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Consolidated Interim Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 31 August, 2017

June 30, 2017

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Data in HUF million except stated otherwise

MKB Bank Zrt.
Consolidated Statement of Financial Position as at June 30, 2017

	Note	30.06.2017	31.12.2016
Assets			
Cash reserves		49 392	97 914
Loans and advances to banks	6	63 175	67 039
Financial assets measured at FVTPL	7	109 864	75 210
Investments in securities	8	932 436	924 137
Loans and advances to customers	9	882 379	858 072
Non-current assets held for sale and discontinued operation	31	152	309
Other assets	10	32 721	28 081
Deferred tax assets		3 623	3 320
Investments in jointly controlled entities and associates	11	2 091	1 651
Intangibles, property and equipment	12	45 843	45 883
Total assets		**2 121 676**	**2 101 616**
Liabilities			
Amounts due to other banks	13	256 682	376 262
Deposits and current accounts	14	1 615 187	1 519 868
Financial liabilities measured at FVTPL	15	33 525	29 983
Other liabilities and provisions	17	43 636	37 197
Deferred tax liabilities		18	6
Issued debt securities	18	11 871	12 892
Subordinated debt	19	21 718	-
Total liabilities		**1 982 637**	**1 976 208**
Equity			
Share capital	20	100 000	100 000
Treasury Shares		(5 550)	(5 550)
Reserves	21	39 000	25 368
Total equity attributable to equity holders of the Bank		**133 450**	**119 818**
Non-controlling interests	22	5 589	5 590
Total equity		**139 039**	**125 408**
Total liabilities and equity		**2 121 676**	**2 101 616**

Budapest, 31 August, 2017

dr. Ádám Balog
Chief Executive Officer

Csaba Gábor Fenyvesi
Chief Financial Officer

MKB Bank Zrt.
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period ended June 30, 2017

	Note	30.06.2017	30.06.2016
Statement of profit or loss			
Interest income		28 430	30 966
Interest expense		8 627	13 231
Net interest income		**19 803**	**17 735**
Net income from commissions and fees		14 621	14 289
Other operating income / (expense), net		6 306	(7 327)
Impairments and provisions for losses	23	(539)	2 587
Operating expenses		20 813	18 632
Share of jointly controlled and associated companies' profit / (loss)		-	250
Profit / (Loss) before taxation		**20 456**	**3 728**
Income tax expense / (credit)	24	983	2 179
PROFIT/ (LOSS) FOR THE YEAR		**19 473**	**1 549**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Revaluation on AFS financial assets	8	(5 842)	1 018
Exchange differencies on translating foreign operations		-	2
Other comprehensive income for the year net of tax		**(5 842)**	**1 020**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**13 631**	**2 569**
Profit / (Loss) attributable to:			
Shareholders of the bank		**19 474**	**1 549**
Non-controlling interests		**(1)**	**-**
Total comprehensive income attributable to:			
Shareholders of the bank		**13 632**	**2 569**
Non-controlling interests		**(1)**	**-**
Net income available to ordinary shareholders		19 474	1 549
Average number of ordinary shares outstanding *(thousands)*		100 000	225 490
Earnings per Ordinary Share *(in HUF)*	25		
Basic		195	7
Diluted		195	7
Earnings per Ordinary Share from continuing operation *(in HUF)*	25		
Basic		195	7
Diluted		195	7
Dividend per Ordinary Share *(in HUF)*		-	-

Budapest, 31 August, 2017

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Chief Financial Officer

Data in HUF million except stated otherwise

MKB Bank Zrt.
Consolidated Statement of Changes in Equity for the period ended June 30, 2017

	Note	Share capital	Treasury shares	Share premium	Translation of foreign operations	Retained earnings	Revaluation on AFS financial assets	Non-controlling interests	Total equity
At 1 January 2016		225 490	-	222 886	2	(339 101)	(1 292)	-	107 985
Profit/(loss) for the year		-	-	-	-	9 496	-	-	**9 496**
Other comprehensive income for the year		-	-	-	2	-	7 889	-	**7 891**
First / (final) consolidation of subsidiaries		-	-	-	(4)	-	-	5 590	**5 586**
Decrease of share capital		(125 490)	-	(201 157)	-	326 647	-	-	**-**
Acquisition of treasury Shares (ESOP)		-	(5 550)	-	-	-	-	-	**(5 550)**
At 31 December 2016		100 000	(5 550)	21 729	-	(2 958)	6 597	5 590	125 408
Profit/(loss) for the year		-	-	-	-	19 474	-	(1)	**19 473**
Other comprehensive income for the year		-	-	-	-	-	(5 842)	-	**(5 842)**
First / (final) consolidation of subsidiaries		-	-	-	-	-	-	-	**-**
Decrease of share capital		-	-	-	-	-	-	-	**-**
Acquisition of treasury Shares (ESOP)		-	-	-	-	-	-	-	**-**
At 30 June 2017		100 000	(5 550)	21 729	-	16 516	755	5 589	139 039

Budapest, 31 August, 2017

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Data in HUF million except stated otherwise

MKB Bank Zrt.
Consolidated Statement of Cash Flows for the period ended June 30, 2017

	Note	2017	2016
Cash flows from operating activities			
Profit/ (Loss) before taxation		**20 456**	**7 804**
Adjustments for:			
Depreciation, amortisation and impairment	12	2 167	5 407
Impairment on other assets	10	69	(44)
Provisions for off-BS items and settlement for customers	17	465	1 420
Impairment on financial assets (loans and advaces)	6, 9	(2 162)	8 346
Deferred tax movement		(291)	(1 647)
Net Interest income		(20 873)	(44 197)
Dividends on available for sale securities		(17)	(12)
Revaluation of issued securities	18	(189)	(1 402)
Revaluation and other result of AFS securities		(9 430)	10 668
Foreign Exchange movement	6, 9, 10, 17 Change in Equity	(329)	(306)
Cash flows from operating activities		(10 134)	(13 963)
Change in loans and advances to banks (gross amounts)	6	3 864	(15 256)
Change in loans and advances to customers (gross amounts) without spin-off	9	(21 890)	(63 156)
Change in trading assets	7	(34 654)	18 358
Change in other assets (gross amounts)	10	(4 709)	(7 180)
Change in amounts due to banks (short term)	13	(127 573)	63 383
Change in current and deposit accounts		95 319	140 700
Change in other liabilities and provisions (without provision charge of the year)	17	5 953	733
Change in trading liabilities	15	3 542	9 232
Interest received		23 344	58 637
Interest paid		(2 472)	(14 440)
Dividends received		17	12
Income tax		(983)	1 692
		(60 242)	192 715
Net cash (used in)/generated by operating activities		**(70 376)**	**178 752**
Cash flow from investing activities			
Investment in group companies		(497)	(82)
Disposals of group companies		56	-
Purchase of property and equipment	12	(768)	(2 195)
Disposals of property and equipment	12	458	1 539
Purchase of intangible assets	12	(2 431)	(3 623)
Disposals of intangible assets	12	615	1
Purchase of AFS securities		(917 119)	(849 883)
Disposals of AFS securities		982 205	838 160
Change in HTM securities (without impairment)		(69 796)	(55 453)
Net cash (used in)/ generated by investing activities		**(7 277)**	**(71 536)**
Cash flow from financing activities			
Change in issued securities	18	(832)	(71 331)
Change in subordinated liabilities		21 718	-
Change in amounts due to banks (Borrowings)	13	7 993	(11 771)
Net cash (used in)/ generated by financing activites		**28 879**	**(83 102)**
Net increase of cash and cash equivalents		(48 774)	24 114
Cash reserves at 1 January		**97 914**	**41 494**
FX change on cash reserve		95	(21)
Non-current assets held for sale and discontinued operations		157	32 327
Cash reserves at the end of period		**49 392**	**97 914**

Budapest, 31 August, 2017

dr. Ádám Balog
Chief Executive Officer

Csaba Gábor Fenyvesi
Chief Financial Officer

Notes to the Financial Statements

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1 General information

MKB Bank Zrt. ("MKB" or "the Bank") is a commercial bank domiciled in Hungary, organised under the laws of Hungary and registered under the Hungarian Banking Act CCXXXVII of 2013. The address of MKB is Váci u. 38., HU-1056 Budapest, Hungary.
The interim non-audited consolidated financial statements of the Bank as at and for the half year ended 30 June 2017 comprises the Bank and its subsidiaries (together referred to as the "MKB Group" or "Group"). The Group conducts its financial services businesses through domestic banking and non-banking subsidiaries.[1]

The Hungarian government acquired 100% direct ownership in MKB Bank Zrt. on 29 September, 2014. The Prime Minister's Office was assigned to exercise the ownership rights and obligations of the Hungarian government. On 18th December 2014, the Financial Stability Board of the National Bank of Hungary ordered the reorganization of MKB Bank based on the Act XXXVII. of 2014 (Act on Resolution). The ownership rights were exercised by the National Bank of Hungary under the reorganization process and NBH together with MKB Bank started restructuring measures aiming at improving profitability. The reorganization of MKB Group has been carried out in compliance with EU directives[2] in each case. On 23 November, 2015 the National Bank of Hungary launched the reorganisation plan, which was approved by the European Commission on 16 December, 2015. The commitments included in the plan have to be fullfilled by 31 December 2019, and the process of the completion is controlled regularly by the independent Monitoring Trustee. The effective and successful reorganization was managed by the four resolution commissioners assigned by and acting under official and professional control of NBH: the commissioners were exercising the powers of the board of directors and also the general meeting as defined in the statutes of the Bank. On 23 July, 2015 – continuing the reorganization procedure – the reorganizational commissioners were recalled, and through the appointment of the new Chief Executive Officer and election as Chairman of the board, the board of directors is capable of exercising its full powers.

At the end of 2015, through the asset-separation major part of the commercial real estate loan portfolio generating significant losses in the previous years was transferred from MKB Bank to MSZVK Magyar Szanálási Vagyonkezelő Zrt. with the approval of the European Commission on real economic value above the market price. In exchange for this allowed state subsidization, MSZVK Magyar Szanálási Vagyonkezelő Zrt. acquired 100% direct ownership in MKB Bank Zrt., while the ownership rights and obligations were continued to be exercised by the National Bank of Hungary.

The open, transparent and non-discriminatory sales procedure of MKB Bank under close monitoring of the European Commission was successfully closed on 29 June 2016, after the conditions were met, including obtaining permission for the winning consortium members to gain interest and paying the purchase price. The new owners of MKB Bank are members of a consortium established by Blue Robin Investments S.C.A., METIS Private Capital Funds and Pannónia Pension Fund..

On 30 June, 2016, the National Bank of Hungary terminated the resolution process of MKB Bank, after the fulfilment of all objectives of the resolution.

[1] For further information on consolidated subsidiaries please see Note 4
[2] BRRD

On 19 July, 2016 one of the owners of MKB Bank, Blue Robin Investments sold 15% stake to the newly established Employee Share Ownership Programme (ESOP, MRP) organisation of the Bank. Further the new owners of the Bank are as follows: METIS Magántőkealap 45%, Blue Robin Investments S.C.A. 30%, MRP Organization 15%, Pannónia Pension Fund 10%.

During 2017 there were changes only in the indirect ownership structure of MKB Bank. At the end of April, 2017 through the change of ownership in Blue Robin Investments S.C.A., BanKonzult Pénzügyi és Gazdasági Tanácsadó Kft. obtained 20.19%, while Promid Invest Zrt. acquired 9.81% indirect ownership in MKB Bank. Further, on 1 June, 2017 the management of METIS Private Capital Funds was obtained by Konzum Befektetési Alapkezelő Zrt. from Minerva Tőkealap-kezelő Zrt, resulting for the new owner 45% indirect ownership in the Bank.

2 Compliance with International Financial Reporting Standards

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

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

These financial statements are presented in Hungarian Forint (HUF), rounded to the nearest million, except if indicated otherwise. These financial statements were authorised for issue by the Board of Directors on 31 August, 2017.

3 Summary of significant accounting policies

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

a, Financial statement presentation

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

b, Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, substantive potential voting rights are also taken into account. Newly acquired subsidiaries are consolidated from the date that the Group gains control. The acquisition accounting method is used to account for the acquisition of subsidiaries by MKB. The cost of an acquisition is measured at the fair value of the consideration given at the date of exchange, the acquisition – related costs are recognized in profit or loss. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the statement of comprehensive income.

Funds management

The Group manages and administers assets held in investment funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

Transactions eliminated on consolidation

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

c, Investments in jointly controlled entities and associated companies

Jointly controlled entities

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

Associates

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

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

A list of the Group's significant jointly controlled and associated companies is set out in Note 4.

d, Intangible assets

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

Goodwill

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

Goodwill is not amortised but annually tested for impairment.

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

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

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

Other intangible assets

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

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

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

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

e, Property, plant and equipment

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

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

The estimated useful lives of property, plant and equipment are as follows:

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

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

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

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

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

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

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

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

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

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

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

f, Cash reserve

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

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

g, Determination of fair value

All financial instruments measured at Fair Value through Profit or Loss are recognised initially at fair value, other financial assets and liabilities are recognized at fair value plus transaction cost that are directly attributable to the acquisition or issue of financial asset or financial liability. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the initial fair value will be based on other observable current market transactions in the same instrument, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading gain or loss on inception of the financial instrument.

