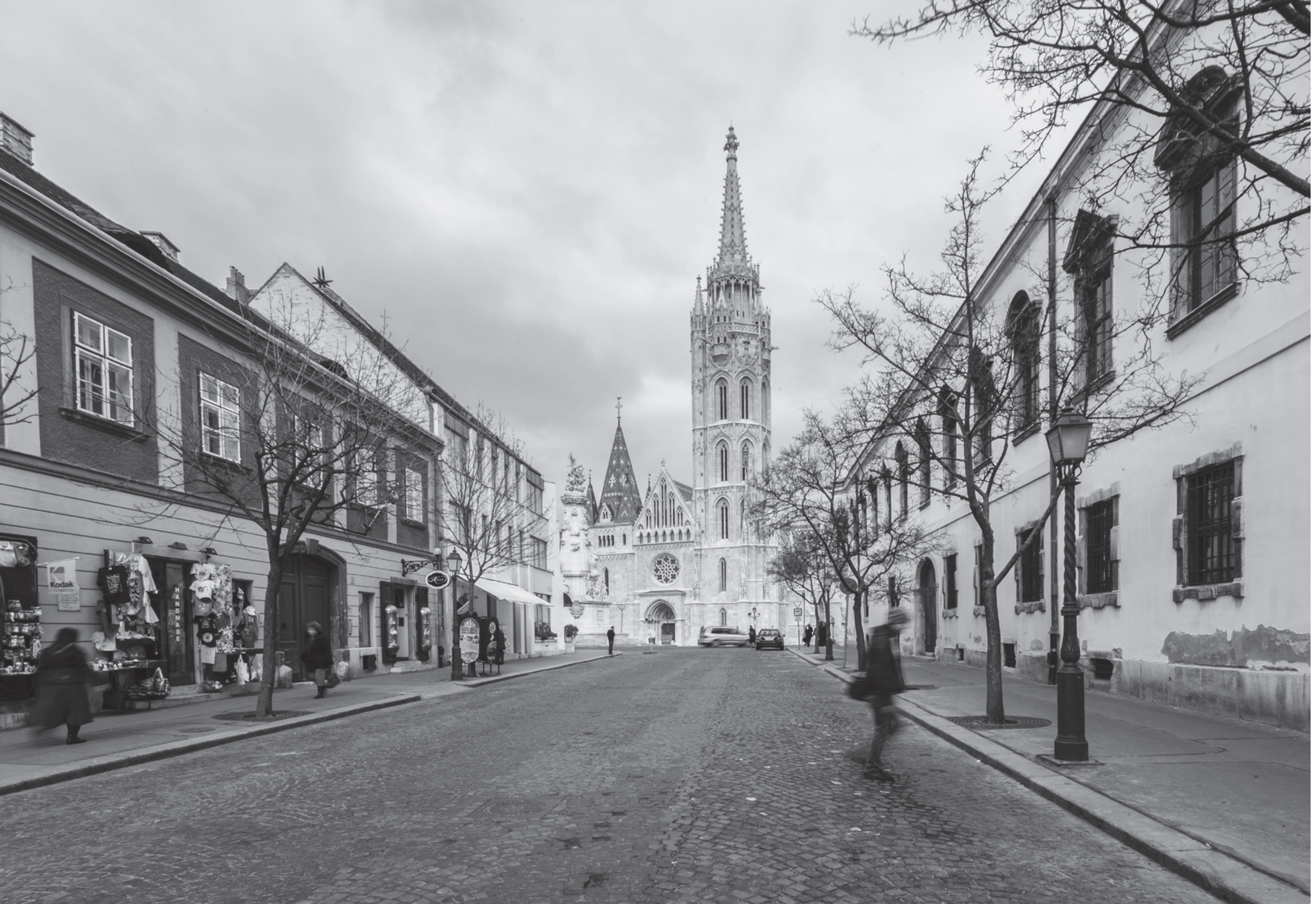
ANNUAL REPORT

2012

TakarékBank



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A DOMESTIC BANK FOR PROMOTING THE SUCCESS OF THE INTEGRATION OF SAVINGS COOPERATIVES

TakarékBank Zrt. – "We're at home creating value"

As the central bank of the Integration of Savings Cooperatives, since its establishment in 1989 TakarékBank Zrt. has pursued the strategic objective of supporting the savings cooperatives sector and strengthening its market and financial positions. It helps the credit institutions in the Integration of Savings Cooperatives to maintain a consistent market presence, grow their market share, and broaden and modernise their range of products and services. Accordingly, TakarékBank's most important group of customers continues to be the savings cooperatives that hold a majority share in the bank, and the other credit institutions belonging to the Integration of Savings Cooperatives.

As a **CENTRAL BANK** it helps enable the savings cooperatives and credit institutions in the Integration to offer their customers products and services that they would be unable to provide on their own due to statutory restrictions or reasons of economy, and also carries out IT developments to ensure that customers receive the most comprehensive service possible. In the interests of boosting their market presence in May 2008 it established, and continues to coordinate, the "TakarékPont" (Savings Point) network, which represents the closest form of cooperation between the savings cooperatives and banks to date.

As a **COMMERCIAL BANK**, following the principle of subsidiarity, it focuses primarily on customers whose requirements, owing to their size or the specialised nature of their activities, cannot be satisfied fully or at all by the integrated credit institutions. The Bank makes an effort to ensure the widest possible involvement of the members of the Integration in these projects.

As an **INVESTMENT BANK** its product range is aligned with the needs of the customers of the credit institutions belonging to the Integration, and complements the sector's product offering. With its comprehensive range of investment services it creates a direct link to the capital market for the savings cooperatives and their customers, besides affording them access to the global securities markets. Its team of acclaimed analysts, and its status as a primary dealer in the government securities market, ensure that its clients receive a high quality service underpinned by the most up-to-date market intelligence.

KEY FINANCIAL DATA

Changes in the key performance ratios of TakarékBank Zrt. in 2012:

	2011	2012	Percentage change (2012/2011)
Balance sheet total	369 522	389 589	105.43
Equity	14 521	15 472	106.55
Profit from ordinary business activity	1 073	781	72.79
Profit before taxes	1 060	695	65.57
Profit after taxes	462	195	42.21
Average statistical headcount (persons)	295	295	100.00
Regulatory capital adequacy ratio (%)	11.44%	11.74%	
Return on equity (ROE)	3.21%	1.30%	
After-tax return on assets (ROA)	0.12%	0.05%	
Cost to income ratio (CIR)	71.70%	76.08%	

THE FACT THAT THE BANK HAS RETAINED ITS ABILITY TO GENERATE PROFIT DESPITE THE ECONOMIC RECESSION, THE DIFFICULT BUSINESS CIRCUMSTANCES AND THE NEW LEGISLATION THAT IS HAVING A DIRECT IMPACT ON THE PROFITABILITY OF THE BANKING SECTOR INDICATES A SOLID BASIS FOR GROWTH

PÉTER CSICSÁKY
Chairman & CEO

PCS

MESSAGE FROM THE CHAIRMAN & CEO

TakarékBank closed an eventful year in 2012 – one that brought with it the chance for renewal, both for the Bank and the Integration of Savings Cooperatives. All this required a good deal of preparatory work from us, especially as we became the object of increased scrutiny in the wake of the State's acquisition of a share in the Bank. At the same time, we assisted in the due diligence procedures that were associated with the change of ownership, as well as in the successful closing of a supervisory audit that, though not related to the due diligence procedures, ran in parallel with them – and in addition, we joined the National Savings Cooperatives Institution Protection Fund (OTIVA) and the National Savings Cooperatives Association (OTSZ). And as if all this wasn't enough, in the middle of the year we moved back into our newly renovated headquarters.

With the share purchase agreement signed in November between Germany's DZ Bank AG and the Hungarian Development Bank (MFB), an era had come to an end and a new one had begun. We can thank the German credit institution that has just sold its minority stake for the considerable know-how it brought us, and now the arrival of our new shareholder offers a chance to acquire customers and new business – and to boost the market share of the savings cooperatives sector. This, however, comes with new requirements as well.

The fact that the Bank has retained its ability to generate profit despite the economic recession, the difficult business circumstances and the new legislation that is having a direct impact on the profitability of the banking sector indicates a solid basis for growth, and indeed, the Bank closed 2012 with a positive after-tax result. In fact, our operating profit figure (HUF 1.85 billion) is already net of the HUF 290 million payment liability incurred as a one-off item in relation to OTIVA membership, and of the bank tax and credit-institution contribution that amounted to HUF 1.3 billion. Thus we closed the year with an after-tax profit of HUF 195 million, which was in line with the target figure we had set.

In the worsening economic environment, companies' financial woes are multiplying, and this is having a knock-on effect on the banking sector, resulting in a deterioration in loan quality. For this reason it is particularly noteworthy that the Bank, while increasing its loan portfolio – after adjusting for exchange rates – by one percent, continued to classify the vast majority of its loans (96.15% at the end of the year) in the problem-free and the special watch category. Loans that required impairment to be recorded on them made up 7.42 percent of the entire loan portfolio. TakarékBank was also one of the few commercial banks that succeeded in increasing its balance sheet total in 2012, from HUF 369 billion to HUF 389 billion. At the same time, an expansion of business of a more significant extent could put the issue of a possible capital increase on the agenda, most probably in the form of a convertible bond issue.

The positive effects that the change in ownership could have for TakarékBank and the Integration will depend partly on the extent to which the sector is able to take advantage of these opportunities. A good starting point is that we have the trust of our customers, which is essential for this. The fullest possible exploitation of these business opportunities will be supported by a closer business partnership between the Bank and the Integration, which was decided on in May of 2012, and the foundation of which requires strengthening through a new integration agreement. Another part of the strategy is to strengthen institutional protection and to develop the savings-cooperative risk community along European lines. An important step in this direction was when the Bank, by signing the requisite contracts, became a fully-fledged legal member of OTIVA and OTSZ, as well as part of the integrated credit-institution risk community, not just in name but in legal terms too.

We also pressed ahead with our various development projects that are not directly linked to business activity. The InterGiro2 project, involving more than a hundred credit institutions in the sector, was successfully implemented. Our market position in the card business, which is of particular importance to the Bank, was also strengthened, as evidenced by the double-digit growth in both the number of cards and in card transaction turnover. With our MasterCard® "TaPassz" adhesive card product we were among the first to launch this type of contactless payment solution on the market, once again proving that the savings cooperatives are capable of innovating.

In summary, I wouldn't use terms such as "successful" or "unsuccessful" to describe the year 2012, as words like exciting, eventful, surprising and varied do it far more justice.

