



ANNUAL REPORT for the financial year of 2014

In addition to its name change as of 30.04.2010, *MagNet Magyar Közösségi Bank Zrt.* (formerly known as HBW EXPRESS Bank Zrt.) has set itself the objective to constitute the principles of “community banking” as a pioneer in Hungary. Exponential growth in number of clients and professional recognition in the period since its reorganization all demonstrate that clients call for innovative thinking and responsible and reliable banking. As a result of its innovative product development, the Bank developed banking services and products which are popular among its customers, generate positive feedback and play an increasingly important role both regarding total assets and profitability.

In 2010 the Community Donation Program (CDP) was introduced, within the framework of which, year after year, clients are given the opportunity to dispose over 10% of their contribution to the Bank’s profit and to decide for which foundation purposes it may be used. This was the case in 2014 as well, when our clients disposed of the distribution of 23.8 million Hungarian Forints out of 39 million Hungarian Forints, and by way of which granted support to 70 different foundations and civil society organizations operating effectively inter alia in the fields of health care, environmental protection and culture.

The CDP Bank Card Program launched at the end of the year 2013 is becoming more and more popular among our clients, within the framework of which during this year the Bank provided 1.1 million HUF on the clients’ bank card purchases to the civil society organizations chosen by its clients in order to support their work.

MagNet Bank’s Community Donation Program has been awarded the following distinctions in 2014:

- *MAF The Most Innovative Supporter Program Category - 1st place*
- *MAF Investment Program of the Year Category - 1st place*

In 2014 MagNet Hungarian Community Bank won the “Socially Responsible Bank of the Year” title for the fourth consecutive time by the decision of the independent jury of MasterCard. The Bank won the third place in “*The Most Innovative Bank of the Year*” category too. We are reassured and offered confidence by the fact that the jury made up of leading experts of their fields has considered the responsible community model and activity of MagNet Hungarian Community Bank as forward-looking and outstanding for the fourth year.

This year the Bank won the Hungarian PR Association's "CSR Best Practice - 2014" price as well, by which the jury awarded the social responsibility of MagNet Bank and set the initiatives of the Community Bank as an example.

The Bank's success has been corroborated by the professional recognitions of previous years:

- 2013: MasterCard's "Socially Responsible Bank of the Year" title, 3rd place in "The retail account package of the year" category
- 2013: "Disability-Friendly Workplace" award
- 2012: In MasterCard's 2012 Bank of the Year Award the Bank won the "Socially Responsible Bank of 2012" title and also the award for "The Retail Loan Product of 2012".
- 2011: The Bank won MasterCard's "Socially Responsible Bank of the Year" title and also "An Indeed Responsible Corporation" Grand Award of the CSR market.
- 2010: MasterCard - Best Bank of the Year Competition 2010: 2nd place in "The retail savings product of 2010" category.

In 2013 the *GreenSeed Group* was formed under an employee initiative in order to rebuild our prestigious office building in a sustainable manner which fully meets any and all environmental requirements. Taking further "greening measures" continued in 2014, the aims of which were, among others, to raise awareness, take social responsibility, show a good example and, not least, to build a more liveable environment both for the colleagues and our customers. We believe this contributed to the health and personal happiness of our visitors. From these greening measures we pay special attention to waste management, cleaning, office supplies, travelling, water consumption, energy consumption (lightning, heating-cooling systems).

Notwithstanding its successful market presence, economic conditions made it clear that the dynamic growth experienced during the years prior to the outbreak of the crisis cannot be repeated in the foreseeable future. However, it is not the purpose of the community bank to place the emphasis on growth. There are realistic prospects for subdued but stable increase in business stocks while maintaining relative profitability.

Development tasks of banking operations continued with new dynamics in 2014: we took significant steps in order to efficiently transform and develop internal resources, systems and products of the Bank. It is considered that 2014 was the year of consolidation, the Bank adopted several organizational changes, put great emphasis on internal policies in order to implement more efficient and developed internal workflows, gave a major role to professional and personality development trainings, team building, uniting our community, and, not least, optimization of resources and further rationalization of expenditures.