When unavailable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value indicated by the valuation model from the transaction price is not recognised immediately in the statement of comprehensive income but is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or the transaction matures or is closed out, or when the Group enters into an offsetting transaction.

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

The inputs used by the valuation techniques for determining fair values are classified by the fair value level hierarchy as follows:

- level 1: quoted market price in an active market for an identical instrument
- level 2: valuation techniques based on observable inputs
- level 3: valuation techniques using significant unobservable inputs

Transfer from level 1 to level 2 of fair value hierarchy may occur when prices on active market are no longer available. This is the case when the active market cease to be exists, or there are no publicly available quotations, however observable inputs are still available for valuation purposes on the instrument under question.

Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Where a portfolio of financial instruments has quoted prices in an active market, the fair value of the instruments are calculated as the product of the number of units and quoted price and no block discounts are made.

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

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

h, Loans and advances to banks and customers

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

i, Impairment of loans and advances

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

Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.
Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the statement of comprehensive income.

The carrying amount of impaired loans at the end of the reporting period is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed loans and advances

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

Collectively assessed loans and advances

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

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

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

Write-off of loans and advances

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

Reversals of impairment

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

Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans as part of an orderly realisation are recorded as other assets or as assets held for sale if they meet the requirements of IFRS5 and reported in 'Other assets' or 'Non-current assets held for sale and discontinued operations'. The asset acquired is recorded at the lower of its fair value (less costs to sell) and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is charged in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the statement of comprehensive income, in 'Other operating income'. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write down, is also recognised in 'Other operating income', together with any realised gains or losses on disposal.

j, Financial assets measured at FVTPL and Negative fair values of derivative financial instruments

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

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

Financial instruments, other than those held for trading, are classified as designated as fair value through profit or loss, if they meet the following criterion, the Group may designate financial instruments at fair value when the designation eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criterion, the main classes of financial instruments designated by the Group are:

Long-term deposit

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

Structured Bonds

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

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

k, Investments in securities

Investments in securities are classified as available-for-sale, if there was a decision made previously about possible disposal in case of the changes in market conditions or the securities have not been classified into the other categories. Financial investments are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

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

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

Debt instruments, that the Group intends and is able to hold to maturity are classified as held-to-maturity investments and are measured at amortised cost. At the end of each reporting period an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset or group of assets. If there is an objective evidence of impairment in case of held-to-maturity investments, the carrying amount of the investments is decreased against profit or loss.

l, Derivatives

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

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

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

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

m, Hedge accounting

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

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

The Group also requires a documented assessment on an ongoing basis in line with IAS 39, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values of the hedged items. Interest on designated qualifying hedges is included in “Interest income” or “Interest expense”.

Fair value hedge

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

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

Hedge effectiveness testing

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

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

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

n, Derecognition of financial assets and liabilities

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

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

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

o, Offsetting financial assets and financial liabilities

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

p, Finance and operating leases

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

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

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

q, Deposits, debt securities issued and subordinated liabilities

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

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

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

The Group carries some deposits, debt securities and subordinated liabilities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (Note 3 k,).

r, Provisions

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

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

Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

s, Income tax

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

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

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

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

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

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

t, Interest income and expense

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

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

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

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

u, Fees and commission

Fee and commission income is accounted for as follows:

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

v, Other operating income / (expense), net

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

w, Dividends

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

x, Segment reporting

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

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

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Group allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm's length terms and conditions. Please find further details on segment reporting in Note 30.

y, Foreign currencies

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

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

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

z, Financial guarantees

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

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

aa, Share capital

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

ab, Treasury shares

The cost of the Group's repurchased equity instruments ('treasury shares') is deducted from equity. Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares. Treasury shares may be acquired and held by the entity or by other members of the consolidated Group. Consideration paid or received is recognised directly in equity.

ac, Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. For further information about basic and diluted EPS, please see Note 25.

ad, New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2017, and have not been applied in preparing these consolidated financial statements:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018, with earlier application permitted),

  On 24 July 2014 the International Accounting Standards Board issued IFRS 9 Financial instruments, as a replacement of IAS 39 Financial instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The version of IFRS 9 issued in 2014 supersedes all previous versions. IFRS 9 does not replace the requirements for portfolio fair value hedge accounting for interest rate risk (often referred to as the 'macro hedge accounting' requirements) since this phase of the project was separated from the IFRS 9 project due to the longer term nature of the macro hedging project.

  After the adoption by the EU the Group has started a project for the preparation of implementing IFRS 9 standard. The impact on the group financial statement will be estimated in course of the project.

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

On 30 January 2014 the International Accounting Standards Board issued IFRS 14 Regulatory Deferral Accounts, with the objective to specify the financial reporting requirements for "regulatory deferral account balances" that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. IFRS 14 is designed as a limited scope Standard to provide an interim, short-term solution for rate-regulated entities that have not yet adopted International Financial Reporting Standards (IFRS).

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

- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2018, with earlier application permitted)

  IFRS 15 sets out the requirements for recognizing revenue that applies to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous revenue Standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

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

- **IFRS 10 (Amendment) „Consolidated Financial Statements", IAS 28 (Amendment) „Investments in Associates and Joint Ventures" –** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016, effective date was deferred indefinitely until the research project on the equity method has been concluded)

  On 18 December 2014 the International Accounting Standards Board issued amendments to International Financial Reporting Standard (IFRS) 10 Consolidated Financial Statements, International Financial Reporting Standard (IFRS) 12 and International Accounting Standard (IAS) 28 Investments in Associates and Joint Ventures. The amendments introduce clarifications to the requirements when accounting for investment entities.

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

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019)

  The International Accounting Standards Board (IASB) issued IFRS 16 Leases in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). At its October 2015, the IASB decided to require an entity to apply the new Leases Standard for annual periods beginning on or after 1 January 2019 and to permit early application if the entity also applies IFRS 15 Revenue from Contracts with Customers at or before the date of early application. The aim of the standard is to ensure that assets and liabilities arising under leases are recognised in the statement of the financial position.
  IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. (IFRIC 4)

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

- **IFRS 2 (Amendment) "Share-based payment"** Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018, with earlier application permitted)

  The amendments provide requirements on the accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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

- **IFRS 4 (Amendment) "Insurance Contracts"** Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018)

  On 12 September 2016 the International Accounting Standards Board issued amendments to International Financial Reporting Standard (IFRS) 4 Insurance Contracts. The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

  • an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach");
  • an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach").

  The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

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

- **IAS 40 (Amendment) "Investment Property"** Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018)

  The IASB amended the standard to reinforce the principle for transfers into, or out of, investment property in IAS 40 to specify that such a transfer should only be made when there has been a change in use of the property.

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

- **IFRIC 22 "Foreign Currency Transactions and Advance Considerations"** (effective for annual periods beginning on or after 1 January 2018, earlier application is permitted)

  On 8 December 2016 the International Accounting Standards Board issued IFRIC 22 Foreign Currency Transactions and Advance Considerations. IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
  The adoption of the above presented interpretations would have no significant impact on the financial statements.

- **Annual improvements to IFRS Standards 2014-2016 Cycle**, issued on 8 December 2016 (the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018)

- **IFRS 17 "Insurance contracts"** (effective for annual periods beginning on or after 1 January 2021, with earlier application permitted)
  The International Accounting Standards Board (IASB) issued IFRS 17 Insurance contracts in May 2017. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

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

- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019, with earlier application permitted)
  The International Accounting Standards Board (IASB) issued IFRIC 23 in June 2017. The Interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.
  The adoption of the above presented new Interpretation would have no significant impact on the financial statements.

ae, Standards effective for annual periods beginning on 1 January 2017

Standards listed below are effective for annual periods beginning on 1 January 2017.

- **IAS 7 (Amendment) "Statement of Cash Flows"** Disclosure initiative (effective for annual periods beginning on or after 1 January 2017)

- **IAS 12 (Amendment) "Income taxes" -** Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017, with earlier application permitted)

- **Annual improvements to IFRS Standards 2014-2016 Cycle**, issued on 8 December 2016 (the amendment to IFRS 12 is effective for annual periods beginning on or after 1 January 2017)

4 Group of consolidation

The Bank has performed an analysis in order to examine, whether as an investor it controls its investees, and to what extent the control exists. This control determines the disclosure of the investees as a subsidiary, joint arrangement (joint operation or joint venture) or as an associate in the consolidated financial statements of the Group.
The conclusions were prepared in accordance with the International Financial Reporting Standards and the Accounting policies (3.a Financial statement presentation, 3.b Consolidation, 3.c Investments in jointly controlled entities and associated companies).

As the first step of the analysis the relevant activities of the investees were considered. Subsequently the Bank analyzed to what extent the Group is exposed to variable returns from its involvement with the investees, as well as whether through its voting rights, delegated officers or other contractual rights the Group is able to affect those returns, namely it has power over the investees.

MKB Bank Zrt. Data in HUF million except stated otherwise

Investees that are not material to the Group, were exempted from the group of consolidation. Subsidiaries were excluded as well, in case the following two conditions are jointly met:

- the net revenues are less than HUF 500 million, and
- the share capital is less than HUF 500 million.

Jointly controlled entities and associated companies (using equity method of accounting) can be exempted from the consolidation, if the following three conditions are jointly met:

- the Group’s share in net assets is less than HUF 500 million, and
- the Group’s share in the current year change of shareholder’s equity is less than HUF 200 million, because those investees are not considered material, and
- the Group’s exposure is less than HUF 500 million.

In case one of the subsidiaries of the exempted subsidiaries is to be consolidated based on the above thresholds, then the previously exempted subsidiary must be consolidated as well. Furthermore the Bank can exempt from the group of consolidation the subsidiary, jointly controlled entity and associated company, if:

- the headquarter is situated in a country, where the legal system does not allow the submission of the necessary data and information,
- the consolidation would lead to misleading results (particularly, in case the duration of the control or the participation is foreseen to be less than one year),
- MKB’s ability to control the investee is restricted legally or contractually,
- without these entities, the consolidated financial statements of the Group provide a true and fair view about the financial position and performance of the Bank and other subsidiaries. In case there are more subsidiaries compliance with this requisite, then they must be examined together, whether the exemption of these entities distort the true and fair value about the parent company and other subsidiaries, namely the sum of the total assets and contingent liabilities individually and collectively are less than 2% of the total assets of the parent company.
- Financial service companies and auxiliaries with total assets less than EUR 10 million, and are below the thresholds related to net revenues and share capital, are not considered material.
- In case the entities do not reach the minimum of the defined conditions individually, but they exceed those collectively, they cannot be considered negligible, the Bank does not exempt them from the group of consolidation.

Entities included in MKB Group and their activities are as follows:

4.1

2017

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
Euro - Immat Üzemeltetési Kft.	100,0%	100,0%	Hungary	Intangible assets, license maintenance
Exter-Adósságkezelő Kft.	100,0%	100,0%	Hungary	Wholesale trade
Extercom Vagyonkezelő Kft.	100,0%	100,0%	Hungary	Property investments
MKB Befektetési Alapkezelő Zrt.	100,0%	100,0%	Hungary	Investment fund management activity
MKB-Euroleasing Autóhitel Zrt.	100,0%	100,0%	Hungary	Car and consumer finance activities
MKB-Euroleasing Autólízing Szolgáltató Zrt.	100,0%	100,0%	Hungary	Car finance activity
MKB Euroleasing Zrt.	100,0%	100,0%	Hungary	Holding of Euroleasing group
MKB Jelzálogbank Zrt.	99,0%	99,0%	Hungary	Mortgage loan refinancing
MKB Bank MRP Szervezet	37,5%	0,0%	Hungary	Special purpose entity for the Employee Share Program
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft	100,0%	100,0%	Hungary	Other financial services
MKB Üzemeltetési Kft.	100,0%	100,0%	Hungary	Property operation and maintenance
Retail Prod Zrt.	100,0%	100,0%	Hungary	Car and consumer finance activities

Data in HUF million except stated otherwise

2016

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
Euro - Immat Üzemeltetési Kft.	100,0%	100,0%	Hungary	Intangible assets, license maintenance
Exter-Adósságkezelő Kft.	100,0%	100,0%	Hungary	Wholesale trade
Extercom Vagyonkezelő Kft.	100,0%	100,0%	Hungary	Property investments
MKB Befektetési Alapkezelő Zrt.	100,0%	100,0%	Hungary	Investment fund management activity
MKB-Euroleasing Autóhitel Zrt.	100,0%	100,0%	Hungary	Car and consumer finance activities
MKB-Euroleasing Autólízing Szolgáltató Zrt.	100,0%	100,0%	Hungary	Car finance activity
MKB Euroleasing Zrt.	100,0%	100,0%	Hungary	Holding of Euroleasing group
MKB Jelzálogbank Zrt.	99,0%	99,0%	Hungary	Mortgage loan refinancing
MKB Bank MRP Szervezet	37,5%	0,0%	Hungary	Special purpose entity for the Employee Share Program
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft	100,0%	100,0%	Hungary	Other financial services
MKB Üzemeltetési Kft.	100,0%	100,0%	Hungary	Property operation and maintenance
Retail Prod Zrt.	100,0%	100,0%	Hungary	Car and consumer finance activities

The conclusions related to the entities examined, broken down by activities:

a) Vehicle financing:

Euroleasing Group

MKB-Euroleasing Zrt.