OUTLOOK FOR 2013

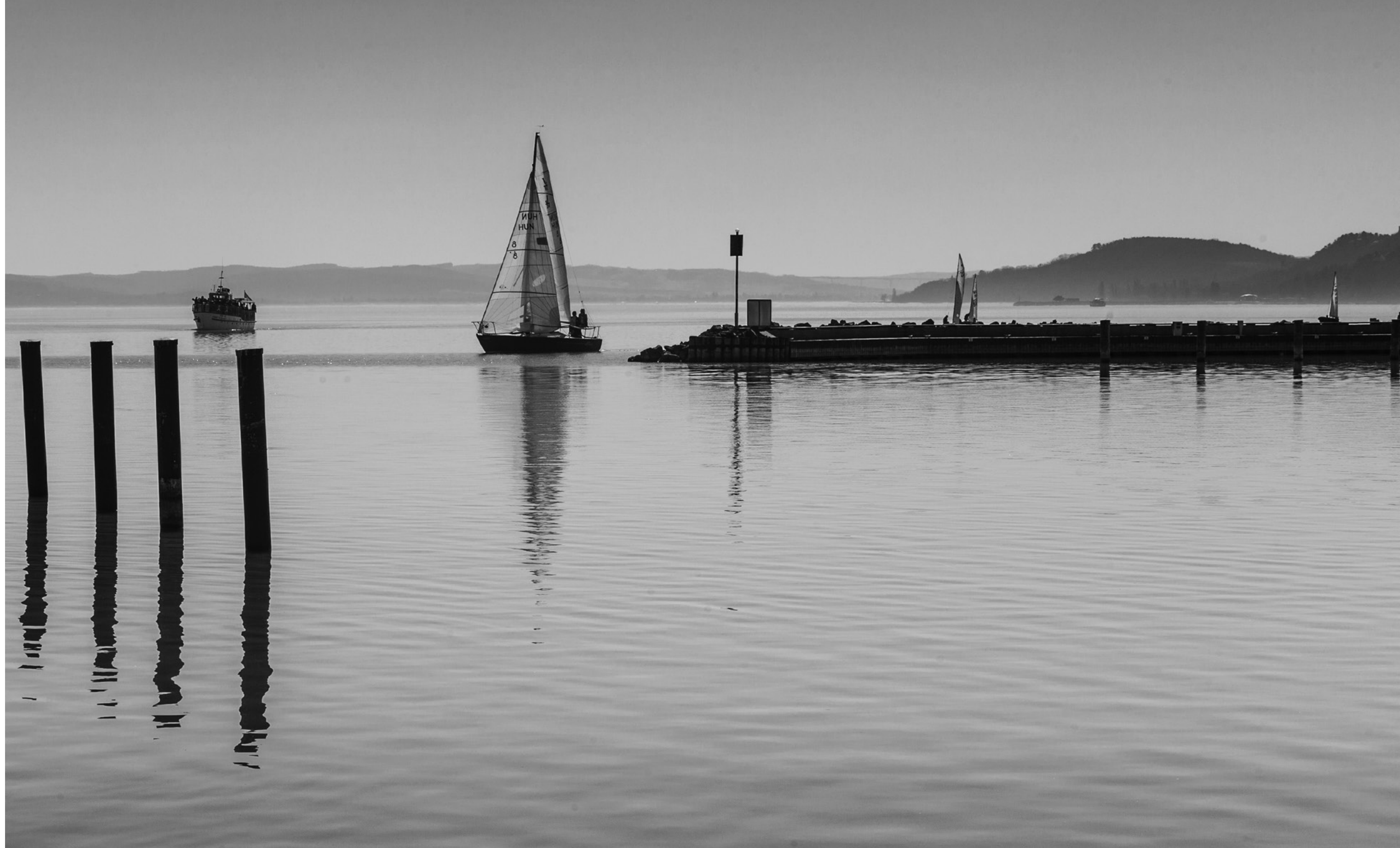
The waves of the European debt crisis are proving slow to subside, and the growth opportunities for the Hungarian economy are currently limited. Our financial targets have been set accordingly. We would like to repeat the result – before extraordinary items – that we achieved in 2012, which means a profit after tax of HUF 550 million. Though this might appear to be a rather modest goal, the burden placed on us by the transaction levy introduced in 2013 will make it a challenge to achieve.

The first major outcome of the broad-ranging partnership that is to be established with the Hungarian Development Bank (MFB) is the signing of the agreement, scheduled to take place at the start of 2013, on the priority distribution of the MFB's loans for small businesses via the 445 TakarékPont branches. More savings cooperatives are to be included over the course of the year, with the agreement eventually being extended to the entire Integration. We are preparing a comprehensive package of services for our SME customers, with TakarékFaktorház, a fully owned subsidiary of ours, set to play a major role in this as well.

We will continue to treat payment and card services as a driver for gaining market share in 2013, and we expect revenues from these services to grow at a rate similar to that seen in 2012. Our product development efforts will also be largely focused on this market segment. Besides card issuance, we are also focusing heavily on increasing our participation in card acceptance. Our internet banking services are also undergoing continuous expansion: our online securities investments module is now available in two versions, one for the ordinary investor and one for the professional investor.

The program for developing strategic cooperation between the savings cooperatives is approaching an important milestone, with the first details set to be approved by the savings cooperatives at their general meetings of 2013. Preparations for the signing of the new integration agreement are scheduled to be completed by the start of 2014 at the latest. Besides expanding the scope of cooperation on the business side, the sector's risk-bearing capacity requires strengthening too. This is being served by the further development of the institution protection system and through the creation of a "Recognised" Integration that carries the approval of the Hungarian Financial Supervisory Authority for applying zero risk weight to internal exposures between members of the Integration – and as a member of OTIVA, the Bank will have its fair share of tasks to do in this regard.

A busy and eventful year lies ahead of us, but the results we achieve will depend on whether the sector participants can agree on shared goals and can focus appropriately on them. I am encouraged by what I've seen over the past few years – that is, that changes and challenges tend in most cases to strengthen personal relationships. Indeed, I believe that rising to these challenges will establish an appropriately solid basis for overcoming the temporary difficulties we are facing.



"WITH A LITTLE SKILL, WE CAN USE THE STONES THAT ROLL INTO OUR PATH TO BUILD STEPS"

(ISTVÁN SZÉCHENYI)

CSABA ÉLIÁS
Chairman of the Supervisory Board

CSÉ

MESSAGE FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The year 2012 was full of challenges for TakarékBank's management and the domestic savings cooperatives that founded the Bank in 1989, as they faced a task that could have a major impact on the sector's future. As a result of the change of owner that took place at the Bank, the shares held by the German DZ Bank AG were transferred to the Hungarian Development Bank (MFB). This change could broaden the business opportunities open to the central bank of the integrated credit institutions, and help the savings cooperatives, with their strong local ties, to grow at national level as a regional network.

While DZ Bank, which serves as the central bank for the German savings cooperatives, played a key role in developing TakarékBank's central-bank function through the imparting of know-how, MFB – which since December 2012 has been represented on the Supervisory Board – is strong in financial and capital resources and has the capability to help move things forward on the business side. In order for this business partnership to bring satisfactory results for the sector, the strategic cooperation between the savings cooperatives needs to be not only strengthened, but taken to a new level at which shared thinking will lead to the defining of shared objectives and a common vision. We have to seize the opportunity presented to us and take control of our own destiny, secure in the knowledge that the member institutions of the Integration of Savings Cooperatives are a force to be reckoned with in both professional and business terms, and are capable of keeping pace with our changing times.

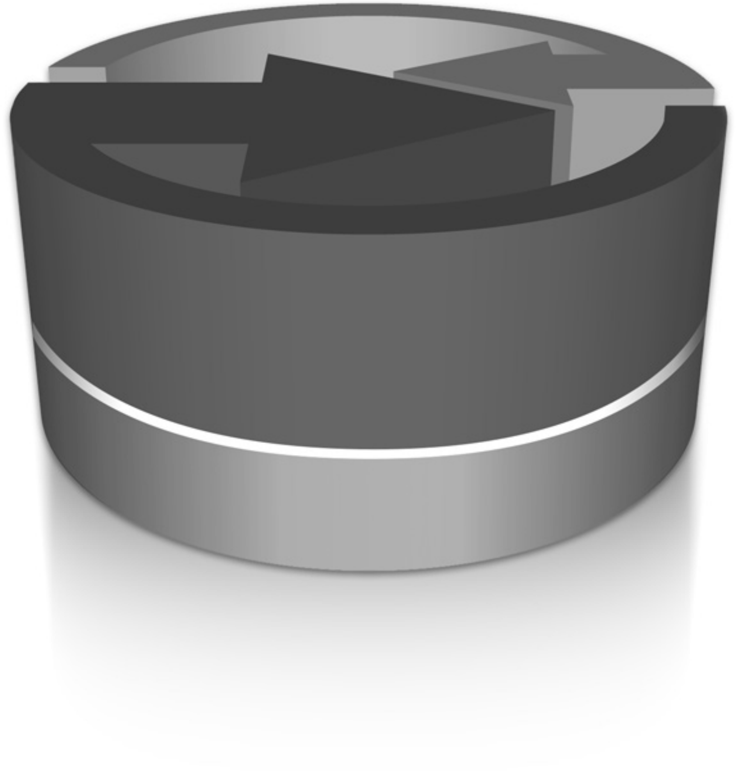
The emphasis is on change, but nevertheless the business strategy of the Integrated Savings Cooperatives and their central bank to date – one of customer-focused operation that pays close attention to the interests of local households and businesses – has ensured the requisite degree of stability and sustainable profit despite the increasingly tough external and internal economic circumstances. The expectations placed on TakarékBank and the Hungarian-owned integrated credit institutions have grown, and the sector can only rise to meet the challenges if, while retaining its tried and tested methods, it is capable of developing and using new ones. The task is by no means easy, as the regulatory environment for banks has become stricter and the attitude of regulators towards the sector is also changing; but it is also time for the sector to carry out a critical self-appraisal, and for the often unwarranted satisfaction to give way to a healthy dissatisfaction with the status quo, a desire to move forwards. We can only fulfil all these expectations by raising the bar even further and becoming more professionally discerning, and basing our vision for the future on the unique strengths inherent in the sector and the values that are characteristic of us alone.

The year 2012 brought new challenges, but also had a motivating effect, marking out the distance that TakarékBank and its affiliated credit institutions will have to run together in 2013. In the year ahead it will become clear whether TakarékBank and the community of its partner savings cooperatives will be successful at "building steps". To achieve a faster pace and ensure consistently good interim results, the Supervisory Board continues to work closely with the Bank's management, giving it all the support it needs to ensure that the year ahead brings success for the Bank's partners, customers and the sector once again.

OWNERSHIP STRUCTURE

Shareholders	Shareholding in %*
Savings Cooperatives	60.42
Magyar Fejlesztési Bank Zrt. (MFB)	39.28
Other	0.3

* as of 15 May 2013



SAVINGS COOPERATIVES / BANKS

For the last half century, the savings cooperative sector has been an important part of life in rural Hungary, as its primary financial service provider. In terms of the number of its branches, it comprises Hungary's largest network of financial institutions, and also has a presence in towns and villages where other commercial banks are not represented. Owing to its business activities and constantly expanding range of products and services, retail customers, SMEs, and municipalities alike are provided with a comprehensive service close to home.
The Bank's direct clientele, for which it performs central-bank as well as product and service development activities, currently consists of 101 integrated savings cooperatives, 3 banks established through the transformation of savings cooperatives, and 22 non-integrated savings cooperatives.
The customers of the credit institutions are served indirectly, through the product and service development work performed by TakarékBank.

The essential expectation of the Bank's direct credit institution clients, as the majority owners of TakarékBank, is close business cooperation and support for the development of the sector.
In accordance with this expectation, TakarékBank's business policy also states that it will ensure balanced funding and refinancing for the savings cooperatives and for the banks that have been created from the savings cooperatives, which are in a business relationship with it. It provides for the clearance of payment transactions, distributes investment products, ensures cash supply, intermediates in the provision of credit and subsidised facilities, and develops retail and other products in the interests of enabling the credit institutions in the network to serve their customers with the widest possible range of products.

