20 755)	(97 779)	(90 014)	(10 333)
Trading: inflow	-	268 601	56 966	18 175	95 433	88 382	9 645
Risk management: outflow	-	(2 867)	-	(110)	-	(2 757)	-
Risk management: inflow	-	2 719	-	1	53	2 665	-
Loan commitments	-	(44 630)	(44 630)	-	-	-	-
Loans and advances	1 739 673	-	-	-	-	-	-

2 011	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Trading liabilities	(33 463)	-	-	-	-	-	-
Amounts due to other banks	(977 326)	(1 372 356)	(112 661)	(21 489)	(295 411)	(652 658)	(290 138)
Deposits and current accounts	(1 463 472)	(1 559 800)	(118 146)	(51 271)	(41 072)	(15 713)	(1 333 598)
Issued debt securities	(171 145)	(174 412)	(16 266)	(9 106)	(62 855)	(86 184)	-
Subordinated debt	(108 486)	(139 724)	(150)	(606)	(4 707)	(35 013)	(99 248)
Derivative liabilities							
Trading: outflow	-	(454 564)	(175 543)	(100 893)	(111 197)	(41 694)	(25 238)
Trading: inflow	-	452 439	174 069	94 896	116 726	42 124	24 624
Risk management: outflow	-	(3 180)	-	(117)	-	(3 062)	-
Risk management: inflow	-	2 981	-	11	49	2 922	-
Loan commitments	-	(68 995)	(15 821)	(30 205)	(22 969)	-	-
Loans and advances	2 079 685	-	-	-	-	-	-

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

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

5.9

	2012		2011	
	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year
Loans and advances to banks	81 294	22	85 028	24
Loans and advances to customers	401 169	1 257 188	623 113	1 371 520
Trading assets	13 674	20 204	25 500	32 148
Investments in AFS securities	95 482	133 748	84 083	204 842

e, Market risk

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

Management of market risks

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

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

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

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

Trading portfolios include those positions arising from market-making, customer business driven proprietary position-taking and other marked-to-market positions as designated. According to the risk strategy of the Group there is no own account activity (proprietary trading) with the purpose of short term profit arising from market changes. Trading activities include transactions with debt and equity securities, foreign currencies, and derivative financial instruments.

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

Exposure to market risks – trading portfolios

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

- Product volume limits define maximum aggregate amounts of trading products and contracts that the Group may hold at any time.
- FX position limits restrict the long and short position for each currency and the total net amounts of FX positions that can be held in the trading and banking books.
- VaR limits: The VaR limit of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified period of time (holding period) from an

Data in HUF million except stated otherwise

adverse market movement with a specified probability (confidence level). MKB Group applies parametric VaR method with 1-day holding period at 99% confidence level with 0.94 decay factor, and with an observation period of 187 business days.

- PLA (Potential Loss Amounts) limits define maximum amount of loss that the Group is willing to assume.

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

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

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

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

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

5.10

2012	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	519	1 396	294	5 415
Interest rate risk	442	1 027	96	-
Equity risk	8	13	-	-
Overall market risk of trading book	**969**	**2 436**	**390**	**5 415**
Credit spread risk of trading book	865	1 226	652	-

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

Important notes in connection with the table above:

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

A potential adverse 15% change in the fx rates (HUF appreciation for long position and HUF depreciation for short position) would cause HUF 5 415 M losses based on the end of year fx open position (majority of the fx position arising from foreign investments, end of the year provision is not taken into account).

Exposure to interest rate risk – non-trading portfolios

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

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

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

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

5.11

As at 31 December 2012

Fixed rate instruments	in HUF millions
Financial assets	657 731
Financial liabilities	(1 147 784)
Total fixed rate instruments	**(490 053)**

Variable rate instruments	Denominated in				
	HUF	CHF	EUR	USD	Other currencies
Financial assets	539 723	445 866	978 776	29 739	92 295
Financial liabilities	(395 501)	(329 426)	(563 322)	(49 073)	(16 019)
Total variable rate financial instruments	**144 222**	**116 440**	**415 454**	**(19 334)**	**76 276**

As at 31 December 2011

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

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

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

5.12

As at 31 December 2012

	Effect on equity	Effect on P/L
HUF		
200 bp increase	623	941
200 bp decrease	(614)	1 039
CHF		
200 bp increase	(105)	1 019
200 bp decrease	(3)	(2 442)
EUR		
200 bp increase	27	(356)
200 bp decrease	(89)	(246)
USD		
200 bp increase	178	(9)
200 bp decrease	(59)	1 132
Other currencies		
200 bp increase	926	(398)
200 bp decrease	(826)	2 130

Data in HUF million except stated otherwise

As at 31 December 2011

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

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

5.13

Effect of credit risk changes of liabilities measured at Fair Value Through Profit or Loss	2012	2011
Changes during the reporting period	(1 942)	2
Changes cumulatively (since designation of the financial liabilities)	(2 396)	(454)
Difference between the financial liability's carrying amount and the amount contractually required to pay at maturity	(4 562)	(7 272)
Total	**(8 900)**	**(7 724)**

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

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

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

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

Exposure to other market risks – non-trading portfolios

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

5.14

2012	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Financial assets except for derivatives	1 002 639	40 719	960 745	392 963	182 107	2 579 173
Financial liabilities except for derivatives	1 086 606	167 195	866 887	311 327	147 158	2 579 173
Net derivative and spot instruments (short) / long position	54 093	126 580	(99 236)	(84 777)	3 340	-
Total net currency positions	**(29 874)**	**104**	**(5 378)**	**(3 141)**	**38 289**	**-**

2011	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Financial assets except for derivatives	1 013 732	49 451	1 123 675	563 947	193 156	2 943 961
Financial liabilities except for derivatives	1 147 615	177 598	962 667	517 077	139 004	2 943 961
Net derivative and spot instruments (short) / long position	124 557	125 777	(172 976)	(47 252)	(30 106)	-
Total net currency positions	**(9 326)**	**(2 370)**	**(11 968)**	**(382)**	**24 046**	**-**

f) Credit spread risk

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

Managing and monitoring credit spread risk

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

Risk measurement

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

g, Operational risks

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

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

Procedure

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

Risk measurement

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

Risk management and monitoring

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

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

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

Risk management methods and tools

Loss data collection

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

OpRisk Self-Assessment – ORSA

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

Key Risk Indicators - KRIs

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

Business Continuity Planning

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

Membership of the Hungarian Interbank Operational Risk Database (HunOR)

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

h, Capital management

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

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

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

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

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

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

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

Capital allocation

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

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

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

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

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

Basel II

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

Basel II provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The most basic, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories. The next level, the internal ratings-based (‘IRBF’) foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of the probability that a counterparty will default (‘PD’), but with quantification of exposure at default (‘EAD’) and loss given default estimates (‘LGD’) of wholesale exposures are subject to standard supervisory parameters, while in case of retail exposure own estimated LGD is to be used. Finally, the IRB advanced approach allows banks to use their own internal assessment of not only PD but also the quantification of EAD and LGD. Expected losses are calculated by multiplying EAD by PD and LGD. The capital requirement under the IRB approaches is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.

For credit risk, the Group has adopted the standardised approach to Basel II with effect from 1 January 2008. A rollout plan is in place to advance to IRBF approach over the next three years. During 2011 the Bank has finished the preparing process for IRB implementation and the Bank has achieved the readiness.

Basel II also introduces capital requirements for operational risk and, again, contains three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardized approach it is one of three different percentages of gross revenues allocated to each of eight defined business lines. Finally, the advanced measurement approach uses banks’ own statistical analysis and modelling of operational risk data to determine capital requirements. The Group currently has adopted the standardized approach to the determination of Group operational risk capital requirements.

Data in HUF million except stated otherwise

5.15

	2012 Basel II	2011 Basel II after capital increase	2011 Basel II before capital increase
Share capital	108 936	82 733	20 733
Nominal value of repurchased own shares	-	-	-
Issued, but unpaid	-	-	-
Outstanding share capital	*108 936*	*82 733*	*20 733*
General reserves	10 217	62 410	62 410
Intangible assets	(20 484)	(24 827)	(24 827)
Reserve for general banking risk	1 074	1 340	1 340
Tier 1: Net core capital	**99 743**	**121 656**	**59 656**
Considerable subordinated debt	49 872	60 828	29 828
Revaluation reserves	2 353	55	55
Difference from capital consolidation	715	715	715
Tier 2: Supplementary capital	**52 940**	**61 598**	**30 598**
Other deductions	(110)	(110)	(17 787)
Participations in financial institutions	(1 610)	(1 773)	(1 773)
Unused subordinated loan for market risk	3 048	6 523	6 523
Regulatory capital	**154 011**	**187 894**	**77 218**
Risk-weighted assets (RWA)	1 454 927	1 726 412	1 726 412
Operational risk (OR)	219 775	232 138	232 138
Market risk positions (MR)	57 153	122 312	122 312
Total risk weighted assets (RWA +12.5*(MR+OR))	**1 731 855**	**2 080 862**	**2 080 862**
Regulatory capital / Total assets	5,97%	6,38%	2,62%
Capital adequacy ratio	**9,20%**	**9,59%**	**3,94%**
Capital adequacy ratio (including market risk)	**8,89%**	**9,03%**	**3,71%**

The main owner of the MKB, The Bayern LB with strong capital background contributes to its safety, promotes customer confidence, and helps the Bank to manage the negative effects on its profitability which come from macroeconomic turbulences. In case of additional capital needs the owners provide the capital needs in from of capital injection based on unique decision.

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

- Credit concentration risk

Data in HUF million except stated otherwise

- Participation risk
- Country risk
- Non-trading book interest rate risk (Banking book interest rate risk)
- Settlement risk
- Reputation risk
- Liquidity financing risk
- Strategic risk
- Risk derived from other assets

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

During 2011 the Bank has prepared a monitoring system which is based on Basel3 requirements.

The Group's Asset and Liability Management Committee (ALCO) has the overall responsibility for managing capital adequacy ratio of the Group. Besides this the Group is required to disclose capital adequacy ratio to the Hungarian Financial Supervisory Authority. The Group has its own capital management system which is able to report on a daily base towards ALCO.

The BayernLB has increased the issued capital with HUF 36.3 billion which was completed on 21th of February, 2013.

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

6 Cash reserves

6.1

	2012	2011
Cash and balances with Central Banks	78 336	74 386
Treasury bills and Bonds issued by Central Banks	335 454	247 291
Cash reserves	**413 790**	**321 677**

The Group is required to maintain a minimum reserve with the National Bank of Hungary (NBH) equivalent to 5% (2011: 3%) of certain deposits. The balance of the minimum reserve, in line with the prescription of NBH, is based on the balance at the end of October of these deposit accounts and amounted to HUF 60,311 million as at 31 December 2012 (2011: HUF 38,469 million). At 31 December 2012, cash on hand amounted to HUF 50,939 million (2011: HUF 49,108 million).

Data in HUF million except stated otherwise

7 Loans and advances to banks

7.1

	2012	2011
Current and clearing accounts	13 788	8 550
Money market placements	17 844	23 656
Loans and advances	49 752	52 977
Less collective allowances for impairment	(68)	(131)
Loans and advances to banks	**81 316**	**85 052**

Collective allowances for impairment

Balance at 1 January	**(131)**	**(447)**
Impairment loss for the year:		
Charge for the year	(49)	(102)
Reversal	100	429
Effect of foreign currency movements	12	(11)
Unwinding of discount	-	-
Reclassification	-	-
Write-offs	-	-
Balance at 31 December	**(68)**	**(131)**

From the balance of Current and clearing accounts, HUF 3,559 million (2011: 521 million) was due from BayernLB and was granted at market rate.

Data in HUF million except stated otherwise

8 Trading assets

8.1

	2012 Cost	2012 Unrealised result	2012 Book value	2011 Cost	2011 Unrealised result	2011 Book value
Debt and equity instruments						
Government Treasury bills	3 086	9	3 095	6 361	-	6 361
Government bonds	6 786	319	7 105	24 530	(457)	24 073
Hungarian corporate sector bonds	2 388	109	2 497	2 790	296	3 086
Foreign corporate sector bonds	-	-	-	769	34	803
Hungarian equities	208	-	208	547	(8)	539
Foreign equities	-	-	-	-	-	-
Total debt and equity instruments	**12 468**	**437**	**12 905**	**34 997**	**(135)**	**34 862**
Derivative instruments by type						
FX-based derivatives instruments	-	4 383	4 383	-	8 802	8 802
Index-based derivative instruments	-	13	13	-	7	7
Interest-based derivative instruments	-	14 978	14 978	-	12 171	12 171
Options	2 304	(705)	1 599	1 958	(152)	1 806
Total derivative instruments	**2 304**	**18 669**	**20 973**	**1 958**	**20 828**	**22 786**
Total trading assets	**14 772**	**19 106**	**33 878**	**36 955**	**20 693**	**57 648**

9 Micro hedge derivative assets held for risk management

Fair value hedges of interest rate risk

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

Other derivatives held for risk management

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, and options. The positive fair values of those derivatives are shown in the table above and the negative fair values are presented in Note 17.

Data in HUF million except stated otherwise

10 Investments in securities

10.1

	2012	2011
Available-for-sale		
Hungarian Government bonds	211 749	273 582
Hungarian corporate sector bonds	2 832	6 066
Foreign Government bonds	13 678	5 525
Foreign corporate sector bonds	922	4 765
Hungarian equities	-	-
Foreign equities	87	92
Less specific allowances for impairment	(38)	(1 105)
Investment in securities	**229 230**	**288 925**
Specific allowances for impairment		
Balance at 1 January	(1 105)	(222)
Impairment loss for the year:		
Charge for the year	(33)	(883)
Reversal	878	-
Utilisation	222	-
Effect of foreign currency movements	-	-
Unwinding of discount	-	-
Write-offs	-	-
Balance at 31 December	**(38)**	**(1 105)**

At 31 December 2012, HUF 105,224 million (2011: HUF 74,409 million) from the total amount of Investments in securities were pledged as collateral for stock exchange and credit card transactions in the ordinary course of business.

The total revaluation effect excluding deferred taxes in equity comprises HUF 2,008 million gain (2011: HUF 12,397 million loss) and HUF NIL million deferred tax asset and HUF 16 million deferred tax liability (2011: NIL deferred tax asset and NIL deferred tax liability).

In 2012 HUF 388 million gain was recognized in the income statement relating to AFS securities, which is a reclassification from other comprehensive income into profit or loss.

Due to the downgrading of Hungary by rating companies at the end of November, 2011 the market prices of government issued securities dropped. In line with accounting policy (see Note 4.l) impairment was recognized on government bonds up to the level of nominal amount, and amounted to HUF 883 million. Due to the favourable market environment in 2012 the total amount of impairment was reversed at the end of the reporting period.

Data in HUF million except stated otherwise

As at 31 December 2012, the carrying amount, the fair value and the amortized cost of all investments in debt instruments (included either in cash reserves or investments in securities), other than those classified as FVTPL are as follows:

10.2

2012	Carrying amount	Fair value	Amortized cost
Investments in debt instruments classified as:			
Loans and receivables	-	-	-
Held-to-maturity investments	-	-	-
AFS financial assets	564 597	564 597	562 728
Total	**564 597**	**564 597**	**562 728**

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

Data in HUF million except stated otherwise

11 Loans and advances to customers

Loans and advances to customers at amortised cost

11.1

2012	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate				
Overdrafts	67 248	(2 121)	(476)	64 652
Trading and industrial	314 602	(26 787)	(2 057)	285 758
Real estate	676 059	(83 399)	(3 179)	589 480
Total corporate	**1 057 909**	**(112 307)**	**(5 712)**	**939 890**
Small- and medium sized enterprises (SME)				
Overdrafts	26 960	(4 845)	(185)	21 929
Trading and industrial	173 724	(66 765)	(767)	106 192
Real estate	16 505	(7 482)	(10)	9 014
Credit card	6 611	(436)	(57)	6 118
Total SME	**223 800**	**(79 528)**	**(1 019)**	**143 253**
Retail				
Overdrafts	16 956	(3 935)	(1 423)	11 598
Residental mortgage	462 618	(3 265)	(27 364)	431 989
Credit card	18 540	(48)	(641)	17 852
Personal	1 501	-	(415)	1 086
Employees	9 369	-	(25)	9 344
Trading and industrial	128 104	(19 107)	(5 651)	103 345
Total retail	**637 088**	**(26 355)**	**(35 519)**	**575 214**
Loans and advances to customers	**1 918 797**	**(218 190)**	**(42 250)**	**1 658 357**

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

Data in HUF million except stated otherwise

Collective impairment contains incurred but not reported loss and other portfolio based provisions.