Based on the contract signed on 12 June 2015 by MKB Bank Zrt. and the former co-owners of Euroleasing Group, the Bank obtained 100% direct ownership and voting rights in the company, in which the participation was 50% previously. In year 2015, four new members of the Supervisory Board and also four new members of the Board of Directors were appointed by the Bank. Refinancing is solely provided by MKB. The Bank controls alone the variable returns.

MKB-Euroleasing Autóhitel Zrt.

In accordance with the above mentioned transaction of Euroleasing Group, the Bank has 74% direct ownership in MKB-Euroleasing Autóhitel Zrt. (hereinafter: Autóhitel), and furthermore 26% indirect ownership through MKB-Euroleasing Zrt. Therefore the Bank owns 100% of the voting rights. It influences directly the important decisions related to relevant activities and it takes part in the preparations of important regulations (accounting and risk policies). The new members of the Board of Directors and the Supervisory Board were delegated by MKB during year 2015. The Bank is exposed significantly to the variable returns from Autóhitel, as the financing of the company is solely ensured by the Bank, so its operation is directly depending on it. From September 2015, as MKB possesses all these rights, it can alone influence the relevant activities and affect the total returns. Based on these facts MKB concluded, that there exists control over Autóhitel according to IFRS 10, so it is consolidated as a subsidiary in the financial statements of the Group.

MKB-Euroleasing Autólízing Zrt.

MKB has no direct participation in MKB-Euroleasing Autólízing Zrt. (hereinafter: Autólízing), it has indirect ownership of 70% through MKB-Euroleasing Autóhitel Zrt., and 30% through MKB-Euroleasing Zrt. The Bank is significantly exposed to the variable returns of the company. The Bank appointed new members to the Supervisory Board and to the Board of Directors. Consequently the Bank is able to influence the important decisions related to the relevant activities and takes part in the preparations of important regulations (accounting and risk policies). Autólízing is financed solely by MKB, so its operation is directly depending on the Bank. As a result of the power due to the 100% ownership through Autóhitel and MKB Euroleasing Zrt., as its subsidiary, the Bank is able to affect the total returns, therefore it controls its investee and consolidates Autólízing as a subsidiary.

Retail Prod Zrt.

In 2015 Retail Prod Zrt. became part of the Group of consolidation as a new car financing subsidiary of MKB-Euroleasing Zrt. MKB-Euroleasing Zrt. acquired 100% ownership and voting rights in the company, obtaining the shares in exchange of a consideration paid in cash in the amount of HUF 1,000. As a result of the acquisition of Retail Prod Zrt. HUF 604 million gain was recognized, disclosed in Other operating income / (expense), net in the financial statements for 2015. In order to cover the risks and potential liabilities in the portfolio of the acquiree, the Group recognized provision for contingent liabilities identified. At the end of the reporting period the balance of the provision amounted to HUF 412 million.

b) Workout activity related to lending

Exter- Adósságkezelő Kft.
Extercom Kft.

MKB owns 100% of the shares of the above two entities, resulting that it is exposed fully to the variable returns of the companies. Based on the voting rights of 100%, the Bank is entitled to appoint officers, so has power over the relevant activities. Financing is provided fully by MKB. Based on these facts the Bank is able to affect the variable returns. Consequently the above entities are disclosed as subsidiaries in the financial statements of the Group.

c) Managing

Handling of Property, plant and equipments and Intangible assets, providing services

MKB Üzemeltetési Kft.
Euro - Immat Üzemeltetési Kft.

Management of investment funds
MKB Befektetési Alapkezelő Zrt.

SZÉP card, support of health and pension funds:
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.

The Bank owns 100% of the shares of all these entities and has 100% of the voting rights. Accordingly MKB is entitled to appoint chief executives, so has power over the relevant activities. The deposits related to SZÉP cards are handled by the Bank. Consequently these entities are disclosed as subsidiaries in the financial statements of the Group.

d) Specialized credit institutions

MKB Jelzálogbank Zrt.

In order to comply with the laws and take advantages of the business opportunities originating from the new regulations, MKB Bank Zrt. decided to establish a new mortgage bank. MKB Jelzálogbank Zrt. was registered during 2016 with HUF 4 billion total equity, the main shareholder is MKB Bank Zrt. with 99 % participation, while Gránit Bank Zrt. holds 1% of the shares. The main role of the specialized credit institution is to refinance the mortgage loans granted by commercial banks through the financing obtained by issuing mortgage bonds. The operating permission of the new creditinstitution is in process during the preparation of the financial statements. As MKB owns 99% of the shares, it is exposed fully to the variable returns of the entity. Based on the same percentage of the voting rights, the Bank is entitled to appoint chief executives, so has power over the relevant activities. Based on these facts, the Bank is able to affect the variable returns. Consequently MKB Jelzálogbank Zrt. is disclosed as a subsidiary in the financial statements of the Group.

e) Employee Share Ownership Program

On 14 July, 2016 MKB Bank established the Employee Share Ownership Program (ESOP) organization of the Bank. The organization was established in order to fulfill the objectives of the remuneration policy of the Bank. This is the only relevant activity of the organization. The Bank is exposed to the variable returns of the organization, as after completion of the program the Bank is entitled to the surplus assets remained and has to reimburse any loss accumulated. Based on these facts, MKB Bank controls the Employee Share Ownership Program (ESOP) organization and discloses it as a special purpose entity part of the financial statements of the Group.

f) Non-consolidated entities

Investees owned by the Group or the percentage of equity owned by the Group that are not material and therefore exempted from the group of consolidation are listed below:

- MKB Életbiztosító Zrt.
- MKB Általános Biztosító Zrt.

- Euroleasing Kft.
- I.C.E. Kft.

- Exter-Estate Kft.
- Exter-Reál Kft.
- Exter-Immo Zrt.

- MKB Consulting Kft.

- Budapesti Értéktőzsde Zrt.
- Core-Solutions Kft.
- Garantiqa Hitelgarancia Zrt.
- Kisvállalkozásfejlesztő Pénzügyi Zrt.
- Medister Kft.
- Pannonhalmi Apátsági Pincészet Kft.
- SWIFT
- Trend Zrt.
- MKB Inkubátor Kft.
- MKB Kockázati Tőkealapkezelő Kft.

5 Risk management

a, Capital management

The Group's lead regulator, the National Bank of Hungary sets and monitors capital requirements for the Group as a whole.

Capital allocation

The Bank measures the pillar 1 and pillar 2 risks and the Group's Asset and Liability Management Committee (ALCO) monitors the results using a monthly reporting framework.

Basel III

The calculations are Basel III/CRR (575/2013/EU regulation) compliant.

The supervisory objectives of Basel III are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel III is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The Capital Requirements Regulation (CRR) is directly effective in Hungary.

Basel III provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The Bank uses the standardised approach, which requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Basel III also introduces capital requirements for operational. For the capital requirement calculation the Bank currently has adopted the standardized approach to the determination of Group operational risk capital requirements.

The second pillar of Basel III (Supervisory Review and Evaluation Process - SREP) involves both the Bank and the Supervisory regulators taking a view on whether a Bank should hold additional capital and how much against risks not covered or not entirely covered in pillar 1. In framework of the pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) the Bank introduced policies and processes for measuring capital requirement of risks not captured by pillar 1 and to measure pillar 1 risks with more sophisticated methodology. Under pillar 2 the materiality of the following risks is to be analysed:

- Credit risk
- Market risk
- Liquidity risk
- Risk estate risk and risk derived from other assets
- Participation risk
- Operational risk
- Modell risk
- Business and strategic risk

Data in HUF million except stated otherwise

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

The capital requirement is limited by a complex limit system, which contains the limits of the material risk types by institutions and business lines.

5.1 Capital adequacy ratio

	2017 Q2 Basel III IFRS	2016 Basel III IFRS
Share capital	100 000	100 000
Outstanding share capital	*100 000*	*100 000*
Reserves	35 484	21 899
Intangible assets	(9 494)	(8 446)
AVA - additional valuation adjustments	(650)	(689)
Additional Tier 1	**-**	**-**
Tier 1: Net core capital	**125 340**	**112 764**
Considerable subordinated debt	21 718	-
Tier 2: Supplementary capital	**21 718**	**-**
Regulatory capital	**147 058**	**112 764**
Risk-weighted assets (RWA)	760 650	758 269
Operational risk (OR)	165 167	165 167
Market risk positions (MR)	18 023	13 368
Total risk weighted assets	**943 840**	**936 804**
Regulatory capital / Total assets	6,94%	5,37%
Capital adequacy ratio	**13,28%**	**12,04%**
Capital adequacy ratio (including market risk)	**15,58%**	**12,04%**

The table above contains the MKB Bank's consolidated capital adequacy ratio. Unconsolidated capital adequacy ratio is 16.54% based on HAS.

At June 30, 2017, as an actual figure of regulatory capital the Group was HUF 147.1 billion based on Basel III IFRS under Supervisory Regulation. The increase of regulatory capital - by HUF 34.3 billion – is derived from the increase of considerable profit (HUF 19.4 billion) and subordinated loan (HUF 21.7 billion), which was compensated by the increase of deduction of intangible assets and the decrease of revaluation reserve.

Data in HUF million except stated otherwise

Risk-weighted assets including operational and market risk increased by 0.75% from HUF 936.8 billion in 2016 to HUF 943.8 besides approximately 0.35% weakening of domestic currency. The main part of the increase derived from the increase of market risk and increasing of business volumes in Euroleasing Group.

By application of capital management as a tool, the capital is a first priority decision making factor; therefore the bank monitors the changes of the capital elements continuously.

Planning and limitation of capital requirements

The owner of the MKB with strong capital background contributes to its safety, promotes customer confidence, and helps the Bank to manage the negative effects on its profitability which come from macroeconomic turbulences.

b, Encumbered assets

Encumbered assets according to 680/ 2014 / EU Commission Implementing Regulation at the end of the periods were the follows:

5.2 Encumbered assets

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution				
Loans on demand	46 174	46 174	49 192	49 192
Debt securities	325 087	325 500	288 494	288 149
Total encumbered assets	**371 261**	**371 674**	**337 686**	**337 341**

5.3 Collateral received and own debt securities issued

		Non-encumbered	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of collateral received or own debt securities issued non available for encumbrance
30 June 2017			
Collateral received by the reporting institution			
Loans on demand	-	1 727	-
Other collateral received	-	-	393 086
Collateral received and own debt securities issued	**-**	**1 727**	**393 086**
31 December 2016			
Collateral received by the reporting institution			
Loans on demand	-	2 336	-
Other collateral received	-	-	419 969
Collateral received and own debt securities issued	**-**	**2 336**	**419 969**

Data in HUF million except stated otherwise

5.4 Sources of encumbrance

	2017		2016	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	*327 504*	*371 260*	*289 501*	*337 686*
Derivatives	25 842	47 497	24 842	49 936
Deposits	301 662	323 763	264 659	287 750
Repurchase agreements	157 035	160 341	2 471	2 485
Collateralised deposits other than repurchase agreements	144 627	163 422	262 188	285 265
Total Sources of encumbrance	**327 504**	**371 260**	**289 501**	**337 686**

As of 30 June 2017 the total size of encumbered assets was 17.5% of the total balance sheet. The majority of MKB Group’s encumbered assets belonged to MKB Bank. The main sources and types of encumbrance were arising from having secured refinancing, money market deposits, repo transactions as well as collateralized derivative transactions. Encumbrance due to collateral requirement of used clearing systems and central counterparties was not significant. MKB did not have covered bond issues or securitization.
The most significant secured refinancing facility was acquired as a result of the participation in the „Funding for Growth Scheme” refinancing loan program of National Bank of Hungary. Secured money market deposits were provided by the National Bank of Hungary, repo transactions were concluded with the Hungarian Debt Management Agency. The purpose of these forms of secured financing is to support the active liquidity management of the bank in line with the self-financing program of the National Bank of Hungary.
The majority of collateralized derivative transactions were concluded to hedge on balance sheet fx position.

c, Forborn assets

During the normal course of business, the Group enters into forbearance measures to decrease the potential loan loss and maximize collection opportunities for the borrowers who have problems with their payment ability but not with their willingness and capacity to pay.

Restructured exposures are renegotiated, rescheduled (prolonged) or otherwise revised loans, receivables and credits (including also purchased ones) originated in the framework of an amendment or termination of a previously concluded contract, initiated either by the borrower or the Group, where

- the contract is amended in order to avoid default because the borrower is unable to fulfill its payment obligations in compliance with the conditions of the original contract due to significant deterioration in its financial position or payment ability, and
- the amendments significantly change the original terms and conditions of the outstanding contract largely in favor of the borrower, as compared to the market terms and conditions generally applicable to contracts of the same type and concluded under the same conditions, or
- a supplementary agreement or a new contract is concluded between the borrower and the Group that relates to a new loan provided for the repayment of the outstanding debts (principal and/or interest) arising from the original contract that is not terminated, or to any further commitment assumed to avoid any increase in the credit risks and to mitigate the possible loss.