The combined balance sheet total of the Integrated Credit Institutions increased by 1.5% in 2012, to HUF 1,470 billion. They continued to actively engage in lending activity, and their profit-generating capacity remained stable.
On the liabilities side, deposits increased to HUF 1,245.75 billion, representing a 3.1% growth, which further strengthened their already prominent position in almost every segment of the deposits market. The aggregate market share of the Integrated Credit Institutions based on their deposit portfolio stood at around 8.5%, and within this figure, their market share for retail deposits was 13.6%.
The sector's equity increased by 7.5% over the year, to HUF 121.6 billion.
On the assets side, the market share of the Integration, based on gross loan portfolio, stood at 3.7% at the end of 2012, which is 0.6% higher than in the previous year.
While the net credit portfolio of the banking sector declined by 17% in 2012, this ratio was 0.5% for the Integration. While the banking sector suffered a 15.8% loss in gross credit portfolio, the Integration produced growth of 0.1%. Due to the difficult trading conditions, the business loan volume of the Integrated Credit Institutions declined by 2.4%, but at the same time their household loans increased by 4.9%. Other loans suffered a 39% loss, which was largely due to the municipal consolidation on 28 December 2012 (HUF 1.2 billion). On the other hand, their market share in retail loans grew to 5.1% in 2012, primarily as a result of their active participation in HUF-based refinancing in relation to the FX-mortgage early repayment scheme. In 2012 the profitability of the Integrated Credit Institutions improved considerably (+59.7%) compared to the previous year. A 30.7% drop in impairment and loss provisioning, combined with an only minor increase in general administrative costs (+3.7%), helped ensure that the interest margin (+2.4%) as well as net commissions and fees (+4.1%) had a positive impact, with the result that the pre-tax profit of the sector rose to HUF 10.2 billion.

MAGYAR FEJLESZTÉSI BANK ZRT.

Magyar Fejlesztési Bank Zrt. (Hungarian Development Bank Ltd, of MFB for short) is a specialised credit institution, wholly owned by the Hungarian state, whose mission as a classical development bank is to assist in the achievement of development policy objectives through the financing of investment projects in Hungary. Its task is to meet the development needs of the Hungarian economy primarily through the placement of funds from the financial markets under favourable but market-based conditions.
Its activities promote the growth of investments and the implementation of development projects, and the elimination of deficiencies in the Hungarian infrastructure; it provides incentives to Hungarian businesses primarily for the expansion of the activities of the small and medium-size business sector in Hungary and abroad, the technological, environmental protection and energy efficiency development of the economy, and the growth of employment. Through these activities it actively contributes to the improvement of Hungary's international competitiveness.
On 14 November 2012 and subsequently on 17 January 2013, DZ Bank AG (Deutsche Zentral-Genossenschaftsbank) transferred its ownership of the ordinary shares issued by TakarékBank Zrt. to Magyar Fejlesztési Bank Zrt.

THE RELATIONSHIP BETWEEN THE SAVINGS COOPERATIVES AND MFB DEVELOPED ENCOURAGINGLY FROM THE VERY BEGINNING.

ZU

ZOLTÁN URBÁN
Member of the Supervisory Board

MFB AND TAKARÉKBANK – A FRUITFUL PARTNERSHIP

It was a rare moment in the economic history of the country when a Hungarian credit institution bought a Hungarian bank from a foreign bank. The sale and purchase procedure was concluded on 14 November 2012, then on 17 January 2013 Deutsche Zentral-Genossenschaftsbank (DZ BANK AG) officially transferred ownership of its holding of ordinary shares in TakarékBank Zrt. to the Hungarian Development Bank Ltd. (MFB). With this, the Hungarian Development Bank became the largest minority shareholder in TakarékBank. These events are truly unprecedented, especially given that the recent period will go down in history as one of the most severe financial crises ever in the Hungarian economy.

As a result of the transaction, TakarékBank has become a solely Hungarian-owned company. The umbrella bank of the domestic savings cooperatives fulfils an important role in the savings cooperatives segment, while the branch network of the savings cooperatives, which together hold the majority of shares in the Bank, covers the entire country, making them the closest partners of rural Hungary. The Hungarian Development Bank Ltd. (MFB), one of the most important institutions of the Hungarian State, is joining with the sector in a cooperative partnership.

MFB's mission, as a development bank in the classic sense, is to contribute to the fulfilment of development-policy aims through the financing of investments in Hungary. Its task is to promote the development objectives of the Hungarian economy, primarily through the lending of funds, procured from the money and capital markets, at favourable but nevertheless market-based terms. Through its activity MFB promotes investments and growth, and the elimination of deficiencies in domestic infrastructure. It encourages the expansion of the activities of Hungarian businesses, primarily small and medium-sized enterprises, both at home and abroad, as well as technological, environmental and energy-efficiency developments that benefit the economy, and the creation of new jobs, thereby actively contributing to an improvement in Hungary's international competitiveness.

MFB is not only a lender, but also an asset manager. It exercises the government's ownership rights over several state-owned companies, although perhaps it would be more accurate to talk about owner's obligations in this case. These companies, under the supervision of MFB, work to achieve the most efficient possible operation, and this is clearly shown by the fact that, for example, all 22 of the state-owned forestries closed last year with a profit. Among the companies are those that oversee investments, such as MFB Invest Befektetési és Vagyonkezelő Zrt. and Regional Development Holding Zrt.; while Garantiqa Creditguarantee Co. Ltd. or Student Loan Centre Zrt., for example, perform special activities.

The relationship between the savings cooperatives and MFB developed encouragingly from the very beginning. Each new round of consultations and meetings opened up new horizons, and the first major breakthrough was achieved at the start of 2013, when MFB and the 23 savings cooperatives in the TakarékPont network signed the agreement on closer cooperation. The first practical result of this agreement will be the sale of MFB Small Business Loans. The results prove that we are on the right track, and should continue on this path.

BELIEVE THAT IF WE SUCCEED IN CREATING TOGETHER A NEW, COMMON BUSINESS AND COOPERATION MODEL FOR THE INTEGRATION THAT IS ACCEPTED BY ALL THE PARTICIPANTS, WE WILL BE ABLE TO LAY THE FOUNDATION FOR A FRUITFUL COOPERATION FOR ALL THE MEMBERS OF THE INTEGRATION OF SAVINGS COOPERATIVES.

LEVENTE SZABÓ
Deputy CEO, member of the Board of Directors

LSZ

A FOCUS ON NEW BUSINESS OPPORTUNITIES

AS A RESULT OF THE TRANSACTION, WITH THE HELP OF THE NEW MINORITY OWNER, NEW SALES OPPORTUNITIES HAVE OPENED UP FOR THE BANK AND THE SAVINGS COOPERATIVES, AND EXPLOITING THESE OPPORTUNITIES WILL BE ONE OF THE MOST IMPORTANT TASKS OF 2013.

I will start the assessment of the past year with an evaluation of the performance of Takarék-Faktorház Zrt. and Takinfo Kft., the subsidiaries under my direction.
Based on the share purchase agreement signed on 19 March 2012, TakarékBank became the full owner of TakarékFaktorház Zrt., whose previous name was Next-Faktor Zrt. Increasing our share in the company was prompted by our desire to more fully exploit the business opportunities inherent in the savings cooperative sector and to expand our product offering to include a factoring service for our own customers as well as our savings cooperative partners. 2012 was a year of successful business management as well as a year of adjustment to new challenges and expectations for the Company. However; starting from 2013, following the reorganisation of the sales structure and the expansion of the product offering, TakarékFaktorház will be launched on a path of growth, as a result of which it should triple its current annual turnover of HUF 17 billion within the next 5 years and become the main factoring provider for the Integration. Based on the data of the first quarter, the Company is on track to realise its goals.

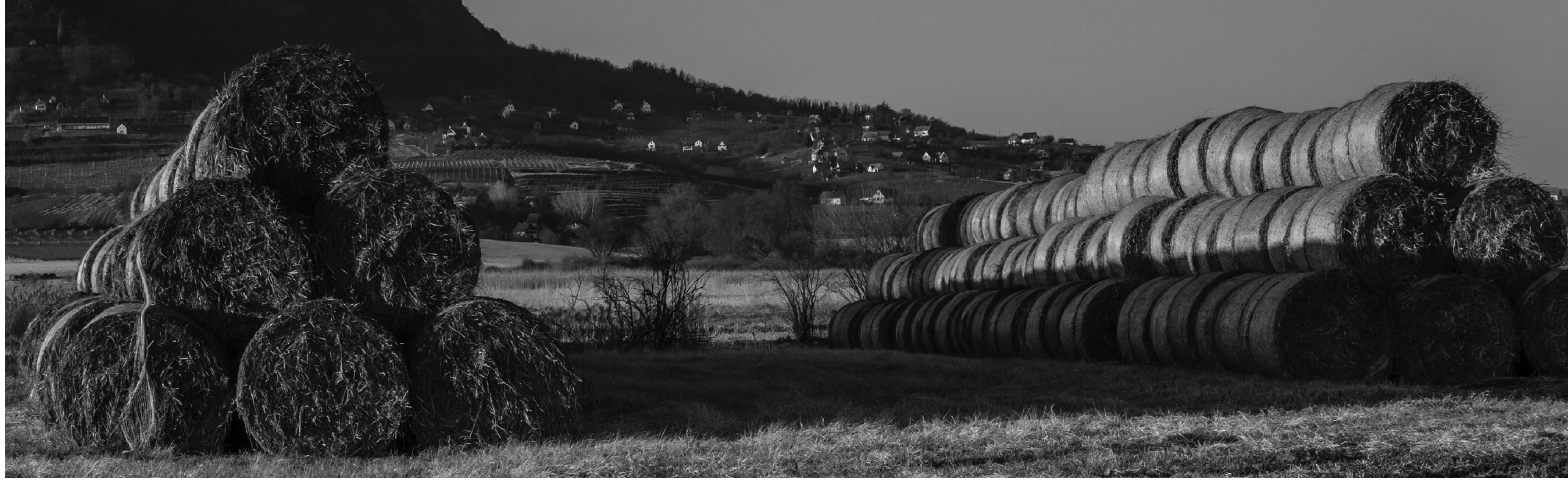
Takinfo Kft. also had a successful year, and not only because it exceeded its planned after-tax profit figure. As a cost centre of sorts, the Company is responsible for offering an increasingly high-quality and broader offering of services to TakarékBank and its savings cooperative customers, while keeping operations cost-efficient In order to meet these expectations, Takinfo focused last year on its sales and customer service activities, as a result of which it now boasts higher customer satisfaction on the market of Integrated Savings Cooperatives.
The business departments under my professional supervision include the Corporate and Institutional Clients Division, the IT, Facility Management and Bank Security Division, the Independent Project Management Department, and the Money and Capital Markets Back Office.

In 2011 and 2012 the Bank's most important capital project was the full exterior and interior renovation of its head office building. The purpose of the investment was to create a modern and energy-efficient environment for banking operations, to operate the Bank's building and equipment in an effective and energy efficient way, and to comply with the operating, facility management and bank security regulations. In line with the plans, the project was successfully implemented in 2012, and the Bank moved back to the renovated building. As evidence of the first-rate quality of the renovation, MATA-DÓR Architektúra Kft., the company that planned and implemented the architectural and design work on the headquarters, was awarded the Aluta Architectural Award, and the energy rating of the building went from "F" to "A (energy saving)".