Allowances for impairment

11.2

	2012	2011
Specific allowances for impairment on loans and advances to customers		
Balance at 1 January	221 999	169 175
Impairment loss for the year:		
Charge for the year	83 662	119 467
Reversal	(24 539)	(33 991)
Utilisation	(43 136)	(25 848)
Recoveries	*8 538*	*4 316*
Effect of foreign currency movements	(7 303)	9 932
Unwinding of discount	(8 727)	(8 842)
Reclassification	349	327
Discontinued operation	(4 115)	(8 221)
Balance at 31 December	**218 190**	**221 999**
Collective allowances for impairment on loans and advances to customers		
Balance at 1 January	27 275	30 379
Impairment loss for the year:		
Charge for the year	24 951	11 301
Reversal	(7 149)	(8 442)
Utilisation	(1 238)	(2 940)
Effect of foreign currency movements	(1 159)	1 610
Unwinding of discount	-	-
Reclassification	(350)	(16)
Discontinued operation	(80)	(4 617)
Balance at 31 December	**42 250**	**27 275**

Data in HUF million except stated otherwise

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

11.3

Sectors 2012	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Real Estate	724 414	(105 142)	(3 671)	615 601
Food + Beverages	127 763	(19 981)	(668)	107 114
Financial services	5 944	(538)	(53)	5 352
Construction	51 416	(13 751)	(823)	36 843
Trade and sevices	47 765	(7 034)	(413)	40 318
Logistics	59 106	(4 362)	(442)	54 301
Utilities	47 905	(3 590)	(190)	44 125
Automotive	57 582	(5 010)	(401)	52 171
Oil and gas	25 628	(1 309)	(157)	24 163
Technology	26 988	(5 209)	(535)	21 245
Metals +Mining	8 235	(1 763)	(35)	6 437
Hotels	22 140	(4 607)	(155)	17 378
Non profit organizations	1 408	(17)	(10)	1 381
Chemicals	17 771	(4 620)	(52)	13 099
Manufactoring and Engineering	17 268	(4 278)	(81)	12 909
Sovereigns	8 644	(129)	(67)	8 448
Consumer Durables	10 910	(2 029)	(97)	8 784
Media	7 975	(1 561)	(95)	6 319
Telecom	3 117	(1 273)	(62)	1 782
Pharmaceuticals	13 614	(293)	(1 780)	11 541
Textiles + Apparel	10 380	(2 839)	(78)	7 462
Pulp + paper	13 294	(1 146)	(85)	12 063
Other	51 120	(12 875)	(240)	38 004
Private	558 411	(14 834)	(32 060)	511 517
Loans and advances to customers	**1 918 798**	**(218 190)**	**(42 250)**	**1 658 357**
Assets from discounted operations	40 262	(6 781)	(7 438)	26 043

Data in HUF million except stated otherwise

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

At 31 December 2012 the carrying amount of loans designated as hedged item in a fair value hedge relationship was HUF 2,766 million, while their amortised cost amounted to HUF 2,647 million.

Finance lease receivables

As part of its financing activities, the Group enters into finance lease transactions as a lessor. At December 31, 2012 and 2011, the reconciliation of the Group's gross investment in the lease, and the net present value of minimum lease payments receivable by relevant remaining maturity periods are as follows:

11.4

2012	up to 1 year	1 year to 5 years	over 5 years	Total
Gross investment in the lease	11 346	15 367	953	27 666
Unearned finance income	(2 011)	(2 818)	(136)	(4 965)
Present value of minimum lease payments	9 335	12 549	817	22 701
Accumulated allowance for uncollectible minimum lease payments	-	-	-	-
Finance leases as per balance sheet date	**9 335**	**12 549**	**817**	**22 701**

Data in HUF million except stated otherwise

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

From discontinued operation:

2 012	up to 1 year	1 year to 5 years	over 5 years	Total
Gross investment in the lease	6 236	858	163	7 257
Unearned finance income	(109)	(179)	(9)	(297)
Present value of minimum lease payments	6 127	679	154	6 960
Accumulated allowance for uncollectible minimum lease payments	(4 877)	(46)	(6)	(4 929)
Finance leases as per balance sheet date	**1 250**	**633**	**148**	**2 031**

In 2012, HUF 902 million contingent rents which are based on a future amount of a factor that changes (eg. inflation) were recognized in finance income (2011: HUF 548 million), and unguaranteed residual value amounted to HUF 580 million (2011: HUF 421 million).

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

Data in HUF million except stated otherwise

12 Other assets

12.1

	2012	2011
Prepayments and other debtors	8 638	18 486
Inventory	755	1 697
Collaterals held in possession	7 569	14 618
Corporate income tax refundable	81	38
Other taxes refundable	357	751
Specific allowances for impairment	(1 324)	(2 909)
Other assets	**16 076**	**32 681**

Specific allowances for impairment

Balance at 1 January	(2 909)	(1 348)
Impairment loss for the year:		
Charge for the year	(526)	(1 830)
Reversal	-	8
Utilization	2 125	-
Effect of foreign currency movements	(14)	(14)
Unwinding of discount	-	-
Reclassification	-	273
Balance at 31 December	**(1 324)**	**(2 909)**

At 31 December 2012, the net carrying amount of non – current assets, which have been acquired through enforcement of security over loans and advances amounted to HUF 6,251 million (2011: HUF 11,737). The disclosed specific allowances contain mainly the relating impairment.

13 Investments in jointly controlled entities and associates

13.1

	2012	2011
Cost	13 629	13 590
Goodwill arising on acquisition	1 528	1 528
Goodwill impairment	(1 528)	(1 528)
Share of post acquisition reserves	(4 415)	(3 603)
Investments in jointly controlled entities and associates	**7 686**	**8 459**

Data in HUF million except stated otherwise

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

13.2

	MKB Euroleasing Zrt.	MKB Euroleasing Autópark Zrt.	Ercorner Kft.	GIRO Zrt.	Pannonhalmi Apátsági Pincészet Kft	MKB Általános Biztosító Zrt.	MKB Életbiztosító Zrt.	MKB Autopark OOD
General data								
Ownership (%)	50,00%	49,99%	50,00%	22,19%	45,48%	37,50%	37,47%	49,99%
Involvement	equity	equity	equity	equity	equity	equity	equity	equity
Financial data								
Current assets	938	7 760	2	3 885	248	2 171	9 164	1 221
Non-current assets	9 374	19 447	10 105	3 678	1 159	151	63	3 536
Total assets	**10 312**	**27 208**	**10 107**	**7 563**	**1 407**	**2 321**	**9 227**	**4 757**
Current liabilities	1 608	13 451	7 499	244	478	91	13	139
Non-current liabilities	7	13 518	-	-	45	1 040	8 031	4 597
Total liabilities	**1 615**	**26 969**	**7 499**	**244**	**523**	**1 131**	**8 044**	**4 736**
Equity	**8 697**	**239**	**2 608**	**7 319**	**884**	**1 190**	**1 183**	**21**
Revenues	346	13 352	1	4 698	227	1 487	3 897	1 445
Expenses	1 125	13 244	195	3 298	251	2 194	4 255	1 440
Profit / (Loss)	**(773)**	**140**	**(194)**	**1 197**	**(24)**	**(707)**	**(358)**	**7**

Data in HUF million except stated otherwise

14 Intangibles, property and equipment

14.1

2012	Intangible assets	Freehold property	Investment property	Equipment	Total
Cost					
Balance at 1 January	49 310	49 909	-	32 653	131 872
Additions – including internally developed	3 593	2 414	-	1 354	7 361
Other additions	-	-	3 247	-	3 247
Disposals	(5 876)	(2 746)	-	(3 527)	(12 149)
Effect of movements in exchange rates	(72)	(8)	-	(192)	(272)
Balance at 31 December	**46 955**	**49 569**	**3 247**	**30 288**	**130 059**
Depreciation and impairment losses					
Balance at 1 January	26 430	8 639	-	19 885	54 954
Depreciation and amortization for the year	2 973	1 658	-	2 960	7 591
Impairment loss	3 482	767	-	1 140	5 389
Reversal of impairment loss	-	-	-	-	-
Disposals	(5 002)	(1 668)	-	(3 292)	(9 962)
Effect of movements in exchange rates	(21)	(2)	-	(124)	(147)
Balance at 31 December	**27 862**	**9 394**	**-**	**20 569**	**57 825**
Carrying amounts					
At 1 January	22 880	41 270	-	12 768	76 918
Balance at 31 December	**19 093**	**40 175**	**3 247**	**9 719**	**72 234**

Data in HUF million except stated otherwise

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

Depreciation and amortization is presented among the Operating expenses.

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

According to these calculations, a total impairment of HUF 3,230 million for the Group's software assets had to be accounted for as at 2012 year-end.

Besides the above, as part of its normal annual closing process of the Group also revised the useful economic lives of all assets at 2012 year-end. According to this revision, additional impairments of HUF 252 million (2011: HUF 2,980 million), HUF 767 million (2011: HUF 302 million) and HUF 1,140 million (2011: HUF 3 million) were necessary for Intangible assets, freehold properties and Equipment, respectively. These figures include also the cost of restructuring, which amounted to HUF 1,520 million.

Data in HUF million except stated otherwise

In December, 2012 the Group acquired a hotel for investment purpose and entered in operating lease as a lessor. The Group intend to held this property to earn rentals and for capital appreciation.

The fair value of the investment was HUF 3,247 million, which is based on a valuation by an independent valuer, who holds a recognized and relevant professional qualification and experiences.

Based on the Group Accounting policies investment properties are measured at using Cost model. (see Note 4.e) The reconciliation of the carrying amount at the beginning and end of period is disclosed in Table 14.1.

Aggregated rental incomes under operating leases by relevant remaining maturity periods are as follows:

14.2

2012	up to 1 year	1 year to 5 years	over 5 years	Total
Minimum lease payments	342	114	228	684
Non-cancellable operating leases	**342**	**114**	**228**	**684**

No contingent rent was recognized during the year.

The contracted original maturity is three years which can be extended by additional -three years. The rental fee is sum of a fixed fee plus a floating fee which calculation is based on the net operating result of the Hotel as at the year-end decreased by the paid rental fee for the year. As the expected floating fee is not material compared to the fixed fee, the Bank cannot be regarded as direct investor. The Group pays some direct costs of the property which does not generate rental income, but it is expensed to the lessor.

HUF 1.5 million rental incomes was recognized in profit or loss from the investment property, and HUF NIL million direct operating expenses emerged in the reporting period.

15 Amounts due to other banks

15.1

	2012	2011
Due on demand	2 194	3 567
Money market deposits	368 667	627 279
Borrowings	303 355	346 480
Amounts due to other banks	**674 216**	**977 326**

Data in HUF million except stated otherwise

16 Deposits and current accounts

16.1

	2012	2011
From corporate clients	591 974	628 910
From retail clients	797 063	834 562
Deposits and current accounts	**1 389 037**	**1 463 472**

As at 31 December 2012, from the amount of current and deposit accounts, HUF 34,238 million (2011: HUF 28,832 million) has been measured as a fair value through profit or loss.

Finance leases as a lessee

As part of its business activities, the Group enters into finance lease transactions as a lessee. At 31 December 2012 and 2011, the reconciliation of the Group's future minimum lease payments at the end of the reporting period and their present value by relevant remaining maturity periods was the following:

16.2

2012	up to 1 year	1 year to 5 years	over 5 years	Total
Future minimum lease payments	1 885	7 578	25 817	35 280
Unpaid finance expense	(1 385)	(5 856)	(20 912)	(28 153)
Present value of minimum lease payments	**500**	**1 722**	**4 905**	**7 127**
Finance leases as a lessee	**500**	**1 722**	**4 905**	**7 127**

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

Data in HUF million except stated otherwise

From discontinued operation:

2012	up to 1 year	1 year to 5 years	over 5 years	Total
Future minimum lease payments	22	6	-	28
Unpaid finance expence	(21)	(6)	-	(27)
Present value of minimum lease payments	**1**	**-**	**-**	**1**
Finance leases as a lessee	**1**	**-**	**-**	**1**

In 2012, the net carrying amount of the leased office equipment amounted to HUF NIL million at the end of the reporting period (2011: HUF 232 million), and the net carrying amount of the lands and buildings used by the reporting entity was HUF 6,961 million (2011: HUF 7,404 million).

17 Trading liabilities

17.1

	2012			2011		
	Cost	Unrealised result	Book value	Cost	Unrealised result	Book value
Derivative instruments by type						
FX-based derivatives instruments	-	3 520	3 520	-	15 090	15 090
Index-based derivative instruments	-	4	4	-	10	10
Interest-based derivative instruments	-	14 931	14 931	-	12 517	12 517
Credit default swaps	52	323	375	52	422	474
Options	99	2 905	3 005	324	5 048	5 372
Total derivative instruments	**151**	**21 683**	**21 835**	**376**	**33 087**	**33 463**
Total trading liabilities	**151**	**21 683**	**21 835**	**376**	**33 087**	**33 463**

18 Derivative liabilities held for risk management

18.1

	2012			2011		
	Cost	Accumulated unrealised result	Book value	Cost	Accumulated unrealised result	Book value
FX-based derivatives instruments	-	-	-	-	-	-
Interest-based derivative instruments	-	214	214	-	262	262
Derivatives held for risk management	**-**	**214**	**214**	**-**	**262**	**262**

The Bank designates Interest Rate Swaps as hedging instruments for hedging interest risks.

For more information see Note 11 and Note 29. The group has no cash flow hedges.

Data in HUF million except stated otherwise

19 Other liabilities and provision

19.1

	2012	2011
Accruals and other creditors	16 830	21 533
Corporate income tax payable	-	-
Other taxes payable	1 374	1 600
Dividends payable	-	-
Provision for contingencies and commitments	9 303	7 723
Other liabilities and provisions	**27 507**	**30 856**

Provision for contingencies and commitments

19.2

	2012	2011
Balance at 1 January	7 723	6 090
Provisions set up during the year	7 253	5 963
Provisions used during the year	-	(47)
Provisions reversed during the year	(5 662)	(4 343)
Effect of foreign currency movements	(172)	185
Unwinding of discount	-	-
Discontinued operations	-	(125)
Balance at 31 December	**9 142**	**7 723**

Provisions recognized for different type of products are disclosed in Note 35.

Provision of Restructuring amounted to HUF 161 million is not included in Table 20.2 as the movement of this item is disclosed as Restructuring expenses. (see Note 30)

Data in HUF million except stated otherwise

Operating lease as a lessee

The Group leases some of its branches in the form of operating lease. At 31 December 2012 and 2011, the total amount of future minimum lease payments under non-cancellable operating leases by relevant remaining period was the following:

19.3

2012	up to 1 year	1 year to 5 years	over 5 years	Total
Minimum lease payments	1 789	3 325	4 371	9 485
Non-cancellable operating leases	**1 789**	**3 325**	**4 371**	**9 485**

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

From discontinued operation:

2 012	up to 1 year	1 year to 5 years	over 5 years	Total
Minimum lease payments	15	-	-	15
Non-cancellable operating leases	**15**	**-**	**-**	**15**

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

In 2012, lease and sublease payments were recognised as an expense in the period amounted to HUF 2,042 million (2011: HUF 3,043 million). Furthermore no contingent rents (2011: NIL) and no sublease payments were recognised.

The leasing contracts original maturity ranges from 1 year to 10 years. The contracted lease payments are usually linked to the customer price index. There are no purchase options or restrictions.

Data in HUF million except stated otherwise

20 Issued debt securities

20.1

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2012	Carrying amount 2011
MKB ÁRFOLYAMSÁV	Structured	558	6.02.2012	6.02.2013	No	552	-
MKB ÁRFOLYAMSÁV EUR/USD	Structured	851	11.07.2012	11.07.2014	No	827	-
MKB ÁRFOLYAMSÁV PLUSZ	Structured	1 404	5.03.2012	13.03.2013	No	1 446	-
MKB DEV.IND. EUR	Structured	13 187	21.03.2011	21.03.2013	No	11 683	11 337
MKB EURO FIX 2013 4%	Fixed rate	3 204	9.12.2010	9.12.2013	No	3 155	-
MKB FIX 2013	Fixed rate	3 000	15.02.2006	15.02.2013	Yes (BÉT)	330	310
MKB FIX 2016	Fixed rate	3 000	15.02.2006	15.02.2016	Yes (BÉT)	-	93
MKB FIX 5X5% EUR	Fixed rate	3 902	18.11.2011	18.11.2016	No	3 898	4 098
MKB FPIK	Structured	401	26.04.2010	2.05.2013	No	351	831
MKB FPIK EUR	Structured	225	19.11.2010	24.11.2014	No	211	-
MKB FPIK IND.20150402 KÖTVÉNY	Structured	578	1.04.2011	2.04.2015	No	507	-
MKB GLOBÁLIS RÉSZV. IND. HUF	Structured	359	9.07.2012	14.07.2014	No	357	-
MKB GLOBÁLIS RÉSZV.IND. EUR	Structured	996	15.06.2012	18.06.2015	No	1 034	-
MKB IX KÖTVÉNY	Floating rate	23 482	30.08.2012	29.10.2015	Yes (BÉT)	23 310	-
MKB KISZÁMÍTHATÓ	Fixed rate	7 119	20.06.2011	8.01.2013	No	7 099	21 135
MKB KISZÁMÍTHATÓ EURO	Fixed rate	13 275	20.06.2011	8.01.2013	No	13 220	4 479
MKB KISZÁMÍTHATÓ HUF	Fixed rate	872	26.07.2011	5.02.2013	No	871	-
MKB KISZÁMÍTHATÓ USD	Fixed rate	4 490	1.08.2012	25.02.2014	No	4 488	-
MKB NÉMET RÉSZV.IND.EUR	Structured	1 315	30.03.2012	1.04.2015	No	1 334	-
MKB ÖTÖSFOGAT RÉSZV.IND.	Structured	968	13.11.2012	18.05.2015	No	949	-
MKB RÉSZV. IND. EUR	Structured	2 009	7.03.2011	12.03.2015	No	1 892	-
MKB TARTÓS KAMATELŐNY 2013/2015	Fixed rate	12 300	20.04.2010	17.12.2013	Yes (BÉT)	12 295	10 789
MKB USD FIX	Fixed rate	1 195	24.09.2012	24.09.2013	No	1 195	1 229
MKB VI. KÖTVÉNY	Floating rate	24 999	04.11.2010	19.12.2014	Yes (BÉT)	24 913	8 706
MKB VII. KÖTVÉNY	Floating rate	12 776	04.11.2010	16.12.2016	Yes (BÉT)	12 709	8 381
MKB VIII KÖTVÉNY	Floating rate	26 000	05.10.2011	10.10.2014	Yes (BÉT)	25 697	19 842
MKB X KÖTVÉNY	Floating rate	2 500	04.12.2012	16.03.2016	Yes (BÉT)	2 340	-
MKB D130201	Zero Coupon Bond	3 000	29.06.2012	1.02.2013	No	2 969	-
MKB D130606	Zero Coupon Bond	4 000	10.10.2012	6.06.2013	No	3 772	-
MKB EUR D130904	Zero Coupon Bond	1 165	10.09.2012	4.09.2013	No	158	-
Accrued interest of the bonds						2 256	2 746
MKB Unionbank AD		2 234	N.A.	N.A.	No	4 363	4 659
Accrued interest of the bonds issued by subsidiaries						65	69
MKB Bonds matured in 2012							72 441
Issued debt securities	-	175 363	-	-	-	170 246	171 145

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

The Group use fair value revaluation through profit or loss for structured bonds, as they are related to assets, which share the same risk that give rise to opposite changes in fair value. At 31 December 2012 the carrying amount of FVTPL own issued bonds amounted to HUF 21,364 million (2011: HUF 23,143 million).