Under its forbearance policies, the Group grants loan forbearance on a selective basis where the borrower is in default on its debt, or there is a high risk of future default, and there is evidence that the borrower made all reasonable efforts to pay under the original contractual terms, and it is expected that the borrower will be able to meet the revised terms. Both corporate and retail loans are subject to forbearance policies. The Group generally applies the following types of forbearance measures:

- extension of the tenor/final maturity of the loan,
- renegotiation of original repayment schedule, reschedule installments,
- agreement on installment payment,
- reduction of the collateral coverage parallel reducing exposure,
- refinancing of the loan,
- interest rate cut, or lower conditions,
- interest capitalization.

Besides the Group's internal forbearance initiatives, the home protection measures in the retail clientele launched by the Hungarian government, and set by legal regulations also result in forborn assets. Such assets include the preferential buffer account facility ("árfolyamgát") granted pursuant to the act LXXV of 2011 on FX loans and the related original FX loan.

Such exposures and associated credit risks are managed, monitored and reported distinctly by specific restructuring and debt management units of the Group on the basis of guidelines and procedure rules set by internal regulations incorporating also both legal and supervisory requirements and recommendations. When the conditions of forbearance cease to exist and the following cure period expires, respective assets are returned to normal treatments both from business and risk management perspectives.
To revert to normal treatment regarding Corporate customers, additional criteria is that the customer performs its amended contractual obligations duly through a specified period (180 days or 360 days) and its risk position shows significant improvement. Forborn assets are recorded separately, and the amended terms and conditions of the contract are also indicated in the accounting records. Recognition, derecognition and subsequent valuation of these assets are carried out according to the general rules of accounting as specified by the relevant IFRSs.
The detailed requirements of risk classification and impairment valuation of forborn exposures are included in the accounting policies, and other internal regulations on the valuation of assets and liabilities, as well as in impairment and provisioning policies. Based on these internal guidelines, forbearance measures are always regarded as impairment triggers and, as a consequence, individual impairment assessment should be performed for such exposures where the general methodologies and principles of assessment are to be applied. On the results of such risk assessments, impairment losses and the reversals of previously charged impairments are accounted for according to the common rules defined by IAS 39.

Compared to the previous financial year there were no changes in forbearance policies and practices applied by the Group.

Data in HUF million except stated otherwise

5.5 Forborn assets

	2017	2016
Corporate Banking		
Forbearence loans and advances based on actual restructured status	20 459	28 994
Provision	(17 772)	(20 204)
Carrying amount	2 687	8 790
Retail and Private Banking*		
Forbearence loans and advances based on actual restructured status	48 932	50 862
Provision	(16 296)	(16 350)
Carrying amount	32 636	34 512
Total carrying amount	**35 324**	**43 302**

d, Credit Risk

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

5.6 The Group's maximum exposure classifies as credit risk

2017	Cash reserves	Loans and advances to banks	Loans and advances to customers	Investment in debt securities*	Positive fair values of derivative financial instruments	OFF B/S exposures
Individually impaired						
Non-default	-	-	13 571	-	-	1 160
Default	-	-	155 964	-	-	1 250
Total individually impaired gross amount	-	-	169 535	-	-	2 410
Total individually impaired allowance for impairment	-	-	(98 488)	-	-	(1 476)
Total individually impaired carrying amount	**-**	**-**	**71 047**	**-**	**-**	**934**
Collectively impaired						
Non-default	-	18 201	739 324	-	-	390 688
Default	-	-	243	-	-	-
Total collectively impaired gross amount	-	18 201	739 567	-	-	390 688
Total collectively impaired allowance for impairment	-	(7)	(8 197)	-	-	(6 085)
Total collectively impaired carrying amount	**-**	**18 194**	**731 370**	**-**	**-**	**384 603**
Past due but not impaired						
Non-default	-	-	-	-	-	-
Default	-	-	156	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**156**	**-**	**-**	**-**
Past due comprises:						
up to 30 days	-	-	-	-	-	-
30 to 90 days	-	-	-	-	-	-
over 90 days	-	-	156	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**156**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	49 392	44 981	76 228	931 829	15 958	141 495
Default	-	-	3 578	-	-	1 941
Total neither past due nor impaired carrying amount	**49 392**	**44 981**	**79 806**	**931 829**	**15 958**	**143 436**
Total gross amount	**49 392**	**63 182**	**989 064**	**931 829**	**15 958**	**536 534**
Total allowance for impairment	**-**	**(7)**	**(106 685)**	**-**	**-**	**(7 561)**
Total carrying amount	**49 392**	**63 175**	**882 379**	**931 829**	**15 958**	**528 973**

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

Data in HUF million except stated otherwise

2016	Cash reserves	Loans and advances to banks	Loans and advances to customers	Investment in debt securities*	Positive fair values of derivative financial instruments	OFF B/S exposures
Individually impaired						
Non-default	-	-	41 537	-	-	253
Default	-	-	162 003	-	-	1 787
Total individually impaired gross amount	-	-	203 540	-	-	2 040
Total individually impaired allowance for impairment	-	-	(100 086)	-	-	(1 842)
Total individually impaired carrying amount	**-**	**-**	**103 454**	**-**	**-**	**198**
Collectively impaired						
Non-default	-	16 289	721 580	-	-	247 887
Default	-	-	4 344	-	-	667
Total collectively impaired gross amount	-	16 289	725 924	-	-	248 554
Total collectively impaired allowance for impairment	-	(50)	(11 645)	-	-	(5 278)
Total collectively impaired carrying amount	**-**	**16 239**	**714 279**	**-**	**-**	**243 276**
Past due but not impaired						
Non-default	-	-	1	-	-	-
Default	-	-	217	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**218**	**-**	**-**	**-**
Past due comprises:						
up to 30 days	-	-	-	-	-	-
30 to 90 days	-	-	-	-	-	-
over 90 days	-	-	218	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**218**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	97 914	50 757	36 552	923 590	14 372	219 470
Default	-	-	3 569	-	-	822
Total neither past due nor impaired carrying amount	**97 914**	**50 757**	**40 121**	**923 590**	**14 372**	**220 292**
Total gross amount	**97 914**	**67 046**	**969 803**	**923 590**	**14 372**	**470 886**
Total allowance for impairment	**-**	**(50)**	**(111 731)**	**-**	**-**	**(7 120)**
Total carrying amount	**97 914**	**66 996**	**858 072**	**923 590**	**14 372**	**463 766**

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

6 Loans and advances to banks

6.1 Loans and advances to banks

	2017	2016
Current and clearing accounts	14 105	63 629
Money market placements	45 844	-
Loans and advances	3 233	3 417
Less collective allowances for impairment	(7)	(7)
Loans and advances to banks	**63 175**	**67 039**

Collective allowances for impairment

Balance at 1 January	**(7)**	**(50)**
Impairment loss for the year:		
Charge for the year	(4)	(3)
Reversal	4	45
Effect of foreign currency movements	-	1
At the end of period	**(7)**	**(7)**

Data in HUF million except stated otherwise

7 Financial assets measured at FVTPL

7.1 Financial assets measured at FVTPL

	2017			2016		
	Cost	Unrealised result	Book value	Cost	Unrealised result	Book value
Debt and equity instruments						
Government Treasury bills	79 903	1 496	81 399	44 361	917	45 278
Government bonds	11 734	181	11 915	14 878	76	14 954
Hungarian corporate sector bonds	570	(4)	566	390	10	400
Foreign corporate sector bonds	-	-	-	-	-	-
Hungarian equities	25	1	26	168	38	206
Total debt and equity instruments	**92 232**	**1 674**	**93 906**	**59 797**	**1 041**	**60 838**
Derivative instruments by type						
FX-based derivatives instruments	-	2 670	2 670	-	3 176	3 176
Index-based derivative instruments	-	10	10	-	9	9
Interest-based derivative instruments	-	12 454	12 454	-	10 200	10 200
Options	-	824	824	1 472	(485)	987
Total derivative instruments	**-**	**15 958**	**15 958**	**1 472**	**12 900**	**14 372**
Total financial assets measured at FVTPL	**92 232**	**17 632**	**109 864**	**61 269**	**13 941**	**75 210**

Data in HUF million except stated otherwise

8 Investments in securities

8.1 Investments in securities

	2017	2016
Available-for-sale		
Hungarian Government bonds	490 380	566 624
Hungarian corporate sector bonds	12 608	6 220
Hungarian equities	33	33
Foreign equities	607	547
Less specific allowances for impairment	(33)	(33)
Held-to-maturity		
Hungarian Government bonds	372 765	283 569
Hungarian corporate sector bonds	56 076	67 177
Less specific allowances for impairment	-	-
Investment in securities	**932 436**	**924 137**
Specific allowances for impairment		
Balance at 1 January	(33)	(33)
At the end of period	**(33)**	**(33)**

At 30 June 2017, HUF 410,291 million (2016: HUF 384,281 million) from the total amount of Investments in securities were pledged as collateral for stock exchange, for NBH related to Funding for Growth Scheme and credit card transactions in the ordinary course of business.

The total revaluation effect excluding deferred taxes in equity comprises HUF 611 million gain (2016: HUF 6,606 million gain) and HUF 145 million deferred tax asset and NIL deferred tax liability (2016: HUF 3 million deferred tax asset and HUF 12 million deferred tax liability).

In 2017 HUF 11,172 million gain (2016: HUF 1,619 million gain) was recognized in the profit or loss relating to AFS securities, which is a reclassification from other comprehensive income into profit or loss.

Related to the Held-to-maturity investments HUF 2,892 million interest income (2016: HUF 1,231 million) was recognized in the Statement of profit or loss during the first six months of the year.

Data in HUF million except stated otherwise

During the reporting period, the Group reclassified debt securities out of Available-for-sale into Held-to-maturity category. The carrying amount of the investments reclassified amounted to HUF 7,208 million. The reclassification was the result of the decision made by ALCO, concerning the structure of the balance sheet of the Bank.

9 Loans and advances to customers

9.1 Loans and advances to customers at amortised cost

2017	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Core business				
Wholesale				
Refinanced loan	49 959	(877)	(691)	48 391
Funding for Growth Scheme	71 981	(547)	(991)	70 443
Factoring	16 125	(328)	(144)	15 653
Overdraft	58 362	(2 031)	(456)	55 875
Széchenyi Loans	22 061	(455)	(217)	21 389
Other	367 779	(31 556)	(2 197)	334 026
Total Wholesale	***586 267***	***(35 794)***	***(4 696)***	***545 777***
Retail				
Residental mortgage				
HUF	*246 664*	*(38 890)*	*(2 202)*	*205 572*
Foreign currency	*4 436*	*(1 900)*	*(44)*	*2 492*
Credit card	2 530	(142)	(64)	2 324
Overdraft	2 102	(589)	(50)	1 463
Personal loan	1 279	(59)	(49)	1 171
Car finance	20 820	(4 083)	(167)	16 570
Other	68 726	(4 064)	(187)	64 475
Total Retail	***346 557***	***(49 727)***	***(2 763)***	***294 067***
Total Core business	**932 824**	**(85 521)**	**(7 459)**	**839 844**
Non-core business				
SCU	***56 240***	***(12 967)***	***(738)***	***42 535***
Total	**989 064**	**(98 488)**	**(8 197)**	**882 379**

Data in HUF million except stated otherwise

2016	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Core business				
Wholesale				
Refinanced loan	52 172	(947)	(515)	50 710
Funding for Growth Scheme	81 963	(429)	(965)	80 569
Factoring	24 661	(284)	(1 175)	23 202
Overdraft	44 156	(2 397)	(367)	41 392
Széchenyi Loans	20 567	(458)	(221)	19 888
Other	214 589	(28 565)	(2 888)	183 136
Total Wholesale	***438 108***	***(33 080)***	***(6 131)***	***398 897***
Retail				
Residental mortgage				
HUF	*259 940*	*(37 436)*	*(3 380)*	*219 124*
Foreign currency	*4 849*	*(2 016)*	*(71)*	*2 762*
Credit card	2 672	(145)	(67)	2 460
Overdraft	2 107	(580)	(54)	1 473
Personal loan	1 281	(100)	(34)	1 147
Car finance	97 631	(5 560)	(346)	91 725
Other	59 688	(5 513)	(79)	54 096
Total Retail	***428 168***	***(51 350)***	***(4 031)***	***372 787***
Total Core business	**866 276**	**(84 430)**	**(10 162)**	**771 684**
Non-core business				
CRE	***103 527***	***(15 656)***	***(1 483)***	***86 388***
Total	**969 803**	**(100 086)**	**(11 645)**	**858 072**

Provision for homogeneous groups of loans is disclosed along specific allowances, collective allowances for impairment contains incurred but not yet reported impairment losses.