The Corporate Division was able to maintain the positive trend of the previous years, and in 2012 it significantly exceeded the profits realised in 2011 and planned for 2012 both in terms of operating and after-tax profits, surpassing its profit target by 67.43% and its 2011 after-tax profit by 61.91%. It did this under difficult economic and business conditions, in line with the prudent and careful lending policies it has been following for years.
In terms of lending, we also achieved growth, and against the background of declining volumes typical of the banking sector as a whole, TakarékBank was able to increase its market share while preserving the quality of its loan portfolio. In the past year, the financing of SME customers continued to be of key importance, together with the joint management of transactions with the credit institutions belonging to the Integration. In this market segment the division grew by selling its services to companies with strong market and financial positions.
We also have great expectations with regard to the Lending for Growth Scheme announced by the MNB, which will create additional and significant sales opportunities for the Savings Cooperatives as well as for TakarékBank in the corporate customer segment.

We were also active in the municipal customer segment in 2012. The number of municipalities that have their accounts managed by the Bank increased. With regard to financing transactions, as a result of the decline in bond trades the focus shifted towards loans financed by ourselves and towards refinanced loans. I believe that after the completion of the municipal consolidation this year, the Integration of Savings Cooperatives will have new sales opportunities that we will need to take advantage of together.
In addition, in the context of the retail FX-mortage loan early repayment scheme, we managed to build a HUF 2 billion retail mortgage loan portfolio by acquiring close to 200 new customers.

A significant event in 2012 was the sale by DZ Bank AG of its 39.27% stake in TakarékBank to the Hungarian Development Bank Ltd. (MFB). As a result of the transaction, with the help of the new minority owner, new sales



opportunities have opened up for the Bank and the Savings Cooperatives, and exploiting these opportunities will be one of the most important tasks of 2013. In this respect the development of the structure of cooperation between the two credit institutions has started in the form of joint working groups and, as a result, there will be regular, daily communication and cooperation between the relevant co-departments in 2013.
In addition, in order to best exploit the new business opportunities, we plan to strengthen cross-selling in the corporate customer segment, and we will introduce the products of MFB, Eximbank, MV Zrt., and TakarékFaktorház to our customers. We have created an independent Sales Support Department to coordinate this task in an efficient manner.
In relation to our customer acquisition efforts, one of the key tasks of 2013 is to improve our account management and payment services and products to ensure that we provide top quality service to our existing customers and to larger companies and company groups.

Last year the Money and Capital Markets Back Office continued to provide stable and reliable support to the Financial Markets Division for the execution of business transactions. The division focused on expanding the functions of the TakarékNetBróker system, which gave our customers access to a wider offering of services.
In terms of projects, the Bank continued to focus on the Strategy Project, which aims at creating a model for the long-term joint cooperation and business strategy of TakarékBank and the Integration of Savings Cooperatives. In the course of the year, we managed to formulate our shared view in several areas and to determine our shared strategies with the participation of the savings cooperatives. I believe that if we succeed in creating together a new, common business and cooperation model for the Integration that is accepted by all the participants, we will be able to lay the foundation for a fruitful cooperation for all the members of the Integration of Savings Cooperatives.

THE INTEGRATION'S STRATEGY PROJECT IS SET TO CONTINUE IN 2013, WITH THE OBJECTIVE BEING TO MAKE THE BUSINESS PARTNERSHIP BETWEEN THE MEMBERS OF THE INTEGRATION EVEN STRONGER, AND TO FURTHER STANDARDISE THE INTEGRATION'S RISK MANAGEMENT METHODS, PROCESSES AND VALUATION APPROACHES.

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DR. ISTVÁN FORRAI
Managing Director, member of the Board of Directors

PROFITABILITY THROUGH CAREFUL RISK-TAKING

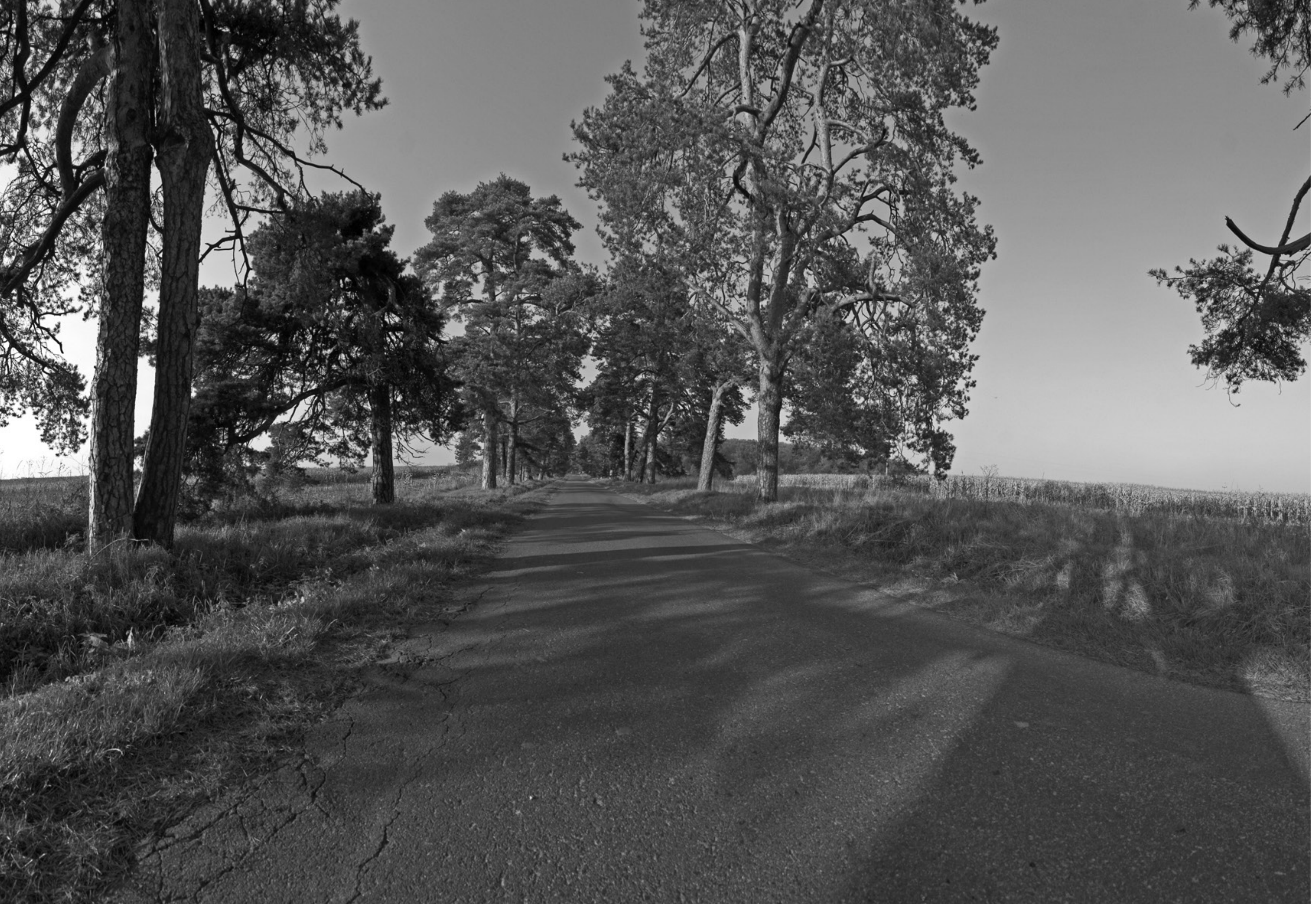
THE ARRIVAL OF THE MFB AS A NEW OWNER OFFERS OPPORTUNITIES FOR COOPERATION NOT ONLY IN TERMS OF BUSINESS BUT IN THE RISK-MANAGEMENT AREA TOO.

2012 was a year characterised by due diligence procedures and audits. At the start of the year, the Hungarian Financial Supervisory Authority (HFSA) held a comprehensive on-site audit at the bank. Virtually at the same time, a comprehensive due diligence was carried out in relation to the purchase by MFB of DZ Bank's stake in TakarékBank. The audits established no negative findings, no penalties were imposed on TakarékBank, and the share purchase transaction between DZ Bank AG and MFB was completed successfully.

As a part of the strategic development project launched by TakarékBank and the business Integration in 2010, the 16 key principles of the strategy were defined and approved in the first half of 2012. The strategy project was resumed in the autumn of 2012 with the launch of phase IV. Also as part of the strategy, TakarékBank joined OTIVA, and the large one-off joining fee entailed by membership was paid by the Bank. While OTIVA membership represents a source of protection for the Bank, it also represents a new source of risk: in a crisis, the Bank will have to play its part in assisting other members who find themselves in trouble – if necessary, by making an additional payment.

The bank tax levied on our balance sheet total which, due to the central-bank role we fulfil within the Integration, is high and which consists in large part of risk-free assets, has remained in place, and this represented a disproportionately large burden for the Bank. In view of this, and because of the large one-off OTIVA joining fee, appropriately prudent risk-taking was needed for the Bank to be able to report a positive profit figure at the end of the year. This was achieved. Among the indicators reflective of the quality of the portfolio, only the volume of restructured loans grew slightly, with this being due in part to the fact that the HFSA introduced a stricter definition for the term restructuring, which resulted in a one-off increase in the volume of the restructured portfolio.

In terms of market risks, the year 2012 passed fairly uneventfully. In what was a volatile market environment, the Bank kept its open positions at a low level. In order to reduce counterparty risk, we concluded additional ISDA/CSA contracts, and alongside the agreements already in place, we concluded ISDA-based netting agreements with more of our partners for the purpose of reducing settlement risk. In 2012



TakarékBank had to meet the minimum requirements with respect to several new liquidity indicators stipulated by the Hungarian statutory regulations. From the start of the year it became mandatory to observe the deposit and balance-sheet coverage ratio, while from the middle of the year, compliance with the stipulated foreign currency liquidity ratio was also compulsory; of these, keeping the latter at the minimum required level proved the more challenging. This was achieved, and the Bank provided for the bulk of its foreign-currency refinancing through new long-term transactions, by the prescribed deadline.

In 2012, for purposes of cost efficiency, the Bank teamed up with Takinfo Kft. to form a VAT group.

During the course of the year, the Bank acquired 100 percent of the shares in factoring company Takarék Faktorház Zrt. Faktorház – in accordance with the requirements applied to the companies under consolidated supervision – was, by the end of the year, successfully integrated into the Bank's internal regulatory and risk assumption environment.

The Integration's strategy project is set to continue in 2013, with the objective being to make the business partnership between the members of the Integration even stronger, and to further standardise the Integration's risk management methods, processes and valuation approaches. The primary objective of the project for the year ahead is to implement the institution protection scheme defined in Section 76/A (8) of the Act on Credit Institutions and to meet all the related requirements. This should help in ensuring that when calculating the capital requirement, the credit risk associated with the member institutions' lending to one another can be recognised with a zero-percent risk weight, and that a cooperative relationship be established between the member institutions that meets the expectations of the supervisory authority and does not result in the supervisory authority imposing any additional capital requirements on the members. In order that the HFSA accept the institution protection scheme it's also necessary for a liquidity regulatory system to be introduced in the Integration that includes clear principles and procedures for the management of liquidity shocks that might affect one or more of the member institutions.

The arrival of the MFB as a new owner offers opportunities for cooperation not only in terms of business but in the risk-management area too. In the context of this, the opportunities inherent in the methodological standardisation of customer ratings deserve special mention.

