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Consolidated Interim Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 27 August, 2013

June 30, 2013

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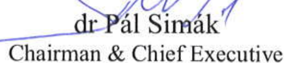
MKB Bank Zrt.
Consolidated Statement of Financial Position as at June 30, 2013

	Note	2013	2012
Assets			
Cash reserves		285 137	413 790
Loans and advances to banks	**5**	33 687	81 316
Trading assets	**6**	40 077	33 878
Investments in securities	**8**	254 939	229 230
Loans and advances to customers	**9**	1 381 222	1 658 357
Assets from discontinued operations as held for sale	**30**	293 824	66 173
Other assets	**10**	17 230	16 076
Deferred tax assets		-	433
Investments in jointly controlled entities and associates	**11**	7 718	7 686
Intangibles, property and equipment	**12**	70 258	72 234
Total assets		**2 384 092**	**2 579 173**
Liabilities			
Amounts due to other banks	**13**	408 598	674 216
Deposits and current accounts	**14**	1 230 448	1 389 037
Trading liabilities	**15**	20 060	21 835
Micro hedge derivative liabilities held for risk management	**16**	106	214
Liabilities of discontinued operations as held for sale	**30**	264 725	59 497
Other liabilities and provisions	**17**	30 977	27 507
Deferred tax liabilities		281	264
Issued debt securities	**18**	187 849	170 246
Subordinated debt		102 219	101 642
Total liabilities		**2 245 263**	**2 444 458**
Equity			
Share capital	**19**	145 250	108 936
Reserves	**20**	(10 124)	21 072
Total equity attributable to equity holders of the Bank		**135 126**	**130 008**
Non-controlling interests		3 703	4 707
Total equity		**138 829**	**134 715**
Total liabilities and equity		**2 384 092**	**2 579 173**

Budapest, 27 August, 2013



dr Pál Simák
Chairman & Chief Executive

János Rádi
Director

MKB Bank Zrt.
Consolidated Statement of Comprehensive Income for the year ended June 30, 2013

	Note	2013	2012
Income statement:			
Interest income		64 679	73 011
Interest expense		34 116	45 745
Net interest income		**30 563**	**27 266**
Net income from commissions and fees		8 467	5 386
Other operating income / (expense)		(20 048)	(6 062)
Impairments and provisions for losses	21	21 129	16 575
Operating expenses		24 009	27 914
Share of jointly controlled and associated companies' profit / (loss) before taxation		(140)	(69)
Loss before taxation		**(26 296)**	**(17 968)**
Income tax (credit) / expense	22	237	263
Loss for the year from continuing operation		**(26 533)**	**(18 231)**
Loss for the year from discontinued operation	30	(5 887)	(1 596)
LOSS FOR THE YEAR		**(32 420)**	**(19 827)**
Other comprehensive income:			
Other equity transaction with Non-controlling Interest		-	(7)
Revaluation on AFS financial assets	8	476	8 344
Revaluation of equity put option		(19)	(211)
Exchange differencies on translating foreign operations		77	(2 251)
Other comprehensive income for the year net of tax		**534**	**5 875**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(31 885)**	**(13 952)**
Profit / (Loss) attributable to:			
Loss for the period from continuing operation		(26 438)	(17 976)
Loss for the period from discontinued operation		(5 685)	(1 495)
Shareholders of the bank		**(32 123)**	**(19 471)**
Loss for the period from continuing operation		(95)	(254)
Loss for the period from discontinued operation		(202)	(101)
Non-controlling interests		**(297)**	**(355)**
Total comprehensive income attributable to:			
Total comprehensive income from continuing operation		(26 098)	(9 601)
Total comprehensive income from discontinued operation		(5 566)	(4 139)
Shareholders of the bank		**(31 664)**	**(13 740)**
Total comprehensive income from continuing operation		(21)	59
Total comprehensive income from discontinued operation		(200)	(271)
Non-controlling interests		**(221)**	**(212)**
Net income available to ordinary shareholders		(32 123)	(19 471)
Average number of ordinary shares outstanding *(thousands)*		94 935	27 136
Earnings per Ordinary Share *(in HUF)*	23		
Basic		(338)	(718)
Diluted		(338)	(718)
Dividend per Ordinary Share *(in HUF)*		-	-

Budapest, 27 August, 2013

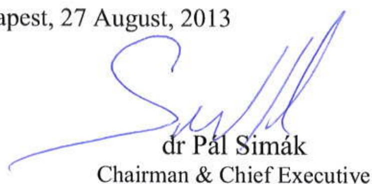
dr Pál Simák
Chairman & Chief Executive

János Rádi
Director

MKB Bank Zrt.
Consolidated Statement of Changes in Equity for the year ended June 30, 2013

	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 2012		**20 733**	**184 089**	**3 331**	**(114 095)**	**(12 397)**	**(4 166)**	**6 594**	**84 089**
Issue of share capital and share premium	**19, 20**	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**
Issue of share capital and share premium	**19, 20**	36 314	-	-	-	-	-	-	**36 314**
Dividend for the year 2012		-	-	-	-	-	-	-	**-**
Loss for the year		-	-	-	(32 123)	-	-	(297)	**(32 420)**
Other comprehensive income for the year		-	-	293	(2 379)	481	2 360	(221)	**534**
First / (final) consolidation of subsidiaries		-	-	-	340	-	-	-	**340**
Change in non-controlling interests during the period		-	-	-	(169)	-	-	(485)	**(654)**
At 30 June 2013		**145 250**	**222 886**	**2 125**	**(237 608)**	**2 473**	**-**	**3 703**	**138 829**

Budapest, 27 August, 2013



dr Pál Simák
Chairman & Chief Executive

János Rádi
Director

MKB Bank Zrt.
Consolidated Statement of Cash Flows for the year ended June 30, 2013

	Note	2013	2012
Cash flows from operating activities			
Profit / Loss before taxation		**(26 296)**	**(81 317)**
Adjustments for:			
Depreciation, amortisation and impairment	12	3 475	12 980
Impairment on other assets	10	47	526
Provisions for off-BS items	17	(5 880)	1 591
Impairment on financial assets (loans and advaces)	5, 9	20 056	68 146
Impairment on AFS securities, net	8	-	(845)
Impairment on jointliy controlled entities (GW) and Change in post acquisition reserve of jointly controlled entities and associates	11	(33)	773
Deferred tax movement	22	450	(1 958)
Net Interest income		(13 297)	(41 414)
Dividends on available for sale securities		(14)	(76)
Foreign Exchange movement	5, 9, 10, 11, 13, 18 Change in Equity	1 150	(7 315)
		(20 342)	(48 909)
Change in loans and advances to banks (gross amounts)	5	47 622	3 798
Change in loans and advances to customers (gross amounts)	9	267 798	280 736
Change in trading assets	6	(6 200)	23 770
Change in AFS securities (without revaluation and impairment)	8	(25 232)	74 949
Change in other assets (gross amounts)	10	(1 201)	16 066
Change in amounts due to banks (short term)	13	(155 474)	(259 985)
Change in current and deposit accounts	14	(158 589)	(74 435)
Change in other liabilities and provisions (without provision charge of the year)	17	9 318	(5 113)
Change in trading liabilities	15	478	(9 871)
Interest received		49 288	129 683
Interest paid		(35 991)	(88 269)
Dividends received		14	76
Income tax paid		(237)	1 505
		(8 406)	92 910
Net cash from operating activities		**(28 748)**	**44 001**
Cash flow from investing activities			
Investment in group companies	8, 11, OCI	(3 033)	(3 038)
Disposals of group companies	8, 11	-	-
Purchase of property and equipment	12	(1 456)	(7 014)
Disposals of property and equipment	12	371	950
Purchase of intangible assets	12	(2 468)	(3 593)
Disposals of intangible assets	12	1 707	867
Net cash used in investing activities		**(4 879)**	**(11 828)**
Cash flow from financing activities			
Increase in issued securities	18	22 031	(899)
Increase in subordinated liabilities		577	(6 844)
Change in amounts due to banks (Borrowings)	13	(110 145)	(43 125)
Issuance of new shares and proceeds from share premium		36 314	127 000
Dividends paid	Change in equity	-	(151)
Net cash from financing activites		**(51 223)**	**75 981**
Net increase of cash and cash equivalents		**(84 850)**	**108 154**
Cash reserves at 1 January		**413 790**	**321 677**
FX change on cash reserve		28	(2 579)
Discontinued operation		(43 831)	(13 462)
Cash reserves at the end of period		**285 137**	**413 790**