CRE (previously SCU) remaining portfolio

The Special Credit Unit (SCU) was established in 2011 in order to separate commercial real estate financed customers requiring special treatment and to provide specific management of their deals. At the end of 2015 significant part of this portfolio has been separated from MKB's portfolio, management of the remaining portfolio is performed by the Corporate Restructuring and Debt Management Directorate.
According to the EU commitments forming part of the Restructuring Plan approved by the European Commission, the gross volume of the remaining CRE (i.e Commercial Real Estate previously SCU) portfolio has to be reduced below HUF 60 billion by the end of 2019. The main measures for dismantling the portfolio are: collection of scheduled repayment; refinancing by other financial institution; completion of legal procedures. In case of available favorable offers, asset sales can be considered as well.

Data in HUF million except stated otherwise

Asset realization strategy

The recovery expectations at the elements of the asset portfolio has been determined based on, the asset realization strategy. In the framework of the asset realization strategy the Bank keeps some assets in long-term in order to maximize recovery from those assets.

Effects of the Act on Consumer Loan Contracts of Financial Institutions

Settlement

Based on the requirements of the act XXXVIII of 2014, which objective was to settle disputes on the Curia's civil law uniformity decision on consumer loan contracts and the act XL of 2014 enacting the method of regulations on the settlement and other related directions, repayment obligation arose at MKB Group if the consumer loan contract commenced after May 1st, 2004 and before July 26th 2014 and have not been terminated before July 26th, 2009 and if the Bank has charged foreign currency exchange rate spread (margin) on the client or applied unilateral commission or interest increase. The repayment obligation covers those consumer loan contracts as well, which expired before July 26th, 2009, however the Group is aware of the fact, that its claims against the consumers have not barred yet, or the consumers can prove, that the claims previously transferred by the Group are due to a credit management company, which is not obliged to the settlement.

Allowances for impairment

9.2 Allowances for impairment

	2017	2016
Specific allowances for impairment on loans and advances to customers		
Balance at 1 January	100 086	155 458
Impairment loss for the year:		
Charge for the year	7 755	26 166
Reversal	(5 651)	(23 876)
Utilisation	(2 629)	(56 012)
Effect of foreign currency movements	(240)	(294)
Unwinding of discount	(833)	(1 356)
At the end of period	**98 488**	**100 086**
Collective allowances for impairment on loans and advances to customers		
Balance at 1 January	11 645	4 271
Impairment loss for the year:		
Charge for the year	3 005	11 339
Reversal	(6 552)	(3 327)
Utilisation	-	(24)
Effect of foreign currency movements	(15)	(56)
Unwinding of discount	114	(558)
At the end of period	**8 197**	**11 645**

Data in HUF million except stated otherwise

At 30 June 2017 there were no loans designated as hedged item in a fair value hedge relationship.

10 Other assets

10.1 Other assets

	2017	2016
Prepayments and other debtors	31 603	27 079
Inventory	528	626
Collaterals held in possession	78	-
Corporate income tax refundable	17	31
Other taxes refundable	676	514
Specific allowances for impairment	(181)	(169)
Other assets	**32 721**	**28 081**

Specific allowances for impairment

	2017	2016
Balance at 1 January	(169)	(213)
Impairment loss for the year:		
Charge for the year	(69)	(27)
Reversal	-	71
Utilization	57	-
At the end of period	**(181)**	**(169)**

11 Investments in jointly controlled entities and associates

11.1 Investments in jointly controlled entities and associates

	2017	2016
Cost	2 091	1 651
Investments in jointly controlled entities and associates	**2 091**	**1 651**

The goodwill arising on acquisition belonged to MKB-Euroleasing Zrt., which was impaired formerly.

Data in HUF million except stated otherwise

12 Intangibles, property and equipment

12.1 Intangibles, property and equipment

2017	Intangible assets	Freehold property	Equipment	Total
Cost				
Balance at 1 January	50 929	45 203	25 572	121 704
Additions – including internally developed	2 431	25	743	3 199
Disposals	(611)	(552)	(1 877)	(3 040)
Balance at 30 June	**52 749**	**44 676**	**24 438**	**121 863**
Depreciation and impairment losses				
Balance at 1 January	42 484	13 954	19 383	75 821
Depreciation for the year	766	607	775	2 148
Impairment loss	-	-	19	19
Disposals	4	(535)	(1 436)	(1 967)
Balance at 30 June	**43 254**	**14 025**	**18 741**	**76 020**
Carrying amounts				
At 1 January	8 445	31 249	6 189	45 883
Balance at 30 June	**9 495**	**30 651**	**5 697**	**45 843**

2016	Intangible assets	Freehold property	Equipment	Total
Cost				
Balance at 1 January	47 326	47 261	25 279	119 866
Additions – including internally developed	3 623	238	1 957	5 818
Disposals	(20)	(2 296)	(1 664)	(3 980)
Balance at 31 December	**50 929**	**45 203**	**25 572**	**121 704**
Depreciation and impairment losses				
Balance at 1 January	40 423	13 095	19 336	72 854
Depreciation for the year	2 075	1 297	1 604	4 976
Impairment loss	5	397	29	431
Disposals	(19)	(835)	(1 586)	(2 440)
Balance at 31 December	**42 484**	**13 954**	**19 383**	**75 821**
Carrying amounts				
At 1 January	6 903	34 166	5 943	47 012
Balance at 31 December	**8 445**	**31 249**	**6 189**	**45 883**

Data in HUF million except stated otherwise

Depreciation and amortization is presented among the Operating expenses.

During the first six months of 2017, the most significant component of these investments and developments was the costs related to the on-going Core system replacement process at the Bank. In addition, the Group disclosed several other items here concerning capitalisations of functional developments of other IT systems.

13 Amounts due to other banks

13.1 Amounts due to other banks

	2017	2016
Due on demand	21 707	4 608
Money market deposits	16 174	160 846
Borrowings	218 801	210 808
Amounts due to other banks	**256 682**	**376 262**

14 Deposits and current accounts

14.1 Deposits and current accounts

	2017	2016
From corporate clients	1 317 557	988 805
From retail clients	297 630	531 063
Current and deposit accounts	**1 615 187**	**1 519 868**

As at 30 June 2017, from the amount of current and deposit accounts, HUF 1,654 million (2016: HUF 8,688 million) has been measured as a fair value through profit or loss.

Data in HUF million except stated otherwise

15 Financial liabilities measured at FVTPL

15.1 Financial liabilities measured at FVTPL

	2017 Cost	2017 Unrealised result	2017 Book value	2016 Cost	2016 Unrealised result	2016 Book value
Derivative instruments by type						
FX-based derivatives instruments	-	5 688	5 688	-	2 867	2 867
Index-based derivative instruments	-	15	15	-	10	10
Interest-based derivative instruments	-	27 256	27 256	-	26 623	26 623
Options	179	387	566	134	349	483
Total derivative instruments	**179**	**33 346**	**33 525**	**134**	**29 849**	**29 983**
Negative fair values of derivative financial instruments	**179**	**33 346**	**33 525**	**134**	**29 849**	**29 983**

The derivative financial instruments disclosed in the table are measured at fair value through profit or loss.

16 Derivative liabilities held for risk management

The Group used interest rate swaps designated as fair value hedges to hedge its exposure to changes in the fair value of certain loans and advances. Interest rate swaps were matched to specific loans.

As at the end of period the Group had no positive or negative fair value derivatives designated in a qualifying hedge relationship.

Other derivatives held for risk management

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, and options.

Data in HUF million except stated otherwise

17 Other liabilities and provision

17.1 Other liabilities and provision

	2017	2016
Accruals and other creditors	28 053	27 560
Corporate income tax payable	1 074	19
Other taxes payable	6 948	2 498
Provision for contingencies and commitments	6 579	6 120
Provision for settlement of FX consumer loans	982	1 000
Other liabilities and provisions	**43 636**	**37 197**

General description of provision for settlement of FX consumer loans is defined in Note 9.

Provision for contingencies and commitments

17.2 Provision for contingencies and commitments

	2017	2016
Balance at 1 January	7 120	6 320
Provisions made during the year	1 938	4 115
Provisions used during the year	(3)	(210)
Provisions reversed during the year	(1 473)	(3 080)
Effect of foreign currency movements	(21)	(25)
At the end of period	**7 561**	**7 120**

Provisions recognized for different type of products are disclosed in Note 23, except for provision on settlement of FX consumer loans.

18 Issued debt securities

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

18.1 Issued debt securities

Interest	Balance at openning period	Issued debt securities	Repurchased debt securities	Repaid debt securities	Revaluation result	Balance at the end of period
30 June 2017						
Fixed rate	1 646	-	-	-	(139)	1 507
Structured	11 209	-	(79)	(753)	(40)	10 337
Floating rate	-	-	-	-	-	-
Accrued interest	37	-	-	-	-	27
Total	**12 892**	**-**	**(79)**	**(753)**	**(179)**	**11 871**
31 December 2016						
Fixed rate	42 767	-	5 613	(46 831)	97	1 646
Structured	23 045	-	17	(11 935)	82	11 209
Floating rate	18 195	-	4 581	(22 776)	-	-
Accrued interest	1 618	-	-	-	-	37
Total	**85 625**	**-**	**10 211**	**(81 542)**	**179**	**12 892**

The Group uses fair value option revaluation through profit or loss for structured bonds, as they are related to assets, which share the same risk that give rise to opposite changes in fair value. At 30 June 2017 the carrying amount of FVTPL own issued bonds amounted to HUF 10,355 million (2016: HUF 11,227 million).

19 Subordinated debt

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

19.1 Subordinated debt

2017	Interest	Due date	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	70 000 000	EUR	21 718
Total					**21 718**

At the end of 2016, the Group has no subordinated debts.

20 Share capital

The Bank's authorised, issued, called up and fully paid share capital comprises 100,000,000 (2016: 100,000,000) ordinary shares of HUF 1,000 (2016: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.
On 25 July, 2016 the extraordinary General Meeting made a decision to reduce the Share capital of the Bank from HUF 225.49 billion to HUF 100 billion. This action was the result of the commitment required by the authorities and assigned to the new owners in course of the resolution process in order to meet respective legal requirements. The capital reduction was carried out in the form of a reclassification between the elements of the Equity (see Consolidated Statement of Changes in Equity).

21 Reserves

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. In 2016 due to the sale and deconsolidation of MKB Autopark OOD HUF 4 million gain was reclassified from Currency translation reserve to Statement of profit or loss.

Share premium

Share premium comprises of premiums on share capital issuances.

Retained Earnings

Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entity of the Group less any dividend payment. There is no available Retained Earnings for distribution for the parent of the holding company.

General reserve

According to the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act), banks shall set aside as general reserve 10% of Profit after taxation. Dividends can be paid only after recognition of general reserve. This reserve can be utilized only for losses derived from ordinary activity. Credit institution can reclassify part or total of its retained earnings into general reserve. Supervisory authority can allow the entity not to set aside the amount calculated as above stated.

The Group discloses general reserve as part of retained earnings. In 2017 MKB did not recognize any general reserve (2016: HUF 1,014 million).

Revaluation reserves

AFS financial assets' revaluation reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized or impaired.
The Group did not apply any reclassification adjustments relating to components of other comprehensive income.

Data in HUF million except stated otherwise

22 Non-controlling interest

For 30 June 2017 and for the year ended December 31, 2016 there are no material non-controlling interests related to non-wholly owned subsidiaries of the Group.

Non material non-controlling interest exists in case of MKB Jelzálogbank Zrt. where the main shareholder is MKB Bank Zrt. with a 99% participation, while Gránit Bank Zrt. holds 1% of the shares.
The Group discloses also a Non-controlling interest of HUF 5,550 million related to the special purpose entity for the Employee Share Ownership Program (ESOP). This amount represents the contribution of the participating members.

23 Impairments and provisions for losses

23.1 Impairments and provisions for losses

	Note	2017	2016
Impairment loss, net of reversals on			
Loans and advances to customers	**9**	(1 443)	2 039
Other assets	**10**	69	21
Losses arising from derecognition		370	673
Provision on			
Guarantees and contingencies	**17**	465	(146)
Impairments and provisions for losses		**(539)**	**2 587**

24 Income tax

Income tax expense recognized in the Statement of Comprehensive Income

24.1 Income tax

	2017	2016
Current tax expense	1 121	99
Levies on financial organisations and credit institutions	-	1 528
Deferred tax expense/(income)	(138)	552
Income tax (credit) / expenses	**983**	**2 179**

In the reporting period 9% current income tax rate applied in Hungary. Due to this calculation method 9% current income tax rate applied in the Hungarian market as current income tax rate and 9% deferred tax rate was applied based on the available future plans.

25 Earnings per share

The calculation of basic earnings per share at 30 June 2017 was based on the profit attributable to ordinary shareholders of HUF 19,474 million (2016: HUF 1,549 million) and a weighted average number of ordinary shares outstanding of 100,000 thousands (2016: 225,490 thousands).

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 19,474 million}}{\text{100,000 thousands}} = \text{HUF 195}$$

The calculation of fully diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after any adjustment for the effects of all dilutive potential ordinary shares. In 2017 and 2016 there were no dilution factor that might cause an adjustment in the weighted average number of ordinary shares, therefore basic and diluted EPS were equivalent.

