MKB Bank Nyrt.

Separate Financial Statements and
Independent Auditor's Report

December 31, 2019

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest,
Dózsa György út 84/C, Hungary
H-1438 Budapest,
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MKB Bank Nyrt.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of MKB Bank Nyrt. (the „Company") for the year 2019 which comprise the statement of financial position as at December 31, 2019 – which shows total assets of mn HUF 1,772,456 –, and the related statement of recognized income, statement of comprehensive income – which shows a net profit for the year of mn HUF 42,012 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>Related audit procedures</th></tr>
<tr><td colspan="2">Impairment of the loan receivables</td></tr>
<tr><td>(See Section 11. of the Notes to the Financial Statements for the details)

The net value of loans to customers in an amount of HUF 923,938 million comprise 52% of the total assets (gross book value of HUF 962,833 million of loans measured at amortized cost), and the relevant impairment balance at the end of the current year was HUF 40,218 million.

The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management. The most significant assumptions applied in the provisioning calculation are the followings:

- actual model parameters

- valuation of collaterals;

- estimated time to realize the collaterals;

- estimated future cash-flows expected to be realized.

Based on the significance of the above described circumstances the calculation of impairment of loans was identified as a key audit matter.</td><td>The relevant audit procedures performed by us included the following:

- evaluating internal controls relating to monitoring of loans and calculating and recording of impairment;

- evaluating specific loan impairments by selecting a random sample based on risk profiles, and for the individually impaired loans the review of consideration and valuation of collaterals and estimations of expected future cash-flows;

- evaluating the appropriateness of collective provisioning models, and review of the assumptions, management estimates and parameters applied, including comparison with historical data, and recalculation of the impairment charge with the involvement of our experts;

- review of subsequent events (sold receivables), and analysis of the possible effect on the year audited; and

- evaluating the impairment triggers related to the non-impaired portfolio.</td></tr>
</table>

Other Information: The Business Report and the Corporate Governance Report

Other information includes the information included in the Corporate Governance Report and the business report of the Company for 2019. Management is responsible for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditor's report entitled *„Opinion"* does not apply to the business report.

Our responsibility in connection with our audit of the financial statements is to read the business report and, in doing so, consider whether the business report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting

Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of the Company for 2019 corresponds to the financial statements of the Company for 2019 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Company is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Company and its environment, we must report on whether we became aware of any material misstatements in the business report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Company's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Company by the General Meeting of Shareholders on April 26, 2019 and our uninterrupted engagement has lasted for 8 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on March 25, 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the business report.

The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

Budapest, March 25, 2020

....

Gábor Molnár
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

Registration number of statutory registered auditor: 007239

M K B B a n k Ny r t.

10 011 922 641 911 401
statistic code

Separate Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 25 March 2020

31 December 2019

Table of contents

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Statement of Financial Position as at 31 December 2019

	Note	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents	7	55 388	19 240
Loans and advances to banks	8	62 392	63 610
Derivative financial assets	9	18 193	17 914
Securities	10	600 894	773 029
Loans and advances to customers	11	923 938	893 144
Non-current assets held for sale and discontinued operations	39	4 075	4 238
Other assets	12	14 256	16 518
Current income tax assets		455	-
Deferred tax assets	24	7 718	5 771
Investments in subsidiaries, jointly controlled entities and associates	13	46 708	42 972
Intangibles, property and equipment	14	38 439	22 193
Total assets		**1 772 456**	**1 858 629**
Liabilities			
Amounts due to other banks	15	195 683	214 153
Deposits and current accounts	16	1 237 260	1 380 838
Derivate financial liabilities	17	44 263	31 608
Other liabilities and provisions	19	60 983	38 708
Issued debt securities	20	1 331	5 696
Subordinated debt	21	39 381	28 002
Total liabilities		**1 578 901**	**1 699 005**
Equity			
Share capital	22	100 000	100 000
Reserves	23	93 555	59 624
Total equity		**193 555**	**159 624**
Total liabilities and equity		**1 772 456**	**1 858 629**

Budapest, 25 March 2020

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer

MKB Bank Nyrt.
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

	Note	2019	2018
Statement of profit or loss			
Interest and similar to interest income	25	56 927	52 858
Interest expense	26	19 008	16 578
Net interest income		**37 919**	**36 280**
Net income from commissions and fees	27	27 371	25 830
Other operating income / (expense), net	28	11 612	5 395
Impairment / (Reversal) and provision for losses	29	(4 027)	(1 506)
Operating expense	30	39 590	44 294
Profit before taxation		**41 339**	**24 717**
Income tax (income) / expense	31	(673)	(557)
PROFIT FOR THE YEAR		**42 012**	**25 274**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Revaluation on financial assets measured at FVTOCI	10	(3 281)	(13 255)
Other comprehensive income for the year net of tax		**(3 281)**	**(13 255)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**38 731**	**12 019**
Net income available to ordinary shareholders		42 012	25 274
Average number of ordinary shares outstanding (thousands)		100 000	100 000
Earnings per Ordinary Share (in HUF)	33		
Basic		420	253
Diluted		420	253