In the forthcoming years, the Bank intends to strengthen the culture of ethical banking in Hungary and, to this end, pursues continuous product development. It has set itself the objectives in its business plan to grow dynamically, significantly extend its current account stock, strengthen its lending business. The Bank does not intend to be involved in the endless pursuit of profits, as it was never its principal objective, but will further focus on stability, reliability and sustainable development during its operation.

STRUCTURE OF ASSETS

Securities stock within the assets indicate a 16% decrease compared to 2013. Within this stock of 47 billion HUF, the volume of government securities was 26 billion HUF, comprising of 0.7 billion HUF discount treasury bonds and 25 billion HUF Hungarian government securities issued primarily in Hungarian Forints and in foreign currencies. The remaining 22 billion HUF is the volume of the stock of debt securities. These are primarily bonds denominated in foreign currencies, guaranteed in 92% by the Hungarian government.

The stock of outstanding loans less depreciation reached 42 billion HUF by the end of December representing a slight decrease as compared to the previous year.

The following Table indicates the structure of assets:

(million HUF)	31.12.2012.		31.12.2013.		31.12.2014.	
Assets	3 313	4%	1 599	1%	1 652	2%
Securities	45 948	55%	56 436	48%	47 290	45 %
Claims on credit institutions	0	0%	4 110	4%	7 481	7%
Claims on clients	27 690	33%	43 098	37%	41 605	40%
Shares	3 603	4%	5 132	4%	2 102	2%
Tangible and intangible assets	315	0%	301	0%	2 406	2%
Other assets	837	1%	673	1%	360	0%
Accrued assets	2 181	13%	6 240	5%	1 906	2%
Total assets	83 887	100%	117 589	100%	104 802	100%

ACTIVE BUSINESS LINE

The Bank continuously endeavours to keep the previously established diversified active business line structure, however, within the stock, market conditions steadily revalue the role and gravity of particular business lines.

The following Table indicates the key groups of loans provided by the Bank:

(million HUF)			31.12.2012.		31.12.2013.		31.12.2014.	
Hungarian forint-denominated loans:			18 980	64%	33 020	72%	32 815	74%
Corporate loans			13 217	45 %	25 652	56%	24 850	56%
<i>GSP loan</i>			-		16 054	35%	17 918	40%
<i>Occasional loans</i>			10 321	35%	7 480	16%	5 471	12%
<i>Current account loan</i>			2 800	9%	2 118	5%	1 461	3%
<i>Suppliers loan</i>			96	0%	0	0%	0	0%
Retail loan (mortgage)			3 266	11%	5 644	12%	5 071	11%
Pawnbroker loan			1 838	6%	1 700	4%	1 520	3%
Other loan-type receivables			659	2%	24	0%	1 374	3%
Foreign and foreign currency loans:			10 588	36%	12 976	28%	11 804	26%
Corporate loans			6 621	22%	7 238	16%	6 388	14%
<i>EUR and denominated</i>	<i>EUR-</i>		5 982	20%	7 075	15%	6 251	14%
<i>CHF and denominated</i>	<i>CHF-</i>		639	2%	133	0%	78	0%
<i>USD and denominated</i>	<i>USD-</i>		-		30	0%	59	0%
Retail loan (mortgage)			3 967	13%	5 738	12%	5 416	12%
<i>EUR and denominated</i>	<i>EUR-</i>		2 738	9%	4 449	10%	4 087	9%
<i>CHF and denominated</i>	<i>CHF-</i>		1 229	4%	1 159	3%	1 189	3%
<i>USD and denominated</i>	<i>USD-</i>		-		130	0%	140	0%
Loan stock (gross)			29 568	100%	45 996	100%	44 619	100%

Under the Growth Supporting Programme (GSP) launched by the Hungarian National Bank (MNB), the Bank concluded long-term Hungarian Forint loans with its clients at an interest rate of 2.5 % per annum. The Bank provided loans amounting 20 billion Hungarian Forints in total during a period of two years and 4.3 billion HUF during 2014. GSP loan stock as of the end of the year amounted to 17,9 billion Hungarian Forints.