26 Contingencies and commitments

26.1 Contingencies and commitments

2017	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	135 990	1 507	134 483
Obligations from letters of credit and other short term trade related items	14 788	17	14 771
Other contingent liablities (including litigation)	99 155	3 979	95 176
Total contingencies	**249 933**	**5 503**	**244 430**
Commitments			
Undrawn commitments to extend credit	285 619	1 076	284 543
Total commitments	**285 619**	**1 076**	**284 543**

Data in HUF million except stated otherwise

2016	Gross	Provision	Net
Contingencies			
Guarantees and similar obligations	113 884	1 873	112 011
Obligations from letters of credit and other short term trade related items	16 217	127	16 090
Other contingent liablities (including litigation)	98 100	1 112	96 988
Total contingencies	**228 201**	**3 112**	**225 089**
Commitments			
Undrawn commitments to extend credit	235 068	1 362	233 706
Total commitments	**235 068**	**1 362**	**233 706**

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

27 Use of estimates and judgements

Management discusses with the Group Supervisory Board the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.
These disclosures supplement the commentary on financial risk management (see Note 5).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see Note 3 i).

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

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

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

Determining fair values

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

Critical accounting judgements in applying the Group's accounting policies

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

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed under Note 3.

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

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. Counterparty risk (CVA) and own credit risk (DVA) is also taken into account by calculation of fair value of derivative transactions except of the followings:

1. Netting of NPVs to counterparty level is allowed only in case of International Swaps and Derivatives Association (ISDA) agreement is available.

2. If the partners have Credit Support Annex (CSA) for the derivative then both CVA and DVA are 0.
3. If the contract covered by collateral then CVA=0.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of the reporting period that would have been determined by market participants acting at arm's length.

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

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

Data in HUF million except stated otherwise

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

27.1 Valuation type classification of financial instruments

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Total
30 June 2017				
Financial assets measured at FVTPL	**7**	11 650	98 214	109 864
Investments in securities	**8**	266 634	236 961	503 595
Deposit and current accounts	**14**	-	1 654	1 654
Financial liabilities measured at FVTPL	**15**	-	33 525	33 525
Issued debt securities	**18**	-	10 355	10 355
Total		**278 284**	**380 709**	**658 993**
31 December 2016				
Financial assets measured at FVTPL	**7**	14 999	60 211	75 210
Investments in securities	**8**	385 666	187 725	573 391
Deposit and current accounts	**14**	-	8 688	8 688
Financial liabilities measured at FVTPL	**15**	-	29 983	29 983
Issued debt securities	**18**	-	11 228	11 228
Total		**400 665**	**297 835**	**698 500**

The determination of fair value level and the transfers between levels are in line with accounting policy (see Note 3 g). There were no transfers between fair value levels in the reporting period ended on June 30, 2017.

There is no active quotation of Discount government bonds when they reach within 3-month maturity. For discount government bonds within the maturity of 3 months, MKB Banks is using yield-curve valuation technique. The inputs of the yield-curve are the relevant active market prices, consequently it is considered as Level 2 valuation.

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

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

Data in HUF million except stated otherwise

27.2 Risk type classification of financial instruments

	Note	Interest	Foreign exchange rate	Other
30 June 2017				
Financial assets measured at FVTPL	**7**	106 425	3 532	494
Investments in securities	**8**	502 988	57 837	607
Deposit and current accounts	**14**	1 654	-	1 654
Financial liabilities measured at FVTPL	**15**	27 314	5 987	282
Issued debt securities	**18**	10 355	3 053	10 355
Total		**648 736**	**70 409**	**13 392**
31 December 2016				
Financial assets measured at FVTPL	**7**	70 890	4 575	-
Investments in securities	**8**	-	35 132	-
Deposit and current accounts	**14**	8 688	(5 540)	8 688
Financial liabilities measured at FVTPL	**15**	-	-	-
Issued debt securities	**18**	21 728	11 227	11 227
Total		**101 306**	**45 394**	**19 915**

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

28 Accounting classifications and fair values

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques (see Note 3 g, and Note 27), which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured.

Data in HUF million except stated otherwise

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

28.1 Accounting classifications and fair values

2017	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Held to maturity	Other amortised cost	Total carrying amount	Fair value
Financial assets								
Cash reserves		-	-	-	-	49 392	49 392	49 392
Loans and advances to banks	6	-	63 175	-	-	-	63 175	55 448
Measured at amortised cost		-	*63 175*	-	-	-	*63 175*	*55 448*
Financial assets measured at FVTPL	7	109 864	-	-	-	-	109 864	109 864
Investments in securities	8	-	-	503 595	428 841	-	932 436	932 407
Loans and advances to customers	9	-	882 379	-	-	-	882 379	848 908
Measured at amortised cost		-	*882 379*	-	-	-	*882 379*	*848 908*
Total		**109 864**	**945 554**	**503 595**	**428 841**	**49 392**	**2 037 246**	**1 996 020**
Financial liabilities								
Amounts due to other banks	13	-	-	-	-	256 682	256 682	264 690
Deposits and current accounts	14	1 654	-	-	-	1 613 533	1 615 187	1 615 724
Measured at fair value		*1 654*	-	-	-	-	*1 654*	*1 654*
Measured at amortised cost		-	-	-	-	*1 613 533*	*1 613 533*	*1 614 070*
Financial liabilities measured at FVTPL	15	*33 525*	-	-	-	-	33 525	*33 525*
Issued debt securities	18	10 355	-	-	-	1 516	11 871	11 882
Measured at fair value		*10 355*	-	-	-	-	*10 355*	*10 355*
Measured at amortised cost		-	-	-	-	*1 516*	*1 516*	*1 527*
Subordinated debt	19	-	-	-	-	21 718	21 718	28 583
Total		**45 534**	**-**	**-**	**-**	**1 893 449**	**1 938 983**	**1 954 404**

2016	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Held to maturity	Other amortised cost	Total carrying amount	Fair value
Financial assets								
Cash reserves		-	-	-	-	97 914	97 914	97 914
Loans and advances to banks	6	-	67 039	-	-	-	67 039	61 139
Measured at amortised cost		-	*67 039*	-	-	-	*67 039*	*61 139*
Financial assets measured at FVTPL	7	75 210	-	-	-	-	75 210	75 210
Investments in securities	8	-	-	573 391	350 746	-	924 137	922 538
Loans and advances to customers	9	-	858 072	-	-	-	858 072	853 533
Measured at amortised cost		-	*858 072*	-	-	-	*858 072*	*853 534*
Total		**75 210**	**925 111**	**573 391**	**350 746**	**97 914**	**2 022 372**	**2 010 334**
Financial liabilities								
Amounts due to other banks	13	-	-	-	-	376 262	376 262	408 541
Deposits and current accounts	14	8 688	-	-	-	1 511 180	1 519 868	1 512 705
Measured at fair value		*8 688*	-	-	-	-	*8 688*	*8 688*
Measured at amortised cost		-	-	-	-	*1 511 180*	*1 511 180*	*1 504 017*
Financial liabilities measured at FVTPL	15	29 983	-	-	-	-	29 983	29 983
Issued debt securities	18	11 227	-	-	-	1 665	12 892	12 918
Measured at fair value		*11 227*	-	-	-	-	*11 227*	*11 227*
Measured at amortised cost		-	-	-	-	*1 665*	*1 665*	*1 691*
Subordinated debt	19	-	-	-	-	-	-	-
Total		**49 898**	**-**	**-**	**-**	**1 889 107**	**1 939 005**	**1 964 147**

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

Cash reserves

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

Financial assets measured at FVTPL, Negative fair values of derivative financial instruments and Derivative assets and liabilities held for risk management

Fair values of Financial assets measured at FVTPL and Negative fair values of derivative financial instruments and Micro hedge derivative assets and liabilities held for risk management that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Investments in securities

The fair values of instruments grouped into Investments in securities are based on quoted market prices, when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar securities. For further information, please refer to Note 8.

Loans and advances to banks and to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by coupon rates. In general, contractual cash flows are discounted using a rate which is sum of the available interest rate which would have been offered if the customer applied for loan at the end of the reporting period plus the counterparty marge. The used interest rates are available in published Terms and Conditions as of 30 June, 2017 and the counterparty marge is available in the Bank's systems. The rediscounted cash flows are decreased using by the same impairment percentage as it was used for impairment purpose, and it is considered as fair value of the loan portfolio. Non-performing loans which are assessed for impairment individually are discounted with discount factors which are calculated as in case of performing loans, but that estimated cash flows of these loans are used for calculation, which was also used for impairment purpose. In the case of work-out loans where the bank expects cash flows only from sale of collaterals and therefore they are impaired to the net present value of this amount, the fair value is equal with the carrying amount.
The fair value of Loans and advances to banks and to customers on demand is not different from the amounts receivable at the end of the reporting period.

Amounts due to other banks and Current and deposit accounts

For the purposes of estimating fair value, Amounts due to other banks and Current and deposit accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities plus MKB own credit risk. For determining own credit risk (DVA – Debit Value Adjustment) the bank uses the own PD and LGD used also for risk purposes which is also in line with the DVA calculation method for negative fair value derivatives. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the end of the reporting period.

Issued debt securities and Subordinated debt

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

Data in HUF million except stated otherwise

29 Related parties

By 30 June 2016, the market-based sales procedure of MKB Bank was closed, and the ownership rights are exercised by the new shareholders. (Further information about the owners, please see in 1. General information)

The Group's related parties include the parent companies, joint ventures, associates, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members. Government-related entities are exempt from the general disclosure based on IAS 24.25. Key Management Personnel are the members of the governing boards of the Bank like Supervisory Board and the members of the Board of Directors.

Transactions with related parties

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

29.1 Transactions with related parties

	Parent company and its group		Non-consolidated subsidiaries		Jointly controlled entities		Associates		Key Management Personnel		Other related parties	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Assets												
Loans and advances to customers	-	-	1 322	1 913	-	-	314	324	75	29	-	-
Derivative financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities												
Current and deposit accounts	-	-	817	501	-	-	163	141	235	381	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Income statement												
Interest income	-	-	8	294	-	-	3	5	-	1	-	7
Interest expense	-	-	1	2	-	-	-	-	-	-	-	-
Other net income / (expense)	-	-	5	5	-	-	1	1	(374)	(170)	-	30
Contingencies and commitments												
Undrawn commitments to extend credit	-	-	276	713	-	-	55	55	-	-	-	-
Provision	-	-	15	1 241	-	-	6	9	-	-	-	-

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

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

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

Data in HUF million except stated otherwise

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

29.2 Compensation of key management personnel

	2017	2016
Short-term employee benefits	374	170
Total	**374**	**170**

30 Segment information

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

Business segments

The business segments identified by the Group represent the organizational structure as reflected in its internal management reporting systems. The Group is organized into four business lines, each with its own distinct market and products. Each business line has its own set of objectives and targets broken down by operating units, which are consistent with the Group's overall strategic direction. As of 30 June 2017, the Group's business segments and their main products were:

Corporate Banking

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

Institutional Banking

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

Data in HUF million except stated otherwise

Retail and Private Banking

The Group provides a wide range of deposit and savings instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through 69 full-service branches and sub-branches (2016: 73 branches), ATMs, telephone and electronic channels.

Other

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

30.1 Segment information

2017	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Other	Total
Assets						
Cash reserves		-	33 952	-	15 440	49 392
Loans and advances to banks	**6**	-	63 175	-	-	63 175
Financial assets measured at FVTPL	**7**	-	109 864	-	-	109 864
Investments in securities	**8**	916 293	16 143	-	-	932 436
Loans and advances to customers	**9**	587 048	1 264	294 067	-	882 379
Non-current assets held for sale and discontinued operations	**31**	-	-	-	152	152
Other assets	**10**	-	-	-	32 721	32 721
Deferred tax assets		-	-	-	3 623	3 623
Investments in jointly controlled entities and associates	**11**	2 091	-	-	-	2 091
Intangibles, property and equipment	**12**	-	-	-	45 843	45 843
Total		**1 505 432**	**224 398**	**294 067**	**97 779**	**2 121 676**
Liabilities						
Amounts due to other banks	**13**	-	256 682	-	-	256 682
Deposits and current accounts	**14**	1 317 557	-	297 630	-	1 615 187
Negative fair values of derivative financial instruments	**15**	-	33 525	-	-	33 525
Other liabilities and provisions	**17**	2 875	1 452	111	39 198	43 636
Deferred tax liabilities		-	-	-	18	18
Issued debt securities	**18**	356	596	10 919	-	11 871
Subordinated debt	**19**	-	21 718	-	-	21 718
Shareholders' equity	**20, 21,22**	(55 425)	-	-	194 464	139 039
Total		**1 265 363**	**313 973**	**308 660**	**233 680**	**2 121 676**
Income statement						
Gross revenue - external customers		16 429	25 358	16 000	309	58 096
Gross revenue - inter-segment		(195)	2 156	(1 961)	-	-
Interest and commission expenditure		(5 405)	(5 671)	(2 133)	-	(13 209)
Impairment and provisions for losses	**23**	1 390	-	(840)	(11)	539
Operating costs		(9 055)	(1 532)	(9 761)	(465)	(20 813)
Expenses related to bank levies		-	-	-	(4 157)	(4 157)
Share of jointly controlled and associated companies' profit / (loss)		-	-	-	-	-
Profit / (Loss) before taxation		3 164	20 311	1 305	(4 324)	20 456
Segment result		**3 164**	**20 311**	**1 305**	**(4 324)**	**20 456**
Other information						
Capital expenditure		-	-	-	5 818	5 818
Depreciation and amortisation		4 059	-	894	23	4 976
Other non-cash expenses		313	53	337	16	719