Budapest, 27 August, 2013

dr Pál Simák
Chairman & Chief Executive

János Rádi
Director

Notes to the Financial Statements

(from page 8 to page 62)

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 interim consolidated financial statements of the Bank as at and for the half year ended 30 June 2013 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 28. MKB is a member of the BayernLB Group, domiciled in Germany. The address of BayernLB's Head Office is Brienner Str. 18, D-80333 Munich, Germany.

2 Compliance with International Financial Reporting Standards

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

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

These financial statements are presented in Hungarian Forint (HUF), rounded to the nearest million, except if indicated otherwise. These financial statements were authorised for issue by the Board of Directors on 27 August, 2013.

3 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.
MKB have used the same accounting policies in the period ended June 30, 2013 as in the period before, although there have been a change in the method of computations which related to fair value of financial instruments which was triggered by IFRS implementation, please refer to Note 32 and Note 3g.

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.

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 11.

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 and negative fair values of OTC derivative instruments are adjusted with counter party risk revaluation. The fair value shall be adjusted by PD x LGD, 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.

In 2013, there have been a change in the method of computation counterparty risk due to the implementation of IFRS 13 standard which resulted in the introduction of DVA (Debit Value Adjustment), the result of own credit risk on financial instruments. In the calculation of CVA there have also been changes to be in line with the DVA method. For further details on the change in estimate please refer to Note 32.
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 borrower 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 numbers 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 3 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' 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 3 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 probable 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 29.

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 23.

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 30 June 2013, 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.

- **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.

- **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.

4 Risk management

Capital management

MKB Bank's 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. 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 June 30, 2013, as an actual figure of tier1 capital the Group had HUF 111.3 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 paid up capital with HUF 36.3 billion which was completed in February, 2012. Due to the increase of capital, the Bank has more regulatory capital (HUF 173.4 billion) than it was in 2012. At the end of June, 2013 the capital adequacy ratio which was calculated according to the Hungarian Accounting Regulations was 10.82% (2012: 8.89%). The ratio did reach the minimum value which prescribed by law in an expected measure (8%).

The owners have increased the paid up capital with HUF 36.3 billion which was completed on 21th of February, 2013.
Risk-weighted assets including operational and market risk decreased by 7.4% from 2012 (HUF 1,731.9 billion) and amounted to HUF 1,603 billion besides 1% weakening of domestic currency.
Risk legal limits defined by the Act CXII of 1996 on Credit Institutions and Financial Enterprises (Banking Act):

- 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 increased to 12.89% from 12.37% of previous year level under local supervisory regulation. The regulatory capital was HUF 23,155 million which was higher than the previous year-end figure (HUF 21,758 million) due to the decrease of deduction of specific provisions for credit risk and the weakening of Bulgarian domestic currency.
Meanwhile the risk asset increased by 2% amounted to HUF 179,625 million according to local supervisory gap which could be explained by weakening of Bulgarian domestic currency, increase of operational risk and market risk, which was compensated the decrease of credit risk due to the decreased of internal deposit to MKB and provision charge.

The CAR of Nextebank significantly increased to 26.56% from of previous year-end level 18.12% according to supervisory local gap. The regulatory capital was HUF 8,299 which was higher than the previous year-end figure (HUF 6,609 million) due to the weakening of Romanian domestic currency and the capital increase (RON 68 million), which was compensated by the accumulated loss for the year. Meanwhile the risk weighted asset decreased by 14.3% amounted to HUF 31,251 million from HUF 36,467 million in 2012, mainly thanks to the decrease of operational risk.

4.1

	2013Q2 Basel II	2012 Basel II
Share capital	145 250	108 936
Outstanding share capital	*145 250*	*108 936*
General reserves	(13 462)	10 217
Intangible assets	(20 501)	(20 484)
Reserve for general banking risk	-	1 074
Tier 1: Net core capital	**111 287**	**99 743**
Considerable subordinated debt	55 644	49 872
Revaluation reserves	3 447	2 353
Difference from capital consolidation	1 055	715
Tier 2: Supplementary capital	**60 146**	**52 940**
Other deductions	(110)	(110)
Participations in financial institutions	(1 498)	(1 610)
Unused subordinated loan for market risk	3 581	3 048
Regulatory capital	**173 406**	**154 011**
Risk-weighted assets (RWA)	1 351 545	1 454 927
Operational risk (OR)	184 275	219 775
Market risk positions (MR)	67 156	57 153
Total risk weighted assets (RWA +12.5*(MR+OR))	**1 602 976**	**1 731 855**
Regulatory capital / Total assets	7,27%	5,97%
Capital adequacy ratio	**11,29%**	**9,20%**
Capital adequacy ratio (including market risk)	**10,82%**	**8,89%**

5 Loans and advances to banks

5.1

	2013	2012
Current and clearing accounts	9 206	13 788
Money market placements	20 555	17 844
Loans and advances	4 001	49 752
Less collective allowances for impairment	(75)	(68)
Loans and advances to banks	**33 687**	**81 316**

Collective allowances for impairment

Balance at 1 January	**(68)**	**(131)**
Impairment loss for the year:		
Charge for the year	(55)	(49)
Reversal	48	100
At the end of period	**(75)**	**(68)**

From the balance of Current and clearing accounts, HUF 4,105 million (2012: 3,559 million) was due from a shareholder with a significant influence and was granted at market rate.

6 Trading assets

6.1

	2013			2012		
	Cost	Unrealised result	Book value	Cost	Unrealised result	Book value
Debt and equity instruments						
Government Treasury bills	10 489	11	10 500	3 086	9	3 095
Government bonds	9 878	214	10 092	6 785	319	7 104
Hungarian corporate sector bonds	2 671	120	2 791	2 388	110	2 498
Hungarian equities	168	-	168	207	-	207
Total debt and equity instruments	**23 206**	**345**	**23 551**	**12 466**	**438**	**12 904**
Derivative instruments by type						
FX-based derivatives instruments	-	2 101	2 101	-	4 383	4 383
Index-based derivative instruments	-	13	13	-	14	14
Interest-based derivative instruments	-	12 842	12 842	-	14 978	14 978
Options	2 304	(734)	1 570	2 304	(705)	1 599
Total derivative instruments	**2 304**	**14 222**	**16 526**	**2 304**	**18 670**	**20 974**
Total trading assets	**25 510**	**14 567**	**40 077**	**14 770**	**19 108**	**33 878**

7 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 3 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 16.