Budapest, 25 March 2020

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Statement of Changes in Equity for the year ended 31 December 2019

	Share capital	Share premium	Retained earnings	Revaluation on financial assets measured at FVTOCI	Total equity
At 1 January 2018	**100 000**	**21 729**	**16 087**	**9 789**	**147 605**
Profit for the year	-	-	25 274	-	**25 274**
Other comprehensive income for the year	-	-	-	(13 255)	**(13 255)**
At 31 December 2018	**100 000**	**21 729**	**41 361**	**(3 466)**	**159 624**
Dividend	-	-	(4 800)	-	**(4 800)**
Profit for the year	-	-	42 012	-	**42 012**
Other comprehensive income for the year	-	-	-	(3 281)	**(3 281)**
At 31 December 2019	**100 000**	**21 729**	**78 573**	**(6 747)**	**193 555**

Budapest, 25 March 2020

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Statement of changes in equity based on Hungarian Accounting Law for the year ended 31 December 2019

	Share capital	Capital reserve	Retained earnings	Revaluation reserve	Total
Balance at 1 January 2018	**100 000**	**21 729**	**16 087**	**9 789**	**147 605**
Profit before tax	-	-	25 274	-	25 274
Accumulated other comprehensive income	-	-	-	(13 255)	(13 255)
Balance at 31 December 2018	**100 000**	**21 729**	**41 361**	**(3 466)**	**159 624**
Dividend	-	-	(4 800)	-	(4 800)
Profit before tax	-	-	42 012	-	42 012
Accumulated other comprehensive income	-	-	-	(3 281)	(3 281)
Balance at 31 December 2019	**100 000**	**21 729**	**78 573**	**(6 747)**	**193 555**

Reconciliation of share capital registered at registy court and share capital under IFRS adopted by the EU	31 December 2019	31 December 2018
Share capital registered at the registry court	100 000	100 000
Instruments recognised as liabilities	-	-
Share capital under IFRS adopted by the EU	**100 000**	**100 000**

Schedule of the profit reserves available for dividend	31 December 2019	31 December 2018
Retained earnings	78 573	41 361
Statutory other reserve/equity	10 825	6 624
Profit reserve available for dividend	**67 748**	**34 737**

Budapest, 25 March 2020

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Statement of Cash Flows for the year ended 31 December 2019

	Note	2019	2018
Cash flows from operating activities			
Profit before taxation		**41 339**	**24 717**
Adjustments for:			
Depreciation, amortisation and impairment	14	4 109	4 622
Impairment on other assets	12	1 181	274
Reversal of provisions	19, 34	(511)	(1 436)
Reversal of impairment loss on loans and advances	8, 11	(23 652)	(8 849)
Impairment/(reversal of impairment) on securities	10	19	(118)
(Reversal of impairment)/impairment on subsidiaries and associates	13	(1 627)	3 150
Change in deferred tax	31	(1 947)	(2 486)
Net interest income	25, 26	(37 634)	(44 365)
Dividends on securities		(167)	(152)
Revaluation of issued securities	20	(430)	714
Revaluation and other result on securities measured at FVTOCI	Change in equity	(3 281)	(5 820)
Foreign exchange movement on cash and cash equivalents		122	89
Cash flows from operating activities		(22 479)	(29 660)
Change in loans and advances to banks	8	1 213	14 388
Change in loans and advances to customers	11, 35, 36, 38, 39	(7 137)	(26 398)
Change in non-current assets held for sale and discontinued operations	39	163	17 410
Change in derivative assets	9	(279)	1 843
Change in other assets	12	1 081	166
Change in amounts due to banks (short term)	15	(32 017)	24 451
Change in current and deposit accounts	16	(143 578)	(171 657)
Change in other liabilities	19	22 786	(3 437)
Change in derivative liabilities	17	12 655	(11 758)
Interest received	25	58 207	49 250
Interest paid	26	(20 573)	(4 885)
Income tax	31	218	159
		(107 261)	(110 468)
Net cash used in operating activities		**(129 740)**	**(140 128)**
Cash flow from investing activities			
(Disposal) / investment in Group companies	13	(2 109)	3 776
Purchase of PPEs and intangible assets	14	(20 355)	(10 512)
Change in securities	10	172 283	182 215
Net cash generated by investing activities		**149 819**	**175 479**
Cash flow from financing activities			
Change in issued securities	20	(3 935)	(6 137)
Change in subordinated liabilities	21	11 379	5 695
Change in amounts due to banks (Borrowings)	15	13 547	(47 179)
Dividends paid	Change in equity	(4 800)	-
Net cash generated / (used in) by financing activites		**16 191**	**(47 621)**
Net increase / (decrease) of cash and cash equivalents		36 270	(12 270)
Cash and cash equivalents at 1 January		**19 240**	**31 599**
Foreign exchange movement on cash and cash equivalents		(122)	(89)
Cash and cash equivalents at the end of period		**55 388**	**19 240**