Data in HUF million except stated otherwise

2016	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Other	Total
Assets						
Cash reserves		-	84 697	-	13 217	97 914
Loans and advances to banks	**6**	-	67 039	-	-	67 039
Financial assets measured at FVTPL	**7**	-	75 210	-	-	75 210
Investments in securities	**8**	707 054	217 083	-	-	924 137
Loans and advances to customers	**9**	463 734	1 258	393 080	-	858 072
Non-current assets held for sale and discontinued operations	**31**	-	-	-	309	309
Other assets	**10**	-	-	-	28 081	28 081
Deferred tax assets		-	-	-	3 320	3 320
Investments in jointly controlled entities and associates	**11**	1 651	-	-	-	1 651
Intangibles, property and equipment	**12**	-	-	-	45 883	45 883
Total		**1 172 439**	**445 287**	**393 080**	**90 810**	**2 101 616**
Liabilities						
Amounts due to other banks	**13**	-	376 262	-	-	376 262
Deposits and current accounts	**14**	988 805	-	531 063	-	1 519 868
Negative fair values of derivative financial instruments	**15**	-	29 983	-	-	29 983
Other liabilities and provisions	**17**	2 545	788	320	33 544	37 197
Deferred tax liabilities		-	-	-	6	6
Issued debt securities	**18**	67	629	12 196	-	12 892
Subordinated debt	**19**	-	-	-	-	-
Shareholders' equity	**20, 21,22**	(55 346)	-	-	180 754	125 408
Total		**936 071**	**407 662**	**543 579**	**214 304**	**2 101 616**
Income statement						
Gross revenue - external customers		14 583	6 258	25 861	96	46 798
Gross revenue - inter-segment		2 412	(2 214)	(198)	-	-
Interest and commission expenditure		(5 467)	(7 010)	(4 839)	-	(17 316)
Impairment and provisions for losses	**23**	458	(9)	(3 036)	-	(2 587)
Operating costs		(5 986)	(1 471)	(9 857)	(1 318)	(18 632)
Expenses related to bank levies		-	-	-	(4 785)	(4 785)
Share of jointly controlled and associated companies' profit / (loss)		250	-	-	-	250
Profit / (Loss) before taxation		**6 250**	**(4 446)**	**7 931**	**(6 007)**	**3 728**
Segment result		**6 250**	**(4 446)**	**7 931**	**(6 007)**	**3 728**
Other information						
Capital expenditure		-	-	-	2 313	2 313
Depreciation and amortisation		1 571	-	880	-	2 451
Other non-cash expenses		112	52	349	147	660

During 2014 MKB Group ceased its foreign operations, in the first six months of 2017 and in 2016 conducted financial services only in Hungary. The Group had indirect interests in the Bulgarian car financing market, besides its domestic subsidiaries, however the shares were disposed on 30 June, 2016. Consequently both revenues and non-current assets can be connected to domestic activities based on geographical location.

Measurement of segment profit or loss

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

Data in HUF million except stated otherwise

Calculation of intersegment revenue

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

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

31 Non-current assets held for sale and discontinued operations

On 31 December, 2016, two of the branches of the Bank (street Andrássy and Alagút) were disclosed as non-current assets held for sale in the amount of HUF 285 million. These branches were closed and the management was committed for the sale of the properties. Furthermore related to the sale of the educational and leisure center in Balatonfüred, sailboats were also disclosed in this line in the amount of HUF 24 million. These assets were held for sale, the sale is continuous and is expected to be closed by the end of 2017.
For June 2017 one of the above mentioned branches (street Alagút) is still disclosed in this line in the amount of HUF 151.47 million. The management is committed for the sale of the property. Additionally the sale of one sailboat is in process during the preparation of these financial statements and is presented here in the amount of HUF 0.4 million HUF.

31.1 Non-current assets held for sale

	2017	2016
Assets		
Intangibles, property and equipment	152	309
Total assets	**152**	**309**

MKB Group has not disclosed liabilities and statement of profit and loss as non-current assets held for sale and discontinued operations.

32 Government grants

The National Bank of Hungary (NBH) launched its three-pillar Funding for Growth Scheme (FGS) on 1 June 2013, primarily to stimulate lending to small and medium-sized enterprises. Under Pillar I and II of the FGS the NBH provided refinancing loans to credit institutions participating in the Scheme, at 0 per cent interest rate and with a maximum maturity of 10 years, which were lent further by the credit institutions to the SMEs with a capped interest margin.
Under Pillar I of the Scheme investment and current asset loans, EU subsidy financing, and loan refinancing denominated in Hungarian Forint could be carried out. Pillar II of the Scheme aimed to reduce the ratio of SME's foreign currency loans, allowing conversion of foreign currency loans to forint loans.

On 11 September 2013 the Monetary Council decided to continue the Scheme, and launched the second phase, which was available until 31 December 2016.

On 16 March 2015, the National Bank of Hungary launched FGS Plus Program, in order to improve access credit facility of small and medium-sized enterprises not participating in FGS so far.

On 6 October 2015, the Monetary Council decided to launch the third phase of FGS – aiming at the gradual ending of the program. The third phase consists of two Pillars, in Pillar II a market priced EUR/HUF swap transaction (CIRS) is linked to the refinancing denominated in Hungarian Forint, which allows credit institutions lending in foreign currency – without any currency risk – to SMEs having natural foreign currency hedge.

MKB Bank participated in all phases of the Scheme, and lent loans to SME's since the beginning of the program, with an interest rate of 2.5%.

The loans lent as part of FGS are measured at amortised cost at MKB Bank, however at initial recognition the difference between the carrying amount and the fair value of the loans and parallel of the NBH funds was deferred to Other assets and to Other liabilities, which is amortised to Profit and loss during the term of the loans. This difference was driven by the gap between the market interest rate and the subsidized rate.

MKB Bank joined Market Loan Program - called PHP - on 19 January, 2016, that is aimed at stimulating the banks' transition towards lending on market terms, and to continue to encourage banks to grant loans to SMEs. At the same time, the National Bank of Hungary also started to phase out the NHP III program.

33 Share based compensation

On 14 July, 2016 MKB Bank established the Employee Share Ownership Programme (ESOP) organization of the Bank. The organization was established in order to fulfill the objectives of the remuneration policy of the Bank. Based on the remuneration policy the eligible employees of the Bank is entitled to purchase the shares of the Bank given certain non-market vesting conditions. In certain group of eligible employees are entitled to cash compensation based on the actual sale of the shares held by the ESOP organization given certain non-market vesting conditions are met. The vesting conditions include employment during the vesting period and a successful listing process of the Bank's shares to a regulated capital market. The listing process should be closed until the end 2019 and the ESOP organization is required to sale the MKB shares held in two years after the successful listing process. The exercise price of the share program is the transaction price which the ESOP program purchased MKB shares on July 14, 2016.

Data in HUF million except stated otherwise

Details of the share based compensation:

2017	Number of shares	Weighted average exercise price (HUF/share)
outstanding at the beginning of the period	32 866 989	164
modificated outstanding due to capital reduction at the beginning of the period	14 578 673	370
forfeited at the beginning of the period	196 325	370
granted during the period	225 000	370
forfeited during the period	308 491	370
exercised during the period	-	-
expired during the period	-	-
outstanding at the end of the period	14 691 507	370
exercisable at the end of the period	308 493	370

In order to determine the fair value of the share based compensation the Bank used Black-Scholes-Merton model with the following key parameters of risk-free rate of 2.25%, Volatility 25%. The estimate of the spot price is based on the transaction price related to the sale of the Bank's shares between MSZVK Magyar Szanálási Vagyonkezelő Zrt. and the new shareholders as disclosed in Note 1. General information. As the Bank's shares are not listed, the volatility is estimated based on historical volatility of share prices of the similar exchange listed banks in Hungary.

34 Events after the end of the reporting period

- General Meeting of Pannónia CIG Alapkezelő Zrt. („ Alapkezelő”) decided capital increase with involvement of new owners. After the capital increase the MKB Bank Zrt. will be the largest (49%) owner of Alapkezelő. Necessary permission process to entry into force decisions of General Meeting is in progress recently.
- On 10th August, 2017 one of the owners of MKB Bank, Blue Robin Investments sold 4% to the Rkofin Befektetési és Vagyonkezelő Kft. Further the new owners of the Bank are as follows: METIS Magántőkealap 45%, Blue Robin Investments S.C.A. 26%, MRP Organization 15%, Pannónia Pension Fund 10%, Rkofin Befektetési és Vagyonkezelő Kft. 4%.

Enclosure 1

STATEMENT

on the consolidated semi-annual financial statements of 2017
and on the Report of the Management
Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)

MKB Bank Zrt. (hereinafter: Bank) declares concerning its consolidated semi-annual financial statements the following statement:

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

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

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

Budapest, 31 August, 2017

MKB Bank Zrt.

dr. Ádám Balog
Chief Executive Officer

Csaba Gábor Fenyvesi
Chief Financial Officer

CONSOLIDATED MANAGEMENT REPORT

OPERATING ENVIRONMENT

Macroeconomic environment

The first half of 2017 has been an eventful period in the global economy. The announcements and steps of major central banks were dominated by monetary policy dilemmas due to continuous improvement in macroeconomic data and permanently low inflation expectations.

The Fed raised the interest rates twice in March and June, but following the increase at the beginning of the year, US inflation figures drifted away from the price stability objective by the end of the first half of the year. In addition, the growth of the American economy observed in Q1 also turned out to be lower than expected. The Fed left another rate increase option open in June; in terms of the monetary policy developments the start of the expected cuts in the USD 4,500 bn central bank balance sheet will remain the key component in the forthcoming months. 2017 started well in the Eurozone. The business cycle indices rose to six-year highs reflecting permanently positive outlook, while moderate inflation expectations enabled the resumption of the loose monetary policy. The European political risks have significantly diminished during the first six months.

There was 3.7% average (yearly) expansion of the Hungarian GDP in H1. The expansion was supported mainly by the increase in capital investments and the favourable external business cycle. In addition, cuts in employer contributions and minimum wage increases in 2017 could continue to foster savings and increase in household consumption: while the former kept reaching new records during the first half of 2017, consumption figures may receive additional boost in the second half of the year. Unemployment rate may stabilise at a historically low level this year, yet the shortage of workforce may be stronger in certain sectors in the second half of the year.

Consumer price indices may reflect moderate increases in the next few months. Core inflation may rise gradually due to the pick-up in residential demand, but cuts in employer contributions at the beginning of the year could partially offset increases in companies' wage costs; hence, the cost increases could be reflected in the prices at a lower extent. With no change in the base rate, the National Bank of Hungary (MNB) announced gradual reduction in the three-month deposit facility for commercial banks in June: the cap will shrink from HUF 500 bn in Q2 to HUF 300 bn by September. Two new components were added to the unconventional monetary policy framework during the first half of the year: with the introduction of the 6 and 12-month currency swap tenders the MNB can maintain surplus liquidity in the interbank market for an extended period.

The Hungarian yield curve became steeper in Q1 2017 and then fell back to the levels seen at the start of the year by the end of the June. Looking ahead, the yield curve may remain steep in the rest of the year, as well: the short term interbank and government securities market yields may remain at historically low levels, while the yields of long-term bonds may continue to remain above 3% in the next few months.

With moderate swings, the EUR/HUF exchange rate varied around the 309 level in the first half of the year. The same fluctuation is projected for this currency pair in the second half of 2017, too.

Position of the banking sector

The favourable profitability of the Hungarian banking sector continued in H1 of 2017, although the profit before taxation of the credit institutions was HUF 184.4 bln, 5.6% lower than in the similar period of 2016. The still massive profit continued to increase the capital buffers of the sector and the total average capital adequacy ratio improved to 21.3%.

In Q1 2017 the balance sheet total of credit institutions grew by HUF 127.0 bln (0.4%) and was close to HUF 34,600 bln at the end of March. The net loan portfolio of both domestic non-financial corporations and households have expanded by 1.3% since the end of 2016. The lending developments of the corporate segment were assisted by favourable macroeconomic trends, low interest rates, continued PHP[3] support and a drawdown of EU resources, while on the retail side the increasing consumption improving labour market trends, an increase in real income caused by low inflation and the dynamism of the housing market drove both the mortgage and personal loans.

MKB expects the banking system to further strengthen its position in the rest of 2017: the favourable tendencies in lending processes will continue and then the investment and consumption demand will drive up lending in the core, retail and corporate, customer segments. In terms of profitability an increase in lending mitigates the effect of low interest rates. The digital transformation process taking place in the sector will lead to long-term sustainable profitability increase in the banking system.