Naturally, over the next few years, ensuring compliance with the liquidity indicators that are calculated using standardised methods and are to be introduced in the member states of the EU under the international banking regulations known as Basel III will be a major challenge. To ensure that it is suitably prepared for this, TakarékBank is participating once every half-year in monitoring reviews designed to facilitate the determination of the detailed figures.

ONE OF THE MOST POPULAR PRODUCTS IN THE NETWORK WAS TAKARÉK FUND MANAGEMENT'S TAKARÉKINVEST LIQUIDITY INVESTMENT FUND, WHICH TURNED OUT TO BE THE BEST PERFORMING FORINT LIQUIDITY/MONEY MARKET INVESTMENT FUND IN 2012.

SZABOLCS BREZINA Managing Director, member of the Board of Directors

THE FINANCIAL MARKETS DIVISION HAS CLOSED AN OUTSTANDING YEAR

ONE OF OUR GREATEST ACHIEVEMENTS IN 2012 WAS THE SUCCESSFUL IMPLEMENTATION OF THE HUNGARIAN DEVELOPMENT BANK'S BOND PROGRAM.

The Financial Markets Division has closed an outstanding year in 2012. Revenues exceeded HUF 3 billion, representing a close twenty percent increase over last year's figure. However, there is still plenty more in the tank: had market circumstances been more favourable, the profit figure would have been even better, and part of the energy that could otherwise have been used for sales was consumed by the numerous authority audits that were conducted in 2012. The results of these audits were nonetheless a source of satisfaction for us, as they confirmed that TakarékBank is being run in a prudent manner, and we trust that by strengthening the confidence of our partners, these audits will lead to further positive results over the long term.

By exploiting the market opportunities that presented themselves, and by assuming appropriate positions, the team achieved favourable results in the course of 2012: income from own-account trading was HUF 1.9 billion, while income from sales activity amounted to HUF 1.2 billion. The Bank's portfolio of hedge transactions was well structured too. These positions generated exceptional yields last year, and the trend is expected to continue in 2013.

Demand for longer maturities

The sales results attained in the area of government securities and bonds, and the achievement of HUF 690 million in income stemming from this, was supported by a positive development: in what was a falling interest-rate environment, the savings cooperatives, typically conservative investors, adjusted their government securities portfolios, that have traditionally been based on short-term discount treasury bills, and thus there was also demand for government securities of a maturity of one year or more.

One of the major tasks of 2012 was the implementation of the bond program of Magyar Fejlesztési Bank Zrt. (MFB Zrt.) Of the securities that were issued exclusively for the savings cooperatives – in the context of a combined HUF 100 billion program – the sector subscribed HUF 30 billion worth of bonds between September 2012 and the end of the year. Though the preparations for this project began a long time before MFB Zrt. took the first steps towards acquiring ownership in TakarékBank, I believe the success of this program provides a good example of how synergies can be effectively leveraged through shareholder cooperation.

New role for competence centres

Our relationship managers did an excellent job in terms of supporting the sales of retail investments within the Integration as well, and this contributed to ensuring that the program, launched some five years ago, has become self-sustaining. The expenditure of the Financial Markets Division was further improved by the fact that most of the bank employees working in the competence centres set up at the savings cooperatives were transferred last year to work at the respective savings themselves. This does not only mean that we have assigned high-value, high-performing experts to the network, but clearly shows that in the Integration as well, it is worth paying for one's own employees to be engaged in the sale of investment products. There was feedback for the savings cooperatives to the effect that modern investment products attract additional savings, thus increasing the balance sheet total.

One of the most popular products among the various investment products distributed by TakarékBank was Takarék Fund Management's TakarékInvest Liquidity Investment Fund, which in 2012 was the best performing forint liquidity/money market investment fund of the year. Based on the sales figures, TakarékBank's own bonds also proved to be star products last year, with the value of such bonds issued topping HUF 7.8 billion by the end of the year. This success is of particular importance to us because the bonds give us access to funding of more than a year's maturity, that is, long-term funding that has become far more valuable recently due to domestic and European regulatory changes.

It was only the equity market's performance that fell short of expectations. Much as we had hoped that the protracted fall in stock-market turnover since the financial crisis would come to an end in 2012, there was no change in the trend. This had an adverse effect on sales achieved through our web-based investment service, NetBróker. On a more positive note, this system, launched in 2011, is operating well and without interruption, and is on a par with the best services of its kind available on the market.

A changing marketing concept

The increased attention being paid to the savings cooperatives in certain respects facilitated the work of the Marketing Department last year, though our marketing concept will be changing in 2013 due to the work associated with the implementation of the Integration's new strategy. As in the preceding two years, in 2012 our marketing activities related to the TakarékPont network were centered on product campaigns as well as brand building and an effort to attract a younger clientele. However, new situations require new courses to be charted. In the future we will need to differentiate the TakarékPont network not from the rest of the savings cooperatives, but first and foremost from other, competing banks, while remembering that our shared brand has a future only if it is supported by a shared product portfolio. While continuing to emphasise regional values, next year we will be extending the focus of our communication to include small and medium-sized enterprises, in addition to retail customers. Our aim is to become one of the three most popular providers of universal banking services in Hungary by projecting a standardised image and by offering consistent services, as well as through effective governance and business management. At the same time, we wish to increase the market share of our community of credit institutions and to strengthen the positive image associated with our successes and service capability. The key to our future success lies in knowledge of our customers, nationwide coverage and the expertise of our staff.

A KEY OBJECTIVE AND TASK OF OURS FOR THE COMING YEAR IS TO INCREASE THE MARKET SHARE OF THE SAVINGS COOPERATIVE SECTOR IN SME AND AGRICULTURE FINANCING, AND TO EXPAND ITS CURRENT BASE OF SOME 300,000 BUSINESS CUSTOMERS STILL FURTHER. ANOTHER SIGN OF OUR COMMITMENT TO THE SME SECTOR IS THAT THE MEMBER INSTITUTIONS OF THE INTEGRATION CONTINUE TO BE MARKET LEADERS IN THE ISSUING OF SZÉCHENYI CARDS AND IN THE CREDIT LINES GRANTED.

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ÁDÁM EGERSZEGI
Director, Savings Cooperatives Division

DEVELOPING A MORE EFFICIENT BUSINESS MODEL IS ON THE AGENDA

FOCUSING ON THE FINANCING OF SMES

Several major projects determined the tasks of the Savings Cooperatives Division last year: the year kicked off with the savings cooperatives supporting the replacement of FX-based retail mortgage loans, followed by placing the partnership of the integrated savings cooperatives between each other and with their central bank on a new footing, joining the InterGiro 2 system and thereby implementing intra-day clearing for the more than one hundred credit institutions of the Integration, and laying the foundations for a new and wider cooperation between the Integration and the Hungarian Development Bank (MFB).

As part of the Integration's Strategy Project, we are working on implementing a more efficient business model that could open up new dimensions for us. For the customers of the savings cooperatives, the most obvious sign of the closer relationships that we seek will be the appearance of a high number of TakarékPont branches with a consistent look and image. This change, however, is only one element of a wide-reaching project that we are all working hard on preparing. Our concentrated efforts will produce a strategy that will be central to our activities in 2013; the strategy will need to be fine-tuned and approved by the Integration during the year, and once it is accepted, we can start to put it into practice.

Electronic communication channels gaining in importance

The implementation of the InterGiro 2 (IG2) system, carried out together with the Payment Services Unit, represented a substantial task. Owing to the effective preparations made by the member institutions, the integrated credit institutions' IG2 payment transactions have been successfully managed since the system's launch in July. In addition to a number of developments, the project also entailed a transformation of the services we provide. We outsourced our settlement functions to a new business partner, a decision that our recent results show to have been right. At the same time, we devoted increased attention to the use of electronic channels, leading to an impressive 11% growth in the number of transactions compared to the previous year.

All these brought about further developments to our internet-based communication channels too, ranging from internet banking solutions offered by TakarékBank to the savings cooperatives and their customers all the way to the enhanced and standardised website and web2 presence within the TakarékPont network.

In terms of payment services, the bank card division had a successful year. While the market was losing momentum, we managed to buck the trend and expand our activity. TakarékBank has retained its leading role in terms of innovation related to contactless payment solutions. Following the introduction of the MasterCard® PayPass™ bank card and the PayPass™ enabled wristwatch, in early 2012 we were among the first to launch the

MasterCard® PayPass™ TaPassz sticker, which is a miniature bank card with contactless payment functionality that can be attached to any everyday object. The number of bank cards issued by TakarékBank increased by 12.8% in 2012. At the same time, the volume of processed card transactions grew by 32%. The number of ATMs linked to the TakarékBank network now exceeds one-fifth of all automated teller machines in the country; with 1038 ATMs, our network is the second largest in the Hungarian market. The Bank will continue to focus on card payment services in 2013, and further developments may be expected in this area.

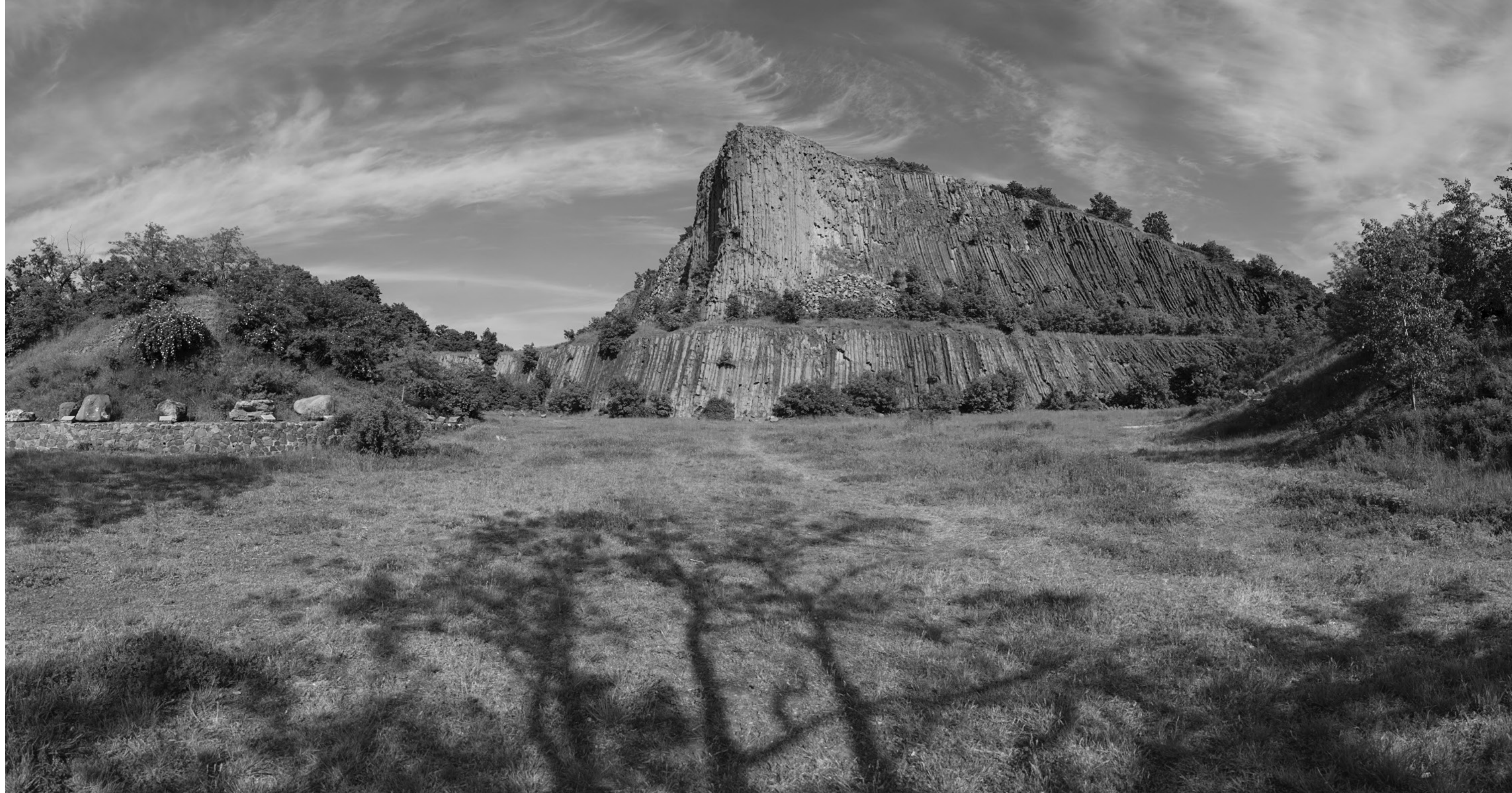
SME and the agricultural financing in focus