Budapest, 25 March 2020

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer

Notes to the Separate Financial Statements

(from page 9 to page 99)

1. General information

MKB Bank Nyrt. former MKB Bank Zrt. (hereinafter: "MKB" or "the Bank") is a commercial bank registered in Hungary, and operating under the effective laws of Hungary, particularly under Act CCXXXVII of 2013 on credit institutions and financial enterprises. From 30 May 2019 MKB pursues its activity as a public limited company, the shares of MKB were added to the product list of the Budapest Stock Exchange, by which the shares of MKB were admitted to the Budapest Stock Exchange. Address: 1056 Budapest, Váci u. 38.

The separate financial statements of the Bank are prepared for the year ended 31 December 2019.

The Hungarian government acquired 100% direct ownership in MKB on 29 September 2014. On 18 December 2014, the Financial Stability Board of the National Bank of Hungary (hereinafter: "NBH") ordered the reorganization of MKB Bank based on the Act XXXVII of 2014 on the further development of the system of institutions strengthening the security of the individual players of the financial intermediary system. The ownership rights were exercised by the NBH during the reorganization process and the NBH and MKB started restructuring measures aimed at improving profitability. The reorganization of MKB Group has been carried out in compliance with EU directives[1] in each case. The reorganisation plan submitted by the NBH was approved by the European Commission on 16 December 2015. The Bank must fulfil all the commitments included in the plan by 31 December, 2019, and the process of the completion is controlled regularly by the designated independent Monitoring Trustee. On 23 July 2015 – continuing the reorganization procedure – the four 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 a major part of the commercial real estate loan portfolio generating significant losses in the previous years was sold by MKB to MSZVK Magyar Szanálási Vagyonkezelő Zrt. with the approval of the European Commission at actual economic value above the market price. In exchange for this allowed state subsidization, MSZVK Magyar Szanálási Vagyonkezelő Zrt. acquired 100% direct ownership in MKB, while the ownership rights and obligations were continued to be exercised by the NBH.

The open, transparent and non-discriminatory sales procedure of MKB Bank under the 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 became members of a consortium established by Blue Robin Investments S.C.A., METIS Private Capital Funds and Pannónia Pension Fund (45-45-10% ownership).

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

[1] BRRD

On 19 July 2016 one of the owners of MKB Bank, Blue Robin Investments S.C.A. sold 15% stake to the newly established Employee Share Ownership Programme (hereinafter: “ESOP Organisation”) of the Bank. Then the new owners of the Bank were as follows: METIS Private Capital Fund 45%, Blue Robin Investments S.C.A. 30%, ESOP Organisation 15%, Pannónia Pension Fund 10%.

In 2017 there were changes in the indirect ownership structure of MKB Bank. At the end of April 2017 BanKonzult Pénzügyi és Gazdasági Tanácsadó Kft. (BanKonzult Kft.) obtained 20.19%, while Promid Invest Zrt. acquired 9.81% indirect ownership in MKB through the change of ownership in Blue Robin Investments S.C.A.. Further, on 1 June 2017 the management of METIS Private Equity Fund was transferred to Konzum Befektetési Alapkezelő Zrt. from Minerva Tőkealap-kezelő Zrt, acquiring also 45% indirect ownership in the Bank.

On 1 June 2017 RKOFIN Befektetési és Vagyonkezelő Kft. (RKOFIN Kft.) acquired 4% direct ownership in MKB from Blue Robin Investment S.C.A. The Court of Registration registered the transaction on 10 August 2017.

On 28 and 29 December 2017, Blue Robin Investments S.C.A. and Pantherinae Pénzügyi Zrt. bought 10 million shares at 1 000 HUF face value each from Pannónia Pension Fund. Due to the transaction Pantherinae Pénzügyi Zrt. acquired 3.1% ownership in the Bank, the interest of Blue Robin Investments S.C.A. increased from 26% to 32.9%, while the participation of Pannónia Pension Fund in MKB was terminated. The purchase was entered in the Register of Shareholders on 4 January 2018.

On 23 August 2018, EIRENE Private Equity Fund acquired the 9.999999% of MKB shares, while the interest of METIS Private Equity Funds decreased to 35.000001%, which was registered in the Shareholder Register by the Board of Directors.