8 Investments in securities

8.1

	2013	2012
Available-for-sale		
Hungarian Government bonds	251 595	211 749
Hungarian corporate sector bonds	2 760	2 833
Foreign Government bonds	-	13 678
Foreign corporate sector bonds	622	922
Foreign equities	-	86
Less specific allowances for impairment	(38)	(38)
Investment in securities	**254 939**	**229 230**
Specific allowances for impairment		
Balance at 1 January	(38)	(1 105)
Impairment loss for the year:		
Charge for the year	-	(33)
Reversal	-	878
Utilisation	-	222
At the end of period	**(38)**	**(38)**

At 30 June 2013, HUF 99,202 million (2012: HUF 105,224 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 2,489 million gain (2012: HUF 2,008 million gain) and HUF NIL million deferred tax asset and HUF 16 million deferred tax liability (2012: HUF NIL million deferred tax asset and HUF 16 million deferred tax liability).

In 2013 HUF 592 million gain (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.

9 Loans and advances to customers

Loans and advances to customers at amortised cost

9.1

2013	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate				
Overdrafts	58 595	2 492	311	55 792
Trading and industrial	242 856	22 045	993	219 818
Real estate	645 255	91 658	2 071	551 526
Total corporate	**946 706**	**116 195**	**3 375**	**827 136**
Small- and medium sized enterprises (SME)				
Overdrafts	13 805	2 924	86	10 795
Trading and industrial	128 654	64 339	341	63 974
Real estate	7 848	5 219	7	2 622
Credit card	6 008	409	46	5 553
Total SME	**156 315**	**72 891**	**480**	**82 944**
Retail				
Overdrafts	7 057	4 346	35	2 676
Residental mortgage	410 927	31 191	86	379 650
Credit card	18 260	642	34	17 584
Personal	1 332	410	7	915
Employees	8 223	34	-	8 189
Trading and industrial	88 280	25 923	229	62 128
Total retail	**534 079**	**62 546**	**391**	**471 142**
Loans and advances to customers	**1 637 100**	**251 632**	**4 246**	**1 381 222**
Assets from discountinued operations	**225 566**	**18 955**	**12 753**	**193 859**

2012	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate				
Overdrafts	67 248	2 138	458	64 652
Trading and industrial	314 602	25 274	3 482	285 846
Real estate	676 059	83 400	3 179	589 480
Total corporate	**1 057 909**	**110 812**	**7 119**	**939 978**
Small- and medium sized enterprises (SME)				
Overdrafts	26 960	5 005	114	21 841
Trading and industrial	173 724	66 769	763	106 192
Real estate	16 505	7 482	10	9 013
Credit card	6 611	435	57	6 119
Total SME	**223 800**	**79 691**	**944**	**143 165**
Retail				
Overdrafts	16 956	5 317	41	11 598
Residental mortgage	462 618	30 535	94	431 989
Credit card	18 540	659	29	17 852
Personal	1 501	406	9	1 086
Employees	9 369	23	3	9 343
Trading and industrial	128 104	24 515	243	103 346
Total retail	**637 088**	**61 455**	**419**	**575 214**
Loans and advances to customers	**1 918 797**	**251 958**	**8 482**	**1 658 357**
Assets from discountinued operations	**39 697**	**11 091**	**816**	**27 790**

Collective impairment contains incurred but not reported loss.

Allowances for impairment

9.2

	2013.06.30	2012.12.31
Specific allowances for impairment on loans and advances to customers		
Balance at 1 January	251 958	242 350
Impairment loss for the year:		
Charge for the year	44 223	104 146
Reversal	(17 879)	(28 509)
Utilisation	(13 889)	(43 885)
Recoveries	*17*	*8 538*
Effect of foreign currency movements	806	(8 479)
Unwinding of discount	(4 188)	(8 728)
Discontinued operation	(9 399)	(4 937)
At the end of period	**251 632**	**251 958**
Collective allowances for impairment on loans and advances to customers		
Balance at 1 January	8 483	6 924
Impairment loss for the year:		
Charge for the year	797	23 880
Reversal	(2 904)	(3 347)
Utilisation	(10)	(18 530)
Effect of foreign currency movements	(8)	(339)
Discontinued operation	(2 112)	(105)
At the end of period	**4 246**	**8 483**

At 30 June 2013 the carrying amount of loans designated as hedged item in a fair value hedge relationship was HUF 2,750 million, while their amortised cost amounted to HUF 2,682 million.

10 Other assets

10.1

	2013	2012
Prepayments and other debtors	9 193	8 638
Inventory	529	755
Collaterals held in possession	8 571	7 569
Corporate income tax refundable	10	81
Other taxes refundable	299	357
Specific allowances for impairment	(1 372)	(1 324)
Other assets	**17 230**	**16 076**

Specific allowances for impairment

	2013	2012
Balance at 1 January	(1 324)	(2 909)
Impairment loss for the year:		
Charge for the year	99	(526)
Reversal	(146)	-
Utilization	-	2 124
Effect of foreign currency movements	(1)	(13)
At the end of period	**(1 372)**	**(1 324)**

At 30 June 2013, the net carrying amount of non – current assets, which have been acquired through enforcement of security over loans and advances amounted to HUF 10,118 million (2012: HUF 6,251). The disclosed specific allowances contain mainly the relating impairment.

11 Investments in jointly controlled entities and associates

11.1

	2013	2012
Cost	14 175	13 629
Goodwill arising on acquisition	1 528	1 528
Goodwill impairment	(1 528)	(1 528)
Share of post acquisition reserves	(4 929)	(4 415)
Investments in jointly controlled entities and associates	**7 718**	**7 686**

12 Intangibles, property and equipment

12.1

2013	Intangible assets	Freehold property	Investment property	Equipment	Total
Cost					
Balance at 1 January	46 955	49 569	3 247	30 288	130 059
Acquisitions through business combinations	20	-	-	79	99
Additions – including internally developed	2 469	298	-	686	3 453
Other additions			471		471
Disposals	(2 392)	(255)	-	(3 031)	(5 678)
Effect of movements in exchange rates	-	3	-	2	5
Balance at 30 June	**47 052**	**49 615**	**3 718**	**28 024**	**128 409**
Depreciation and impairment losses					
Balance at 1 January	27 862	9 394	-	20 569	57 825
Acquisitions through business combinations	10	-	-	69	79
Depreciation and amortization for the year	1 344	818	-	1 250	3 412
Impairment loss	-	20	-	42	62
Disposals	(676)	(303)	-	(2 250)	(3 229)
Effect of movements in exchange rates	-	2	-	-	2
Balance at 30 June	**28 540**	**9 931**	**-**	**19 680**	**58 151**
Carrying amounts					
At 1 January	19 093	40 175	-	9 719	72 234
Balance at 30 June	**18 512**	**39 684**	**3 718**	**8 344**	**70 258**

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
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**

Depreciation and amortization is presented among the Operating expenses.

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. During 2013 the Group acquired also an office building held for investment purpose.

The fair value of the investment in the hotel was HUF 3,247 million and in the office building HUF 452 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 3.e) The reconciliation of the carrying amount at the beginning and end of period is disclosed in Table 12.1.

13 Amounts due to other banks

13.1

	2013	2012
Due on demand	2 262	2 194
Money market deposits	213 126	368 667
Borrowings	193 210	303 355
Amounts due to other banks	**408 598**	**674 216**

14 Deposits and current accounts

14.1

	2013	2012
From corporate clients	474 510	591 974
From retail clients	755 938	797 063
Deposits and current accounts	**1 230 448**	**1 389 037**

As at 30 June 2013, from the amount of current and deposit accounts, HUF 38,498 million (2012: HUF 34,238 million) has been measured as a fair value through profit or loss.