The importance of general purpose loans is increasing in small and medium-sized enterprise financing too. The funds placed by the Integration of savings cooperatives with SMEs in the agricultural sector exceeded the figures of the previous year, attributable mainly to the Agrarian Széchenyi Card launched in 2011 and to the Farmer's Card (Gazdakártya), designed to relieve temporary liquidity problems faced by agricultural businesses. The financing scheme, based jointly on these two cards, yielded a total increase of 10.8% in the funds lent by the Integration of Savings Cooperatives.

The Hungarian Development Bank, as a new shareholder of the Bank, has become a strategic partner in terms of financing SMEs for all the credit institutions affiliated with TakarékBank. The foundations of this cooperation were defined at the end of 2012, and its scope is to be broadly extended in 2013. As one of our key objectives and tasks for the coming year, this cooperation should help to increase the market share of the savings cooperative sector in SME and agricultural financing, and to expand its current base of some 300,000 business customers still further. Another sign of our commitment to the SME sector is that the member institutions of the Integration continue to be market leaders in the issuing of Széchenyi Cards and in the credit lines granted.

With regard to the disbursement of HUF-based mortgage loans designed to replace retail FX-based loans repaid as part of the FX-mortgage early repayment scheme, we recommended a standardised set of financing conditions for the savings cooperatives. Our activity also helped the sector to greatly increase its portfolio of HUF-based retail mortgage loans and to considerably improve its positions within the banking sector, and thus to emerge as a winner in the related competition with the commercial banks.

In 2012 we continued to devote substantial resources to ensuring we are in compliance with the constantly changing regulatory environment. While 2012 was marked by our efforts to adapt to new regulatory entities and to identify the opportunities brought about by the arrival of our new shareholder, the year ahead will once again see us focusing on product development and on exploiting the sales potential that lies in these new opportunities.



OWING TO THIS JOINTLY IMPLEMENTED SERVICE, THE INTERNAL PAYMENT TRANSACTIONS OF THE CREDIT INSTITUTIONS HOLDING CLEARING ACCOUNTS AT TAKARÉKBANK HAVE BECOME EVEN FASTER THAN THOSE OF COMMERCIAL BANKS.

LÁSZLÓ MEZEI
Director, Payment Services

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INNOVATIONS AND NEW PARTNERS DRIVE THE ACQUISITION OF MARKET SHARE

WHILE ADDITIONAL TURNOVER WAS PREVIOUSLY GENERATED BY NEWLY ISSUED CARDS AND BY PARTNERS NEWLY SIGNING UP FOR THE BANK'S CARD-RELATED SERVICES, 2013 WILL SEE US FOCUSING ON THE DEVELOPMENT OF CARD ACCEPTANCE.

Following preparations that took almost two years, last year we joined the InterGiro 2 intra-day clearing system. Ensuring successful implementation was the single greatest challenge the employees at Payment Services faced in 2012. The scale of the task is clearly reflected in the fact that TakarékBank (in its capacity as the provider of payment services for the Integration) is the second largest banking partner of Giro Zrt., which performs the central clearing house function. Every sixth transfer in the country passes through the servers of TakarékBank as an incoming or outgoing item.

The work involved in laying the foundations for implementation was both exciting and rewarding. We had to create an entirely independent clearing house function from scratch, and had to make sure that all the 117 credit institutions holding accounts at TakarékBank could switch smoothly to the new system. Since the intensive testing period ended on 2 July, the system has had a monthly average turnover of around 2 million payment transactions. We had anticipated that the number of electronically processed HUF transactions that could be received by the InterGiro 2 system would be roughly the same as that of the items that would continue to be accepted in the conventional manner and forwarded to the InterGiro 1 system. However, the pace of development exceeded expectations: transactions enabled for intra-day clearing made up 60 percent of all transactions by early 2013 and we are looking forward to further growth.
The fruits of our success in relation to this development are shared with Takinfo Kft., as well as with the largest processor of payment transactions in Europe, Equens SE, which currently has TakarékBank as its sole customer in Hungary. Owing to this jointly implemented service, the internal payment transactions of the credit institutions holding clearing accounts at TakarékBank have become even faster than those of the commercial banks.
Payment orders received from the savings cooperatives (and the three banks affiliated with the Integration) are processed at least ten times a day in order to ensure seamless operation within the new system, and as a result,

electronic HUF-based transactions within the Integration can be credited in as little as 1 or 2 hours, well before the required completion time of four hours. Transactions passing through the national GIRO system are also cleared faster than required: while due to the extra work of processing the payment transactions of correspondent banks, the statutory deadline is 6 hours, we rarely need so much time.

The fact that we have adopted the eurozone-compatible SEPA transactions used by the InterGiro 2 system and that we have partnered with a major European payment services provider, Equens, should bring additional advantages for TakarékBank. When Hungary joins the eurozone, TakarékBank will be able to connect directly to other European clearing houses, thereby laying the foundations for the further development of its payment services. TakarékBank also reached another milestone in terms of developing its bank card business. Through continuous innovation, we now have all our newly issued bank cards equipped with chips. At the same time, we have followed up our PayPass cards and wristwatches with TaPassz, a sticker with contactless payment functionality. All this means that the share of the central bank of the Integration in the bank card services market is growing beyond the market average. TakarékBank is now managing the bank card transactions of 127 credit institutions and is operating more than one-fifth of all ATMs in the country. Hungary's second largest network of ATMs – consisting of more than 1,000 units – is connected to TakarékBank. In 2012, the number of cards issued and transactions processed was nearly double the figure of five years earlier. (Number of cards issued: 291,325 in 2008, 460,916 in 2012; number of transactions processed: 10,591,458 in 2008, 27,076,733 in 2012). In addition, the number of installed POS terminals was 3,443 as at the end of the year.

Both the continuous development of our bank card business and the substantial nationwide network of ATMs facilitate the improvement

of rural infrastructure, and at the same time, other financial service providers are encouraged to exploit this potential through mutually beneficial forms of cooperation. A good example is the agreement concluded between TakarékBank and Erste Bank in November 2012, which enables the customers of Erste Bank to use ATMs operated by TakarékBank under the terms and conditions provided by their bank.

The plans we had made for developing the payments services in 2013 were notably affected by the introduction of the transaction levy. While implementing the IT developments that would enable the automatic collection of the levy was a key task at the end of 2012, this year we have had to take account of the impact that the levy will have on the volume of payment transactions. But 2013 is also likely to bring new opportunities, partly due to the Hungarian Development Bank (MFB) having become a minority shareholder in the Bank. Indeed, encouraging talks with some state enterprises owned by the MFB are already under way.

We would like to increase the market share held by the central bank of the Integration in the card business too. While additional turnover was previously generated by newly issued cards and by partners newly signing up for the Bank's card-related services, 2013 will see us focusing on the development of card acceptance As part of this, our goal is to increase the number of merchants affiliated with TakarékBank and the Integration of Savings Cooperatives. Our strategy also takes into account the recent regulatory efforts related to interchange fees (interbank commission for card transactions between the bank of the account holder making the payment and the bank of the merchant accepting the card). It will thus be even more important for credit institutions to maintain a balanced role in terms of both card issuance and acceptance; this is where we see the potential for development. It is here that we see potential for development.

RISK MANAGEMENT POLICY

In 2012 the Bank conducted its risk management operations in accordance with the Risk Strategy approved at the start of the year. The Risk Strategy extends to all significant banking risks, and incorporates the internal capital measurement methodology as well as the four-year capital and capital adequacy plan.
The competent specialist department reports regularly on compliance with the thresholds and limits set out in the risk management strategy, to the Board of Directors and to the Supervisory Board.
Lending risk in 2012 the gross volume of loan receivables from customers decreased by around HUF 19.85 billion, to HUF 172.89 billion.
The qualified portfolio (special watch, below average, doubtful and bad receivable transaction rating categories) declined by HUF 2.9 billion, which represents a drop of 19,89 % in comparison to the previous year's portfolio. The impairment recognised on these decreased by HUF 514 million (17,4%).

As of the end of the year, 96.86% of the Bank's total gross lending risk exposures were in the problem-free and special watch categories (2011: 96.52%).
Thus on 31 December 2012, 3.14% of the Bank's loan portfolio fell into the below average, doubtful or bad category, compared to 3.48% at the end of the base year.
The proportion of gross lending exposures on which impairment was recognised or provisions allocated decreased from 6.72% at the end of 2011 to 6.21%.
As of 31 December 2012 the proportion of impairment and provisions relative to the total value of exposures on which impairment was recognised was 18.51%.
The Bank's concentration risk was relatively high in comparison to that of other bank-sector operators, which is due in no small measure to the deficit generated by the retail portfolio. In 2012, the measurements of concentration performed for the purpose of calculating the capital requirement revealed a slight decrease in the degree of concentration in the last quarter.
The corporate and municipality portfolios were characterised by a minimal rise in the rate of concentration, while in the credit-institution and bond portfolios a slight decrease in concentration was observed.
TakarékBank essentially manages its concentration risks using a system of limits.
The Bank's country risk exposure is predominantly focused on investment-grade countries. The Bank's limit system ensures that no excess capital requirement can arise in relation to country risks.
The distribution of country risk exposures, as of 31 December 2012, is shown in the table below:

Guidance rating – S&P	Guidance rating classification – statutory	Utilised portion of limits (HUF m)	Distribution of exposure (%)
AAA	1	32,454	87.03%
AA	1	1,329	3.56%
A	2	499	1.34%
BBB	3	2,558	6.86%
B	5	451	1.21%
Total		**37.291**	**100.00%**

Since 2006 the Bank has gathered data on operational incidents, and since 2007 has been a contributor to the HunOR national operational risk database. In 2012 the Bank recorded a total of 25 operational incidents exceeding HUF 50 thousand (in 2011: 13 incidents), resulting in a total gross loss of HUF 729 million (in 2011: HUF 38 million), with the net loss after recovery amounting to HUF 4 million (in 2011: HUF 13 million).