By way of share sale and purchase, RKOFIN Kft. purchased part of the share package issued by MKB and held by the ESOP Organisation, altogether 9,620,597 series “A” dematerialised ordinary shares with a face value of HUF 1000 each. The Board of Directors of MKB decided on the registration of this change in the Register of Shareholders on 1 October 2018. Following the transfer of shares, the previous 4% stake of RKOFIN Kft. in the Bank increased to 13.620597%, while the former 15% ownership stake of the ESOP Organisation decreased to 5.379403%.

On 11 January 2019 Blue Robin Investment S.C.A., shareholder of MKB, officially informed MKB of the change in its beneficial owner.

BanKonzult Kft., the previous 100% owner of BanKonzult Finance Befektetési Zártkörűen Működő Részvénytársaság (BanKonzult Finance Zrt.”), sold its 100% participation in BanKonzult Finance Zrt. to László Szíjj. The participation embodies 32.9% indirect share in MKB - directly held by Blue Robin Investment S.C.A. Having regard to the sale, the indirect participation of BanKonzult Kft. in MKB ceased.

PROMID FINANCE Zrt., under the indirect influence of dr Ádám Balog, chairman - chief executive officer of MKB Bank, purchased 2,564,411 series “A” dematerialised ordinary shares of HUF 1,000 face value each from the share package of the ESOP Organisation representing 2.564411%-share of the share capital of MKB. After the transaction the ESOP Organisation has a total of 2.814992% share in the Bank. As of 27 February 2019 the Board of Directors of MKB registered PROMID FINANCE Zrt. in the Register of Shareholders as a shareholder with 2.564411% ownership in the Bank.

Data in HUF million except stated otherwise

On 30 May 2019 the shares of MKB Bank were added to the product list of the Budapest Stock Exchange, and thereby the shares of MKB were admitted to the Budapest Stock Exchange. On 30 May 2019 the type of operation of the Bank changed and as of that date it functions as a public limited company. The company name changed to MKB Bank Nyrt., effective from 30 May 2019. The change of form of operation and the related name change were registered by the court of registration on 30 May 2019. The first trading day of the ordinary shares of MKB Bank admitted to Budapest Stock Exchange was 17 June 2019 in the Standard category of the equity section of Budapest Stock Exchange.

The new name of Konzum Befektetési Alapkezelő Zrt. managing METIS Private Equity Fund shareholder has been OPUS GLOBAL Befektetési Alapkezelő Zártkörűen Működő Részvénytársaság since 28 June 2019. Lőrinc Mészáros (address: 8086 Felcsút, Fő utca 311/5.) has a majority influence in the company.

The sole member of RKOFIN Befektetési és Vagyonkezelő Kft. is Metis 2 Private Equity Fund. Metis 2 Private Equity Fund is managed by Opus Global Befektetési Alapkezelő Zrt., in which Lőrinc Mészáros (address: 8086 Felcsút, Fő utca 311/5.) has a majority influence.

The managing fully liable member of Blue Robin Investments S.C.A. is Blue Robin Management S.a.r.l. Blue Robin Management S.a.r.l. has only one member, UNCIA Finance Zrt., the sole shareholder of which is UNCIA Alpha Ltd., in which company UNCIA Private Equity Fund if the sole member. UNCIA Private Equity Fund is managed by QUARTZ Alapkezelő Zrt.

1.1

Name of the shareholders of MKB Bank Plc.	Number of shares (pieces)	Total face value of shares (HUF)	Ownership share (%)
METIS Magántőkealap	35 000 001	35 000 001 000	35,000001%
Blue Robin Investments S.C.A.	32 900 000	32 900 000 000	32,900000%
RKOFIN Befektetési és Vagyonkezelő Kft.	13 620 597	13 620 597 000	13,620597%
EIRENE Magántőkealap	9 999 999	9 999 999 000	9,999999%

The free float ratio was: 8.48%

These financial statements are prepared for general purposes as defined in IAS 1; they are prepared for the purposes of users who may not request the MKB group to prepare customised reports to suit their specific information needs. Any specific information needs beyond these financial statements may be satisfied with the stock exchange flash report which is prepared for special purposes for the same period based on the key figures of these financial statements.

2. Compliance with International Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (hereinafter: “IFRSs”) as adopted by the EU.

IFRSs comprise accounting standards issued by the International Accounting Standards Board (hereinafter: “IASB”) and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: “IFRIC”) and its predecessor body.

These financial statements are presented in Hungarian Forint (“HUF”), rounded to the nearest million, except if indicated otherwise. The financial statements are authorised for issue by the Board of Directors on 25 March 2020.