15 Trading liabilities

15.1

	2013			2012		
	Cost	Unrealised result	Book value	Cost	Unrealised result	Book value
Derivative instruments by type						
FX-based derivatives instruments	-	6 645	6 645	-	3 520	3 520
Index-based derivative instruments	-	7	7	-	4	4
Interest-based derivative instruments	-	12 581	12 581	-	14 931	14 931
Credit default swaps	52	272	324	52	323	375
Options	193	310	503	99	2 906	3 005
Total derivative instruments	**245**	**19 815**	**20 060**	**151**	**21 684**	**21 835**
Total trading liabilities	**245**	**19 815**	**20 060**	**151**	**21 684**	**21 835**

16 Derivative liabilities held for risk management

16.1

	2013			2012		
	Cost	Accumulated unrealised result	Book value	Cost	Accumulated unrealised result	Book value
Interest-based derivative instruments	-	106	106	-	214	214
Derivatives held for risk management	**-**	**106**	**106**	**-**	**214**	**214**

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

For more information see Note 7. The group has no cash flow hedges.

17 Other liabilities and provision

17.1

	2013	2012
Accruals and other creditors	21 237	16 830
Corporate income tax payable	2	-
Other taxes payable	6 483	1 374
Provision for contingencies and commitments	3 255	9 303
Other liabilities and provisions	**30 977**	**27 507**

Provision for contingencies and commitments

17.2

	2013	2012
Balance at 1 January	9 142	7 723
Provisions set up during the year	1 067	7 253
Provisions reversed during the year	(6 948)	(5 662)
Effect of foreign currency movements	16	(172)
Discontinued operations	(48)	-
At the end of period	**3 229**	**9 142**

Provisions recognized for different type of products are disclosed in Note 24.

18 Issued debt securities

During the reporting period MKB issued bonds for support its business activity. The table below shows the new issuance, repayment and other changes during the year:

18.1

Interest	Original currency	Carrying amount 31.12.2012	Issued debt securities	Repurchased debt securities	Repaid debt securities	Revaluation result	Carrying amount 30.06.2013
Zero Coupon Bond		**6 899**	**4 271**	**788**	**(8 500)**	**128**	**3 586**
	EUR	158	1 771	655	-	7	2 591
	HUF	6 741	2 500	133	(8 500)	121	995
Fixed rate		**34 257**	**13 133**	**2 610**	**(8 895)**	**412**	**41 517**
	EUR	20 274	10 656	49	(3 183)	271	28 067
	HUF	8 301	572	2 692	(5 712)	5	5 858
	USD	5 682	1 905	(131)	-	136	7 592
Structured		**21 143**	**7 880**	**937**	**(11 612)**	**275**	**18 623**
	EUR	12 477	763	654	(5 198)	367	9 063
	HUF	8 666	6 022	283	(6 414)	(115)	8 442
	USD	-	1 095	-	-	23	1 118
Floating rate		**101 264**	**23 500**	**(2 921)**	**-**	**13**	**121 856**
	HUF	101 264	23 500	(2 921)	-	13	121 856
Accrued interest		**2 255**	**-**	**-**	**-**	**-**	**2 267**
Total		**165 818**	**48 784**	**1 414**	**(29 007)**	**828**	**187 849**

Interest	Original currency	Carrying amount 31.12.2011	Issued debt securities	Repurchased debt securities	Repaid debt securities	Revaluation result	Carrying amount 31.12.2012
Zero Coupon Bond		**27 117**	**18 165**	**(515)**	**(37 863)**	**(6)**	**6 898**
	EUR	1 188	1 165	(936)	(1 165)	(87)	165
	HUF	25 929	17 000	421	(36 698)	81	6 733
Fixed rate		**46 410**	**21 097**	**3 678**	**(35 529)**	**(1 398)**	**34 258**
	EUR	18 252	10 133	1 988	(8 794)	(1 304)	20 275
	HUF	26 929	5 279	1 691	(25 607)	9	8 301
	USD	1 229	5 685	(1)	(1 128)	(103)	5 682
Structured		**23 011**	**6 450**	**(907)**	**(8 076)**	**654**	**21 132**
	EUR	10 449	3 162	(885)	-	(253)	12 473
	HUF	12 562	3 288	(22)	(8 076)	907	8 659
Floating rate		**67 133**	**47 108**	**7 505**	**(20 470)**	**(1)**	**101 275**
	HUF	67 133	47 108	7 505	(20 470)	(1)	101 275
Accrued interest		**2 815**	**-**	**-**	**-**	**-**	**2 320**
Unionbank		**4 659**	**-**	**-**	**-**	**-**	**4 363**
Total		**171 145**	**92 820**	**9 761**	**(101 938)**	**(751)**	**170 246**

The opening figure for the year differs from the closing balance as of 31.12.2012 (HUF 4,428 million), because MKB Unionbank AD. is disclosed as discontinued operation this year. Due to this fact debt instruments of MKB Unionbank AD. were reclassified to another financial position.

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 30 June 2013 the carrying amount of FVTPL own issued bonds amounted to HUF 18,751 million (2012: HUF 21,364 million).

19 Share capital and share premium

The Bank's authorised, issued, called up and fully paid share capital comprises 145,249,994 (2012: 108,936,494) ordinary shares of HUF – 1,000 (2012: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

During 2013, the shareholders increased the Bank's share capital by HUF 36,313.500 million with nominal amount HUF 1,000 per share at the price of HUF 1,000.

20 Reserves

Currency translation reserve

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

Share premium

Share premium comprises of premiums on share capital issuances.

Retained Earnings

Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entity 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 decreases the Retained Earnings of the Group, in 2013 there were NIL dividend payments.
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 2013 MKB recognized as general reserve of NIL (2012: NIL).
General reserve set aside by foreign entities domiciled in Romania amounted to HUF 1,558 million (2012: HUF 1,544 million). In 2013 there were NIL (2012: 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 an option 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.

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.

On 21 May, 2013 EBRD exercised the remaining part of its option, and sold its shares in MKB Unionbank A.D. MKB Bank shares increased to 100% due to this transaction. This transaction resulted a reclassification between the Revaluation of equity put option and Retained earnings in an amount of HUF 2,379 million.

21 Impairments and provisions for losses

21.1

	Note	2013	2012
Impairment loss, net of reversals on			
Loans and advances to banks	**5**	7	(27)
Loans and advances to customers	**9**	24 237	18 226
Investments in securities	**8**	-	(796)
Other assets	**10**	(47)	149
Direct write off		2 812	922
Provision on			
Guarantees and contingencies	**17**	(5 880)	(1 899)
Impairments and provisions for losses		**21 129**	**16 575**

22 Income tax

Income tax expense recognized in the Statement of Comprehensive Income

22.1

	2013	2012
Current tax expense	*131*	*279*
Hungarian corporation tax charge – on current year profit	131	279
Deferred tax expense/(income)	*106*	*(16)*
Income tax (credit) / expenses	**237**	**263**

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 2013 was 16% (2012: 16%) and the deferred tax rate used was the same. In Bulgaria, the current income tax rate for 2013 was 10% (2012: 10%), and the deferred tax rate is the same.

23 Earnings per share

The calculation of basic earnings per share at 30 June 2013 was based on the profit attributable to ordinary shareholders of HUF -32,123 million (2012: HUF -19,471 million) and a weighted average number of ordinary shares outstanding of 94.935 million (2012: 27.136 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 2013 and 2012 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.