New lending business this year amounted to 8.7 billion HUF in total, meaning lending Hungarian Forint loans almost in its entirety. Apart from GSP loan, other corporate Hungarian Forint loan products show loan stock growth which slightly further improved the Hungarian Forint / foreign currency ratio of the total stock of the Bank.

Quality of the loan stock in 2014

One of the cornerstones of the Bank's cautious business policy is to assess in an exhaustive manner and minimize any and all risks related to the lending business.

The following Table indicates the loan stock breakdown in terms of quality:

(million HUF)	Gross loan stock - percentage breakdown						Depreciation	
	31.12.2012.		31.12.2013.		31.12.2014.		31.12.2014.	
Unproblematic	17 929	61%	31 295	68%	29 885	67%	0	0%
Separately monitored	6 492	22%	7 833	17%	8 323	19%	242	8%
Below average	2 733	9%	2 549	6%	2 245	5%	389	13%
Questionable	1 531	5%	3 306	7%	2 633	6%	1 018	34%
Non-performing	833	3%	1 013	2%	1 533	3%	1 365	45 %
Total	29 568		45 996		44 619		3 014	

The total amount of depreciation calculated on the stock was 3,014 million HUF, which is 6.75% of the total loan stock.

TREASURY ACTIVITY

Due to the outstanding liquidity of the Bank, in 2014 there was no need to undertake any further credit institution liabilities instead of the expiring 14.3 billion HUF interbank loan. Liabilities towards credit institutions due after more than one year comprise almost entirely the GSP loans provided by the Hungarian National Bank. Reduction of the liability stock on the side of assets resulted in the dismantlement of liquid asset stocks and securities.

The Bank invested major part of its free liquid assets in securities. Major displacement was effected in the foreign currency structure of the whole stock. In order to retain the safe level of liquidity necessary to the operation of the Bank, it places a smaller part of its liquid assets for shorter term on the interbank market and at the Hungarian National Bank.

FIXED ASSETS

Shares invested in ancillary services undertakings within fixed assets amounted to 2 billion HUF on 31.12.2014.

From 2014 fixed assets and shares include CE Faktor Pénzügyi Szolgáltató Zrt, the ownership of which transferred to the Bank under a stock purchase contract and on the basis of the permission of the Hungarian National Bank as of 22 December 2014.

STRUCTURE OF LIABILITIES

The 11% decrease in total assets in 2014 means 12.7 billion HUF decrease compared to 2013.

(million HUF)	31.12.2012		31.12.2013		31.12.2014	
Receivables from credit institutions	14 073	17%	30 748	26%	18 063	17%
Receivables from clients	62 079	74%	74 607	63%	74 895	71%
Other assets	1 834	2%	4 159	4%	1 754	1%
Subordinated loan capital	360	0%	360	0%	360	0%
Accrued expenses and deferred income	1 372	2%	829	1%	1 869	2%
Provisions	13	0%	30	0%	774	2%
Shareholders' equity	4 156	5%	6 866	6%	7 087	7%
Share capital	2000	2%	2 000	2%	2 000	2%
Capital reserve	600	1%	600	0%	600	1%
Limited reserve	12	0%	0	0%	0	0%
Accumulated profit reserve	1 189	2%	1 228	1%	3 492	3%
General reserve	328	0%	774	1%	800	1%
Balance sheet profit or loss	27	0%	2 264	2%	195	0%
Total equity and liabilities	83 887	100%	117 589	100%	104 802	100%

In 2014 the 2-year loan stock borrowed from the Hungarian National Bank, which is indicated within the liabilities towards credit institutions, furthermore, a liability arising from a foreign currency-denominated repo (repurchase agreement) transaction expired. Predominant part of liabilities towards credit institutions comprises of the interest-free long-term HUF liabilities borrowed from the Hungarian National Bank within the framework of the GSP Program.

The amount of subordinated loan capital did not change during the year. At the end of 2014 the Bank's shareholder's equity amounted to 7.1 billion HUF.