Since 1 January 2018, MKB has been applying the IFRSs adopted by the EU in its bookkeeping as well as the preparation of its separate financial statements.

The 2019 figures in these financial statements have been compiled on the basis of the standards effective from 1 January 2019.

3. Basis of measurement

The separate financial statements have been prepared on initial recognition at fair value as inceptive carrying amount.

The Bank classifies subsequent measurements into the following categories:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value (hereinafter: “FVTPL”)
- financial assets measured at fair value through other comprehensive income (hereinafter: “FVTOCI”)
- other financial instruments are measured at amortised cost (hereinafter: “AC”).

The separate financial statements have been prepared based on going concern assumption.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 35.

4. Summary of significant accounting policies

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

To ensure data consistency the Bank made reclassification in supplementary notes in some relevant cases.

a) Financial statement presentation

These separate financial statements include the accounts of MKB Bank Nyrt. The presentation and functional currency of the Bank was determined as Hungarian Forint ("HUF").

b) Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are measured at amortised cost by the Bank.

Subsidiaries are entities controlled by the MKB Bank. Control exists when the Bank 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.

Where the Bank 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 Bank classifies its interest in the venture as a joint venture.

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.

c) Intangible assets

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

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. An intangible asset is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Expenditure on internally developed intangible asset (software) is recognised as an asset when the Bank 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.

Subsequent expenditure related 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.

d) 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.

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:

- components of freehold buildings are depreciated over maximum 100 years,
- equipment, fixtures and fittings (including equipment on operating leases where MKB is the lessor) are depreciated over 5-10 years, but maximum over 20 years.

Depreciation of property, plant and equipment are included in “Operating expense” line in Statement of Profit or Loss and Other 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 recognised in “Other operating income / (expense), net”, in the year of disposal or retirement.

e) Investment property

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

The Bank uses the cost model for investment property, according to which the property is accounted in the Bank's books at the purchases cost and then depreciated.

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 / (expense), net” line in Statement of Profit or Loss and Other 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.

f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank 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 Bank in the management of its short-term commitments.

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

g) Initial recognition and measurement of Financial Instruments

Outbound loans and claims, and debt securities are recognized by the Bank on settlement date. All other debt securities are recognized when the Bank commits itself either acquiring the asset, or selling it (trade date accounting).

All financial instruments measured at fair value at initial recognition. The fair value of a financial instrument at initial recognition is normally the transaction price (the fair value of the consideration given or received).

At initial recognition, all financial instruments that were measured at amortised cost, are recognized at a modified fair value by the Bank. The modified fair value includes all transaction costs which are directly attributable to the issuance and acquisition of financial instruments.

Financial instruments measured at fair value through profit or loss are recognized at their fair value by the Bank. All related transaction costs incurred at their inception, issuance, and / or purchase are accounted as expense through Profit or Loss. If accounts payables do not contain significant financing component, they are recognized at transaction price by the Bank.

The Bank's financial assets are measured at amortised cost if it is consistent with the business model and meet the criteria of the SPPI test.

Amortised cost is the amount of a financial asset or financial liability at initial recognition, reduced by principal repayments, increased or decreased by the difference between the original amount and amount at maturity cumulative amortization calculated using an effective interest rate method and in case of financial assets adjusted by any loss allowance.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the

- gross carrying amount of the financial asset, or
- amortised cost of the financial liability.

However, in those cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), the Bank uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

In case of purchased or originated credit-impaired financial assets (POCI) credit-adjusted effective interest rate should be used. The credit adjusted effective interest rate (CAEIR) is the rate that exactly discounts the estimated expected future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset.

The effective interest rate method is the method used to measure the amortised cost of the Bank's financial assets or financial liabilities and the method used to allocate and recognises interest and similar to interest income and interest expense in a given period.

Interest and similar to interest income and interest expense should be determined using the effective interest rate method and then recognized in the Profit or Loss statement.

Simplified approach for trade receivables, contract assets and lease receivables

In case of future cash flows of financial instruments cannot be estimated reliably due to the specific features of the product, furthermore the contractual cash flows are not available, the effective interest rate of the instrument cannot be determined.

When interests, commissions and other items arise related to such transactions these are accounted through profit or loss for using a simplified method (ie the effective interest rate is the same as the nominal interest rate).

h) Classification and subsequent measurement of Financial Instruments

IFRS 9 standard contains three main categories to classify and measure the financial assets: amortised cost (AC), fair value through other comprehensive income (FVTOCI) and fair value through Profit and Loss (FVTPL).

The Bank’s business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The Bank use multiple business models to manage its financial instruments.