24 Contingencies and commitments

24.1

2013	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	102 738	1 163	101 575
Obligations from letters of credit and other short term trade related items	2 763	17	2 746
Other contingent liablities (including litigation)	4 322	650	3 672
Total contingencies	**109 823**	**1 830**	**107 993**
Commitments			
Undrawn commitments to extend credit	211 415	1 425	209 991
Total commitments	**211 415**	**1 425**	**209 991**

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**

From discontinued operation:

2013	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	10 078	60	10 018
Obligations from letters of credit and other short term trade related items	190	-	190
Other contingent liablities (including litigation)	362	362	-
Total contingencies	**10 630**	**422**	**10 208**
Commitments			
Undrawn commitments to extend credit	20 275	16	20 259
Total commitments	**20 275**	**16**	**20 259**

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

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

25 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 4).

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 3 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 3.

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. Counterparty risk (CVA) and own credit risk (DVA) is also taken into account by calculation of fair value except of the followings:

1. Netting of NPVs to counterparty level is allowed only in case of International Swaps and Derivatives Association (ISDA) agreement is available.
2. If the partners have Credit Support Annex (CSA) for the derivative then both CVA and DVA are 0.
3. If the contract covered by collateral then CVA=0.

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.

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

25.1

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
30 June 2013					
Cash reserves		260 893	-	-	260 893
Trading assets	**6**	23 746	16 331	-	40 077
Investments in securities	**8**	254 939	-	-	254 939
Current and deposit accounts	**14**	-	38 498	-	38 498
Trading liabilities	**15**	359	19 701	-	20 060
Derivative liabilities held for risk management	**16**	-	106	-	106
Issued debt securities	**18**	-	18 751	-	18 751
Total		***539 937***	***93 387***	***-***	***633 324***
31 December 2012					
Cash reserves		335 454	-	-	335 454
Trading assets	**6**	12 991	20 887	-	33 878
Investments in securities	**8**	229 230	-	-	229 230
Current and deposit accounts	**14**	-	34 238	-	34 238
Trading liabilities	**15**	95	19 511	2 229	21 835
Derivative liabilities held for risk management	**16**	-	214	-	214
Issued debt securities	**18**	-	21 364	-	21 364
Total		***577 770***	***96 214***	***2 229***	***676 213***

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.

Nature and extent of exposure to risks arising from financial instruments:

25.2

	Note	Interest	Foreign exchange rate	Other
30 June 2013				
Cash reserves		260 893	-	-
Trading assets	**6**	39 056	2 332	1 020
Investments in securities	**8**	254 350	26 506	590
Current and deposit accounts	**14**	38 498	1 599	40 098
Trading liabilities	**15**	12 762	6 800	498
Derivative liabilities held for risk management	**16**	106	-	-
Issued debt securities	**18**	18 751	10 219	-
Total		***624 416***	***47 456***	***42 206***
31 December 2012				
Cash reserves		335 454	-	-
Trading assets	**6**	26 174	4 527	767
Investments in securities	**8**	214 577	33 567	-
Current and deposit accounts	**14**	34 238	1 586	-
Trading liabilities	**15**	15 529	3 561	2 739
Derivative liabilities held for risk management	**16**	214	-	-
Issued debt securities	**18**	21 364	12 542	-
Total		***647 550***	***55 783***	***3 506***

The table above presents the major risks and the amounts of fair value of financial instruments. Each financial instrument is reported at fair value and categorized based on all the risk factors which they are exposed to. Most type of financial instruments are exposed to more than one risk, therefore fair values of those instruments are included in all relevant columns, resulting that the sum of total exposures by line may not be equal to the relevant lines in the SFP.

26 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 3 g, and Note 25), which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured.

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

26.1

2013	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		-	-	260 893	24 244	285 137	285 137
Loans and advances to banks	5	-	33 687	-	-	33 687	39 199
Measured at amortised cost		-	*33 687*	-	-	*33 687*	*39 199*
Trading assets	6	40 077	-	-	-	40 077	40 077
Investments in securities	8	-	-	254 939	-	254 939	254 939
Loans and advances to customers	9	-	1 381 222	-	-	1 381 222	1 371 231
Measured at fair value		-	*2 750*	-	-	*2 750*	*2 750*
Measured at amortised cost		-	*1 378 472*	-	-	*1 378 472*	*1 368 481*
Financial liabilities							
Amounts due to other banks	13	-	-	-	408 598	*408 598*	382 760
Current and deposit accounts	14	38 498	-	-	1 191 950	1 230 448	1 245 429
Measured at fair value		*38 498*	-	-	-	*38 498*	*38 498*
Measured at amortised cost		-	-	-	*1 191 950*	*1 191 950*	*1 206 931*
Trading liabilities	15	20 060	-	-	-	20 060	20 060
Derivative liabilities held for risk management	16	106	-	-	-	106	106
Issued debt securities	18	18 750	-	-	169 099	187 849	184 283
Measured at fair value		*18 750*	-	-	-	*18 750*	*18 750*
Measured at amortised cost		-	-	-	*169 099*	*169 099*	*165 532*
Subordinated debt		-	-	-	102 219	102 219	100 552

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		-	-	335 454	78 336	413 790	413 790
Loans and advances to banks	5	-	81 316	-	-	81 316	80 752
Measured at amortised cost		-	*81 316*	-	-	*81 316*	80 752
Trading assets	6	33 878	-	-	-	33 878	33 878
Investments in securities	8	-	-	229 230	-	229 230	229 230
Loans and advances to customers	9	-	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	13	-	-	-	674 216	674 216	654 462
Current and deposit accounts	14	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	15	21 835	-	-	-	21 835	21 835
Derivative liabilities held for risk management	16	214	-	-	-	214	214
Issued debt securities	18	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		-	-	-	101 642	101 642	103 826

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.

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 8.

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 net present value techniques, discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by product types and coupon rates. In general, contractual cash flows are discounted using a rate which is 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 which reflects the individual credit risk of that partner. The used interest rates are available in published Terms and Conditions as of 30 June, 2013 and the counterparty marge is available 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. Non-performing loans which are assessed for impairment individually are discounted with discount factors which are calculated as in case of performing loans, but that estimated cash flows of these loans are used for calculation, which was also used for impairment purpose. In the case of work-out loans where the bank expects cash flows only from sale of collaterals and therefore they are impaired to the net present value of this amount, the fair value is equal with the carrying amount.
The fair value of a Loans and advances to banks and to customers on demand is assumed to be the amount receivable at the end of the reporting period.

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. For determining own credit risk (DVA – Debit Value Adjustment) the bank uses the own PD and LGD used also for risk purposes which is also in line with the DVA calculation method for negative fair value derivatives. 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.

27 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:

27.1

	Parent company and its group		Non-consolidated subsidiaries		Jointly controlled entities		Associates		Key Management Personnel		Other related parties	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Assets												
Amounts due from other banks	26 733	30 284	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	822	1 694	41 858	46 511	1 311	646	227	206	1 006	1 155
Derivative financial assets	2 355	4 970	-	-	-	-	-	-	-	-	-	-
Liabilities												
Amounts due to other banks	321 337	531 371	-	-	-	-	-	-	-	-	-	-
Current and deposit accounts	294	241	280	5 092	276	322	959	622	-	-	30 703	21 806
Subordinated debt	102 219	101 642	-	-	-	-	-	-	-	-	-	-
Derivative finacial liabilities	16 202	15 963			-	-	-	-	-	-	-	-
Income statement												
Interest income	2 817	1 288	51	89	964	1 966	23	62	4	7	26	72
Interest expense	6 309	17 304	6	297	2	4	9	192	-	-	339	1 031
Other net income / (expense)	(905)	(5 589)	2	24	17	24	82	188	(278)	(537)	27	34
Contingencies and commitments												
Undrawn commitments to extend credit	2 151	2 150	76	343	2 778	2 900	196	189	-	-	203	96
Guarantees	511	511	-	-	135	134	-	-	-	-	2 111	2 056
Provision	52	45	1 265	687	3 017	3 444	5	6	-	-	18	26

In order to decrease the credit risk BayernLB provided guarantee for some clients' exposures in an amount of HUF 59,790 million.