OVERVIEW OF MKB GROUP PERFORMACE IN H1 2017

In H1 2017 the MKB Group continued to strengthen its business fundamentals and had a stable capital position, liquidity and self financing ability. Following the outstanding profit reported for 2016, the group closed H1 2017 with HUF 20.5 bln profit before taxation, which is the highest semi-annual profit figure of the past eight years. The fundamental results (interest income and commission) made a positive contribution to the profit, which turned out to be much higher than budgeted: the interest income expanded by 12% and the commission income also grew by more than 2%. In addition, the government securities portfolio, profiting from the reduction in the yields also made a significant contribution to the higher than budgeted result of the first half of the year. The recognised impairment and reversed provisions also improved the result. Under the continued rigorous control the banking expenses stayed lower than budgeted but increased to HUF 20.8 bln.

There was no major change in the IFRS consolidated balance sheet total since the end of 2016 (+1%). The bank reported a HUF 2,121.7 bln on 30 June 2017. Owing to the confidence of customers and low market yields funds collected by the bank and the bank group continuously increased (the customer deposit and account balances went up by 6.3% and reached HUF 1,615.2 bln during the six-month period) while the average cost of funds of the bank turned out lower than in the proceeding year and in the budget. Despite the intensive downsizing of the strategically non-fitting commercial property financing portfolio – which takes place at a faster pace than undertaken towards the European Commission –, the net customer loan volume was up by 2.8%, reaching HUF 882.4 bln. Despite the strong market pressure, MKB has managed to maintain a satisfactory transaction and customer profitability on the assets side.

The capital position of the group strengthened further in the reporting period. The consolidated Basel III. capital adequacy ratio reached 15.58% at the end of June (2016: 12.04%).

[3] central bank's Market-based Lending Scheme

PERFORMANCE OF THE INDIVIDUAL BUSINESS LINES

Retail segment

The existing retail customers and customers who currently decide to choose MKB as their account managing bank can find numerous innovations which make banking easier, faster and simpler. MKB takes all reasonable efforts – to become market leading digital bank –, to offer services that provide higher and higher quality experience to customers enabling them to satisfy their personalised financial needs also digitally anywhere at any time.

Functions were added to the mobile application introduced in 2016 and currently used by more than 25 thousand users (MKB Mobilbank) including fingerprint identification, arrangeable opening screen, copyable account numbers and display of future items. Development takes place continuously and a new version of the service will be released later on in the year. The MKB Pay application was introduced during the past six months with which customers can virtualise their bank cards into an application running on mobile phones and make payments through the touch screens of POS terminals.

However, the MKB digitalisation efforts will not stop. The next innovation is the online account opening option, with the help of which retail accounts can be opened using a tablet and a video chat. In the rest of the year the bank will digitise the application processes for other products. In the near future we plan to receive and store contracts containing the customer’s digital signature online. Free internet access is available through the Wi-Fi installed in branches yet the new innovative account package products also give preference to digital banking: the recently introduced Digit@ll service package encourages the customer to manage their finances electronically simply, fast and at a low cost.

MKB managed to achieve major successes in retail lending in the first six months of the year: the portfolio of disbursed mortgage loans almost trebled compared to the similar period of last year. The bank has also achieved considerable growth in unsecured lending: the disbursement has more than quadrupled since H1 2016. The major expansion in external sales partner relations, as a result of which more than 1,000 partners are now authorized to recommend MKB loan products has also contributed a great deal to the excellent results.

The strategic agreements also helped MKB achieve its ambitious business goals set for 2017: the bank established strategic cooperation with CIG Pannónia Életbiztosító and the Ministry of Defence over the last six-month period.

This year the bank can offer more experiences and preferences to its customers. Customers can now choose from more than 60 trade and service partners who have become members of the MKB Klub and offer their products and services with 5-40% discount.

Corporate segment

One of the most important strategic goals of the MKB Corporate Segment was to enhance SME lending during the semi-annual period. In that framework the bank gradually fine tuned the operating framework of lending to adjust to market trends and customer needs. That involved not only a reform of its product range but also the development of its lending process, enabling the existing and potential customers to use the bank’s services transparently and as fast as possible. One of the most important components in strengthening SME lending was participation in the Funding for Growth scheme.

The bank successfully completed phase III. of the lending scheme: the achieved 11% market share is higher than the bank's average corporate market share. MKB already made preparations last year for the challenges expected to occur after the closing of the programme and can also offer favourable solutions to companies who are unable to have access to financing in the programme but wish to enjoy the benefits of favourable pricing.

Within the framework of the most recent market stimulation scheme of the central bank, launched under the title of Market-based Lending Scheme the bank undertook to further expand its loans to the SME sector, for further three years starting in 2016. With these resources MKB can offer favourable terms and conditions to finance the SME sector, which is the engine driving the Hungarian economy. The financing activity of the bank is well illustrated by the fact that it managed to expand its loan portfolio recognised within the framework of the MLS scheme more than its previous commitment.

In addition to lending the bank laid great emphasis on the development of the service model of its corporate business line. It involved the implementation of a programme focusing on complex customer service in the medium and large corporate segment guaranteeing that corporate bankers are absolutely proficient financial partners of their customers and ensuring the delivery of a complex solution by the bank reflecting on the economic situation of the customers. The revised service model was also implemented in the SME segment: MKB introduced a new governance model as part of its value offer focusing on the segment of small and medium-sized enterprises. The model combines the speed of the standard service with the flexible solutions that are required to resolve more complex financial situations.

The purpose of the newly adopted agricultural strategy is to increase market activity and strengthen the presence of the bank. As a first step an agreement on strategic cooperation was signed between MKB and the Hungarian Chamber of Agriculture in April 2017 followed by a further cooperation agreement between the bank and Hungarian Association of Agricultural Tools and Machinery Distributors in spring 2017 in order to build more intensive relations with the customers of the sector.

MKB was granted an opportunity to join the network of MFB points from H2 2017. This is an excellent opportunity to offer customers approaching the bank not only our own products but also EU repayable assistance under favourable terms and conditions.

Money and Capital Market, Investment Services

In H1 2017 there was no change in the extremely low interest rate environment prevailing in Hungary and abroad, and therefore the investment services maintained their outstanding importance. As the deposit interest rates are low, customers are most interested in retail government securities: interest has shifted from shorter maturities to longer-term bonds with a higher return. This trend was also assisted by ÁKK (Hungarian Debt Management Agency) by issuing its 2-year retails bonds. The Hungarian Debt Management Agency granted the third award of the distributor selling the most retail securities for MKB for its activities in 2016.

The bank also offered structured securities and certificates with returns, significantly higher than the possible market returns in the first half of the year. Demand for such securities is still increasing. In order to promote transferability between investments denominated in different currencies the bank introduced individually priced currency conversion for retail customers, available on the bank's website.

As a stock exchange member, MKB is an active participant in various sections of the Budapest Stock Exchange. It generated the second largest turnover in currency contracts on the foreign exchange market.

In the asset management business line the asset value of the managed portfolios grew and the overwhelming majority overperformed the reference yields.

Private Banking, Premium segment

The assets managed by private bankers grew dynamically and exceeded HUF 360 bln by the end of the first half. Within the framework of the premium service launched in 2016 the assets managed on the model portfolio principal grew to more than HUF 65 bln.

SUBSIDIARIES/STRATEGIC PARTNERS

MKB Euroleasing group

With the new financing volume that exceeded the lending plans by 20% in H1 2017, the group further increased its market share. The most spectacular result was achieved in agricultural machine financing where, following the introduction of the product last year, Euroleasing became the market leader by the end of Q1. In retail vehicle financing it not only maintained its second position but its market share was also growing continuously during the period and exceeds 25%. The group also managed to make it to the top three leasing companies in the financing of large commercial vehicles and is now considered to be one of the three largest lease companies on a consolidated basis.

At the group the processes are developed with the Kaizen methodology, integrated deeply in the operation of the organisation. Continuous gradual development in small steps is one of the fundamental principles of the methodology. The collection and implementation of ideas is especially important this year, as a result of which the number of collected ideas has exceeded 300 in H1 2017 after the 170 ideas collected in 2016. Simultaneously with process development major product development activities also took place as a result of which the operational lease products became available in the general machine financing segment and the bank is the first to be able to offer open-end financial lease products to customers classifies as consumers on the market. On the basis of the latter, MKB Euroleasing Group plans to introduce further innovations in the passenger car financing market during the year.

MKB Investment Fund Manager

Large portfolios were restructured in the investment funds, which were also made attractive by the favourable yield achieved by MKB Fund Manager. In the market of open-end investment funds MKB customers still have higher than average risk appetite. Nearly 40% of the asset value of the MKB Funds consists of higher risk mixed and equity funds. This ratio is almost twice as high as the market ratio. The share of mixed and equity funds and bond funds increased in the portfolio since the end of last year. The Fund Manager has 12% market share among the mixed funds. The MKB Adaptive Bond Fund is very popular among the investors and has booked more than HUF 14 bln capital increase this year. All in all, the net asset value of MKB Funds grew from HUF 253 bln at the end of last year by HUF 9 bln and reached HUF 262 bln in the sixth month of the year, which was a new record. Thus the Fund Manager had 4.3% market share at the end of June 2017.

The investment sector granted a number of awards recognising the performance of the funds managed by the Investment Fund Manager: at the Klasszis (Class) 2017 Fund Managers Award Presentation Gala organised by Privátbankár.hu the MKB funds were placed first in 3 of the 18 categories assessed according to objective criteria. Looking at the performance of the last few years, the MKB North American Equity Fund, the MKB Balance Fund and the MKB Triumvirate Fund were selected as the best in their respective categories.

MKB Consulting

MKB Consulting Kft offers advisory services to small, medium-sized and large corporate customers on how to use EU and Hungarian development funds effectively. Its objective is to offer high quality complex services throughout the entire project cycle, thus contributing to professional, effective and compliant utilization of funds. Until H1 2017 MKB Consulting prepared applications for almost 400 corporate customers involving approximately HUF 25 bln for development projects funded by the European Union. The projects assessed to date, in research&development and innovation topics, were closed as an outstanding success.

Regarding structured projects, the most important jobs relate to the establishment of venture capital fund management organisations and other major projects related to economic development. The 20-member expert team closely cooperates with the staff of the MKB branch network.

MKB Inkubátor Kft.

MKB Inkubátor Kft was founded at the end of last year and began to incubate 6 fintech start-ups besides investing in them. One of these companies is now working with the bank on launching its product in the market.

MKB Pension Fund

The **voluntary branch** of the MKB Pension Fund is one of the leading funds on the financial market, offering retirement savings under one of the most favourable sets of terms and conditions. Its results are based on 21 years of stable history, successful asset management and rising individual membership contributions: at the end of H1 2017 the fund manages more than HUF 126 bln assets of almost 85 thousand members, achieving 9% growth since the same period of the previous year. The individual membership contribution payments have gone up spectacularly by 16% partly due to changes in the employee benefit regulations and partly due to the more conscious savings intentions of the members.

The **private branch** of MKB Pension Fund had close to 4 thousand members and managed HUF 19 bln assets at the end of the second quarter.

The fund focuses on fully servicing customer needs and therefore regularly offers innovative solutions with a primary objective of offering a more comfortable administration options and a wider range of services. In February 2017 a Personal hosting and an electronic administration service were introduced, with the help of which the data stored in the system may be viewed, any growth in savings may be monitored and the annual account history and the current portfolio can be checked simply and fast. The Employer portal will be introduced for our employer partners in the second half of the year, by which they can enjoy administrative advantages and use electronic administration services.

MKB Pannónia Health and Self Assistance Fund

MKB Pannónia Health and Mutual Fund is one of the largest health funds with the best offerings on the market, managing HUF11 bln assets and operating with an advanced electronic administration system. Compared to the same period of the preceding year the number of members increased by 5% in H1 and the individual contributions also grew with spectacular dynamism, by 40%. The changes made in the employee benefit regulations this year have reduced the employer contributions: for the first time in the history of the fund the contributions paid by the individuals were higher than the contributions paid by the employers.

The main objective of the fund is to satisfy its customers and therefore it continuously leads the market in expanding the scope of its services. In that framework in April 2017 the fund introduced a community group service under the title of „Care Health Insurance" under favourable terms and conditions.

The mutual fund services introduced in January 2016 have proved to be a major success with a nine-fold increase in the amount used compared to H1 2016. The members are increasingly aware and use the wide range of services of the health fund offered to them and to their family members at 15 thousand service locations.

MKB SZÉP Card

The popularity of MKB SZÉP Cards has continued to increase in 2017 and became one of the most frequently selected employee benefits. The number of MKB SZÉP Card holders is now above 206 thousand, reflecting 68% increase since the same period of the preceding year.

The HUF 8.6 bln employer contribution made for the card holders in H1 2017 is 8% higher than the amount paid in H1 2016. Of that money HUF 6.7 bln was channelled back into the economy over the first six months at the nearly 22,400 domestic locations accepting MKB SZÉP Cards in recreation and other facilities offering relaxation (hotels, hot meals, culture and recreation).

Budapest, 31 August, 2017

dr. Ádám Balog
Chief Executive Officer

Csaba Gábor Fenyvesi
Chief Financial Officer