Data in HUF million except stated otherwise

21 Subordinated debt

21.1

2012	Borrowed on	Amount in original currency	Original currency	Interest	Due date	Listed	Carrying amount
Subordinated loans from the shareholders							
BAYERISCHE LANDESBANK	30.10.2002	50 000 000	EUR	6M EURIBOR+3.12%	30.10.2017	No	14 654
BAYERISCHE LANDESBANK	10.06.2005	45 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	13 109
BAYERISCHE LANDESBANK	21.10.2008	50 000 000	EUR	6M EURIBOR+5%	22.10.2018	No	14 704
BAYERISCHE LANDESBANK	24.11.2010	5 000 000	EUR	6M EURIBOR+5.5%	24.11.2020	No	1 463
BAYERISCHE LANDESBANK	13.12.2011	148 224 000	CHF	3M CHFIBOR+6.27%	31.07.2017	No	35 824
Subordinated notes issued							
BAYERISCHE LANDESBANK	31.07.2007	75 000 000	EUR	3M EURIBOR+0.92%	31.07.2017	No	21 888
Subordinated debt							**101 642**

2011	Borrowed on	Amount in original currency	Original currency	Interest	Due date	Listed	Carrying amount
Subordinated loans from the shareholders							
BAYERISCHE LANDESBANK	30.10.2002	50 000 000	EUR	6M EURIBOR+3.12%	30.10.2017	No	15 688
BAYERISCHE LANDESBANK	10.06.2005	45 000 000	EUR	6M EURIBOR+1.5%	15.06.2015	No	14 003
BAYERISCHE LANDESBANK	21.10.2008	50 000 000	EUR	6M EURIBOR+5%	22.10.2018	No	15 750
BAYERISCHE LANDESBANK	24.11.2010	5 000 000	EUR	6M EURIBOR+5.5%	24.11.2020	No	1 566
BAYERISCHE LANDESBANK	13.12.2011	148 224 000	CHF	3M CHFIBOR+6.27%	31.07.2017	No	38 045
Subordinated notes issued							
BAYERISCHE LANDESBANK	31.07.2007	75 000 000	EUR	3M EURIBOR+0.92%	31.07.2017	No	23 434
Subordinated debt							**108 486**

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

22 Share capital and share premium

The Bank’s authorised, issued, called up and fully paid share capital comprises 108,936,494 (2011: 20,732,902) ordinary shares of HUF 1,000 (2011: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

During March, 2012, the shareholders increased the Bank’s share capital by HUF 23,203.592 million with nominal amount HUF 1,000 per share at the price of HUF 2,672. The premium was accounted for against share premium in an amount of HUF 38,797 million.

During October and November, 2012, the shareholders increased the Bank’s share capital by HUF 35,000 million and HUF 30,000 million with nominal amount HUF 1,000 per share at the price of HUF 1,000.

23 Reserves

Currency translation reserve

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

Share premium

Share premium comprises of premiums on share capital issuances.

Retained Earnings

Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entities of the Group less any dividend payment. The Group includes entities which employees have dividend preferential shares, which do not enable them to exercise any owner's right. Dividend payment for these shares decreased the Retained Earnings of the Group, and amounted to HUF 37 million in 2012.
There is no available Retained Earnings for distribution for the parent of the holding company.

General reserve

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

The Group discloses general reserve as part of retained earnings. In 2012 MKB recognized as general reserve of NIL (2011: NIL).
General reserve set aside by foreign entities domiciled in Romania amounted to HUF 1,544 million (2011: HUF 1,529 million). In 2012 there were NIL (2011: NIL) general reserve recognized. In Bulgaria there was NIL general reserve recognized.

Revaluation reserves

A / Revaluation on AFS financial assets

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

B / Revaluation of equity put option

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

This separated reserve contains equity put option of non-controlling interest (NCI) which has a right to call this option at any time. The price of purchase is calculated by using a multiplier on the net asset value in 2009 and interest payment on each capital injection from 2009. The fair value of the option is calculating by purchase price on the reporting day less NCI's net asset value.

Data in HUF million except stated otherwise

On 2 July, 2012 EBRD exercised half of its option for selling its shares in MKB Unionbank A.D. Due to the transaction MKB acquired additional three percentage interest in MKB Unionbank A.D. so MKB shares increased to 97%. This transaction resulted a reclassification between the Revaluation of equity put option and Retained earnings in an amount of HUF 2,189 million.

24 Non-controlling interest

During 2012 dividend payments out of the group decreased Non - controlling interest by HUF 111 million. Capital injection into MKB Unionbank AD and MKB Romexterra Bank SA increased Non – controlling interest by HUF 189 million.
The EBRD's exercise of put option right decreased the equity of Non-controlling Interest in an amount of HUF 849 million.

25 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

25.1

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangibles, property and equipment	8	593	(585)	-	696	(696)
Investments in subs., jointly contr. entities and associates	-	-	-	-	-	-
Available-for-sale securities	33	22	11	9	335	(326)
Loans and advances to customers	-	4 309	(4 309)	230	2 997	(2 767)
Allowances for loan losses	211	408	(197)	243	1 079	(836)
Amounts due to customers	942	-	942	-	-	-
Issued debt securities	-	11	(11)	-	267	(267)
Provisions (included general risk reserve)	108	15	93	3	-	3
Derivatives	242	49	193	-	-	-
Other items	855	31	824	50	494	(444)
Tax loss carry-forwards	3 208	-	3 208	3 544	-	3 544
Offsetting	(5 174)	(5 174)	-	-	-	-
Net tax assets / liabilities	**433**	**264**	**169**	**4 079**	**5 868**	**(1 789)**

Data in HUF million except stated otherwise

26 Interest income

26.1

	2012	2011
Cash reserves	23 092	15 343
Loans and advances to banks	1 491	2 723
Loans and advances to customers	114 850	128 133
Derivatives	5 207	10 533
Investments in securities	13 946	12 060
Interest income	**158 586**	**168 792**

There is a difference of HUF 723 million between the Consolidated Statement of Comprehensive Income and the Note for the year 2011, because Romexterra Leasing is disclosed as discontinued operation in the Consolidated Statement of Comprehensive Income in accordance with IFRS 5.

Included within various captions under interest income for the year ended 31 December 2012 is a total of HUF 8,728 million (2011: 8,842) accrued on impaired financial assets.

27 Interest expense

27.1

	2012	2011
Amounts due to other banks	15 894	22 995
Deposits from customers	59 823	51 227
Issued debt securities	10 607	10 094
Subordinated liabilities	4 661	3 428
Other fees and commisions similar to interest expenses	38	99
Derivatives	4 187	3 922
Interest expense	**95 210**	**91 765**

Included within interest income there is NIL interest income from derivatives held in a qualifying fair value hedging relationship, and included within interest expense is HUF 89 million from qualifying fair value hedging relationship.

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

Data in HUF million except stated otherwise

28 Net income from commissions and fees

28.1

	2012	2011
Commission and fee income	**24 175**	**25 658**
Payment and account services	9 771	9 829
Credit related fees	3 880	4 299
Card services	2 706	2 675
Brokerage fees and other securities business	3 621	3 985
Other commission and fee income	4 197	4 870
Commission and fee expense	**10 638**	**11 598**
Payment and account services	3 020	2 769
Credit related fees	4 420	5 866
Card services	1 091	1 082
Brokerage fees and other securities business	588	658
Other commission and fee expense	1 519	1 223
Net income from commissions and fees	**13 537**	**14 060**

There is a difference of HUF 26 million between the Consolidated Statement of Comprehensive Income and the Note for the year 2011, because Romexterra Leasing is disclosed as discontinued operation in the Consolidated Statement of Comprehensive Income in accordance with IFRS 5.

Brokerage fees include fees from trust management and other securities services in the amount of HUF 2,124 million (2011: HUF 2,275 million). For further information on the Group's fund management activity, please see Note 40.

In order to decrease the credit risk BayernLB provided guarantee for some clients' exposures in an amount of HUF 64,194 million at the end of 2012. The concerned credit fees paid by the Bank amounted to HUF 1,959 million among credit related fees.

Data in HUF million except stated otherwise

29 Other operating income / (expense), net

29.1

	2012	2011
Gain on trading securities	2 838	656
Gain / (loss) on sale of available-for-sale securities	(209)	(1 293)
Net gain on disposal of group companies	10	-
Net gain on trading derivative transactions	14 651	4 178
Gains and losses on fair value hedges		
Gains and losses on hedging instruments	49	3
Gains and losses on underlyying transactions	(48)	(5)
Fair Value results from FVTPL revaluation (FVO)	(1 211)	1 794
Net income from collaterals held in possession	623	(17)
Expenses relating to bank levies	(13 615)	(2 601)
Other	(6 387)	3 981
Other operating income / (expense)	**(3 299)**	**6 696**

There is a difference of HUF 129 million between the Consolidated Statement of Comprehensive Income and the Note for the year 2011, because Romexterra Leasing is disclosed as discontinued operation in the Consolidated Statement of Comprehensive Income in accordance with IFRS 5.

The result from fair value revaluation of structured bonds designated at fair value through profit or loss was HUF 1,376 million loss (2011: 1,495 million loss), and it amounted to HUF 1,731 million loss regarding long term deposits designated at fair value (2011: 299 million gain).

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

- in the case of banks, the adjusted balance-sheet total calculated based on the annual local account for 2009 The tax levy can be decreased by 30% of the loss from FX – Loan repayments, in 2011 and 2012. ;
- in the case of other financial institutions the sum of net interest income and income from fees, charges and commissions, but charges and commission expenses cannot exceed the income from fees and commission. Calculation must be based on the annual local account for 2009.
- for investment fund management companies, the combined total of the net asset value of the funds they manage, shown on 31 December 2009 and the value of assets of funds and other portfolios shown on 31 December 2009.

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

Financial institutions operating on 1 January, 2012 shall be liable to pay this tax in the whole amount also in 2012 according to the Act. The government intends to levy this special tax also in the upcoming years, and there is no intent by the government to decrease the rate.

30 Restructuring Expenses

At the end of last year, the Board of Directors made a decision to achieve significant cost savings in 2013. To realize this target, it was necessary to introduce some restructurings in the framework of such a complex and overall program that is planned and controlled by the management, and that materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

Based on the above intentions MKB prepared a detailed restructuring plan, which was accepted by the Board of Directors.

On 25th April 2012, an information letter was sent by CEO of the Bank to inform the employees about the already executed and expected changes within the restructuring program. Additionally the changes were also announced to public in the media and on the Bank's web-site on 15th May.

As a result of the restructuring process 8 branches were closed and MKB Bank carried out collective redundancies affecting 165 employees.

During 2012 HUF 6,718 million Restructuring expenses incurred on MKB Group level. Major part of the Restructuring expenses was personnel related in the amount of HUF 3,191 million. Expenses for the recognition of restructuring provisions amounted to HUF 161 million and HUF 1,520 million impairment losses were recognized related to the closing of branches (see Note 15).

Data in HUF million except stated otherwise

31 Impairments and provisions for losses

31.1

	Note	2012	2011
Impairment loss, net of reversals on			
Loans and advances to banks	**7**	(51)	(327)
Loans and advances to customers	**11**	76 926	72 977
Investments in securities	**10**	(845)	883
Goodwill		-	30 692
Other assets	**12**	526	1 822
Direct write off		9 503	18 695
Provision on			
Guarantees and contingencies	**19**	1 591	1 620
Impairments and provisions for losses		**87 650**	**126 362**

There is a difference of HUF 951 million between the Consolidated Statement of Comprehensive Income and the Note for the year 2011, because Romexterra Leasing is disclosed as discontinued operation in the Consolidated Statement of Comprehensive Income in accordance with IFRS 5.

32 Operating expenses

32.1

	2012	2011
General and administration expenses	8 507	11 552
Wages and salaries	18 452	20 885
Compulsory social security obligations	5 368	5 899
Occupancy costs	18 811	26 254
Marketing and public relations	1 586	2 267
Communication and data processing	7 390	7 846
Operating expenses	**60 114**	**74 703**

There is a difference of HUF 565 million between the Consolidated Statement of Comprehensive Income and the Note for the year 2011, because Romexterra Leasing is disclosed as discontinued operation in the Consolidated Statement of Comprehensive Income in accordance with IFRS 5.

In 2012, the Group's average statistical employee number was 3,695 (2011: 3,796).

Data in HUF million except stated otherwise

Occupancy costs significantly increased due to the impairment on Intangible assets which amounted to HUF 3,230 million (2011: 8,319 million).

33 Income tax

Income tax expense recognized in the Statement of Comprehensive Income

33.1

	2012	2011
Current tax expense	*453*	*2 823*
Hungarian corporation tax charge – on current year profit	453	620
Romanian corporation tax charge – on current year profit	-	2 136
Bulgarian corporation tax charge – on current year profit	-	67
Deferred tax expense/(income)	*(1 958)*	*8 908*
Origination (reversal) of temporary differences	(1 965)	14 159
Effect of changes in deferred tax rates	7	(5 251)
Income tax (credit) / expenses	**(1 505)**	**11 731**

There is a difference of HUF 46 million between the Consolidated Statement of Comprehensive Income and the Note for the year 2011, because Romexterra Leasing is disclosed as discontinued operation in the Consolidated Statement of Comprehensive Income in accordance with IFRS 5.

In the reporting period 10% current income tax rate applied under HUF 500 million taxable profit and 19% tax rate above this amount in Hungary. Due to this calculation method 10% current income tax rate applied in the Hungarian market as current income tax rate, and 18.76% deferred tax rate was calculated based on five years plans.

In Romania, the current income tax rate for 2012 was 16% (2011: 16%) and the deferred tax rate used was the same. In Bulgaria, the current income tax rate for 2012 was 10% (2011: 10%), and the deferred tax rate is the same.

Data in HUF million except stated otherwise

Reconciliation of effective tax rate

33.2

	2012		2011	
	%	MHUF	%	MHUF
Profit / Loss before income tax		(89 174)		(109 295)
Income tax using the domestic corporation tax rate	18,76%	(16 729)	18,60%	(20 329)
Effect of tax rates in foreign jurisdictions	-7,17%	6 390	-7,46%	8 150
Effect of changes in tax rates	-0,41%	369	-0,17%	183
Movement of unrecognized temporary differences	1,78%	(1 586)	-1,46%	1 590
Unrecognized tax losses for the reporting period	-11,81%	10 531	-15,50%	16 939
Tax Losses expiring in current year	2,07%	(1 845)	-1,15%	1 261
Non-deductible expenses	-1,63%	1 455	-0,88%	958
Tax exempt income	0,06%	(54)	0,19%	(204)
Effects due to permanent differences	-	-	0,00%	-
Other tax effects	0,04%	(36)	-2,91%	3 183
Income tax	**1,69%**	**(1 505)**	**8,20%**	**11 731**

MKB used a prudent approach concerning tax losses. Workout companies was not allowed to recognize any deferred tax assets above the limit of deferred tax liability in their books, and the relating tax income and other companies used their five years plan for calculation the upper limit. In 2011 legal base of tax loss changed and due to this fact tax losses can be used at maximum the 50% of the tax base in the future. Based on this calculation, deferred tax asset on balance sheet items and on tax loss carry forwards totalled at HUF 5,607 million (2011: 4,079 million) before offsetting (see Note 25).

At 31 December 2012, the Group had unused tax losses amounting to HUF 324,629 million (2011: HUF 256,166 million) with the following maturity:

33.3

	2012	2011
Without maturity	306 304	227 500
Mature within 1 year	238	-
Mature between 1 and 5 years	18 087	1 678
Tax loss carryforwards	**324 629**	**229 178**

Tax loss carry forward of discontinued operation amounted to HUF 29,609 million.

The Group without of the discontinued operation also has HUF 302,294 million (2011: HUF 234,262 million) tax losses carried forward, on which no deferred tax asset was recognised.

Data in HUF million except stated otherwise

In 2012, the Group booked HUF 16 million deferred tax liability (2011: NIL) directly against equity relating to AFS securities' revaluation.

34 Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of HUF –86,771 million (2011: HUF -120,792 million) and a weighted average number of ordinary shares outstanding of 48.883 million (2011: 20,733 million)

The calculation of fully diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after any adjustment for the effects of all dilutive potential ordinary shares. In 2012 and 2011 there were no dilution factor that might cause an adjustment in the weighted average number of ordinary shares, therefore basic and diluted EPS were equivalent.