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

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

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

Key management personnel compensation for the period comprised:

27.2

	30.06.2013	30.06.2012
Short-term employee benefits	278	1 397
Total	**278**	**1 397**

28 Group entities

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

28.1

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	100%	100%	Bulgaria	Fully licenced commercial bank.
Nextebank S.A.	96,29%	96,29%	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
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft	100%	100%	Hungary	Other services

29 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 30 June 2013, 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 (2012: 179 branches), ATMs, telephone and electronic channels.

Money and Capital Markets

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

Other

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

29.1

2013	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves		-	285 137	-	-	-	285 137
Loans and advances to banks		-	2 140	-	25 049	6 498	33 687
Trading assets		-	-	-	40 077	-	40 077
Investments in securities		-	-	-	254 939	-	254 939
Loans and advances to customers		732 654	885	647 275	408	-	1 381 222
Assets from Discontinued opeartion		193 859	3 733	3 354	34 723	58 155	293 824
Other assets		-	-	-	-	17 230	17 230
Investments in jointly controlled entities and associates		7 718	-	-	-	-	7 718
Intangibles, property and equipment		-	-	-	-	70 258	70 258
		934 231	**291 895**	**650 629**	**355 196**	**152 141**	**2 384 092**
Liabilities							
Amounts due to other banks		-	195 472	-	213 126	-	408 598
Current and deposit accounts		447 784	17 566	755 938	3 054	6 106	1 230 448
Trading liabilities		-	-	-	20 060	-	20 060
Derivative liabilities held for risk management		-	-	-	106	-	106
Liabilities of Discontinued operation		-	50 010	-	213 088	1 627	264 725
Other liabilities and provisions		23	147	615	47	30 145	30 977
Deferred tax liability		54	43	109	54	21	281
Issued debt securities		8 294	7 180	167 886	4 489	-	187 849
Subordinated debt		-	102 219	-	-	-	102 219
Shareholders' equity		-	-	-	-	138 829	138 829
		456 155	**372 637**	**924 548**	**454 024**	**176 728**	**2 384 092**
Income statement							
Gross revenue - external customers		22 539	6 103	28 695	23 211	(9 126)	71 422
Gross revenue - inter-segment		(1 122)	4 170	10 446	(13 494)	-	-
Interest and commission expenditure		(10 422)	(5 809)	(16 177)	(6 528)	-	(38 936)
Impairment and provisions for losses	**21**	(12 852)	(24)	(6 739)	(1 514)	-	(21 129)
Operating expenses		(5 699)	(2 409)	(10 580)	(1 415)	(3 906)	(24 009)
Expenses related to bank levies		-	-	-	-	(13 644)	(13 644)
Share of associates' loss		(140)	-	-	-	-	(140)
Profit / (Loss) before taxation		**(7 556)**	**2 031**	**5 645**	**260**	**(26 676)**	**(26 296)**
Result from discontinued operation	**30**	(3 922)	(75)	(68)	(703)	(1 118)	(5 886)
Segment result		**(11 478)**	**1 956**	**5 577**	**(443)**	**(27 794)**	**(32 182)**
Other information							
Capital expenditure		-	-	-	-	99	99
Depreciation and amortisation	**12**	(22)	(1)	(37)	-	-	(60)
Other non-cash expenses		157	67	292	39	108	663

2012	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Money and Capital Markets	Other	Total
Assets							
Cash reserves		-	404 353	-	-	9 437	413 790
Loans and advances to banks	**5**	-	10 277	-	71 039	-	81 316
Trading assets	**6**	-	-	-	33 878	-	33 878
Investments in securities	**8**	-	-	-	229 230	-	229 230
Loans and advances to customers	**9**	958 068	1 602	698 687	-	-	1 658 357
Assets from Discontinued operation	**30**	22 438	27 769	298	-	15 668	66 173
Other assets	**10**	-	-	-	-	16 076	16 076
Deferred tax assets		166	75	117	56	19	433
Investments in jointly controlled entities and associates	**11**	7 686	-	-	-	-	7 686
Intangibles, property and equipment	**12**	-	-	-	-	72 234	72 234
		988 358	**444 076**	**699 102**	**334 203**	**113 434**	**2 579 173**
Liabilities							
Amounts due to other banks	**13**	-	306 442	-	367 774	-	674 216
Current and deposit accounts	**14**	581 512	10 462	797 063	-	-	1 389 037
Trading liabilities	**15**	-	-	-	21 835	-	21 835
Derivative liabilities held for risk management	**16**	-	-	-	214	-	214
Liabilities of Discontinued operation	**30**	56 595	1 040	-	905	957	59 497
Other liabilities and provisions	**17**	596	137	1 185	40	25 549	27 507
Deferred tax liability		66	60	82	40	16	264
Issued debt securities	**18**	-	164 178	-	4 428	1 640	170 246
Subordinated debt		-	101 642	-	-	-	101 642
Shareholders' equity	**19, 20**	-	-	-	-	134 715	134 715
		638 769	**583 961**	**798 330**	**395 236**	**162 877**	**2 579 173**
Income statement							
Gross revenue - external customers		26 003	26 793	36 522	(4 885)	7 307	91 740
Gross revenue - inter-segment		(5 056)	(3 277)	8 333	-	-	-
Interest and commission expenditure		(14 828)	(19 993)	(15 874)	-	-	(50 695)
Impairment and provisions for losses	**21**	(11 378)	(1 463)	(4 513)	-	(34)	(17 388)
Operating expenses		(5 192)	(980)	(13 614)	(876)	(7 251)	(27 913)
Expenses related to bank levies		(401)	(13 242)	-	-	-	(13 643)
Share of associates' loss		(69)	-	-	-	-	(69)
Profit / (Loss) before taxation		**(10 921)**	**(12 162)**	**10 854**	**(5 761)**	**22**	**(17 968)**
Result from discontinued operation	**30**	(541)	(670)	(7)	-	(378)	(1 596)
Segment result		**(11 462)**	**(12 832)**	**10 847**	**(5 761)**	**(356)**	**(19 564)**
Other information							
Capital expenditure		-	-	-	-	3 492	3 492
Depreciation and amortisation	**12**	1 635	56	2 404	-	-	4 095
Other non-cash expenses		150	28	393	25	209	805

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.

29.2

2013	Hungary	Romania	Bulgaria	Other	Total
Net interest income	31 337	(113)	-	(661)	30 563
Net commission income	8 480	(4)	-	(9)	8 467
Other operating income	(20 313)	(4 581)	(1 215)	175	(25 934)
Total revenue	**19 504**	**(4 698)**	**(1 215)**	**(495)**	**13 096**
Non current assets	66 263	276	-	-	66 540

2012	Hungary	Romania	Bulgaria	Other	Total
Net interest income	28 265	(50)	-	(948)	27 267
Net commission income	5 397	13	-	(25)	5 385
Other operating income	1 007	(1 525)	180	(7 320)	(7 658)
Total revenue	**34 669**	**(1 562)**	**180**	**(8 293)**	**24 994**
Non current assets	67 427	2 344	1 540	(2 323)	68 988

Other location comprises consolidation effects.

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.

30 Discontinued Operation

During 2013 the management decided to sell not only Nextebank S.A (former MKB Romexterra Bank S.A), but also MKB Unionbank AD. The management is committed to cease businesses which are categorised as non-core business by the group strategy. MKB expects to conclude the sales during the financial year 2013.
Romexterra Leasing is not disclosed as discontinued operation starting from 30 June 2013. MKB Group has changed its plan.