BANK OPERATION

In 2011 and 2012 the Bank's most important capital project was the full exterior and interior renovation of its head office building.
The purpose of the investment was to create a modern and energy-efficient bank operating environment, to ensure the effective, energy-efficient operation of the Bank's physical infrastructure, and to fulfil the requirements relating to operation, facility management and bank security. In accordance with the plans in 2012 the project was successfully completed, the Bank received the occupancy permit and moved back into the building.
As a part of the renovation of the central building, new bank security systems were installed (entry, asset security, video surveillance and recording and fire alarm systems).

In 2012 the Bank carried out, on a pro-rata basis, the tasks prescribed in the IT strategy:

- Expansion of the log management system
- Development of the perimeter defense and virus protection system
- Ensuring compliance with the provisions of section 13/B of the Credit Institutions Act
- Expansion and enhancement of the system for requesting and managing electronic access rights
- Review and update of the Bank's BCP-DRP plans
- Performance of PDC-BDC IT tests
- Monitoring, assessment, management of incidents
- In the case of the operated systems, further developments were made to the same-day multiple reporting and monthly reporting services, which ensure the continuous monitoring of operating statuses and the checking of SLA-based operation.

In 2012 a key task for the Bank was ensuring business continuity during the period of renovating and moving back into the building, as well as maintaining the accessibility and continuous use of the computer centre from the central office buildings.

The tasks and developments determined in the strategy valid until 2012 were completed. In keeping with the IT strategy, major software, hardware and communications developments were carried out, which affected the Desktop infrastructure, the IT systems supporting bank services, and the basic and premium internet banking services. Following development of the Desktop system, the tests of the primary PDC and standby BDC centre were successfully completed. In line with business requirements, the infrastructure serving the TIER system was upgraded, and the development of this application continued in line with business needs.

In 2012 the Bank's new 10-year IT strategy was drawn up and approved, which encompasses the information technology systems, as well as the IT Security, Communication Technology, Risk Management and Risk Analysis departments.
The directions for development in 2012 were closely aligned with business requirements, and as a result of the development projects the range of business/IT services expanded and their quality improved.

IT developments and projects in 2012:

- Development of the Savings Cooperatives Front End System (TIER)
- Hardware replacement for the TIER system
- Development of the Internet Banking system
- Netbroker system (premium internet-based investment service)
- Development of business applications (BOSS, Clavis, Inforex)
- Replacement of the Desktop system (live, backup)
- Commissioning of the Bank's backup computer infrastructure (BDC)

During the year the emphasis was on keeping pace with the – constantly changing, external and internal – business and economic environment.

The difficulties that arose in terms of the available business opportunities in 2012 have led us to focus even more attention than before on improving the efficiency of bank processes and rationalising costs.
The Bank's average statistical headcount in 2012 was 295 persons, which is precisely the same as previous year's average headcount. In 2012 the staff turnover rate (number of outgoing employees/average statistical headcount) was 5.4% (2009: 3.5%; 2010: 6.3%; 2011: 5.1%)

The average length of service in 2012 was 9.0 years, which is higher than the figure for the previous year (2011: 8.2 years).

ASSETS

BALANCE SHEET – ASSETS – data in HUF million	2011	2012
1. Liquid assets	**35 818**	**31 041**
2. Treasury bills and similar securities	**80 143**	**133 735**
a) held for trading	21 358	82 912
b) held as financial fixed assets	58 785	50 823
3. Loans and advances to credit institutions	**89 833**	**64 458**
a) repayable on demand	1 808	2 049
b) other loans and advances in connection with financial services	88 025	62 409
ba) with remaining maturity of less than one year	79 340	51 380
bb) with remaining maturity of more than one year	8 685	11 029
4. Loans and advances to customers	**83 281**	**80 919**
a) In connection with financial services	82 642	80 699
aa) with remaining maturity of less than one year	36 841	38 681
ab) with remaining maturity of more than one year	45 801	42 018
b) In connection with investment services	639	220
5. Debt securities, including fixed-income securities	**63 221**	**62 897**
a) Issued by local governments and other public bodies (not including treasury bills and similar securities)	9 462	8 587
aa) held for trading	290	354
ab) held as financial fixed assets	9 172	8 233
b) securities issued by other borrowers	53 759	54 310
ba) held for trading	4 860	3 690
bb) held as financial fixed assets	48 899	50 620

BALANCE SHEET – ASSETS – data in HUF million	2011	2012
6. Shares and other variable-yield securities	**94**	**485**
a) shares and participations in corporations held for trading	94	485
7. Shares and participations in corporations held as financial fixed assets	**2 067**	**2 126**
a) shares and participations in corporations held as financial fixed assets	2 067	2 126
8. Shares and participating interest in affiliated companies	**561**	**1 096**
a) shares and participations in corporations held as financial fixed assets	561	1 096
9. Intangible assets	**1 208**	**1 045**
10. Tangible assets	**2 562**	**3 010**
a) tangible assets used for financial and investment services	2 560	3 008
aa) real estate	1 000	1 977
ab) plant, machinery, vehicles	672	1 028
ac) capital projects	888	1
ad) advances given for capital projects		2
b) tangible assets not directly used for financial and investment services	2	2
11. Own shares		
12. Other assets	**3 475**	**2 403**
a) stocks	872	425
b) other receivables	2 603	1 978
13. Prepayments and accrued income	**7 259**	**6 374**
a) accrued income	6 068	5 792
b) prepayments	1 191	582
c) deferred charges		
TOTAL ASSETS	369 522	389 589

LIABILITIES

BALANCE SHEET – LIABILITIES – data in HUF million	2011	2012
1. Amounts owed to credit institutions	**288 001**	**318 784**
a) repayable on demand	37 892	44 792
b) with agreed maturity dates or periods of notice in connection with financial services	250 109	273 992
ba) with remaining maturity of less than one year	238 645	255 808
bb) with remaining maturing of more than one year	11 464	18 184
2. Amounts owed to customers	**22 964**	**32 537**
a) savings deposits		
b) other liabilities in connection with financial services	18 780	28 977
ba) repayable on demand	8 140	11 930
bb) with remaining maturity of less than one year	10 440	16 755
bc) with remaining maturity of more than one year	200	292
c) from investment services	4 184	3 560
3. Liabilities outstanding due to issued securities	**8 256**	**8 200**
a) issued bonds	8 256	8 200
aa) with remaining maturity of less than one year	2 508	4 466
ab) with remaining maturity of more than one year	5 748	3 734
4. Other liabilities	**28 702**	**7 776**
a) with remaining maturity of less than one year	28 702	7 776
b) with remaining maturity of more than one year		
5. Accruals and deferred income	**5 448**	**5 161**
a) accruals	1 929	1 273
b) deferred costs and expenses	3 519	3 888
c) deferred income		

BALANCE SHEET – LIABILITIES – data in HUF million	2011	2012
6. Provisions for liabilities and charges	**1 093**	**1 122**
a) provisions for pensions and severance payments	2	2
b) risk provisions for contingent liabilities and for (future) commitments	153	148
c) general risk provisions	794	806
d) other provisions	144	166
7. Subordinated liabilities	**537**	**537**
a) subordinated loan capital	537	537
8. Subscribed capital	**2 564**	**2 735**
9. Subscribed capital called but unpaid (-)		
10. Capital reserve	**2 801**	**3 484**
11. General reserve	**1 852**	**1 871**
12. Profit reserve (+/-)	**5 998**	**6 965**
13. Tied-up reserve	**1 121**	**339**
14. Revaluation reserve	**-**	**-**
15. Profit or loss for the financial year (+/-)	**185**	**78**
TOTAL LIABILITIES	**369 522**	**389 589**

OFF BALANCE SHEET ITEMS – data in HUF million	2011	2012
Contingent liabilities	361 919	393 594
Future liabilities	240 366	220 707
CHECK FIGURE	**602 285**	**614 301**

PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS ACCOUNT – data in HUF million	2011	2012
1. Interest received and similar income	**37 254**	**37 272**
a) interest received and similar income from fixed-income securities	7 771	9 032
b) other interest received and similar income	29 483	28 240
2. Interest paid and similar charges	**34 591**	**34 542**
NET INTEREST (1-2)	**2 663**	**2 730**
3. Income from securities	**40**	**24**
4. Commission and fees received or due	**3 504**	**4 233**
a) in connection with other financial services	2 977	3 409
b) in connection with investment services (not including trading operations)	527	824
5. Paid (payable) commission and fee expenses	**1 817**	**1 882**
a) in connection with other financial services	1 544	1 623
b) in connection with investment services (not including trading operations)	273	259
6. Net profit or net loss on financial operations [6.a)-6.b)+6.c)-6.d)]	**3 715**	**3 556**
a) in connection with income from other financial services	2 454	2 285
b) in connection with expenses of other financial services	111	229
c) in connection with investment services (income from trading operations)	7 132	6 542
d) in connection with investment services (expenses of trading activity)	5 760	5 042
7. Other operating income	**4 911**	**5 533**
a) income from services other than financial and investment services	4 120	4 733
b) other income	791	800
8. General administrative expenses	**5 696**	**6 339**
a) staff expenses	3 192	3 687
b) other administrative expenses (materials and supplies)	2 504	2 652

PROFIT AND LOSS ACCOUNT – data in HUF million	2011	2012
9. Depreciation	**472**	**652**
10. Other operating charges	**5 244**	**6 978**
a) charges for services other than financial and investment services	3 467	3 867
b) other charges	1 777	3 111
11. Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**1 130**	**1 176**
12. Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**717**	**1 617**
12/A. Difference between formation and utilisation of general risk provisions	**- 27**	**- 12**
13. Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies in other companies linked by virtue of participating interests	**108**	**43**
14. Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies in other companies linked by virtue of participating interests	**17**	**170**
15. Profit or loss on ordinary activities	**1 073**	**781**
18. Extraordinary profit or loss (16-17)	**- 13**	**- 86**
19. Profit or loss before tax (15+18)	**1 060**	**695**
20. Taxes on income	**598**	**500**
21. Profit or loss after tax (19-20)	**462**	**195**
22. Additions to the general reserve	**- 46**	**- 20**
24. Dividends and profit share payable	**231**	**97**
25. PROFIT OR LOSS FOR THE FINANCIAL YEAR	**185**	**78**

ASSETS

The balance of TakarékBank's current account at the National Bank of Hungary (MNB) constitutes a major portion of its liquid assets (61% at the end of 2012, and 80% at the end of 2011). It is through this account that TakarékBank fulfils its own central bank reserve-generating obligation, and that of the credit institutions for which it manages accounts, and thus its balance at any given time is determined by the funding requirements of the sector.
The securities portfolio grew in 2012 by 37.4% compared to the previous year (2012: HUF 197.1 bn; 2011: HUF 143.5 bn).
Short-term receivables (with a maturity of less than one year) from credit institutions also include, in addition to the Bank's lending risk exposures, FX nostro account balances and interbank placements. The volume of demand deposits totalled HUF 2,049 million (2011: HUF 1,807 million), while the balance of interbank placements was HUF 12,325 million (2011: HUF 21,119 million).
A significant proportion of receivables from credit institutions with a maturity of over one year consists of syndicated loans to domestic and foreign banks (2012: HUF 6,165 million; 2011: HUF 1,245 million), as well as refinancing funds and other loans related to construction credit facilities granted to credit institutions in the savings cooperative sector (2012: HUF 43,331 million; 2011: HUF 65,097 million).
Long-term investments saw total growth of HUF 545 million in 2012, as MTB Ingatlan Kft. was established, capital in MTB Projekt Kft. was increased, and TakarékBank acquired further shareholdings in Takarék Faktorház Zrt. (formerly Next-Faktor Zrt.), and thus became the sole parent company of this entity, in which it had previously held a minority stake.
The Bank's gross receivables from loans totalled HUF 172,891 million at the end of 2012 (2011: HUF 192,744 million), and the impairment recognised on loan receivables was HUF 2,434 million (2011: HUF 2,949 million).