35 Contingencies and commitments

35.1

2012	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	128 127	1 718	126 409
Obligations from letters of credit and other short term trade related items	8 688	65	8 623
Other contingent liablities (including litigation)	10 078	4 986	5 092
Total contingencies	**146 893**	**6 769**	**140 124**
Commitments			
Undrawn commitments to extend credit	219 345	2 534	216 811
Total commitments	**219 345**	**2 534**	**216 811**

Data in HUF million except stated otherwise

2011	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	151 327	2 556	148 772
Obligations from letters of credit and other short term trade related items	14 610	99	14 511
Other contingent liablities (including litigation)	10 659	163	10 496
Total contingencies	**176 597**	**2 818**	**173 779**
Commitments			
Undrawn commitments to extend credit	238 303	4 708	233 595
Total commitments	**238 303**	**4 708**	**233 595**

From discontinued operation:

2012	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	1 204	0	1 204
Other contingent liablities (including litigation)	413	413	0
Total contingencies	**1 617**	**413**	**1 204**
Commitments			
Undrawn commitments to extend credit	2 489	0	2 489
Total commitments	**2 489**	**0**	**2 489**

Data in HUF million except stated otherwise

2011	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	1 387	0	1 387
Other contingent liablities (including litigation)	462	462	0
Total contingencies	**1 849**	**462**	**1 387**
Commitments			
Undrawn commitments to extend credit	3 017	0	3 017
Total commitments	**3 017**	**0**	**3 017**

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

36 Use of estimates and judgements

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

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

Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

Uncertain or unanticipated future events could result in material adjustments to provisions or additional provisions. The accounting values determined are not fair values or market prices that might be determined if the underlying assets are sold to a third party.

Impairment test of Goodwill

The recoverable amount of each cash-generating units have been calculated based on their value in use.
Value in use has been calculated by discounting the future cash flows generated from the continuing operation of the cash generating unit. By estimating the expected future cash-flows from operation, the Group used its own method. The values assigned to the key assumptions represent management's assessment of future trends in the Bulgarian, Romanian banking industry and in the Hungarian leasing industry and are based on both external sources and internal sources (historical data). Should MKB use exit strategy on a market, expected selling price is also taken into account by calculating of cash flows. Due to the total impairment of Goodwill in 2011, this paragraph was not applied.

Determining fair values

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

Critical accounting judgements in applying the Group's accounting policies

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

Valuation of financial instruments

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. Positive fair value of OTC derivatives are adjusted with counter party risk adjustment if the counterparty has a rating worse than 11. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of the reporting period that would have been determined by market participants acting at arm's length.

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

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

The Group discloses the fair value of Equity put option of the non-controlling interest using valuation techniques with significant unobservable inputs. Equity put options are initially recognized in a separated equity element and the subsequent measurement is at fair value through other comprehensive income.

In the current pressed market environment there is no active market for selling financial institutions and no observable inputs are available for the fair value measurement of this kind of option, the valuation is based on contractual terms. The price of purchase is calculated by using a multiplicator on the net asset value in 2009 and interest payment on each capital injection from 2009. The fair value of the option is calculating by purchase price on the reporting day less NCI's net asset value.

Remarkable increase of EURIBOR used for interest payment calculation on capital injections and knowing the exact date when NCI intend call this option (e.g. during 2013) would change the fair value significantly.

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

Data in HUF million except stated otherwise

36.1

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
31 December 2012					
Cash reserves	**6**	335 454	-	-	335 454
Trading assets	**8**	12 991	20 887	-	33 878
Derivative assets held for risk management	**9**	-	-	-	-
Loans and advances to customers	**11**	-	-	-	-
Investments in securities	**10**	229 230	-	-	229 230
Current and deposit accounts	**16**	-	34 238	-	34 238
Trading liabilities	**17**	95	19 511	2 229	21 835
Derivative liabilities held for risk management	**18**	-	214	-	214
Issued debt securities	**20**	-	21 364	-	21 364
Total		577 770	96 214	2 229	676 213
31 December 2011					
Cash reserves	**6**	247 291	-	-	247 291
Trading assets	**8**	34 978	22 670	-	57 648
Derivative assets held for risk management	**9**	-	-	-	-
Loans and advances to customers	**11**	-	-	-	-
Investments in securities	**10**	288 925	-	-	288 925
Current and deposit accounts	**16**	-	28 832	-	28 832
Trading liabilities	**17**	102	29 195	4 166	33 463
Derivative liabilities held for risk management	**18**	-	262	-	262
Issued debt securities	**20**	-	23 143	-	23 143
Total		571 296	104 102	4 166	679 564

The Group did not reclassify any instrument from one revaluation hierarchy level into another during the reporting period.

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

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

37 Accounting classifications and fair values

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

Data in HUF million except stated otherwise

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

37.1

2012	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Financial assets							
Cash reserves	**6**	-	-	335 454	78 336	413 790	413 790
Loans and advances to banks	**7**	-	81 316	-	-	81 316	80 752
Measured at fair value		-	-	-	-	-	-
Measured at amortised cost		-	*81 316*	-	-	*81 316*	*80 752*
Trading assets	**8**	33 878	-	-	-	33 878	33 878
Derivative assets held for risk management	**9**	-	-	-	-	-	-
Investments in securities	**10**	-	-	229 230	-	229 230	229 230
Loans and advances to customers	**11**	-	1 658 357	-	-	1 658 357	1 565 290
Measured at fair value		-	*2 766*	-	-	*2 766*	*2 766*
Measured at amortised cost		-	*1 655 591*	-	-	*1 655 591*	*1 562 524*
Financial liabilities							
Amounts due to other banks	**15**	-	-	-	674 216	674 216	654 462
Current and deposit accounts	**16**	34 238	-	-	1 354 799	1 389 037	1 438 382
Measured at fair value		*34 238*	-	-	-	*34 238*	*34 238*
Measured at amortised cost		-	-	-	*1 354 799*	*1 354 799*	*1 404 143*
Trading liabilities	**17**	21 835	-	-	-	21 835	21 835
Derivative liabilities held for risk management	**18**	214	-	-	-	214	214
Issued debt securities	**20**	21 364	-	-	148 882	170 246	177 803
Measured at fair value		*21 364*	-	-	-	*21 364*	*21 364*
Measured at amortised cost		-	-	-	*148 882*	*148 882*	*156 439*
Subordinated debt	**21**	-	-	-	101 642	101 642	103 826

2011	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Financial assets							
Cash reserves	**6**	-	-	247 291	74 386	321 677	321 677
Loans and advances to banks	**7**	-	85 052	-	-	85 052	84 187
Measured at fair value		-	-	-	-	-	-
Measured at amortised cost		-	*85 052*	-	-	*85 052*	*84 187*
Trading assets	**8**	57 648	-	-	-	57 648	57 648
Derivative assets held for risk management	**9**	-	-	-	-	-	-
Investments in securities	**10**	-	-	288 925	-	288 925	288 925
Loans and advances to customers	**11**	-	1 994 633	-	-	1 994 633	2 134 465
Measured at fair value		-	*3 003*	-	-	*3 003*	*3 003*
Measured at amortised cost		-	*1 991 631*	-	-	*1 991 631*	*2 131 462*
Financial liabilities							
Amounts due to other banks	**15**	-	-	-	977 326	977 326	959 664
Current and deposit accounts	**16**	28 832	-	-	1 434 639	1 463 472	1 413 140
Measured at fair value		*28 832*	-	-	-	*28 832*	*28 832*
Measured at amortised cost		-	-	-	*1 434 639*	*1 434 639*	*1 384 307*
Trading liabilities	**17**	33 463	-	-	-	33 463	33 463
Derivative liabilities held for risk management	**18**	262	-	-	-	262	262
Issued debt securities	**20**	23 143	-	-	148 002	171 145	186 552
Measured at fair value		*23 143*	-	-	-	*23 143*	*23 143*
Measured at amortised cost		-	-	-	*148 002*	*148 002*	*163 409*
Subordinated debt	**21**	-	-	-	108 486	108 486	109 052

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

Cash reserves,

Due to the short term nature, the carrying amount of Cash reserves is a reasonable approximation of their fair value.

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

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

Investments in securities

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

Loans and advances to banks and to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by coupon rates. In general, contractual cash flows are discounted using a rate which is sum of the available interest rate which would have been offered if the customer applied for loan at the end of the reporting period plus the counterparty marge. The used interest rates are available in published Terms and Conditions as of 31 December, 2012 and the counterpary marge is avalilable in the Bank’s systems. The rediscounted cash flows are decreased using by the same impairment percentage as it was used for impairment purpose, and it is considered as fair value of the loan portfolio.

Amounts due to other banks and Current and deposit accounts

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

Issued debt securities and Subordinated debt

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

Data in HUF million except stated otherwise

38 Related parties

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

Transactions with related parties

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

38.1

	Parent company and its group		Non-consolidated subsidiaries		Jointly controlled entities		Associates		Key Management Personnel		Other related parties	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Assets												
Amounts due from other banks	30 284	46 259	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	1 694	4 875	46 511	45 298	646	714	206	855	1 155	1 151
Derivative financial assets	4 970	3 123	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities												
Amounts due to other banks	531 371	816 087	-	-	-	-	-	-	-	-	-	-
Current and deposit accounts	241	328	5 092	759	322	913	622	886	-	-	21 806	60 607
Borrowed funds and debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	101 642	108 486	-	-	-	-	-	-	-	-	-	-
Derivative finacial liabilities	15 963	16 319	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Income statement												
Interest income	1 288	4 099	89	127	1 966	1 965	62	66	7	23	72	66
Interest expense	17 304	22 391	297	30	4	69	192	10	-	-	1 031	982
Other net income / (expense)	(5 589)	(6 365)	24	19	24	27	188	12	(537)	(1 217)	34	30
Contingencies and commitments												
Undrawn commitments to extend credit	2 150	2 000	343	13	2 900	2 368	189	10	-	-	96	672
Guarantees	511	497	-	-	134	65	-	-	-	-	2 056	2 056
Provision	45	35	687	1 479	3 444	2 692	6	5	-	-	26	25

In order to decrease the credit risk BayernLB provided guarantee for some clients' exposures in an amount of HUF 64,194 million.

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

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

Other related parties includes the interests of the Key Management Personnel.

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

Key management personnel compensation for the period comprised:

MKB Bank Zrt. Data in HUF million except stated otherwise

38.2

	2012	2011
Short-term employee benefits	537	1 217
Other long-term benefits	-	-
	537	**1 217**

39 Group entities

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

39.1

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
MKB-Euroleasing Autólízing Szolgáltató Kft.	65,23%	50%	Hungary	Car finance activity.
MKB-Euroleasing Autóhitel Zrt.	71,75%	50%	Hungary	Car and consumer finance activities.
MKB-Euroleasing Autópark Zrt.	74,97%	50%	Hungary	Car fleet management
MKB-Euroleasing Zrt.	50,98%	50%	Hungary	Holding of Euroleasing group.
MKB Üzemeltetési Kft.	100%	100%	Hungary	Property operation and maintenance.
MKB Unionbank AD	97%	97%	Bulgaria	Fully licenced commercial bank.
Nextebank S.A.	93,73%	94,98%	Romania	Fully licenced commercial bank.
MKB Romexterra Leasing IFN S.A.	97,57%	97,57%	Romania	Car and porperty leasing activity.
S.C. Corporate Recovery Management S.R.L.	100%	100%	Romania	Claims buying/factoring activity.
MKB Befektetési Alapkezelő Zrt.	100%	100%	Hungary	Investment fund management activity.
Resideal Zrt.	100%	100%	Hungary	Property investment and valuation.
Exter-Immo Zrt.	100%	100%	Hungary	Financial leasing activity.
Exter-Bérlet Kft.	100%	100%	Hungary	Wholesale trade.
Ercorner Kft.	50%	50%	Hungary	Property investments
Euro-Immat Üzemeltetési Kft.	100%	100%	Hungary	Intangible assets, license maintenance.
Extercom Vagyonkezelő Kft.	100%	100%	Hungary	Property investments

40 Funds management

The Group manages 24 close-ended (2011: 20) and 16 open-ended (2011: 17) investment fund via MKB Befektetési Alapkezelő Zrt, a fully owned and consolidated subsidiary. However, as the funds themselves are not controlled by the Group, they are not consolidated. For funds management services provided by the Group, funds should pay certain fees and commission that is presented as „Commission and fee income” (see Note 28). In 2012 and 2011, the volume of the funds, and transactions with the funds themselves were as follows:

40.1

	2012	2011
Managed funds (in HUF million)		
Open-ended funds	71 621	72 319
Close-ended funds	47 998	39 274
Commission and fee income from funds	2 254	2 410
Deposits from funds	70 600	74 732
Interest expense on deposits from funds	3 171	1 816

Open-ended funds represent the net asset value at the end of reporting period, close-ended funds represent the nominal amount at date of issuance.

41 Segment information

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

Business segments

The business segments identified by the Group represent the organizational structure as reflected in its internal management reporting systems. The Group is organized into four business lines, each with its own distinct market and products. Each business line has its own set of objectives and targets broken down by operating units, which are consistent with the Group's overall strategic direction. As of 31 December 31 2012, the Group's business segments and their main products were:

Corporate Banking

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

Institutional Banking

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

Retail and Private Banking

The Group provides a wide range of deposit and savings instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through 179 full-service branches and sub-branches (2011: 187 branches), ATMs, telephone and electronic channels.

Money and Capital Markets

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

Other

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

Data in HUF million except stated otherwise

41.1

2012	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves	**6**	-	404 353	-	-	9 437	413 790
Loans and advances to banks	**7**	-	10 277	-	71 039	-	81 316
Trading assets	**8**	-	-	-	33 878	-	33 878
Investments in securities	**10**	-	-	-	229 230	-	229 230
Loans and advances to customers	**11**	958 068	1 602	698 687	-	-	1 658 357
Assets from Discontinued operation	**42**	22 438	27 769	298	-	15 668	66 173
Other assets	**12**	-	-	-	-	16 076	16 076
Deferred tax assets	**25**	166	75	117	56	19	433
Investments in jointly controlled entities and associates	**13**	7 686	-	-	-	-	7 686
Intangibles, property and equipment	**14**	-	-	-	-	72 234	72 234
		988 358	**444 074**	**699 102**	**334 203**	**113 436**	**2 579 173**
Liabilities							
Amounts due to other banks	**15**	-	306 442	-	367 774	-	674 216
Current and deposit accounts	**16**	581 512	10 462	797 063	-	-	1 389 037
Trading liabilities	**17**	-	-	-	21 835	-	21 835
Derivative liabilities held for risk management	**18**	-	-	-	214	-	214
Liabilities of Discontinued operation	**42**	56 595	1 040	-	905	957	59 497
Other liabilities and provisions	**19**	596	137	1 185	40	25 549	27 507
Deferred tax liability	**25**	66	60	82	40	16	264
Issued debt securities	**20**	-	164 178	-	4 428	1 640	170 246
Subordinated debt	**21**	-	101 642	-	-	-	101 642
Shareholders' equity	**22, 23, 24**	-	-	-	-	134 715	134 715
		638 769	**583 961**	**798 330**	**395 236**	**162 877**	**2 579 173**
Income statement							
Gross revenue - external customers		64 338	56 865	69 954	2 392	1 459	195 008
Gross revenue - inter-segment		(6 215)	(10 814)	17 029	-	-	-
Interest and commission expenditure		(28 769)	(40 676)	(33 461)	(2 942)	-	(105 848)
Impairment and provisions for losses	**31**	(49 117)	(18 257)	(19 888)	(2 319)	-	(89 581)
Restructuring cost	**30**	-	(6 718)	-	-	-	(6 718)
Operating expenses	**32**	(11 175)	(7 095)	(25 905)	(1 916)	(14 023)	(60 114)
Expenses related to bank levies		-	(13 214)	-	-	(401)	(13 615)
Share of associates' loss		(449)	-	-	-	-	(449)
Profit / (Loss) before taxation		**(31 387)**	**(39 909)**	**7 729**	**(4 785)**	**(12 965)**	**(81 317)**
							-
Result from discontinued operation	**42**	(2 664)	(3 297)	(35)	-	(1 860)	(7 857)
Segment result		**(34 051)**	**(43 206)**	**7 693**	**(4 785)**	**(14 825)**	**(89 174)**
Other information							
Capital expenditure		-	-	-	-	7 361	7 361
Depreciation and amortisation	**14**	5 332	96	7 552	-	-	12 980
Other non-cash expenses		161	102	374	28	202	867