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

30.1

	2013	2012
Assets		
Cash reserves	53 833	12 262
Loans and advances to banks	3 887	1 324
Trading assets	3 354	298
Investments in securities	34 723	26 461
Loans and advances to customers	193 859	22 438
Other assets	4 052	3 008
Investments in jointly controlled entities and associates	116	129
Intangibles, property and equipment	-	253
Total assets	**293 824**	**66 173**
Liabilities		
Amounts due to other banks	50 009	1 040
Current and deposit accounts	208 581	57 482
Trading liabilities	19	18
Other liabilities and provisions	1 613	939
Deferred tax liability	13	18
Issued debt securities	4 489	-
Total liabilities	**264 724**	**59 497**

	2013	2012
Income statement:		
Interest income	8 755	9 897
Interest expense	4 300	4 493
Net interest income	**4 455**	**5 404**
Net income from commissions and fees	1 806	1 782
Other operating income / (expense)	(1 582)	815
Impairments and provisions for losses	2 362	2 992
Operating expenses	7 960	6 675
Profit /Loss before taxation	**(5 643)**	**(1 666)**
Income tax expense	243	(70)
PROFIT / LOSS FOR THE YEAR	**(5 886)**	**(1 596)**
Other comprehensive income:		
Revaluation on AFS financial assets	(131)	107
Exchange differencies on translating foreign operations	251	(2 921)
Other comprehensive income for the year net of tax	**120**	**(2 814)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(5 766)**	**(4 410)**

Nextebank S.A has been accounted under for IFRS 5 since 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 MKB Nextebank S.A may not achieve its net asset value. IFRS5 revaluation as per 30 June 2013 eventuated further portfolio impairment loss of HUF 1,279 million, in 2012 HUF 3,750 million portfolio impairment of Loans and advances was already accounted for, whereas the intangibles, tangibles and other assets of Nextebank were impaired to Zero in 2011.
Based on the Supervisory Board’s decision, MKB Bank is committed to sell the investment in MKB Unionbank AD. As the expected selling price is lower than net asset value of the operation, an additional impairment was charged for intangibles, tangible assets and other assets in an amount of HUF 3,813 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 1,505 million gain at the end of the reporting period.

31 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:

- 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.

31.1

2013	Corporate Banking	Institutional Banking	Retail and Private Banking	Total
Forbearence loans and advances	143 908	-	139 012	282 920
Specific allowances for impairment on Forbearence loans and advances	(39 979)	-	(6 780)	(46 759)
Collective allowances for impairment	(451)	-	(9)	(460)
Carrying amount	**103 478**	**-**	**132 223**	**235 701**

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**

32 Changes in accounting estimates

After coming into effect IFRS 13 the group supervised its fair value methodology and introduced some changes in the calculation. The former approach was not usable for DVA calculations which necessitated developing a new methodology by Market and Liquidity Risk Control and Credit Risk Methodologies. The new calculation method is more sophisticated, takes into account collaterals and ISDA Credit Support Annex, capable of estimating probability of default for an arbitrary time interval. The new DVA correction is now used for calculating the fair value of deposit accounts and debt instruments under FVTPL (see Note 25).
The total result of the new valuation model resulted HUF 961 million gains in the profit for the year, mainly due to DVA correction.

33 Events after the end of the reporting period

1.) In July, 2013 an early repayment of refinancing loan denominated in CHF was done to the parent company in an amount of CHF 47 million (HUF 11,272 million as of 30 June, 2013). The original amount of CHF 190 million (HUF 45,437 million as of 30 June, 2013) had a maturity in April 2013 which was prolonged by one year three months.
During July 2013 another refinancing loan was prepaid in the total outstanding amount of EUR 62 million (HUF 18,300 million as of 30 June, 2013). The loan had a maturity of 24 December 2013.

2.) Dr. Markus Wiegelmann is a new member of the Supervisory Board from 19 July 2013.

3.) In July, 2013 the Hungarian Competition Authority made a decision, based on this MKB Bank can expect to pay a penalty during the year. The decision is the result of the investigation in connection with the suspected cartel of the Hungarian commercial banks: the interest rates of the loans denominated in HUF were increased by the banks in course of the FX repayment facility in 2011. The Authority found, that this collective increase of interest rates was a cartel indeed.
The impact of the decision for MKB Bank cannot be quantified, as the amount or calculation method of the amount of the penalty is not published yet.

Enclosure 1

STATEMENT

on the consolidated semi-annual financial statements of 2013
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 semi-annual financial statements the following statement:

The Bank declares that the consolidated semi-annual financial statements have been compiled in accordance with the applicable accounting rules. The consolidated semi-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.

No independent audit report was made concerning the consolidated semi-annual financial statements.

The Bank declares furthermore that the consolidated Report of the Management (Consolidated Management Report) 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 concerning the remaining six months of the financial year.

Budapest, 27 August, 2013

MKB Bank Zrt.

dr Pál Simák
Chairman & Chief Executive

János Rádi
Director

CONSOLIDATED MANAGEMENT REPORT

In the first half of 2013 consolidation and further growth became possible for Hungary and the region, in a significantly more favourable international environment. The US continued its QE programme, which was joined also by the new Japanese financial government. The still robust Chinese growth continued, although at a slower pace. In Europe the role of the bank depositors was revaluated parallel with the consolidation of the crisis in Cyprus, without any need for any further crisis management action. The still low international yields made it possible for the stable countries of the region to finance their budgets at a low cost.

Over the last few years the Hungarian economic policy proved on several occasions its ability to introduce measures for the fiscal balance. The EU removed the excessive deficit procedure against the country which started in 2004. The reason is the less than 3% GDP proportionate deficit in 2010-2012 and the 2013 and 2014 fiscal course established following several rounds of discussion with the European Commission, The country had to pay a high price for financial stability though. According to the Q1 GDP figure Hungary technically was no longer in recession (07% growth on a quarter/quarter basis), on annual basis, however, there was still a decline (-0.9%) and country has a significant lag from the growth rate of the economies of several countries in the region. What had to be sacrificed for growth can be seen most clearly in the increasing state and tax centralisation efforts, the lack of effective structural reforms as well as complex cost cutting measures.

In the short term the sustainability of the favourable fiscal deficit path was achieved with the introduction and a further increase of new special taxes (transaction levy, special bank tax, telecom tax, media tax, contribution on interest income); in addition, a further VAT increase was also considered. Although there is still some uncertainty in the medium-term sustainability of this course, the country’s CDS has improved significantly (even though it is still lagging behind the other states of the region). The budget can now be financed in the long-term without any external support. The decrease of domestic energy prices achieved and planned through central regulations, reduced inflation as a single effect, but in the mid-term, may lead to a further decline in the already record low investment ratio. In view of that, the NBH cut the base rate by 25 bp each month and lowered it to 4.25% by the end of June (4.0% by August). During the rate cutting process the HUF/EUR exchange rate varied around a relatively narrow band, remaining close to 295.

In line with the international trends, NBH launched a growth programme (including the availability of refinancing for banks at 0% under certain terms and conditions), which will end in the second half of the year with some stimulating effect expected. Nonetheless, the latest one-off contribution to the budget by the banks, the not completely passed on yet increased transaction levy and the recent ideas for a new FX debtors scheme, may cut short the supply of the banks’ funds in the second half of the year. Thus in total further asset side adjustments are likely to take place in the banking system, getting close to even the 100% loan/deposit ratio this year. The reduction in the volume of new loans has a negative effect also on the ratio of permanently non-performing customer loans, yet no further increase is expected. In order to compensate for the decrease in foreign investments, the government has set a target to increase Hungarian ownership in the banking system, within the framework of which the savings co-operatives were restructured and the role of the state expanded.