The following business model categories have been developed in accordance with IFRS 9 standard:

- Held to Collect (HTC): an instrument is held for the collection of contractual cash flows with which the Bank aims to realize long-term interest and similar to interest income. There is no requirement to hold to maturity, a sale is permitted due to increased credit risk. Sales could be also consistent with the business model if the credit concentration risks change or if close to maturity.
- Both Held to Collect and For Sale (HTCS): an instrument that is held for the collection of contractual cash flows and for the sale of financial assets at the same time. The purpose of the inception or purchase is to collect contractual cash flows, as well as to realize profit from the increase in the fair value and minimize loss from the decrease in the fair value in medium or long term. Compared to the HTC sales occur more frequently and are higher in value.
- Other trading business model (TRADING): mainly trading financial instruments that are purchased for short-term gain.

The listing in the business model reflects the expectations of the Bank, not just the intent, but also the ability. The classification is not based on scenarios that are not reasonably expected ('worst case' or 'stress case' scenario). If the Bank sells a particular portfolio or financial asset in a ‘stress case’ scenario, it does not affect the evaluation of the business model.

Classification not only depends on the business model but also on the cash flow related characteristics associated with the financial instrument. The Bank has to examine the cash flows associated with the financial instrument - regarding those debt instruments that will be measured at amortised cost or fair value through other comprehensive income - whether they comply with the requirements of the principal and interest definitions according to IFRS 9 (SPPI / Cash Flow Test).

By Cash Flow Test the Bank examines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. However, contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Bank shall measure a financial asset at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the financial asset's contractual cash flows are solely payments of principal and interest.

The Bank shall measure a debt instrument at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the financial asset's contractual cash flows are solely payments of principal and interest.

The Bank is able to make an irrevocably election to measure the investments in equity instruments, which are not held for trading at "fair value through other comprehensive income" category at initial recognition, in other case these financial assets should be measured at fair value through profit or loss.

All other financial assets are classified by the Bank as the fair value through profit or loss category.

i) Classification and subsequent measurement of financial liabilities

The Bank classify its financial liabilities into the following categories:

- Mandatory FVTPL measurement (FVTPL category) measurement if liabilities are held for trading,
- FVTPL option – based on the decision of entity at initial recognition (if qualifying criteria are met)
- Amortised cost – other financial liabilities.

Non-trading financial liabilities initially measured at fair value less transaction cost by the Bank. These liabilities subsequently measured at amortised cost calculated by using the effective interest method.

j) Fair Value Option (FVO)

At initial recognition, the Bank may irrevocably recognize a financial asset or liability at fair value through profit or loss if it eliminates or significantly decreases any valuation or recognition inconsistencies that would otherwise have arisen because of the valuation of assets and liabilities or the profits or losses generated on them are shown on different bases.

The financial liabilities are measured at fair value through Profit or Loss at initial recognition by the Bank, the change in fair value at the subsequent measurement should be recognised as the following:

- changes related to own credit risk is measured through other comprehensive income (OCI),
- all other changes in fair value is measured through Profit or Loss.

k) Determination and recognition of the Expected Credit Loss

During classification of the Bank's financial instruments the primary collateral is determined as the ability and intention of the client to pay. Except for those transactions that are covered by collateral which is independent of the financial and legal position of the client accordingly the return can be unequivocally ensured.

The Bank assigns exposures at each reporting period – in this case monthly – during which the exposures are allocated to the segments and to the so-called 'stages' (stage 1, stage 2, stage 3 and / or POCI) in accordance with the principles of IFRS 9 standard.

The Bank assesses at each reporting date whether the credit risk of the financial asset has increased significantly since the initial recognition.

The Bank recognises lifetime expected credit loss for all financial instruments when the credit risk has increased significantly compared to the credit risk at acquisition or origination – regardless whether assessed on an individual or collective basis - considering all reasonable and supportable information, including that which is foreseeable.

When making the assessment, the Bank evaluate the changes in the risk of a default occurring over the expected life of the financial instrument, considering reasonable and supportable information, that is available without undue cost or effort which indicate the changes in credit risk since initial recognition.

The Bank determines the significant increase in credit risk based on the examination of the following four conditions:

- changes in the clients' rating after the issuance,
- PD change in the master scale compared to the initial value,
- default in payment,
- the amount of the client's exposure classified as Stage 2 exceeds a certain proportion of its gross exposure.

The existence of any of these conditions is assessed by the Bank as a significant increase in the credit risk. If there is no evidence of impairment have to be assigned to Stage 2, the transaction could be displaced from stage 2 to stage 1.

Financial assets whose default risk has increased to such an extent after initial recognition that there is objective evidence of impairment have to be assigned to Stage 3 and a loan loss allowance has to be recognised by calculating the Lifetime Expected Credit Loss (ECL). Bank defines materiality threshold, exposure that are below that threshold should be considered as a small amount (below the limit). The impairment of those assets which are above the threshold should be estimated individually.