PASSIVE BUSINESS LINE

The fact that the base rate decreased further from 5.75% to 3% in 2014 had a crucial impact on liabilities towards clients. The base rate of the Hungarian National Bank decreased to 2.1% by the end of 2014.

The stock of liabilities towards clients remained at the level of 75 billion HUF in 2014 which is a significant success in a low interest rate environment and also shows the efficiency of the active customer acquisition and community banking strategies, as the 3 billion HUF decrease in the deposit stock with agreed maturity could be compensated with an increase of 22% in the bank account stock amounting 4 billion HUF, which indicates also a significant increase in the number of clients and accounts. The ratio of liabilities towards clients to the balance sheet of the Bank is 71% within liabilities.

The following Table indicates the breakdown and trend of liabilities towards clients:

(million HUF)	31.12.2012.	31.12.2013.	31.12.2014.
Retail bank accounts	1 592	4 562	8 117
Corporate bank accounts	2 452	13 830	14 278
Bank account stock	4 044	18 392	22 395
Other sight bank accounts	4 214	2 612	2 068
Deposits with agreed maturity (HUF)	45 850	45 918	42 492
Deposits with agreed maturity (foreign currency)	7 971	7 685	7 940
Deposit stocks	53 821	53 603	50 432
Total liabilities towards clients	62 079	74 607	74 895

Account management

The Bank offers account management and special account arrangements to almost each and every actor of the economy. Internet banking system shall be highlighted among the account management related services which is extremely popular among our clients. Development and further extension of NetBank services is continuously a key priority for the Bank.

At the end of 2016 the Bank managed 34,383 HUF and foreign currency accounts in total, the number of which increased by 4,767 compared to the previous year. This significantly exceeds the growth of the previous year (thus excluding the accounts of the clientele of Banco Popolare contracting with the Bank in 2013). The stock comprises of retail clients in 70%, corporate and small business clients in 26% and associations along with other non-profit organisations in 4%.

Bank card marketing

In 2013 the Bank exchanged all bank cards of VISA cardholders to basic MasterCard and embossed MasterCard bank cards. Corporate clients received MasterCard Business bank cards in the course of this exchange. Simultaneously with the bank card exchange, the Bank introduced the CDP Card Program on 1 October 2013. Within the framework of this program the Bank supports the civil society organization chosen by the client with a certain amount for each MasterCard bank card purchase of the client. The Bank provided a total of 1.1 million Hungarian Forints support of such kind in 2014.

At the end of December our clients held 15.9 thousand active bank cards which were linked to retail current accounts in almost 86% (while at the end of 2013 our clients held 11.4 thousand bank cards). Cash flow amounted to 18,834 million HUF (10,792 million HUF in 2013) which means 1,319 transactions during the period of one year (523 thousand transactions in 2013).

Acceptance of deposits

As a result of the significant decrease in the base rate, deposit stock with agreed maturity amounted to 50.4 billion HUF by the end of December 2014.

The following Table indicates the structure of deposit stocks with agreed maturity:

(million HUF)	31.12.2012.		31.12.2013.		31.12.2014.	
Deposits with an agreed maturity of less than one year (HUF)	17 274	32%	12 779	24%	14 805	29%
Deposits with an agreed maturity of over one year (HUF)	28 576	53%	33 139	62%	27 687	55%
Deposits with an agreed maturity of less than one year (EUR)	1 913	4%	1 705	3%	2 326	5%
Deposits with an agreed maturity of over one year (EUR)	5 588	10%	5 501	10%	4 943	10%
Deposits with an agreed maturity of less than one year (CHF)	116	0%	28	0%	74	%
Deposits with an agreed maturity of over one year (CHF)	0		27	0%	0	
Deposits with an agreed maturity of less than one year (USD)	64	0%	32	0%	172	%
Deposits with an agreed maturity of over one year (USD)	290	1%	392	1%	425	1%
Deposits with agreed maturity in total	53 821	100%	53 603	100%	50 432	100%

SHAREHOLDERS' EQUITY

Shareholder's equity amounted to 7,087 million HUF on 31.12.2014, which increased to this amount, in addition to complying with the general reserve requirements (26 million HUF) and placing part of the earnings gained in the previous year in accumulated profit reserve, as a result of the 195 million HUF balance sheet earnings reached in 2014.

