



ANNUAL SUMMARY REPORT for the financial year of 2015

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 2015 as well, when our clients disposed of the distribution of 22.6 million Hungarian Forints out of 35.1 million Hungarian Forints, and by way of which support was granted to 80 different foundations and civil society organizations operating effectively inter alia in the fields of health care, environmental protection and culture.

The Supportive 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 2.2 million HUF on the clients’ bank card purchases to the civil society organizations chosen by its clients in order to support their work.

In 2015 MagNet Hungarian Community Bank won the “Socially Responsible Bank of the Year” title for the fifth consecutive time by the decision of the independent jury of MasterCard. Csillag account package of the Bank with honour-system account management fee won the third place in “The retail account package 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 fifth year.

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

2014: MasterCard’s “Socially Responsible Bank of the Year” title, 3rd place in “The most innovative bank of the year” category.

2014: Hungarian Donor Forum's "The social investment program of the year" Grand Award, Special Award for the Community Donation Program of the Bank
2014: Hungarian PR Association's "CSR Best Practice - 2014" Award
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 2015 the Bank continued its activity in a way that gives prime importance to social utility: it served the most marginalised segments of society by its initiatives within the framework of community projects and in most cases by way of the cooperation of clients (*GiveWarmth! Action* helping the homeless, *Family Wardrobe Program* helping large families, *Shoebox Program* presenting children in care etc.).

In November 2015 MagNet Bank opened its reinterpreted downtown branch office in Balassi Bálint street, District V to the public, which, both in its function and design, differs from any conventional locations of the banking sector: the public may find a fair trade bio café, community point supporting civil initiatives and a branch office here, where it is both comfortable to manage finances and live a social life. Simultaneously with opening this location, our Community Bank came out with its new responsive website.

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.

Moreover, development tasks of banking operations continued with new dynamics in 2015: we took significant steps in order to efficiently transform and develop internal resources, systems and products of the Bank. It is considered that the consolidation process of previous years has been completed by the end of 2015: 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 7.7% increase compared to 2014. Within this stock of 51 billion HUF, the volume of government securities reaches 35 billion HUF, comprising of Hungarian government securities issued primarily in Hungarian Forints and in foreign currencies. The remaining 16 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 49 billion HUF by the end of December representing a significant increase as compared to the previous year.

The following Table indicates the structure of assets:

(million HUF)	31.12.2013		31.12.2014		31.12.2015	
Liquid assets	1 599	1%	1 652	2%	1 719	1.57%
Securities	56 436	48%	47 290	45%	50 933	46.42%
Receivables from credit institutions	4 110	4%	7 481	7%	2 795	2.55%
Receivables from clients	43 098	37%	41 605	40%	49 049	44.67%
Shares	5 132	4%	2 102	2%	299	0.27%
Tangible and intangible assets	301	0%	2 406	2%	2 518	2.30%
Other assets	673	1%	360	0%	1 033	1.01%
Accrued and deferred assets	6 240	5%	1 906	2%	1 331	1.21%
Assets in total	117 589	100%	104 802	100%	109 677	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)	31.12.2013		31.12.2014		31.12.2015	
Hungarian forint-denominated loans:	33 020	72%	32 815	74%	47 110	90.14%
Corporate loans	25 652	56%	24 850	56%	33 661	64.39%
<i>GSP loan</i>	<i>16 054</i>	<i>35%</i>	<i>17 918</i>	<i>40%</i>	<i>22 709</i>	<i>43.48%</i>
<i>Occasional loan</i>	<i>7 480</i>	<i>16%</i>	<i>5 471</i>	<i>12%</i>	<i>4 382</i>	<i>12.72%</i>
<i>Factoring</i>	-		-		2 760	8.20%
<i>Current account loan</i>	2 118	5%	1 461	3%	3 810	7.30%
Retail loan (mortgage)	5 644	12%	5 071	11%	7 760	14.86%
Pawnbroker loan	1 700	4%	1 520	3%	2 014	3.86%
Other loan-type receivables	24	0%	1 374	3%	3 675	7.04%
Foreign currency-denominated and foreign currency loans:	12 976	28%	11 804	26%	5 147	9.86%
Corporate loans	7 238	16%	6 388	14%	4 632	8.87%
<i>EUR and EUR-denominated</i>	<i>7 075</i>	<i>15%</i>	<i>6 251</i>	<i>14%</i>	<i>3 830</i>	<i>7.33%</i>
<i>CHF and CHF-denominated</i>	<i>133</i>	<i>0%</i>	<i>78</i>	<i>0%</i>	<i>16</i>	<i>0.03%</i>
<i>USD and USD-denominated</i>	<i>30</i>	<i>0%</i>	<i>59</i>	<i>0%</i>	<i>786</i>	<i>0.00%</i>
Retail loan (mortgage)	5 738	12%	5 416	12%	357	1%
<i>EUR and EUR-denominated</i>	<i>4 449</i>	<i>10%</i>	<i>4 087</i>	<i>9%</i>	<i>347</i>	<i>1%</i>
<i>CHF and CHF-denominated</i>	<i>1 159</i>	<i>3%</i>	<i>1 189</i>	<i>3%</i>	<i>10</i>	<i>0.02%</i>
<i>USD and USD-denominated</i>	<i>130</i>	<i>0%</i>	<i>140</i>	<i>0%</i>	-	<i>0.00%</i>
Loan stock (gross)	45 996	100%	44 619	100%	52 257	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 a maximum interest rate of 2.5 % per annum. The Bank provided loans amounting 31 billion Hungarian Forints in total during a period of three years and 11.4 billion HUF during 2015. GSP loan stock as of the end of the year amounted to 23 billion Hungarian Forints.