In order to determine the impairment and allowance for classes of clients, the expected credit loss (ECL) should be calculated according to the relevant principles of IFRS 9 impairment model for classes of clients calculated on monthly basis, automatically.

Factors taken into account when determining expected credit loss:

- remaining lifetime in years,
- exposure at default (EaD),
- loss given default (LGD),
- probability of default (PD),
- credit conversion-factor (CCF),
- loss rate of the non-default and default transaction,
- discount rate calculated on the remaining lifetime.

The amount of impairment and allowance equals to amount of expected credit loss.

In Stage 1 the impairment is equal to the 12-Month expected credit loss.

In Stage 2 and Stage 3 the impairment is equal to the lifetime expected credit loss.

The applied risk parameters are determined on the basis of statistical models for homogeneous groups and transaction groups. The models are validated at least once a year, and if necessary it will be revised. Transactions that are recognised at fair value, the fair value calculation the credit risk component of the discount factor is calculated based on the principles related to determination of ECL as mentioned above.

The Bank calculates the expected credit loss for the remaining lifetime, except for the following financial instruments for which the loss is calculated for 12 months:

- debt securities with low credit risk at the reporting date,
- financial instruments except for lease receivables and account receivables, which credit risk do not significantly increased compared to initial recognition.

For account and lease receivables the Bank always calculates lifetime expected credit loss.

Expected credit losses are probability-weighted estimates of credit losses during the life expectancy of a financial asset. These are assessed by the Bank as follows:

- financial assets not impaired at the reporting date: discounted loss on cash flow (difference between the contractual cash flows and the expected cash flows),
- financial assets impaired at the reporting date: difference between the gross carrying amount and the estimated present value of the outstanding amount,
- undrawn loan commitments: present value of the difference between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down the loan and the cash flows that the entity expects to receive if the loan is drawn down,
- financial guarantee contracts: expected payments to the holder, reduced by the amounts that are expected to be recovered.

If the credit risk of the financial instrument has increased significantly since its initial recognition until the reporting date, the Bank recognises the loss on the asset at an amount of lifetime expected credit losses.

If the credit risk of the financial instrument has not significantly increased since the initial recognition until the reporting date, the Bank recognizes loss on the asset at the same amount of the 12-month expected credit loss.

The impairment / expected credit loss calculated for 12 months is the part of the lifetime expected loss results from potential default events within 12 months of the reporting date.

The Bank recognises loss for the expected credit loss on the following financial instruments not measured at fair value through Profit or Loss:

- debt instruments,
- lease receivables,
- accounts receivables,
- financial guarantees, and
- loan commitments.

The expected credit loss should be recognised by the Bank as the following:

- deducted amount from the gross carrying value (impairment) – in case of financial assets measured at amortised cost,
- provision – in case of financial guarantees and loan commitments, if the financial instrument includes both a loan and an undrawn components and the Bank is unable to distinguish the expected credit loss calculated for the loan and for the undrawn components, the Bank will therefore determine the impairment loss on the two components together. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision.
- in case of financial assets measured at fair value through other comprehensive income (OCI), the impairment loss is not recognized in the financial statement as part of the assets' fair value. The recognised impairment modifies the cumulative other comprehensive income.

When recognising the change in the credit risk, the Bank reviews the Stage classification based on the clients' risk characteristics (in all aspect the same, hypothetical, credit risk parameters of a transaction measured at amortised cost are applied) and assigns the corresponding risk parameters to the transaction during the valuation. Accordingly, the risk parameters are part of fair valuation and the change in credit risk occurs by isolating and separately recording the effects of these parameters.

For purchased or originated credit-impaired financial assets at the reporting date the Bank recognises the accumulated changes in the lifetime expected credit loss since the initial recognition. In the Bank's practice, typically forint-denominated receivables appear as purchased or originated credit-impaired financial assets.

The Bank assesses provision for contingent liabilities (i.e. contracted but undrawn loan commitments, issued financial guarantees, letter of credits) as follows:

- in the case of clients / debtors subject to individual valuation, the Bank determines the amount of provision individually,
- in other case the Bank calculates provision based on the EAD corrected by CCF.

For transactions accounted as commitments showing loss on the reporting date, the calculated provision is the negative difference between the fair value and the gross carrying amount based on the valuation method.

Impairment and provision are based on the amount of loss calculated as above.

l) Determination of fair value

All financial instruments are recognised initially at fair value. 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 Bank 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 Bank 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.