Solvency rate

On the basis of EU Regulation No 575/2013 of the European Parliament and of the Council (on prudential requirements for credit institutions and investment firms, hereinafter referred to as: CCR Regulation), eligible capital of the Bank amounted to 6,866 million HUF on 31 December 2014. Conventional capital ratio was 12.61% on 31 December 2014.

In accordance with the provisions set out in Act CCXXXVII of 2013 (on credit institutions and financial enterprises, hereinafter referred to as: Hpt.) and the CCR Regulation, the Bank complies with its disclosure obligation at least once a year, simultaneously with disclosing its annual report.

PROFITABILITY

In 2014 the Bank realized 256 million Hungarian Forints of profit after tax.

The Bank's return on assets (ROA) was 0.244% in 2014, while its return on equity (ROE) 3.6%.

(million HUF)	2013	2014
Received interest income	6 924	5 505
Paid interest expenses	4 494	2 292
Net interest income	2 430	3 213
Dividends and other return on equity	4 352	437
Commissions and fees received	790	1 656
Commissions and fees paid	133	195
Balance of commissions and fees	657	1 461
Net result on financial operations	1 125	1 295
Result on activities of credit institutions	8 564	6 406
Balance of other income and expenses	-432	-1 954
Depreciation recognition, reversal, utilization	-1 061	-1 314
Financial service expenditure	2 595	2 841
Ordinary profit or loss	4 476	297
Extraordinary profit or loss	-12	-27
Pre-tax profit or loss	4 464	270
Tax liability	4	14
After tax profit or loss	4 460	256

The Bank's net interest income amounted to 3.2 billion HUF in 2014 which is 32% higher than the interest income of the previous year.

On the basis of interest indications on the side of both assets and liabilities, the rate of the interest margin was 2.48% and its total volume amounted to 2.6 billion HUF in 2014.

The volume of the commission margin amounted to 1,461 million Hungarian Forints in 2014, comprising almost in its entirety of the fees collected on the basis of the bank account cash flow and for other related services. This significant growth of 40% in the commission margin is due to the increase in the number of clients having current accounts.

Balance of other income and expenses indicate a loss of 1,954 million HUF which is the result of 2.176 million HUF other income and 4,130 million HUF other expenditure.

The Bank supported performing arts organizations with 45 million HUF, while team and spectacular sports with 22 million HUF in 2014 which was also recognized in other expenses. The total amount of tax liabilities amounted to 169 million HUF, financial transaction duty was 754 million HUF, furthermore, the insurance premium paid to the NDIF, the fee paid to the Resolution Fund and the banking supervisory fee are all included in other expenses.

Changes in the balance of depreciation decreased the 2014 earnings of the Bank by 1.314 million HUF, which comprise the net balance of impairment loss on liabilities mainly, loans.

The Bank's operating costs amounted 2.8 billion HUF which is an increase of 9% compared to 2013. This increase is primarily a result of the increased cost demand of the banking operation and an increase in the number of personnel.

Personnel costs amounting 1,364 million HUF represented the largest part, i.e. 48% of operating costs. Leasing fees of assets, offices and branch offices amounting 721 million HUF in total represented the second largest part of costs.

Costs related to operation and maintenance, expert fees and advertising costs are also significant among expenses. The remaining smaller part of expenditures comprise recognized depreciation, material type expenditures and other services.

Extraordinary loss, the amount of which was -27 million HUF in 2014, partially included CDP Program supports and other foundation supports.

Corporate tax liability of the Bank was 14 million HUF.

The Bank's 256 million HUF after tax profit arose from the above items, out of which 26 million HUF general reserve has been set which is an item increasing the shareholder's equity of the Bank.

Budapest, 25 February 2015

Zsolt Fáy
Chairman of the Board