LIABILITIES

Due to the nature of the Bank's operations, the bulk of its third-party liabilities consist of deposits made by credit institutions in the savings cooperative sector, which at the end of 2012 amounted to HUF 295,577 billion (2011: HUF 264,562 million). The liabilities to credit institutions include forint and foreign-currency interbank deposits placed by commercial banks in Hungary and abroad, in a total of HUF 2,633 million (2011: HUF 9,916 million).
Besides the time deposits of credit institutions in the savings cooperative sector, credit-institution liabilities with a maturity of more than one year include the refinancing funds taken up from the Hungarian Development Bank and from foreign banks, in a total of HUF 10,147 million (2011: HUF 13,322 million).
Liabilities to customers include the forint and foreign-currency deposits of corporate and institutional clients, as well as the mainly retail foreign-currency deposits collected by credit institutions in the savings cooperative sector, acting as agents of the Bank. Also featuring in this line are the liabilities related to the provision of investment services, in a total of HUF 3,560 million (2011: HUF 4,184 million).
Since 2005 TakarékBank has maintained a general risk reserve, into which it places 5% of pre-tax profits each year (2012: HUF 12 million, 2011: HUF 27 million) until such time as it reaches the maximum amount specified in the Act on Credit Institutions (currently HUF 1.2 billion).

PROFITABILITY*

The Bank's profit after tax in 2012 was HUF 195 million, which is slightly higher than the profit target (HUF 159 million), but 42% of the previous year's profit. The decrease relative to the previous year is due to the one-off costs of joining OTIVA (HUF 257 million).
Net interest income (HUF 4,188 million) fell short of the previous year's figure. Interest income was reduced by the decrease in the size of the loan portfolio due to foreign currency loans provided to the savings cooperatives, and by the increase in the cost of forint and foreign currency funds.

Net income from commissions and fees (HUF 3,328 million) was 30% higher in 2012 than in 2011. The profit from commission on investment services more than doubled due to the high income from securities distribution. There was also substantial growth in financial services (+18%), which is attributable to the increase in lending commission, and to fee income related to bank-card and cash transactions.

The net profit from financial operations (HUF 1,713 million) reached a higher level in 2012 than in 2011. The profit on currency trading increase significantly, while the income from securities trading declined.

Total operating costs (HUF 7,033 million) exceeded the 2011 figure by 14%, and the target figure by 4.2%. Personnel costs increased by 11.5%, and material costs by 16.5%. The level of personnel costs was raised by the costs related to the change of owner and the cost of bonus advance payments, while among material costs, in addition to the one-off OTIVA joining fee, depreciation also increased significantly.

The impact on profit of recognised impairment and provisions in 2012 was HUF -340 million (2011: HUF -271 million; 2012 plan: HUF -600 million). The impact on profit of lending-related impairment changes, sales of receivables and loan collateral, and write-offs, was HUF -560 million. In the case of securities, due to the favourable development of market prices HUF 147 million in impairment was reversed. The impact on profit of other changes to provisioning amounted to HUF +73 million.
The profit impact of other income/expenses amounted to HUF +26 million, which also includes the dividend income from shareholdings (HUF 15 million).
The impact on profit of setting aside a general risk reserve was HUF -12 million.

The Bank's tax liability (HUF 1,675 million) includes, in addition to local business tax and corporate tax, the credit institutions' contribution and the special tax on banks.

The bank's after-tax ROE was 1.30% in 2012, which, due to the fall in profitability, represented a decrease in comparison to the preceding year (3.21%). The CIR (operating costs/income) became less favourable in 2012 (increasing to 76.1%).

*The results were analysed using the internal controlling methodology, the structure of which differs from accounting statements.

EQUITY INTERESTS

TakarékBank Zrt.'s investment strategy did not change in the past year, and accordingly, it only wishes to have a significant material interest in companies that take an active part in serving the savings cooperative group. In 2012 it retained the stake it had held in the previous year in Takarék Alapkezelő Zrt., Takinfo Kft. and Banküzlet Vagyonkezelő és Hasznosító Zrt. Increased its ownership share in Takarék Faktorház Zrt (formerly known as Next-Faktor Pénzügyi és Szolgáltató Zrt) to 100%.

TAKINFO KFT.

TAKINFO Kft. is the Integration's main IT services provider, and since its inception, its majority owner has been TakarékBank Zrt. (52.38%).
The after-tax profit of TAKINFO Kft. was HUF 25.27 million in 2012, exceeding the target figure by 142.7%. Net sales revenue was HUF 3,095.56 million, which represents 107.6% of the planned figure.
The Company regards its primary mission as being to deliver services and operate systems developed for the Integration's credit institutions that are secure, cost-efficient and technologically up-to-date. An important criterion applied when developing new services is that they be system-independent, and this appears to be justified by the constant growth in the number of credit institutions in the Integration that are using the services.
TAKINFO Kft.'s main activity is the central operation of credit institutions' account management systems and the related electronic channels. The Company already had an outstanding market share in this business segment, with still further growth being achieved in 2012 relative to the previous year's figures. The main aim is for as many of the credit institutions as possible, which are currently operating their systems at their own premises, to switch to TAKINFO Kft.'s central services, regardless of whether they are using a EuroBank or MoonSol system.
In 2012 two key IT projects were completed: one of them was the introduction of the new KHR9 standard, and the other was the implementation and operation of the intra-day multiple GIRO clearing system (IG2). Both these events affected all the credit institutions in the Integration, with TAKINFO Kft. boasting a considerable market share in terms of both development and operation.
The commercial and sales activity of the Company that was commenced at the end of 2011 more than yielded the expected results in 2012. The number of confirmed orders bears witness to the success of the strategic negotiations conducted with suppliers. In 2012 TAKINFO Kft. was successful in persuading the credit institutions to ask it for a quote before buying any IT equipment. As a result, the Company sold more than HUF 100 million worth of IT products to the credit institutions of the Integration.
2012 saw an overall intensification of competition with other service providers in the sector. Given these circumstances it is particularly important that the Company managed to expand its product portfolio through new services, which were also presented at professional events throughout the year. The new services include desktop virtualization, a module for handling requests from authorities (HAME), log analysis and the central production of Value-Added Bank Statements. As soon as they were launched, the new products all contributed to expanding the business and client relationships of the Company.

TAKARÉK ALAPKEZELŐ ZRT.

Takarék Alapkezelő Zrt. (Takarék Fund Management Ltd.) was founded in 2006 as a solely-owned subsidiary of TakarékBank.

The Company's product offering did not change in 2012: it continued to manage 5 investment funds and 41 asset management portfolios. Total assets held in the investment funds at the end of the year were HUF 35.8 billion, and assets under portfolio management were HUF 44 billion (together: HUF 79.8 billion), making 2012 the most successful year since the Company's inception.

According to publicly available data, the increase for the year in the combined investment fund assets of BAMOSZ members (+4.6%) was considerably outperformed by the Company (+35.7%). As a result of this, the Company's gross share of the investment fund market grew from 0.81% to 1.05%, it rose to 15th place in the rankings based on investment fund assets under management, and its market share in the 'portfolio management not elsewhere classified' category grew to 12.3%.

The Company's 2012 pre-tax profit rose from HUF 28 million in 2011 to HUF 33.7 million, while net profit for the year was HUF 32 million, exceeding the target figure by HUF 8.6 million.

The total of its assets and liabilities was HUF 163.3 million, and year-end shareholders' equity was HUF 147.1 million, or HUF 32 million more than in 2011. ROA and ROE were 19.6% and 20.6% respectively.

BANKÜZLET ZRT.

Banküzlet Zrt. is engaged in the enforcement and collection of the claims of its savings-cooperative integration partners. It is owned by the members of the Integration, with TakarékBank Zrt. holding a share of 49%. Having refined its receivables management practices and strengthened the conditions needed for the success of its business (professional team, IT, product range, relationships with the savings cooperatives) over the past 3 years, it achieved a recovery volume of HUF 230 million and closed the year with a pre-tax profit of HUF 12 million, thus outperforming the targets set in its business plan. The objectives of its business plan are to provide its Integration partners with an even higher standard of service, to be consistently profitable, to increase the volume of recovered claims, and to provide even more effective assistance to its partners in recovering their outstanding receivables.

SENIOR OFFICERS OF TAKARÉKBANK ZRT.

Péter Csicsáky / Chairman & CEO
Thomas Bümsen / Deputy CEO*
Levente Szabó / Deputy CEO
Szabolcs Brezina / Managing Director
Dr. István Forrai / Managing Director
Andrea Abay Nemes / Head of Department *(Independent Compliance Department)*
Endre Breznay / Director *(Financial Markets Division)*
Ádám Egerszegi / Director *(Savings Cooperatives Division)*
Anikó Galambosi / Director *(Accounting)*
Károly Györfi / Director *(Risk Control)*
Anita Kurfis / Director *(Money and Capital Markets Back Office)*
Zsolt Kovács / Director *(Credit Risk Management)*
László Mezei / Director *(Payment Services)*
Zsolt Morvai / Director *(Corporate and Institutional Clients Division)*
József Rabatin / Director *(IT / Facility Management and Bank Security)*
Béla Sólyom / Head of Department *(Controlling)*
Dr. Boldizsár Szabó / Director / Chief Legal Counsel *(Staff)*
Dr. Magdolna Szőke / Advisor
Ildikó Valaczkai / Director *(Internal Audit)*

* Resigned from his position in the Board of Directors on 15 August 2012

MEMBERS OF THE BOARD OF DIRECTORS OF TAKARÉKBANK ZRT.

Péter Csicsáky / Chairman & CEO
Thomas Bümsen / Deputy CEO*
Levente Szabó / Deputy CEO
Szabolcs Brezina / Managing Director
Dr. István Forrai / Managing Director

* Resigned from his position in the Board of Directors on 15 August 2012

MEMBERS OF THE SUPERVISORY BOARD OF TAKARÉKBANK ZRT.*

Csaba Éliás (until 31 March 2013)
Vice Chairman – Managing Director, Pátria Takarék

László Baranyay, (since 13 December 2012)
Chairman – CEO, Magyar Fejlesztési Bank Zrt

József Bede
Chairman – Managing Director, Szabolcs Takarékszövetkezet

Dr. Miklós Hunya
Chairman – Managing Director, Endrőd és Vidéke Takarékszövetkezet

Nándor Kriston
Chairman – Managing Director, Sajóvölgye Takarékszövetkezet

Rita Kultné Mátyás
Chairman – Managing Director, Mohácsi Takarék Bank Zrt

Ilona Lepsényiné Török (since 10 May 2013)
Vice Chairman – Managing Director, Pátria Takarék

Hans-Theo Macke (until 14 November 2012)
member of the Board of Directors, DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Reinhard Freese (until 14 November 2012)
International Head of Investments and Portfolio Management, DZ BANK AG Deutsche Zentral-Genossenschaftsbank

György Unger
Chairman – Managing Director, Pannonhalma és Vidéke Takarékszövetkezet

Zoltán Urbán (since 13 December 2012)
Deputy CEO, Magyar Fejlesztési Bank Zrt

* Data valid as of 15 May 2013

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