New, mainly corporate and long-term loans amounted to 15.3 billion Hungarian Forints in total this year, comprising almost entirely Hungarian Forint loans. 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. Business line of factoring, which was launched in 2015, closed the year with a stock amounting 2.8 billion Hungarian Forints, consisting of mainly Hungarian Forint but also some Euro and Dollar transactions.

Quality of the loan stock in 2015

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	
	31.12.2013		31.12.2014		31.12.2015		31.12.2015	
Unproblematic	31 295	68%	29 885	67%	38 855	74%	-	0%
Separately monitored	7 833	17%	8 323	19%	8 057	15%	294	1%
Below average	2 549	6%	2 245	5%	1 134	2%	227	0%
Questionable	3 306	7%	2 633	6%	2 756	5%	1 340	3%
Non-performing	1 013	2%	1 533	3%	1 455	3%	1 347	3%
Total	45 996		44 619		52 257		3 208	

The total amount of depreciation calculated on the stock was 3,208 million HUF, which is 6.14% of the total loan stock.

TREASURY ACTIVITY

Due to the outstanding liquidity of the Bank, there is no need to obtain any interbank loans, therefore at the end of 2015 the Bank's interbank liabilities included only those obtained within the framework of the GSP Program of the Hungarian National Bank and in a small portion liabilities obtained in order to refinance particular loan agreements. Liabilities towards credit institutions due after more than one year comprise almost entirely the GSP loans provided by the Hungarian National Bank.

The Bank invested almost all of its free liquid assets in securities. Deposits were placed at the Hungarian National Bank solely at the beginning and only four times during the year and the three-month facility was not used at all. However, end-year securities stock exceeded 50 billion HUF which is close to half of the Bank's total assets. 900 million HUF overnight (O/N) deposit was placed by the end of 2015 at the Hungarian National Bank contrary to the deposit placement of 4.7 billion HUF as of the end of 2014.

FIXED ASSETS

Shares invested in ancillary services undertakings within fixed assets amounted to 288 million HUF on 31.12.2015.

STRUCTURE OF LIABILITIES

The 4.65% increase in total assets in 2015 means 4.9 billion HUF increase compared to 2014.

(million HUF)	31.12.2013		31.12.2014		31.12.2015	
Receivables from credit institutions	30 748	26%	18 063	17%	23 381	21%
Receivables from clients	74 607	63%	74 895	71%	75 924	69%
Other assets	4 159	4%	1 754	1%	1 487	1%
Subordinated loan capital	360	0%	360	0%	360	0%
Accrued expenses and deferred income	829	1%	1 869	2%	1 075	1%
Provisions	30	0%	774	2%	5	0%
Shareholders' equity	6 866	6%	7 087	7%	7 445	7%
Share capital	2 000	2%	2 000	2%	2 000	2%
Capital reserve	600	0%	600	1%	600	1%
Limited reserve	0	0%	0	0%	0	0%
Accumulated profit reserve	1 228	1%	3 492	3%	3 687	3%
General reserve	774	1%	800	1%	851	1%
Balance sheet profit or loss	2 264	2%	195	0%	307	0%
Total equity and liabilities	117 589	100%	104 802	100%	109 677	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 2015 the Bank's shareholder's equity amounted to 7.4 billion HUF.

PASSIVE BUSINESS LINE

The fact that the base rate decreased further from 2.1% to 1.35% in 2015 had a crucial impact on liabilities towards clients.

The stock of liabilities towards clients reached almost 76 billion HUF in 2015 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. The 6.8 billion HUF decrease in the deposit stock with agreed maturity could be compensated with an increase in the bank account stock amounting 7.8 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 69% within liabilities.