Data in HUF million except stated otherwise

2011	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves	**6**	-	-	-	-	321 677	321 677
Loans and advances to banks	**7**	-	34 380	-	50 672	-	85 052
Trading assets	**8**	-	-	-	57 648	-	57 648
Derivative assets held for risk management	**9**	-	-	-	-	-	-
Investments in securities	**10**	-	-	-	288 925	-	288 925
Loans and advances to customers	**11**	1 203 083	2 302	789 248	-	-	1 994 633
Assets from Discontinued operation	**42**	54 581	486	-	23	18 799	73 889
Other assets	**12**	-	-	-	-	32 682	32 681
Goodwill	**13**	-	-	-	-	-	-
Deferred tax assets	**25**	1 727	137	1 074	536	605	4 079
Investments in jointly controlled entities and associates	**13**	8 459	-	-	-	-	8 459
Intangibles, property and equipment	**14**	-	-	-	-	76 918	76 918
		1 267 850	**37 304**	**790 322**	**397 804**	**450 681**	**2 943 961**
Liabilities							
Amounts due to other banks	**15**	-	350 047	-	627 279	-	977 326
Current and deposit accounts	**16**	584 325	19 851	859 296	-	-	1 463 472
Trading liabilities	**17**	-	-	-	33 463	-	33 463
Derivative liabilities held for risk management	**18**	-	-	-	262	-	262
Liabilities of Discontinued operation	**42**	64 815	818	-	2 150	1 211	68 994
Other liabilities and provisions	**19**	5 213	235	25 206	65	137	30 856
Deferred tax liability	**25**	1 396	1 273	1 679	1 101	418	5 868
Issued debt securities	**20**	141 517	-	29 171	-	457	171 145
Subordinated debt	**21**	-	108 486	-	-	-	108 486
Shareholders' equity	**22, 23, 24**	-	-	-	-	84 089	84 089
		797 266	**480 710**	**915 352**	**664 321**	**86 312**	**2 943 961**
Income statement							
Gross revenue - external customers		61 317	52 716	91 069	3 330	(3 018)	205 414
Gross revenue - inter-segment		(20 880)	12 028	8 852	-	-	-
Interest and commission expenditure		(17 863)	(51 496)	(29 823)	(4 180)	-	(103 362)
Impairment and provisions for losses	**31**	(36 741)	(33 111)	(53 734)	(4 444)	-	(128 030)
Operating expenses	**32**	(1 598)	(16 037)	(41 112)	(2 224)	(13 733)	(74 703)
Expenses related to bank levies		(1 108)	(75)	(398)	(286)	(734)	(2 601)
Share of associates' loss		(997)	-	-	-	-	(997)
Profit / (Loss) before taxation		**(17 870)**	**(35 975)**	**(25 146)**	**(7 804)**	**(17 485)**	**(104 280)**
Result from discontinued operation	**42**	(1 813)	(814)	(2 208)	(185)	5	(5 015)
Segment result		**(37 553)**	**(72 764)**	**(52 499)**	**(15 792)**	**(34 965)**	**(109 295)**
Other information							
Capital expenditure		-	-	-	-	25 804	25 804
Depreciation and amortisation	**14**	7 459	253	10 969	-	-	18 681
Other non-cash expenses		19	191	490	27	164	890

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

41.2

2012	Hungary	Romania	Bulgaria	Other	Total
Net interest income	56 785	1 491	7 666	(2 566)	63 376
Net commission income	10 587	520	2 988	(558)	13 537
Other operating income / (expense)	(10 955)	(7 780)	875	6 704	(11 156)
Total revenue	**56 417**	**(5 769)**	**11 529**	**3 580**	**65 757**
Non current assets	67 427	2 344	1 540	(2 323)	68 988

Data in HUF million except stated otherwise

2011	Hungary	Romania	Bulgaria	Other	Total
Net interest income	71 088	2 976	7 634	(4 671)	77 027
Net commission income	11 143	700	2 913	(696)	14 060
Other operating income / (expense)	(1 823)	(6 469)	517	9 456	1 681
Total revenue	**80 408**	**(2 793)**	**11 064**	**4 089**	**92 768**
Non current assets	76 714	3 131	1 802	(4 729)	76 918

Measurement of segment profit or loss

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

Calculation of intersegment revenue

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

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

42 Discontinued Operation

During 2012 the management decided to sell not only Nextebank S.A (former MKB Romexterra Bank S.A) but also MKB Romexterra Leasing IFN S.A as well, which represents the main business in the Romanian market. The management is committed to cease businesses which are categorised as non-core business by the group strategy. MKB expects to conclude the sale during the financial year 2013.

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

Data in HUF million except stated otherwise

42.1

	2012	2011
Assets		
Cash reserves	12 262	18 780
Loans and advances to banks	1 324	485
Trading assets	298	24
Derivative assets held for risk management	-	-
Investments in securities	26 461	26 791
Loans and advances to customers	22 438	27 790
Other assets	3 008	19
Deferred tax assets	-	-
Investments in jointly controlled entities and associates	129	-
Intangibles, property and equipment	253	-
Total assets	**66 173**	**73 889**
Liabilities		
Amounts due to other banks	1 040	818
Current and deposit accounts	57 482	66 962
Trading liabilities	18	2
Derivative liabilities held for risk management	-	-
Other liabilities and provisions	939	1 197
Deferred tax liability	18	15
Issued debt securities	-	-
Total liabilities	**59 497**	**68 994**

	2012	2011
Income statement:		
Interest income	4 759	7 091
Interest expense	2 637	3 098
Net interest income	**2 122**	**3 992**
Net income from commissions and fees	558	721
Other operating income / (expense)	367	(276)
Impairments and provisions for losses	3 236	(225)
Operating expenses	7 676	10 478
Loss before taxation	**(7 865)**	**(5 815)**
Income tax expense	(8)	(208)
LOSS FOR THE YEAR	**(7 857)**	**(5 607)**
Other comprehensive income:		
Revaluation on AFS financial assets	224	(61)
Exchange differencies on translating foreign operations	(700)	(2 257)
Other comprehensive income for the year net of tax	**(476)**	**(2 318)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(8 333)**	**(7 925)**

Nextebank S.A was accounted under for IFRS 5 at the end of 2011, MKB could not finalize the selling transaction, due to the approval process of National Bank of Romania. Regardless of the prolonged processes, the management is still committed to sell it. Based on the management expectation the recoverable amount of the investment in Nextebank S.A may not achieve its net asset value. Due to this estimation, secondary revaluations of the assets were necessary. Intangible and tangible, and other assets were assessed for impairment, and impairment was recognized in an amount of HUF 3,358 million in 2011. In the reporting period, additional revaluation was necessary which resulted in a portfolio impairment of Loans and advances in an amount of HUF 3,750 million. MKB will reclassify the revaluation from currency translation reserve of foreign operation into profit or loss on the date of disposal, which amounted to HUF 5,009 million loss at the end of the year.

43 Forborn assets

During the normal course of business the Group enters into forbearance measures to decrease the loan loss for the debtors who have problems with payment ability but not with willingness to pay.
Restructured exposures are renegotiated, rescheduled (prolonged) as well as restructured loans, receivables and credits (including also purchased ones) originated in the framework of an amendment or termination of a previously concluded contract, initiated either by the debtor or the Group, where

- the contract is amended in order to avoid default because the debtor is unable to fulfil its payment obligations in compliance with the conditions of the original contract due to significant deterioration in its financial position or solvency,
- the amendments significantly change the original terms and conditions of the outstanding contract, contrary to the market terms and conditions applicable to contracts of the same type and concluded under the same conditions, and
- a supplementary agreement or a new contract is concluded between the debtor and the Group that relates to a new loan provided for the repayment of the outstanding debts (principal and/or interest) arising from the original contract that is terminated, or to any further commitment assumed to avoid any increase in the credit risks and to mitigate the possible loss.

The Group generally applies the following types of forbearance measures:

- interest rate cut, or lower pricing,
- interest capitalisation,
- extension of the tenor/final maturity of the loan,
- renegotiation of original repayment schedule,
- agreement on instalment payment,
- reduction of the collateral coverage,
- refinancing of the loan.

Besides the Group’s internal forbearance initiatives, the home protection measures in the retail clientele launched by the Hungarian government in years 2011 and 2012, and set by legal regulations also result in forborn assets. Such assets include:

Data in HUF million except stated otherwise

- the preferential buffer account facility ("árfolyamgát") granted pursuant to the act on FX loans and the related original FX loan,
- loans converted into HUF until August 31, 2012 pursuant to the provisions and conditions of Act LXXV of 2011 with the parallel write-off of 25% of the original debt.

Such exposures and associated credit risks are managed, monitored and reported distinctly by specific restructuring business and risk units of the Group on the basis of guidelines and procedure rules set by internal regulations incorporating also both legal and supervisory requirements. When the conditions of forbearance cease to exist and the customer performs its amended contractual obligations duly through a specified period (180 days or 360 days) and its risk position shows significant improvement, respective assets are returned to normal treatments both from business and risk management perspectives.

Forborn assets are recorded separately, and the amended terms and conditions of the contract are also indicated in the accounting records. Recognition, derecognition and subsequent valuation of these assets are carried out according to the general rules of accounting as specified by the relevant IFRSs.

The detailed requirements of risk classification and impairment valuation of forborn exposures are included in the accounting policies, and other internal regulations on the valuation of assets and liabilities, as well as in impairment and provisioning policies. Based on these internal guidelines, forbearance measures are always regarded as impairment triggers and, as a consequence, individual impairment assessment should be performed for such exposures where the general methodologies and principles of assessment are to be applied. On the results of such risk assessments, impairment losses and the reversals of previously charged impairments are accounted for according to the common rules defined by IAS 39.

Compared to previous financial years, except for facilities introduced by the central government as detailed above, there were no changes in forbearance practices applied by the Group in 2012.

43.1

2012	Corporate Banking	Institutional Banking	Retail and Private Banking	Total
Forbearence loans and advances	236 622	14 280	73 437	324 339
Specific allowances for impairment on Forbearence loans and advances	(38 120)	-	(5 038)	(43 158)
Collective allowances for impairment	(686)	-	(7)	(693)
Carrying amount	**197 816**	**14 280**	**68 392**	**280 488**

In 2012 carrying amount increased by HUF 13.8 billion.

44 Events after the end of the reporting period

1.) In December 2012, the main shareholders decided to increase the capital of the Bank through issuance of new shares. Based on this decision and approval of the European Commission the main shareholder intends to increase the capital in MKB by HUF 36,314 million.

2.) In February, 2013 an early repayment of refinancing loan denominated in CHF was done to the parent company in an amount of CHF 154 million (HUF 37,123 million as of 31 December, 2012). The original amount of CHF 300 million (HUF 72,318 million as of 31 December, 2012) has a maturity in 2014 which was prolonged by three months.
At the end of February another refinancing loan was also partly repaid before the maturity. This loan was disclosed in the Statement of Financial Position in an amount of CHF 400 million (HUF 94,424 million), and CHF 200 million (HUF 48,212 million) was repaid.

3.) The sale transaction of Nextebank S.A has not been concluded till the date of approval of these financial statements. However, the management is still strongly committed to sell this operation and the Bank actively manages the transaction.

BUSINESS REPORT
to the consolidated 2012 financial statements of
MKB Bank Zrt. (Prepared under IFRS)

In 2012, the scope of activities of MKB Bank Zrt's subsidiaries and jointly controlled companies comprised the following sectors

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

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

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

MKB Bank Zrt. acquired 2.79% stake in Nextebank through issuance of new share capital. This is a fully licensed commercial bank domiciled in Romania. At the end of period 2012 the total interest in Nextebank S.A. is 93.73%. MKB acquired also 2.79% additional share in MKB Romexterra Leasing IFN S.A through issuance of new share capital. The closing and the take-over of control over both mentioned two companies took place in 2006. On 2 July, 2012 EBRD exercised half of its option for selling its shares in MKB Unionbank A.D. Due to the transaction MKB acquired additional three percentage interest in MKB Unionbank A.D. so MKB shares increased to 97%.

MKB Group's profit after taxation for 2012 under IFRS amounted to HUF 87,669 million loss.

Consolidated shareholders' equity was HUF 134,715 million at 2012 year-end.

At December 31, 2012, MKB Group held no repurchased own shares in its portfolio.

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

In 2012, the Group accounted for HUF 233 million R&D costs.

After financial position date there occurred some significant events, which is presented in Note 43, but they may not have a material effect on volume and income figures set out in the consolidated financial statements for 2012.

Budapest, 5 March, 2013

dr Pál Simák
Chairman & Chief Executive

Enclosure 1

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

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

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

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

- Bank Development Committee
- Loan Loss Provisioning (LLP) Committee
- CSR Committee
- Asset and Liability Management Committee
- Risk Market Board
- Special Credits Unit Committee

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

The Supervisory Board shall control the management of the Company, and when approving the decisions of the Board of Directors listed under the Articles of Association it shall act as a Decision Making Supervisory Board as set out under s.37 of Act IV of 2006 on Business Associations.

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

The Supervisory Board shall draw up its By-laws to be approved by the Shareholders' Meeting.

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

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

With the cooperation of the independent members of the Supervisory Board an Audit Committee is in place since March 2012 which, pursuant s.62. § (2) of Act CXX on the Capital Market is in charge of the tasks defined in § 311 of the Business Associations Act.

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

- Risk Committee
- Audits Supervision Committee
- Remuneration Committee

The Risk Committee and the Audits Supervision Committee are responsible for decision preparing and supporting tasks, while in addition to these the Remuneration Committee also deals with remuneration committee related tasks determined by the Credit Institutions and Financial Enterprises Act.

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

Main characteristics of the internal audit system of the Company:

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

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

The units pursuing internal control functions are independent from each other within the organisation, and from the banking organisational units the activities of which are controlled by them.

The elements of the internal audit system aimed at process integrated control, management control and the operation of the management information system, and the regulated operation thereof are secured by internal regulations, job descriptions and other IT-supported solutions (e.g. the self control system operated in the branch network) forming an interlinking, hierarchical system. In addition the Company, in accordance with the relevant provisions of the law, operates an independent internal audit organization which is subordinated under the exclusive authority of the Supervisory Board and Chief Executive Officer of the Company. The internal audit system also performs group control tasks and in addition to its own directly performed audits supervises the operation and tasks of the internal audit functions of other group members.

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

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

In accordance with the basic requirements of the Basel II preparations, and following the guidelines of BayernLB the concept globally concerning the Company’s risk bearing procedures was developed and is being continuously fine-tuned within the framework of different projects.

Main elements of the concept:

- Implementation of the Uniform Bank Segmentation categorisation applicable for the whole clientele of the Company;
- The decision making system dependent on customer rating and on the level of risk assumption;
- Application of Basel II conform rating tools and the development of analytic and behavioural scorecards in the interest of IRBF compliance, and the corresponding customer rating system, which suitably supports the decision making activity of the management of the bank;
- The annual internal model validation methodology (rating and scoring tools, validation of related processes);
- Monitoring process with a basic functionality IT support;
- Definition of an overall criteria system to identify endangered loans as soon as possible containing and considering the relevant indicators facilitating the recognition of endangered loans; definition of the applicable deal management types, the related tasks, procedural rules;
- A prudent provisioning system and methodology meeting the requirements of both the Hungarian accounting rules and IFRS;
- Regular executive reporting, back testing (RQR, IRB capital requirement, data quality).

The most important risk management principles contain final control enforced at the level of the Board of Directors, independent control separated from the risk assumption areas and adequate measuring, diversification, monitoring and reporting of the risks.
Efficient communication of the risks and risk assumption willingness, continuous developments in the interest of the recognition, measurement, monitoring of risks, making the risk processes of key importance up-to-date and user friendly, enhancing their performance and the employment of well trained workforce are the tokens of the efficient risk management function of the Company.

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

Appendix 1

THE BOARDS OF MKB BANK ZRT

SUPERVISORY BOARD

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

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

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

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

Andreas Leonhard (2012)
Head of Risk Control
Bayerische Landesbank

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

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

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

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

Note: Beginning of membership in brackets

BOARD OF DIRECTORS

CHAIRMAN:
Dr Simák Pál (2008)
Chief Executive Officer
MKB Bank Zrt.

MEMBERS:
Roland Michaud (2010)
Deputy Chief Executive
MKB Bank Zrt.

Michael Schmittlein (2011)
Deputy Chief Executive
MKB Bank Zrt.

Balássy László (2012)
Deputy Chief Executive
MKB Bank Zrt.

Nagy Gyula (2012)
Deputy Chief Executive
MKB Bank Zrt.

Sebők András (2012)
Deputy Chief Executive
MKB Bank Zrt.

Note: Beginning of membership in brackets

MANAGEMENT'S DISCUSSION & ANALYSIS
(International Financial Reporting Standards, IFRS)

The following section of the Annual Report provides a discussion and analysis of the Group's financial condition and results of operations so as to help the reader to assess any changes in the financial condition and profits for the year 2012. The forthcoming analyses are based on figures reported in MKB Bank's consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") as at, and for the financial year ended, December 31, 2012 and audited by Deloitte Könyvvizsgáló és Tanácsadó Kft. chartered accountants. On this basis, the discussion focuses on the performance of the Group as an entity. The consolidated financial statements prepared in accordance with IFRS are presented separately.

OVERVIEW

Based on their fundamental condition and structural situation, the CEE-SEE countries had partly different responses to the effects of the current crisis in 2012. Regarding the region as a whole, but with remarkable differences of approaches and measures in the identical countries (Hungary, Bulgaria, Romania), the macroprudential stability strengthened. Deleverage continued on all levels, including households, companies and sovereigns. The deteriorating trend of sovereign rating experienced during the previous years seems to be halted in 2012 and early 2013. In Bulgaria the fix currency board regime provided certain level of stability and prudence, IFIs played key role in the Romanian crisis management, while in Hungary the devotion to the strict budget frames had priority. The region was beneficiary of the strong financial investor appetite towards the region backed by the low international yield level (below 1% benchmark interest rates from Fed, ECB and BoJ) and the global liquidity supply. It largely supported the debt management. However, a key challenge for 2013 for all countries is to stimulate growth while keeping the macroprudential path in an environment, where banking systems burdened by portfolio challenges and limited profit generating capacity, and where households and companies intend to further moderate investment and consumption demand.

HUNGARIAN BUSINESS AREA: UNORTHODOX POLICY MIX RESULTED IN GROWTH SACRIFICE

Hungarian economy slipped into its second recession period within four years time in 2012. The GDP contracted by 1.7% (y/y) in real terms. The economic activity was not supported by the general slow of the main export markets in Europe. Other principal element was that the agricultural production, which was not able to repeat the extraordinary contribution of the previous year. Domestic consumption remained depressed during the year. Investment rate floored at decades low level around 16% of GDP. Volume of industrial production decreased by 1.7%, domestic sales of industrial products decreased by 3.9%, while export sales were around the same as a year before (0,7% contraction in 2012). Economic growth potential was sacrificed for a better fiscal balance. After Hungary had been under excess budget deficit procedure since it joined the EU in 2004, it had to force deficit below 3% of GDP in 2012 and after to avoid the suspension of access to EU cohesion funds. The relative improvement of the budget deficit was among the best performances within the Union.