In this market environment, the consolidated total assets of MKB Group[1] according to IFRS decreased by 7.6% to 2384.1 compared to end-2012. MKB Group's fundamental (net interest, fee and commission) income totalled to HUF 39 bn in 2013H1 with an annual increase of 19.5%. The interest income and net fee and commission income both increased (by 12% and 57% respectively). Without the growth resulted from the shift of the transaction levy to customers, the increase of fee and commission income was 2%, while that of the entire fundamental income was 10.4%. The profit decreasing impact of the shrinking business volumes was partially offset by the rapid and significant decline in funding costs (deposit rates).

'Other operating income' fell significantly, there are two main reasons behind: (i) loss of revaluation of financial instruments within fair value (ii) tax expense arising from the transaction tax introduced in 2013.

The operating expenses were reduced by 14% to HUF 24.0 billion compared to the first half of 2012 as a result of tight cost management continued and restructuring measures. In the first half of 2013, MKB Group's operating profit including the impact of the Hungarian bank tax was negative; reaching HUF -5.0 bn. Excluding the bank tax and transaction tax, MKB Group registered HUF 12.9 bn operating profit (8.5% above H1 2012 profit). Net impairments and provisioning was higher by HUF 4.6 billion compared to the previous year. The increase is caused by two factors: first, in the first half of 2012 the net amount was lowered by impairment-reversal in securities, on the other hand, one-off loan losses arose due to closure of some great, strategically non-core deals increasing the provision charge for the current period. MKB Group pre-tax loss was totalled to HUF 26.3 bn in the first half of 2013.

MKB-Euroleasing Group

In the first half of 2013 the volume of the sale of new cars fell by 4% that of used cars fell by 8%, compared to 2012, while the re-export volume continued to rise. The number of financed new vehicles was down by 4%, and the used segment grew by 11% in the first five months of 2013. The Euroleasing vehicle financing business line exceeded its previous year's lending figure by 15%. Euroleasing, TFSH and PSAFH had a joint market share of 25.6% in the new vehicle market in the first five months of 2013.

With its 11 dealerships, the CarNet group is one of the largest actors on the market. Of the 16 brands represented by them, Renault sales dropped by 30%, Fiat sales shrank by nearly 20%, although half of the Fiat sales were made by CarNet dealerships. Profit generation also improved significantly, as a result of the additional income generated by service stations.

The fleet management companies of the MKB-Euroleasing Group (Hungary and Bulgaria) compete more and more fiercely with their competitors trying to acquire customers, while their existing partners are reducing their needs of services. The insurance mediating company, Eurorisk, has expanded its portfolio largely by integrating smaller brokers and their existing contracts.

Central and Eastern European Region – Bulgaria and Romania

The Bulgarian economy is very much exposed to the euro area crisis. In the first months of 2013 GDP growth (0.8% in Q1 2013) still continued mainly driven by the increase in domestic demand but it will not reach the forecasted growth in 2013. Current account deficit shows a slight increase since the contribution to growth from exports is decreasing just like in many other countries of the region and import volumes are higher due to a boost in

[1] In accordance with IFRS 5 standard requirements due to the exit strategy MKB Nextebank SA is already, MKB Union Bank AD from this period are in a separate line of 'Discontinued operations' in the balance sheet and the income statement. MKB Romexterra Leasing SA indicated earlier 'for sale' but after a review now it is not included in 'Discontinued operations'.

households' consumption. The Bulgarian labor market is still weak the unemployment rate was 13.8% in Q1 2013. The budget deficit is expected to reach 2% at the end of 2013 instead of current target of 1.3% however IMF sees it achievable. Political and social tensions have been dominating in Bulgaria since the beginning of 2013. Protests starting in February against high electricity prices, questionable monopolies, corruption and low wages led to the resignation of the central-right (CEDB) government in February 2013 and to early elections in May. The slight majority of the new socialist–far-right-Turkish minority coalition could not settle the tension with its first measures. Large-scale protests continued also claiming the void of elections referring to illegal ballots and the competence of appointed members of the ruling parties.

The Bulgarian banking system reached EUR 135.7 M profit in the first 5 months of 2013, slightly above last year's profit. Commercial bank deposits grew by 4.1% while gross loans fell by 0.4% until May 2013 and the growth of corporate loans slowed down to 3.7%. After a peak in 2013 bad and restructured loans reached 18.4% in April 2013. The capital adequacy ratio of the Bulgarian banking system reached 17.5% at end Q1 2013.

2012 was a year of a political crisis and changing governments in Romania, which had a huge impact on economic growth and its pace. In addition, the crisis of the Eurozone and the unfavourable external environment still affect negatively the Romanian economy, of which the driving force of the growth is still the exports. In the first half of the year the Romanian economy grew by 2.4% compared to the same period of the preceding year. According to the analysts, the GDP increase this year will be greater than the 1.6%, budgeted by the government. Romania reached a two-year EUR 4 bln stand-by loan agreement (similar to the latest EUR 5.4 bn facility that Romania closed successfully at the end of June) with the IMF and the EU, which will probably be signed in October and is provided equally by the two organisations. Following the conclusion of the new agreement, the National Bank of Romania is expected to cut further the base rate. At present the base rate is 5%, record low since the systemic change.

The Romanian banking system posted EUR 118mn of aggregate profit in Q1. Total assets of commercial banks edged down by 1.8% y/y to EUR 80.67bn in Q1. Loans decreased by 1.1% y/y at the end of March, deposits grew by 4.9% y/y. LTD fell to 114% in Q1 from 117% at the end of 2012. NLP hit 30.0% at the end of Q1. The capital adequacy ratio of the Romanian banking system reached 15.03% at end Q1 2013.

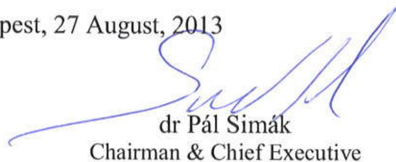
MKB Unionbank - Bulgaria

As one of the goals defined in relation to the management of the effects of the economic recession, in its business activities MKB Unionbank continued to focus on the retail segment. Increasing primary customer relations through greater product penetration by customers was a major objective, for the purposes of improving the economy of scale and preventing any deterioration of the portfolio quality. In the first half of 2013 the Bank's assets shrank compared to what was reported for the year end or the same period of the preceding year. Since the end of 2012 the moderate growth of assets and liabilities continued only in the retail segment, with a market share reaching 2.7% in mortgage lending. In the corporate segment the deposit portfolio shrank by nearly 7% in the first half of the year, while in lending the performance was close to that of the year end. The primary reason behind that was a decrease in the new loans and the disbursement of EU and national support, which many customers used for repayments. Compared to the year end, the deposit and current accounts stagnated with a negligible decrease (0.3%). At the end of the year the provisions represented 8.9% of the gross loan portfolio. In the first six months of the year the Bank earned BGN 2.9 mln profit, with 54.43% CIR ratio. Apart from sales, the continuation of enhanced problem customer management processes is of key importance in order to mitigate the losses triggered by the negative impacts of the crisis.

Nextebank - Romania

In 2011 MKB Bank Zrt. decided to sell its Romanian subsidiary. MKB Bank Zrt. was in negotiation with local investors in the first half of 2013, which process may be successfully concluded by September 2013. If there is a positive result, the transaction may take place by the end of 2013.

Budapest, 27 August, 2013



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