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

(million HUF)	31.12.2013.	31.12.2014.	31.12.2015.
Retail bank accounts	4 562	8 117	9 335
Corporate bank accounts	13 830	14 278	16 295
Bank account stock	18 392	22 395	25 630
Other sight bank accounts	2 612	2 068	6 619
Deposits with agreed maturity (HUF)	45 918	42 492	37 676
Deposits with agreed maturity (foreign currency)	7 685	7 940	5 999
Deposit stocks	53 603	50 432	43 675
Total liabilities towards clients	74 607	74 895	75 924

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 37,863 HUF and foreign currency accounts in total, the number of which increased by 3,480 compared to the previous year. This is slightly lower than the previous year's growth. The stock comprises of retail clients in 69%, corporate clients in 27% 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.

At the end of December our clients held 18.6 thousand active bank cards which were linked to retail current accounts in almost 76%.

Acceptance of deposits

As a result of further decrease in the base rate, deposit stock with agreed maturity amounted to 43.7 billion HUF by the end of December 2015.

(million HUF)	31.12.2013.		31.12.2014.		31.12.2015.	
Deposits with an agreed maturity of less than one year (HUF)	12 779	24%	14 805	29%	15 457	35%
Deposits with an agreed maturity of over one year (HUF)	33 139	62%	27 687	55%	22 219	52%
Deposits with an agreed maturity of less than one year (EUR)	1 705	3%	2 326	5%	1 167	3%
Deposits with an agreed	5 501	10%	4 943	10%	4 308	10%

maturity of over one year (EUR)						
Deposits with an agreed maturity of less than one year (CHF)	28	0%	74	%	98	0%
Deposits with an agreed maturity of over one year (CHF)	27	0%	0		-	0%
Deposits with an agreed maturity of less than one year (USD)	32	0%	172	%	67	0%
Deposits with an agreed maturity of over one year (USD)	392	1%	425	1%	359	1%
Deposits with agreed maturity in total	53 603	100%	50 432	100%	43 675	100%

SHAREHOLDERS' EQUITY

Shareholder's equity amounted to 7,445 million HUF on 31.12.2015, which increased to this amount, in addition to complying with the general reserve requirements (51 million HUF) and placing part of the earnings gained in the previous year in accumulated profit reserve, as a result of the 307 million HUF balance sheet earnings reached in 2015.

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 7,776 million HUF on 31 December 2015. Conventional capital ratio was 13.1% on 31 December 2015.

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. The Bank publishes its Disclosure Document on its website.

PROFITABILITY

In 2015 the Bank realized 508 million Hungarian Forints of profit after tax.

The Bank's return on assets (ROA) was 0.4630% in 2015, while its return on equity (ROE) 6.82%.

(million HUF)	2014	2015
Received interest income	5 505	5 283
Paid interest expenses	2 292	1 676
Net interest income	3 213	3 607
Dividends and other return on equity	437	28
Commissions and fees received	1 656	2 075
Commissions and fees paid	195	186
Balance of commissions and fees	1 461	1 889
Net result on financial operations	1 295	248
Result on activities of credit institutions	6 406	5 772
Balance of other income and expenses	-1 954	-1 543
Depreciation recognition, reversal, utilization	-1 314	-100
Financial service expenditure	2 841	3 472
Ordinary profit or loss	297	657
Extraordinary profit or loss	-27	-140
Pre-tax profit or loss	270	517
Tax liability	14	9
After tax profit or loss	256	508

The Bank's net interest income amounted to 3.6 billion HUF in 2015 which is 12% higher than the interest income of the previous year.

Balance of other income and expenses indicate a loss of 1,543 million HUF which is the result of 456 million HUF other income and 1,999 million HUF other expenditure.

In 2015, the total amount of tax liabilities, such as business tax, credit institution's allowance, innovation contribution, amounted to 221 million HUF, financial transaction duty was 891 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 2015 earnings of the Bank by 100 million HUF, which comprise the net balance of impairment loss on liabilities mainly, loans. The 759 million HUF risk provision recognized in 2014 was reversed.

The Bank's operating costs amounted 3.4 billion HUF which is an increase of 21% compared to 2014. 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 1,554 million HUF represented the largest part, i.e. 46% of operating costs. Leasing fees of assets, offices and branch offices amounting 913 million HUF in total represented the second largest part of costs. Depreciation amounted to 97 million HUF in 2015. Costs related to operation and maintenance, expert fees paid to lawyers, public notaries and auditors by the Bank and advertising costs are also significant among expenses.

Extraordinary loss, the amount of which was -140 million HUF in 2015, partially included CDP Program supports and other foundation supports.

Corporate tax liability of the Bank was 9 million HUF.

The Bank's 508 million HUF after tax profit arose from the above items, out of which 51 million HUF general reserve has been set which is an item increasing the shareholder's equity of the Bank.

Budapest, 25 February 2016

Zsolt Fáy
Chairman of the Board