Keeping the very strict budget frames under worsening international environment and gradually weakening growth prospects the government had to introduce several corrective measures mostly to ensure the inflow of income side volumes and in a smaller extent to leash spending. During Autumn 2012 the government introduced three successive austerity measure packages. Amongst many others it contained extra tax on telephone calls, postponement of the wage increase for teachers, improvement of tax collection effectiveness, introduction of wire and cable tax, extra tax on public utilities companies. More tax austerities were prepared to come to force from 2013.

The unconventional economic policy involved infringement procedures at the European Court. The elevated macroeconomic risk and the moderate economic growth prospects compelled Standard and Poor's to downgrade further the sovereign rating of the country to the second notch below investment category, however Fitch affirmed BB+ and improved outlook to stable from negative and Moody's did not change its Ba1 rating with negative outlook early 2013. Deleverage of the financial sector continued.
Theoretically Hungary maintained the negotiation procedure started in 2011 on a stand-by, safety loan facility with the IMF and EU, effectively there were more signs of the lack of willingness from the Government side. The Government Debt Management Agency succeeded to finance the budget from domestic issues, but on a relatively high yield. Without the safety net of the IMF issues were relatively expensive and partially squeezed out the financial intermediary system from the household savings market. Investment sentiment was positive over the region and after that Hungary proved its intention to keep strict budget constraints.

Generally the business confidence decreased; however there were strategically important industries, such as automotive or agriculture, or sectors, such as micro- and small companies, where the Government expressed its positive commitment. As a new phenomenon, the Government began to sign bilateral strategic partnership contracts with large multinational companies, assuring different benefits for long term devotion to the country.

Improvement of the foreign trade balance was some HUF 24 bn over 2011(HUF 2003bn in 2012). The positive balance could be attributed to the run-up production of some large automotive industry corporate production and to the depressed domestic demand. The dynamics of export broke in 2012 and stagnated (+0.2% in EUR terms). Retail trade will shrank further expectedly by around 2% in 2012.

Structural reforms were almost halted. The modification of local authorities' responsibilities and funding structure divided the entities. Small regional government offices were set up. Restructuring the financial frames for university admittance triggered massive protest from students and professors. Debt of the smaller local authorities was taken over by the central government.

Unemployment remained almost flat. The restructuring of the durable unemployed to public social-employment (assuring wage sort of benefit instead of aid) continued, meanwhile conventional employment decreased. Earlier never experienced mass of workforce started employment abroad.

Exchange rate of HUF strengthened mostly during the first half of the year ending around 285 EUR/HUF in December. Interest rates were drove-down by the 5 successive base rate cuts (25bps each) to 5.75%.

Even though as a result of the central bank measures supporting growth the international financial markets' climate improved, Hungary is capable of financing its debt without any external non-market assistance and with only a slight decrease in the debt ratio, and the budget deficit is controlled; the business and the retail sectors have very little confidence in the short-term future prospects and fundamental conditions.

Regarding 2013 the Government already enacted austerities to ensure low deficit figure. Its net effect could be around 2% of GDP (~3% gross). The main items were the introduction of the transaction levy on bank cash and debit services, changing a scale of the temporary extra crisis taxes to regular ones – including the bank tax, increase in social security charges, connecting cash registers of shops to the tax supervision authority, introducing electronic traffic charges for trucks. State treasury issued EUR bonds domestically with a ceiling of EUR 2 billion and also an international bond issue amounting to USD 3.25 bn till February. The budget finance for 2013 seems to be solved as a large part of the needs were covered. Negative trends in real economy, including the limited investment, small domestic demand, stagnating industrial production a domestic production growth might be continued in 2013, also the change in the chair of the central bank governor could ease monetary disciplines. But strict budgetary policy, and the possible end of excess budget deficit procedure might create a firm base for a gradual growth from 2014.

HUNGARIAN BANKING SECTOR: EXCESSIVE TAXATION HOLDS BACK ECONOMIC GROWTH

Contrary to earlier expectations, the pressure on the Hungarian banking sector was not eased in 2012, in fact the negative factors increased, though hopefully only temporarily. After 2009, recession returned again to Hungary last year, in the fourth year of the global economic crisis. The declining performance, the uncertainties of the population, unfavourable labour market conditions, as well as the corporate sector's low investment appetite and paying capacity, created an extremely unfavourable environment for the sector.

The continued hectic measures and communication of the Hungarian economic policy makers during the year made the situation worse. Contrary to the earlier agreement with the Banking Association, the special bank tax was extended until H1 2014, and then the Government announced that the total amount of the bank tax would be continued even after 2013. The lump sum repayment at a preferential fixed exchange rate, which ended in February 2012, hit the banking sector with a HUF 370 billion loss. In total, 169,000 loan agreements were repaid at the fixed exchange rate, in the amount of more than HUF 984 billion. The parent banks made capital injections into their subsidiaries to offset the losses caused by the lump sum repayment and, at several banks, to support their ordinary operation; despite the recorded high loss reported by numerous banks.

According to preliminary 2012 data, only 26% of the eligible individuals opted for the fixed exchange rate scheme, the next component of the Home Protection Programme aiming loss sharing (102,000 "overflow" accounts with total HUF 3.6 billion in loans). The repayments of clients with FX-denominated loans applying for the fixed exchange rates before 29 March 2013 will be reduced and become predictable until June 2017. The regulators have also considered extending the deadline, and the Banking Association seems to be a constructive negotiation partner in regard to that proposal.

Following the replacement of some of the members of the Monetary Council, under pressure from its external members, the Council cut the 7% base rate, listed for August, to 5.75% by the end of 2012. Presumably, the interest rate cuts are likely to continue in 2013, as well, unless some unexpected event occurs. The transaction levy was introduced on 1 January 2013 as a new tax imposed on financial institutions. The preparations for that levy brought significant business policy and operational challenges to the sector and triggers further losses in revenues. Similarly, the short-term effects of the sets of measures which were announced in several stages during the autumn are, overall, restrictive and unfavourable for the financial sector in 2013.

All those factors cast a very negative shadow on the overall performance of the banking sector in a regional comparison, holding it back in its capital/fund allocation, as a result of which Hungary is dominated by the deleveraging process while, in other countries, lending has grown or at least stagnated since the onset of the crisis. It is clear that in Hungary the parent banks focused primarily on the reinforcement of the fundamental requirements, capital preservation, self-financing (which became a priority for all actors) and loss avoidance. For them, the Hungarian market does not seem attractive in the short or medium term, which is why they hibernate their activities in Hungary by cutting back their expansion plans, although they also stressed that they consider this market a strategically important in the long run.

The Hungarian banking system remained stable in terms of capital position. The foreign parent banks of the Hungarian banks expressed their commitment in 2012 with major capital increases made in several leading credit institutions during the year. The liquidity position of the sector is good, even with the stagnating deposit portfolio, although the launch of the government securities affected the HUF funding resources negatively. Lending did not pick up in 2012 either. Due to the weak, new credit market and non increasing deposit portfolio, the international tendency of adjustments on the asset sides dominated in the Hungarian banking sector, too, in 2012. The parent banks were forced to optimise their capital; in the course of which, deleveraging became a key issue. Due to stagnation in lending, the return on the parent bank resources was lower, and the volume of exits from refinancing increased; in fact, in Hungary, reaching one of the highest figures in within the region. The situation is also not helped by the fact that Hungary's rating does not reach the investment category in any of the credit rating agencies. However, it is a mitigating factor that, at the end of the year, the CDS premium showed some improvements. Based on the August 2012 figures, foreign investment in Hungary have shrunk by 37%, by EUR 13.3 billion since September 2010. Some of the refinancing was converted into capital.

According to the data available up to November, the banking sector is likely to close 2012, also, with a loss. Based on the data, without the lump sum repayment period, the gross income of the sector is down by 25.1%, and the interest, commission and fee income is down by 8.2% compared to the 2011 figures. In nominal terms banking costs stagnated, i.e., increased by only 0.5%, which in fact is a single-digit decrease in real terms, also considering the one-off cost-increasing effects of the continued cost cutting measures. The NPL figures continued to rise, albeit less dynamically. Provisioning has declined significantly since 2011. The problems of the euro zone, the lack of trust of the economic operators, the environment, the unusual and hectic economic policy instruments generating major effects, and the position of the parent banks (each factor reinforcing the effects of the others) contribute to preventing the sector from fulfilling one of its basic tasks: the support of economic growth in the event those factors do not vary significantly.

BULGARIAN BUSINESS AREA: THE REGION'S BEST PERFORMER?

Despite the weak external environment, likely recession of EU27 countries in 2012, Bulgaria proved to be the best performing SEE country as far as key macro figures are concerned. GDP growth remained positive at 0.5% in Q3 just like in previous ones. The export although slightly increased shows a declining dynamics. The austerity policies, implemented in a number of EU countries, have already weakened the external demand and exports growth. The industrial production deteriorated to -2.1% (yoy) in November 2012. There was only a slight recovery of the investment activity (up by 1 % y-o-y). Yet, the number of registered unemployed increased to 11.4% in 2012, which is slightly higher than the 10.4% in 2011. Thus, the GDP growth is driven mainly by domestic demand and household expenditures in particular (+3% yoy increase of household consumption in Q3). The annual inflation rose to 4.2% in 2012, mainly due to higher energy prices. The recovery of foreign investment activity continued in 2012, as for the first ten months it accounted for EUR 1.34 billion, almost 24% higher than a year earlier, but still below the pre-crisis levels. Current account balance went back into negative territory, mainly due to higher imports, registering a slight deficit of 0.1% of GDP in October.

2012 budget deficit will be significantly lower than initially forecasted, according to preliminary official data it will be around 0.5% of GDP. This is mainly due to higher budget revenues and strict control of public expenses. Due to prudent and consistent monetary and fiscal policy, the European Commission closed the Excessive Deficit Procedure against Bulgaria early 2012. During 2012 Bulgaria successfully issued Eurobonds what lets the country not to plan further borrowing on the international market in the short-term. At the end of the year the Ministry of Finance registered historical low long-term yield (3.45% for 10.5-year government securities compared to 5.35% in January 2012). Eurobonds were issued in the amount of EUR 950 million that cause an increase in the amount of gross external debt to EUR 36.7 billion, 92.8% of GDP in October, but deleveraging in the private sector continued. The country's foreign currency reserves reached historical height in 2012 (EUR 15.6 billion), providing a good coverage for the stability of the currency board.

Moody's, S&P's and Fitch all confirmed the investment grade rating (Baa2, BBB and BBB-, respectively) with stable outlook, emphasizing the strong fiscal policies, low level of public debt and positive growth prospects of the Bulgarian economy in mid-term. Although in 2012 Bulgaria met all Schengen criteria, it still has to face the problem that the Netherlands will not open its labor market for Bulgarians. Application for Eurozone entry despite meeting all criteria is not on agenda in Bulgaria, currently.

As far as the outlook for 2013 is concerned, 2013 budget draft was passed by the Bulgarian Parliament, that is to keep budget deficit at 1.3% of GDP with an expected 1.2% GDP growth for 2013. The government intends to continue its solid economic policy measures, with a plan to impose tax on interest earned on households' term deposits while keeping personal and corporate income tax flat at 10% in 2013, as well. However, the overall economic policy mix could be changed or at least finetuned in 2013, since Bulgaria's Prime Minister Boiko Borisov and his government resigned in February 2013 due to nationwide protest against high electricity prices and austerity measures which later turned into anti-government demonstration.

24 commercial banks and seven branches of foreign banks operated in Bulgaria in 2012. As of November 2012 their total assets accounted for BGN 82 billion, with an annual growth of 8.7% (3.9% in November 2011). Still the aftermath of the economic crisis and the slow economic recovery continued to weigh on the banking system's growth. As of November 2012, total loans in the banking system reached BGN 56.5 billion, registering an annual increase of 4.3%. At the same time, total deposits amounted to BGN 56.6 bn, marking an annual rise of 10.2%. The fastest growing segment in lending is corporate loans (+7.3% yoy), while in savings – deposits of individuals (+13.3% yoy). The challenging operating environment still results in the growth of non-performing loans in the Bulgarian banking system. There are promising signs, however, for reaching soon the turning point where their volume will begin to shrink. The major reason for this is that on a monthly basis their growth is decelerating or even negative.

In 2012 the Bulgarian banking system remained profitable, net income was BGN 566.8 m, registering an annual decrease of 3.3%. During each month of 2012, the impairments for provisions have registered a constant decrease on a yearly basis. At end 2012, the volume of impairments amounted to BGN 1.2 billion. According to a report the Bulgarian corporate banks witnessed the steepest decline in parent funding in the CEE region. The ROA of the banking sector was 0.71% in 2012. Bulgarian banking system continues to maintain a high level of capital adequacy of 16.7% and stable liquidity ratio of 26%.

ROMANIAN BUSINESS AREA: RECOVERY WITH EXTERNAL SUPPORT

Backed by IMF support, followed a remarkable GDP growth in 2011 (+2.5%) Romanian economy expectedly grew again in 2012 but at a significantly slower pace (0.2%- 0.5%). Parallel with the stagnation in the industrial output the construction industry grew by only 0.2% last year. The unemployment rate reached 7.1% at end of September and expectedly will reach the same level at the end of the year. The domestic demand was on the rise in 2012, reaching a 2.9% growth. The budget deficit for 2012 exceed somewhat IMF's target of 2.2% of GDP and reached 2.5%. Current account deficit for the period January-November recorded an amount of EUR 4.25 bn, which represents around 3.19% of GDP only. FDI inflow during the year was weak – in the January-September period was only 0.8% of GDP covering 30.2% of the current account deficit. The annual inflation showed a soaring level compared to 2011, and reached 4.95% y/y. During 2012 NBR cut 3 times monetary policy rate from 6% to 5.25%.

The rating agencies did not change their sovereign ratings of the long-term foreign currency debt during the year so that Romania currently has investment-grade credit ratings by two rating agencies. (Fitch: BBB- (stable); Moody's: Baa3 (negative); S&P: BB+ (1 notch below investment grade)).

In 2012 January-February the Ministry of Finance issued USD denominated bonds on the US market amounted to USD 2.250 bn. In October it was followed by another issue on the international market where were sold EUR 1.5 bn with maturity of 7 years, 380 basis points over swaps. 5% of issued bonds/T-bills are held by non-residents only, with a lot of room to raise their shares compared to other East European markets. After the dominant winning of the Social-Liberal Union in the Romanian legislative elections on 9th December, PM Victor Ponta most likely continues the reforms agreed with the IMF. Improving the absorption of EU funds is a major challenge for Romania in 2013 which if successful would be favorable to the development of GDP (IMF forecast for 2013: 1.6%).

40 commercial banks operated in Romania last year. The longer lasting global financial and economic crisis hit the Romanian banking sector severely also in 2012 (cumulative result for January-September was in the red with RON 110 million loss). Results of the banking system in 2012 were negatively influenced by the decrease of operating profits (lower net interest income as a result of marked adjustments in lending rates amid a modest rise in the volume of loans). The share of fixed-income government securities in total assets increased in 2012 securing a comfortable liquidity position and lower credit risk capital requirements. In terms of maturity, short-term loans increased faster compared to long-term ones. During 2012 there was a fierce competition for taking short-term deposits. Also, in 2012 the crowding out effect was significant due to large amount borrowed by the Minister of Finance and higher yields paid in order to finance budget deficit. Furthermore, paying high deposit rates generated pressures on keeping lending rates on new business high or lowering them at a relatively slower pace, as interest rate margins are influenced by the constrained profitability of the banking sector and the need to set up adequate provisions for non-performing loans, which still followed an upward trend. The deteriorating portfolios of the banks are reflected by the fact that in December 2012 the credit risk ratio (loss and doubtful) reached 29.9% (2011: 23.3%).

The loan to deposit ratio increased to 120.1% by the end of 2012 from 116.7% in 2011. The reasons behind are that total deposit volume decreased by 4.3% and gross credit volume increased by 3.3% in nominal terms in 2012 (based on November 2012 data). This increase is due mostly to RON depreciations. In 2012 the cost efficiency ratio of the sector was 58.1% (2011: 67.8%). The Romanian banking system is stable and at the end of 2012 the capital adequacy ratio reached 14.6%. Starting with January 2012 Romanian banks implemented IFRS accounting principles and new IFRS provision methodology.

FINANCIAL PERFORMANCE

In 2012, MKB Group had to cope with the negative impacts of the Europe wide macroeconomic environment and the strong focus on every element of risk management framework was characteristic for its operation. The Group's total operating income (net interest income plus non-interest income), decreased significantly by 27.97% to HUF 65,757 million (2011: HUF 91,298 million). Although net interest income's share showed an increase compared to the previous year (2012: 96.38%, 2011: 83.58%) it dropped in nominal terms. The nominal decrease mainly driven by the shrinking interest income earned on loans and advances to customers and the higher interest expenses paid on customers' deposits. The increase of Net interest income's share in gross operating profit has caused by the fall of other operating income and the loss from discontinued operations.

As per the end of 2012, Nextebank (formerly Romexterra Bank) and Romexterra Leasing, two of the Romanian subsidiaries of MKB Bank, were disclosed as discontinued operation (based on IFRS 5) in the Financial Statements of MKB Group. This disclosure reflects the intention of MKB Bank to sell two of its Romanian subsidiaries during 2013. From management point of view the total result of Nextebank and Romexterra Leasing are shown as Result from discontinued operations, part of operating income. Compared to the loss of HUF 5,607 million last year, the result amounted to HUF 7,857 million loss in 2012. The operating losses of both entities increased due to the lower level of business activity.

The falling net interest and commission income of the Group are in line with the shrinking lending business, and was also the result of the lower credit volume deriving partly from the early repayment mortgage loans denominated in foreign currencies.

Other operating income - including banking tax - showed a significant decrease from HUF 6,567 million gain in 2011 to HUF 3,299 million loss this year. The burden caused by banking tax was higher by HUF 11,014 million in 2012, since financial institutions were allowed to reduce the earlier defined bank levies by 30% of the loss recognized on the early repayment of foreign currency mortgage loans in 2011.

In 2012, HUF 6,718 million Restructuring expenses are disclosed, in connection with the restructuring process of the Group's business activity. During the year MKB Bank carried out collective redundancies, and closed 8 of the less profitable branches in Hungary.

The Group realized a negative profit before taxation from continuing operations with HUF 81,317 million for 2012, remarkably below the loss of HUF 103,642 million in 2011. While gross operating income reflected a significant decrease, impairments and provisions for losses are substantially below the previous year's level. As a result of the cost cutting activity of the Group operating expenses – taking into consideration restructuring expenses as well – reflected a remarkable, HUF 7,307 million decrease compared to 2011. The loss from equity consolidated participations decreased by HUF 548 million: the losses of MKB Általános Biztosító Zrt. and MKB Életbiztosító Zrt. decreased, while MKB Euroleasing Autopark OOD –the Bulgarian associate of the Group - became profitable in 2012.The profit before tax in MKB's stand-alone financial statements increased compared to the previous year level (2012: HUF 87,488 million loss, 2011: HUF 103,537 million loss). This could counterbalance the decreasing profitability of the Bulgarian Market and the Hungarian Leasing Market, where the subsidiaries of the Group became lossmaking in 2012. Previous year the losses recognized on the fixed repayment of foreign currency mortgage loans (HUF 15,357 million realized, HUF 21,894 million accounted for as impairment loss) heavily influenced the Group's financial performance. This reflected also on net provision charge, which decreased from 6.29% to 5.29% during the reporting period. Due to the losses before tax for 2012, the pre-tax return on average equity ratio (ROAE) and the pre-tax return on average assets ratio (ROAA) are still negative.

Taxes on income amounted to HUF 1,505 million gain (2011: HUF 11,777 million expense), which consisted of HUF 1,958 million net deferred tax income and HUF 453 million current tax expense. The deferred tax income included HUF 1,636 million gain, which was recognized at MKB Bank mainly due to the increase of Deferred Tax Asset - in line with the improving profitability expectations of the Bank. This Deferred Tax Asset was netted with the Deferred Tax Liability in the Statement of Financial Positions, according to the new netting requirements of Bayerische Landesbank applied by the end of 2012.

As a consequence of negative profit after taxation attributable to the shareholders of HUF 86,771 million for 2012, the Board of Directors proposes no dividend to be paid.

Key Figures 2012
(IFRS)
(HUF million)

	MKB Bank	Bulgarian Market *****	Romanian Market***	Hungarian Leasing Market*	Auxiliaries**	MKB Group
Total Assets	2 325 673	241 274	91 844	61 500	79 412	2 579 173
Share Capital	108 936	18 239	16 581	2 093	73 872	108 936
Reserves	24 497	8 840	(12 605)	4 761	(8 762)	21 072
Operating Income	61 142	11 529	(8 528)	3 192	11 846	65 757
Net interest income	*53 145*	*7 666*	*(397)*	*3 543*	*97*	*63 376*
Net commission income	*10 217*	*2 989*	*(1)*	*(36)*	*407*	*13 537*
Other	*10 994*	*875*	*(274)*	*54*	*11 376*	*10 315*
*Result from discontinued operations*****	-	-	*(7 857)*	-	-	*(7 857)*
Banking Tax	*(13 214)*	-	-	*(367)*	*(33)*	*(13 615)*
Operating Expenses	(47 202)	(6 419)	(661)	(1 568)	(16 380)	(60 114)
Restructuring expenses	(4 920)	-	-	-	(1 819)	(6 718)
Impairment and provision for losses	(72 938)	(8 700)	(3 010)	(2 846)	(74)	(87 650)
Goodwill impairment	-	-	-	-	-	-
Impairment of investments	(23 569)	-	-	-	(6)	(1 052)
Share of jointly controlled and associated companies' profit / (loss) before taxation	-	-	-	-	-	(449)
Profit Before Taxation from continuing operations	(87 488)	(3 589)	(4 342)	(1 222)	(6 432)	(81 317)
Profit After Taxation from continuing operations	(86 565)	(3 237)	(4 342)	(1 127)	(6 297)	(79 812)
Profit After Taxation attributable to the Shareholders	(86 565)	(3 237)	(12 199)	(1 127)	(6 297)	(86 771)
Pre-tax Return on Average Equity (ROAE)	-58,24%	-11,58%	-160,04%	-15,25%	-10,11%	-42,65%
Earnings per Average Outstanding Share (EPS)	-177,09%	-17,17%	-709,72%	-53,86%	-9,76%	-177,51%
Pre-tax Return on Average Assets (ROAA)	-3,49%	-2,75%	-20,36%	-1,74%	-9,39%	-3,21%
Cost-to-income ratio	77,20%	55,67%	-98,35%	49,11%	138,27%	91,42%
Capital adequacy ratio	9,04%	12,37%	18,12%	n.a	n.a	8,89%

* Autóhitel, Autólízing
**MKB Üzemeltetési, Euro-Immat Üzemeltetési, Befektetési Alapkezelő,Resideal, Exter-Immo, Exter-Bérlet, Extercom
*** Nextebank, Romexterra Leasing, CRM
****However the Management considered in 2012 Nextebank and Romexterra Leasing as an integral part of the operation, due to the decision of the Management and in accordance with IFRS the Result from discontinued operation is not included in Profit Before Taxation
***** MKB Unionbank AD

Key Figures 2011
(IFRS)
(HUF million)

	MKB Bank	Bulgarian Market *****	Romanian Market***	Hungarian Leasing Market*	Auxiliaries**	MKB Group
Total Assets	2 694 824	272 104	107 648	78 940	86 515	2 943 961
Share Capital	20 733	19 479	13 471	2 093	73 868	20 733
Reserves	58 132	12 863	(12 795)	6 117	(7 509)	56 762
Operating Income	87 274	11 112	(7 415)	4 056	12 816	91 298
Net interest income	*66 774*	*7 634*	*(577)*	*4 331*	*(17)*	*76 304*
Net commission income	*10 716*	*2 913*	*(1)*	*(38)*	*465*	*14 034*
Other	*11 905*	*565*	*(1 231)*	*210*	*12 401*	*9 168*
*Result from discontinued operations*****	-	-	*(5 607)*	-	-	*(5 607)*
Banking Tax	*(2 121)*	-	-	*(446)*	*(33)*	*(2 601)*
Operating Expenses	(60 288)	(6 268)	(1 038)	(1 435)	(17 449)	(74 138)
Impairment and provision for losses	(80 490)	(4 068)	(4 063)	(2 314)	(3 969)	(94 719)
Goodwill impairment	(26 564)	-	-	-	-	(30 692)
Impairment of investments	(23 469)	(47)	-	-	(354)	(1 667)
Share of jointly controlled and associated companies' profit / (loss) before taxation	-	-	-	-	-	(997)
Profit Before Taxation from continuing operations	(103 537)	729	(6 909)	307	(8 956)	(103 642)
Profit After Taxation from continuing operations	(112 740)	650	(9 045)	169	(9 176)	(115 419)
Profit After Taxation attributable to the Shareholders	(112 740)	650	(14 652)	169	(9 176)	(120 792)
Pre-tax Return on Average Equity (ROAE)	-40,62%	2,73%	-330,36%	3,65%	-11,80%	-41,86%
Earnings per Average Outstanding Share (EPS)	-543,78%	4,21%	-1759,92%	8,07%	-12,44%	-582,61%
Pre-tax Return on Average Assets (ROAA)	-3,81%	0,51%	-20,25%	0,36%	-10,38%	-3,68%
Cost-to-income ratio	69,08%	56,41%	-57,42%	35,37%	136,14%	81,20%
Capital adequacy ratio******	9,17%	13,34%	16,32%	n.a	n.a	9,09%

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

The loss before tax of **MKB Bank** amounted to HUF 87,488 million in 2012, mainly due to the impairments and provisions for losses, the banking tax and the impairment losses accounted for subsidiaries of the Bank. These facts were manifested in the pre-tax return on average equity, that remained negative in 2012 and CIR which increased from 69.08% in 2011 to 77.2% in 2012: the achievements of the cost cutting measurements were counterbalanced by the remarkable shrinkage in operating income.

The pre-tax ROAE of **Bulgarian Market** decreased significantly amounted to -11.58% compared to 2.73% of the previous year-end. During the business year, MKB Bank's ownership in Unionbank increased from 94% to 97%. (Due to exercise of EBRD option)
There was a moderate increase (5.51%) of pre-provision net operating profit amounting to HUF 5,111 million (2011: HUF 4,844 million). Comparing to previous year, the ROAA deteriorated from 0.51 % to -2.75% which reflected the higher impairment losses and conservative business activities that were consistent with the increased risk from the economic crisis. Impairment losses at Unionbank rose by HUF 4.6 billion and reached the amount HUF 8.7 billion at the end of 2012. On one hand additional (HUF 1,8 billion) impairment allocation was necessary concerning individual assessment, on the other

hand Unionbank realised additional portfolio impairment by HUF 2 billion. As a result of above mentioned fact the profit before tax remarkable decreased from HUF 0.7 billion to HUF -3.6 billion. Earnings per average outstanding share (EPS) reduced from 4.21% to -17.17%. Cost to income ratio was better than at group level (91.42%) and was slightly improved to 55.67% from the 56.4% in 2011.

The composition of **Romanian Market** changed in 2012 as MKB Bank is going to sell the total participation of MKB Romexterra Leasing beside Nextebank. In accordance with IFRS 5, the Romanian company's figures are reclassified to discontinued operations in the consolidated financial statements. During the business year, MKB Bank's ownership in Romexterra Leasing also increased from 94.78% to 97.57% and in Nextebank grown from 92.42% to 94.98%.
Due to the above mentioned fact Corporate Recovery Management S.R.L is the only subsidiary of MKB remained on Romanian Market. Main activities of the company are claim management and factoring.

At the end of the reporting year, ROAA deteriorated to -20.36% from -20.25% and ROAE increased to -160.04% (2011: -330.36%), though still remained in the negative range. The pre-provision net operating profit shows decrease from HUF -8.4 billion to HUF -9.2 billion, the figure is still negative due to operating expenses exceeded the operating income.

The **Hungarian Leasing Market's** ROAE deteriorated and amounted to -15.25% compared to 3.65% of previous year-end. The ROAA slightly declined to -1.74% in 2012, due to the profit before tax decreased from HUF 0.3 billion to HUF -1.2 billion as a result of the ongoing crisis on the leasing market. The CIR further increased to 49.11% in 2012 from 35.37% in the previous year, as the fall of operating income exceeded the increase of operating expenses. This was mainly the result of shrinking business activities in the car finance markets.

Net interest income

Net interest income, the most important component of revenue, amounted to HUF 63,376 million, 16.94% short of HUF 76,304 million in 2011. Exceeding the shrinkage in the previous year, the average interest-earning assets decreased also this year (by HUF 277 billion), driven by the reduction of average loans and advances (down by HUF 259 billion). From one hand, the level of risk provisioning increased, while also the gross volume of loans and advances decreased compared to the previous year.

The decline was caused partially by the intentional decrease of the exposure in project and syndicate project loans, however, in retail segment the final repayment of mortgage loans denominated in foreign currencies contributed significantly to the decrease in the volume as well. Furthermore drop in the volume of loan portfolio was caused by the strengthening of Hungarian domestic currency against EUR and CHF as foreign currency loans represent significant portion of the total portfolio. Simultaneously, the tendency of increasing net margin has continued with an increase from 3.07% as of 2011 to 3.22%

Following the tendency of the previous year, the average interest-bearing liabilities decreased by HUF 230 billion. The reduction was driven by the average volume of customer accounts and deposits (by HUF 225 billion). As far as the closing volumes considered, the Bank deposits decreased mainly due to the early and planned repayments of BLB refinancing by HUF 285 billion.
At the same time Subordinated debts decrease was only caused by the strengthening of Hungarian Forint as subordinated debts of MKB Bank are denominated solely in EUR and CHF. The Current and deposit accounts of retail clients decreased compared to the previous year's level by 5.09% primarily in case of micro enterprises and private clients. Corporate clients also contributed to the shrinking deposit of funds with 3.9% decrease.

Data in HUF million except stated otherwise

Average interest asset/liabilities by main operating segments

million HUF

	MKB Bank		MKB Unionbank		MKB Group	
	2 012	**2 011**	**2 012**	**2 011**	**2 012**	**2 011**
Average Loans and advances	1 847 454	2 119 521	179 127	173 138	1 774 663	2 033 517
Average securities	551 648	456 252	11 278	7 121	237 514	255 296
Average interest-earning assets	**2 399 101**	**2 575 772**	**190 405**	**180 258**	**2 012 177**	**2 288 812**
Average interest rate %	*5,83*	*5,80*	*7,75*	*8,39*	*7,06*	*6,49*
Average customer and deposit accounts	1 954 990	2 153 843	207 595	210 991	2 129 709	2 354 878
Average issued securities	278 869	279 462	4 367	1 529	160 675	165 096
Average interest-bearing liabilities	**2 233 859**	**2 433 305**	**211 962**	**212 520**	**2 290 384**	**2 519 974**
Average interest rate %	*3,90*	*3,49*	*3,37*	*3,66*	*3,84*	*3,42*
Difference betwen average rates %	**1,93**	**2,31**	**4,38**	**4,73**	**3,22**	**3,07**

In 2012, **MKB Bank reported** HUF 53,145 million net interest income, which lagged behind the level in previous year (2011: HUF 66,774 million), following mainly the shrinking business volume and increasing provision level. As a result of this fact, Interest income related to Loans and advances to banks/customers decreased by HUF 6,402 million, while Interest expense on Customer/Banking deposits increased by 1.13%, (HUF 807 million).
As in 2011 compared to the previous years, in 2012 the average volume of interest-bearing assets decreased from HUF 2,576 billion in 2011 by 6.86% to HUF 2,399.7 billion. The significant reduction was mainly driven by interest bearing assets due to the early repayments of foreign currency loans at the end of prior year and in the first two month of current year.
Following the tendency of the previous year, the average interest-bearing liabilities decreased by HUF 199 billion. The reduction was driven by early repayments resulting a fall in the average volume of customer accounts and deposits (by HUF 199 billion). As far as the closing volumes considered the average interest bearing assets and liabilities shows a higher relative decrease than observing averages due to fluctuations of the balances.
In addition to that, early repayments not merely had a substantial impact on MKB Bank's foreign currency mortgage loan portfolio; it has also affected deposits of the clients with disposing a higher level of savings than the market average to finance early repayments.

In 2012, the average portfolio of **interest-bearing assets of Unionbank** expanded from HUF 180.3 billion in 2011 by 5.63 % to HUF 190.4 billion. The increase of the average portfolio was resulted from the growth in private segment (13.65%). Average loans grew by HUF 5.9 billion. The rise related to private individuals was mainly denominated in EUR and BGN. Meanwhile, in corporate segment (SME and Micro segment) there was a reduction (8.44%) in Bulgarian local currency. At the same time, average portfolio of securities rose by 58.3% and amounted to HUF 11.3 billion.

Compared to the growth in previous year (1.30%) the average portfolio of interest-bearing liabilities remained almost at the same level and amounted to HUF 211.9 billion. In 2012, the average deposit portfolio slightly decreased from HUF 210.9 billion (by 1.61%) to HUF 207.6 billion. Compared to previous year, the average volume of issued securities increased and reached HUF 4.4 billion in 2012 (2011: HUF 1.5 billion). The moderate business activities and harsh competition on deposit markets resulted in an increase of net interest margin from 4.73% to 4.38%.

Romanian Market's net interest expense reduced from HUF 0.6 billion to HUF 0.4 billion during 2012 due to the decrease of interest expenses on deposits from other banks by 31.48% at Corporate Recovery Management in 2012.

Hungarian Leasing Market's net interest income further decreased by 18.20% to HUF 3.5 billion compared to previous year because of the drop of interest income from lending and money market business by 24.47% to HUF 3.4 billion at MKB Euroleasing Autóhitel Zrt (2011: HUF 4.5 billion) as the car leasing market is stagnated in Hungary.

Non-interest income

For 2012, the total non-interest income dropped to HUF 2,381 million (2011: HUF 14,994 million gain), representing 3.62% of gross operating income. The significant decrease of such income was the net result of different factors as detailed below.

Total net commission and fee income of HUF 13,537 million reduced slightly by 3.54% from HUF 14,034 million in 2011. The decrease was partially driven by Other commission and fee, the expenses paid to the Hungarian Deposit Insurance Fund increased by HUF 206 million. In line with that net income from payment transactions and securities businesses dropped due to the moderate business activity, while net credit related fees showed a remarkable increase of HUF 1,026 million. This growth in net credit related fees was caused by the shrinkage of the fees paid to Bayern LB concerning to a special construction of guarantee provided by the parent company (2012: HUF 1,959 million, 2011: HUF 3,154 million).

Other operating income with HUF 3,299 million loss for 2012 was significantly below the total amount of HUF 6,567 million net gain for 2011. This remarkable decline has been resulted by different effects. On the one hand Expenses relating to bank levies amounted to HUF 13,615 million in 2012 compared to the amount of HUF 2,601 million on MKB Group level last year. This year the banking tax was computed based on the adjusted balance sheet total for 2009 again, while in 2011 the banks were allowed to reduce the earlier defined bank levies by 30% of the total loss suffered by the fixed repayment of foreign currency loans. At the same time, the result earned on securities and trading derivative transactions showed a robust increase compared to 2011, mainly caused by the positive fair value changes following the favourable market environment. Major decrease is due to other income amounted to HUF 6,382 million loss opposite to the gain last year. Last year's positive result included a one-off gain with HUF 7,569 million, which was realized on the conversion of 120 million subordinated euro bonds to subordinated loan denominated in Swiss franc.

Result from discontinued operations reflects the disclosure of Nextebank and Romexterra Leasing. Nextebank is disclosed as discontinued operation in the Financial Statements of MKB Group starting from previous year-end and from 2012 Romexterra Leasing is also disclosed in accordance with IFRS5, because the management of MKB Bank is committed to sell these Romanian subsidiaries. As a result of the decision, the total result of these entities was reclassified, and is disclosed among Result from discontinued operations as part of non-interest income. Compared to the prior year loss of HUF 5,607 million, the result amounted to HUF 7,857 million loss in 2012. The losses of both companies increased compared to previous year end due to moderate business activity.

Within **MKB's non-interest income**, HUF 10,217 million net fee and commission income in 2012 remained almost at previous year's level, which amounted to HUF 10,716 million. Other operating income significantly decreased on the one hand due to the higher burden of banking tax (2012: HUF 13,214 million, 2011: HUF 2,121 million) and on the other hand due to the fall of other income as detailed above in Group level analysis.

Unionbank's net commission and fee income was slightly up by 2.60% to HUF 2,989 million in 2012. The significant increase was eventuated due to extension of payment services (HUF 198.9 million) and other commission income (HUF 10.3 million). Meanwhile net income from lending business was dropped by 7.68% to HUF 1.560 million. As a consequence, the total amount of net commission and fee incomes have reached HUF 10,217 million at the end of year 2012.

Romanian Market's net commission and fee income remained the previous year's level.

Impairments and provisions

Impairments and provisions for losses reflect a remarkable decrease compared to the previous year. However this reduction needs to be analysed detailed highlighting one-off effects. In 2011, the Group recognized HUF 37,251 million impairment losses on mortgage loans denominated in CHF and EUR due to the early repayments. In addition HUF 30,692 million impairment loss was recognized on goodwill, since the total goodwill of the Group was impaired by the end of previous year. It is expressing that the Group continued to follow a prudent approach in respect of credit risk portfolio management, which caused further increase of provision this year.

Total provision for losses in the year 2012 was HUF 87,650 million, which has derived from Loans and advances. Concerning Loans and advances the Group recognized HUF 76,874 million impairments and realized HUF 9,503 million direct write-off.

The total credit risk provisions amounted to HUF 264,830 million in the statement of financial position (2011: HUF 256,786 million). The increase was driven by MKB Bank, where impairment losses on loans and advances increased by HUF 9,564 million compared to prior year. The growth derived from Corporate segment, following the tendency of the previous periods. It was concentrated in Real estate finance due to the continuing deterioration of domestic real estate market.

Restructuring cost

During 2012 restructuring expenses have been realized at MKB Bank, MKB Üzemeltetési Kft and Euro-Immat Kft. At MKB HUF 4,920.4 million expense was recognised concerning restructuring. The main element of the figure was personnel related expense (in the amount of HUF 3,191.3 million) due to the collective redundancy and on the other hand cost of closing of 8 MKB branches. The total restructuring cost is HUF 1,795 million at Üzemeltetési Kft and HUF 24.5 million at Euro-Immat Kft.

Operating costs

In the adverse market environment, cost discipline remained a strong priority in 2012. Disclose of restructuring expense separately in 2012 had major decreasing effect on operating cost. The level of Operating expenses – even taking into account restructuring costs as well - declined significantly by 9.86% to HUF 66,832 million for the current year (2011: HUF 74,138 million).

Occupancy costs reduced by 28.08% to HUF 18,811 million on MKB Group level due to lower amount of amortisation of intangible assets by HUF 6,316 million. In 2011 impairment losses were higher because of the revaluation of softwares, resulting HUF 8,319 million additional impairment losses. At the end of 2012 the Group revaluated Globus – the core system of the Bank – recognizing HUF 3,230 million additional impairment loss at Euro-Immat Kft.

General and administrative costs reduced by 26.35% compared to 2011. The decrease derived from IT cost, Legal and advisory services and other administrative expenses. In 2012 at MKB lower amount of IT cost was realized by HUF 155.6 million. Legal and advisory cost decreased by HUF 700.2 million mainly because of less (by HUF 920.7 million) Project expert fees at the Bank. Other administrative expenses also decreased by HUF 2,046 million. The disclosure of certain taxes (not on income) changed in 2012, as they were reclassified from Other administrative expenses into Other expenses – part of Operating income - according to the Group accounting Manual (2011: HUF 2.7 billion).

Simultaneously, marketing and public relation costs decreased by 30% in this year. Change was derived from less marketing cost (by HUF 561.4 million) and donation to foundations (by HUF 140.6 million).

The Group Cost to Income ratio (CIR) (91.42%) significantly deteriorated compared to 2011 (81.20%), which was caused by MKB's less efficient CIR. Besides this fact Romanian Market had negative operating income. High CIR ratio of Hungarian Leasing Market caused further damage in Group CIR.

MKB Bank's operating costs amounted to HUF 47,202 million with a 21.7% decrease compared to HUF 60,288 million total costs as of 2011. Decrease derived from General and administration expenses and occupancy cost due to the strict cost control and restructuring measurements.

During 2012, regular wages and salaries declined by HUF 1,869 million due to the collective redundancy and closed branches (Number of employees in 2012: 2.056, in 2011: 2.203). Remarkable decrease is visible regarding Salaries (HUF 906 million) and food allowances (HUF 195 million). Termination expenses related to the restructuring were reclassified into Restructuring expenses (HUF 2.5 billion) in 2012 causing further decrease in operating cost.

The major shrink (34.9%) eventuated concerning occupancy cost (by HUF 5,927 million), mainly due to depreciation and amortization. Intangible assets regular amortisation decreased by HUF 1,051 million and impairment loss reduced by HUF 4,418 million as of the above mentioned additional impairment losses accounted for previous year.

Concerning stand-alone figure, less Other administration expenses have been recognized at MKB (by HUF 4,727.9 million). There were remarkable decrease in Legal and advisory services (by 46.45%) concerning lower amount of project expert fees (HUF 467.9 million). IT costs due to less IT operating and expert fees reduced by 8.04% to HUF 7,232.6. Publicity and advertising also reduced because of fewer sponsors and PR expenses the cost declined by 31.76% to HUF 1,325.3 million.

The Bank's cost to income ratio increased to 77.20% compared to 69.08% in 2011, which was primarily driven by the shrinking operating income (reduced by HUF 26,132 million) despite the achievements of the cost cutting measurements (operating expenses decreased by HUF 13,086 million).

General and administrative cost of Unionbank slightly increased (by HUF 150.7 million) from HUF 6,267.9 million to HUF 6,418.6 million as per the end of 2012. Salaries and wages were up by 1.98% to HUF 2,471 million in line with the rose of number of employees from 700 to 713 compared to 2011. The other administrative expenses increased by 1.21% to HUF 3,045.7 million due to the higher level of IT costs by 14.43% (HUF 360.2 million). Amortisation and depreciation costs rose by 11.48% to 525.9 million. Regular depreciation of Operational and office equipment grown by HUF 33.59% to HUF 254.7 million. Due to the above mentioned circumstances the CIR changed from 56.41% to 55.67% at the end of 2012.

General and administrative cost of Romanian Market's decreased by 36.36% from HUF 1,038 million to HUF 661 million in 2012 due to the sharp reduce of personnel expenses by 68.71% to HUF 196.1 billion at Corporate Recovery Management. In line with the fall the number of employees has shrunk from 17 to 12 compared to 2011. Other administrative expenses rose by 15.24% to HUF 450.3 million at CRM. The increase derived from Legal and advisory services (by HUF 303.3 million) while Communication and other selling costs robustly decreased from HUF 200.4 million to HUF 9.2 million.

General and administrative cost of Hungarian Leasing Market's increased by 9.27% to HUF 1,568 million compared to 2011. The main changes recognized at MKB Euroleasing Autólízing Zrt. where other administrative expenses grew by HUF 68.6 million and expenses from legal and advisory services by HUF 25.6 million. The cost to income ratio deteriorated from 35.37% to 49.11% at the end of reporting year.

FINANCIAL POSITION MANAGEMENT

In 2012, the Group's total assets decreased by 12.39% to HUF 2,579 billion compared to previous year's level of HUF 2,944 billion. At the end of 2012 not only the assets of Nextebank, but also the assets of Romexterra Leasing are disclosed in accordance with IFRS5 on one line: Assets from discontinued operations as held for sale, following the Management's intention to sell these companies during 2013.

The decrease of total assets was the net result of different factors as detailed below:

Cash reserve showed a remarkable growth of 28.64%, and amounted to HUF 413,790 million in 2012 mainly due to the increased volume of short term bonds issued by the National Bank of Hungary held at MKB Bank. Simultaneously Investments in securities held for AFS purposes decreased by 20.66% driven by the volume of government bonds, while trading securities also became lower by 62.98% by the end of 2012. These changes reflect the liquidity policy of MKB Bank, which resulted change from Hungarian government bonds to bonds of NBH in order to provide higher liquidity.

Loans and advances to banks fell by 4.39% to HUF 81,316 million because of the deposits held at NBH. Simultaneously Loans and advances to customers became lower by 16.86%, which was partially caused by the decreased credit volume as a result of the fixed repayments of foreign currency mortgage loans. Other reason of the change is the strengthening of the Hungarian Forint, as major part of the exposures is denominated in foreign currencies.

Other assets dropped by 51% by the end of 2012 and amounted to HUF 16,076 million, mainly because there was tax claim disclosed in connection with the relief (30%) of banking tax due to the losses recognized on the fixed repayments of mortgage loans.

Intangible assets reduced also significantly compared to the previous year, mostly caused by the impairment losses recognized on softwares due to revaluation to their market value.

Deferred Tax Assets decreased by HUF 3,645 million compared to 2011, while Deferred Tax Liabilities reduced by HUF 5,604 million. This shrinking was caused by the new offsetting method introduced by Bayern LB at the end of 2012, which allowed netting of deferred taxes to a wider extent, decreasing the total assets of the Group.

Beyond the impacts of annual business activity, strengthening of HUF opposed to other foreign currencies (most importantly EUR and CHF) have also affected liabilities resulting in a lower overall amount in 2012 (i.e. HUF 2,444 billion) compared to previous year.
Deposits from Banks and Liabilities to Banks dropped by 31.01% from HUF 977 billion in 2011 to HUF 674 billion in 2012 mainly due to the early and planned repayments of financial deposits provided to MKB by Bayerische Landesbank.
The most significant element of liabilities, Deposits from clients and the value of current accounts at MKB, have also reduced by 5.09% to the level of HUF 1,389 billion to 2012 from which corporate deposits decreased by 5.87% to HUF 592 billion and the retail clients deposits by 4.49% to HUF 797 billion in 2012.

Issued securities remained at the same level over the period with a closing value of HUF 170,246 million as at year-end, 2012. Until the end of the financial year MKB has issued bonds in the amount of HUF 62,676 million, from which HUF 41,550 million was initially issued volume, while there was re-issuance of the bonds matured during the year in the value of HUF 21,126 million. Beyond the bonds denominated in HUF, there were also offerings denominated in foreign currencies at the nominal value EUR 49.64 million and USD 25.73 million.

BayernLB, the principal shareholder of MKB Group has increased share capital in the first quarter with HUF 62 billion and in third with total amount of HUF 65 billion.
On 2nd of June, EBRD have exercised its option for selling half of the shares holding in MKB UnionBank A.D., resulting decrease in non-controlling interest of MKB by HUF 849 million therefore concluding an overall 97% shares in the subsidiary.

At the end of 2012, **Unionbank's total assets** decreased by 11.33% from HUF 272.1 billion at previous year-end to HUF 241.3 billion. During 2012, the loan portfolio reduced by 16.91%, to HUF 185.4 billion compared to the previous year. The retail segment which contains the micro companies & individual clients and households remained almost the previous year's level, with a sligh declined by 1.04% to HUF 95.2 billion (2011: HUF 96.2 billion). The total amount of loans to the corporate segment was down by 14.74% to HUF 35.9 billion and SME segment also reduced from HUF 73.9 billion to HUF 60.7 billion.
Current and deposit accounts reduced by 10.7% from HUF 234.2 billion in 2012. The majority of the decrease originated at SME segment (by 29.5%) amounted to HUF 18.8 billion. Customer deposits decreased by 2.29% to HUF 149.7 billion. Observing without FX effect large corporate shows 9.37% and retail segment 4.89% increase.
During the reporting period, Unionbank kept on extending its client base and reported a substantial rise in the number of clients. At the end of the year 2012, the number of clients was up by 4.79% reacing 113,826. Compared to 2011, the number of new clients was remarkable higher, amounted to 19.523 in the reporting year (2011: 9,490).

In the financial year, **total assets of Romanian Market** slightly decreased from HUF 19,045 million to HUF 18.853 million. At Corporate Recovery Management loans and advances to banks increased by HUF 6,201.5 million to HUF 6,665.9 million meanwhile customer loans eventuated in the SME segment lagged behind by 34.6%, amounted to HUF 11,737.2 million. Bank deposits dropped from HUF 23,936.2 million to HUF 21,305.5 million at Corporate Recovery Management.

Comparing to 2011, the **total assets of Hungarian Leasing Market's** further reduced by 22.09% to HUF 61.5 billion due to 31.31% decrease from HUF 53.5 billion to HUF 37.1 billion in the volume of assets at MKB. Euroleasing Autohitel Zrt. as loans and advances to customers decreased by to HUF 34.6 billion. Bank deposits declined from HUF 44 billion, by 30.06% to 30.8 billion during the reporting period. At the end of the year 2012, the number of clients was down by 7.44% reaching 36,703 due to the decline in the number of Euroleasing Autohitel Zrt's clients.

CAPITAL MANAGEMENT

The main owner of the MKB, The Bayern LB with strong capital background contributes to its safety, promotes customer confidence, and helps the Bank to manage the negative effects on its profitability which come from macroeconomic turbulences. MKB Bank's policy is to remain well capitalized in order to provide adequate business flexibility and to support risks associated with its activities. As capital is a critical resource, it is actively managed by the Bank. In case of additional capital needs the owners provide the capital needs in from of capital injection based on unique decision. The capital management processes take into account the changes in balance sheet and risk-adjusted assets, the capital structure and the costs and availability of various types of capital, investment plans and shareholder returns, while satisfying the requirements of regulators, rating agencies, financial markets and depositors. It requires active management of both risk-weighted assets and the capital base.

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

In June 2004, the Basel Committee on Banking Supervision released its report entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II). The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing substantive changes in the treatment of credit risk. Moreover, an explicit new capital charge for operational risk has also been introduced, as well as increased supervisory review and extended public disclosure needs.

The shareholders of the Bank are strongly committed to maintain the capital adequacy and take all necessary actions (capital increase, subordinated debt).

Tier 1 Capital includes securities with no fixed maturity date, such as ordinary shares. At December 31, 2012, as an actual figure of tier1 capital the Group had HUF 99.7 billion under Hungarian Supervisory Regulation. In order that the Bank has ability to keep the strong capital position in the domestic market the owners have increased the issued capital with HUF 127 billion which was completed in January and October, 2012 (in January thereof HUF 34.87 billion agio). Due to the huge increase of capital, the Bank has more regulatory capital (HUF 154 billion) than it was in 2011. At the end of 2012 the capital adequacy ratio which was calculated according to the Hungarian Accounting Regulations was 8.89% (2011: 3.71%). The ratio did reach the minimum value which prescribed by law in an expected measure (8%).

The BayernLB has increased the issued capital with HUF 36.3 billion which was completed on 21th of February, 2013.

During the capitalization process at the year-end 2011, bln 62 HUF 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 of February 2012. The table 5.15 contains the complete information about the capital situation of the Bank before and after the accomplished capital increase.

Risk-weighted assets including operational and market risk decreased by 16.8% from 2011 (HUF 2,080.8 billion) and amounted to HUF 1,731.9 billion besides approximately 4.3% strengthening of domestic currency.

Legal limits defined by the Act CXII of 1996 on Credit Institutions and Financial Enterprises (Banking Act) are the followings:

- Banking Act 79-80.§ large loan limit → no excess
- Banking Act 83.§ investment limit → no excess
- Banking Act 85.§ total investment limit → no excess

The CAR of Unionbank decreased to 12.37% from 13.34% of previous year level under local supervisory regulation. The regulatory capital was HUF 21,758 million which was significantly lower than the previous year-end figure (HUF 27,017 million) due to the interim loss and the strengthening of Bulgarian domestic currency. There was additional capital increase in amount of BGN 6 million. Regarding the decrease of Regulatory Capital in BGN and deterioration of CAR, the main reason was the accumulated loss for the year with BGN 21.9 million.

Meanwhile the risk asset decreased by 13% amounted to HUF 175,899 million according to local supervisory gap which could be explained by strengthening of Bulgarian domestic currency, decreased of internal deposit to MKB and provision charge.

The CAR of Romexterra Bank significantly increased to 18.12% from of previous year-end level 16.32% according to supervisory local gap. The regulatory capital was HUF 6,609 which was lower than the previous year-end figure (HUF 7,765 million) due to the strengthening of Romanian domestic currency and the accumulated loss for the year which was compensated by the capital increase (RON 65 million, thereof subordinated debt conversion by EUR 5 million). Meanwhile the risk weighted asset decreased by 22.4% amounted to HUF 36,467 million from HUF 47,578 million in 2011.

Budapest, 5 March, 2013

dr Pál Simák
Chairman & Chief Executive