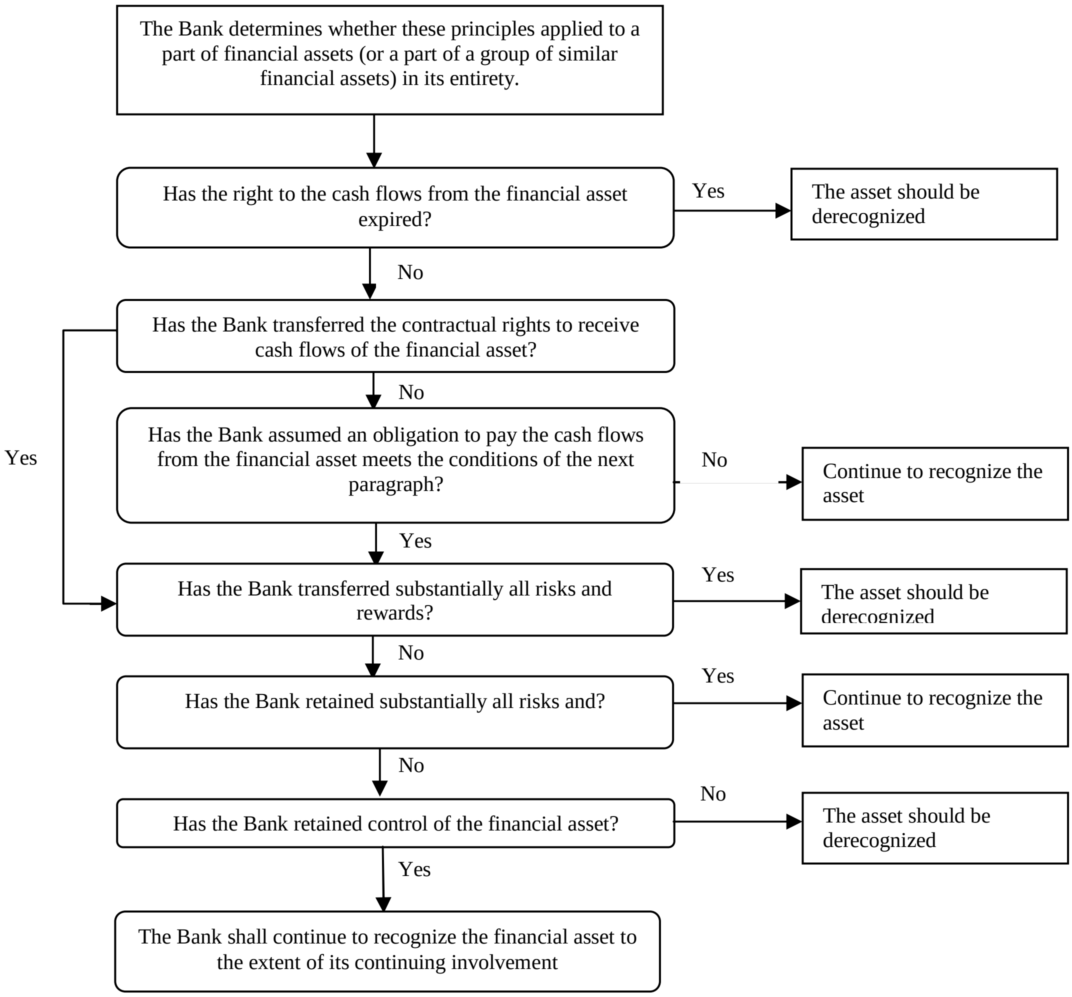
Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about 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 Bank's liabilities.

m) Derecognition of Financial Assets

The following decision tree illustrates the principles of derecognition of financial instruments by the Bank:



The Bank derecognises a financial asset when transfer the contractual rights to receive the cash flows of a financial asset (the 'original asset'), or retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more recipients (the 'eventual recipients'), the Bank treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
- The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to

the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When the Bank transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The Bank examines the following before derecognition:

- if the Bank transfers substantially all the risks and rewards of ownership of the financial asset, the Bank shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
- if the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall continue to recognize the financial asset,
- if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall determine whether it has retained control of the financial asset. In this case:
    - if the Bank has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
    - if the Bank has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

The extent of the Bank's continuing involvement in the transferred asset is the extent to which the Bank is exposed to changes in the value of the transferred asset.

The transfer of risks and rewards is evaluated by comparing the Bank’s exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The computation and comparison are made using the current market interest rate as discount rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.

The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer.

An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

Asset transfers holding all or substantially all of the risks and rewards could be for example repo transactions (for repo transactions, the Bank considers whether the risks and rewards incurred in the transaction are substantially transferred or not).

Derecognition due to significant changes in contractual cash flows of financial liabilities

The terms are substantially different if under the new terms the present value discounted at the original effective interest rate of the cash flows – including fees received and paid – is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset. If the exchange of debt instruments or the modification of the terms is treated as derecognition, the Bank will recognize any costs or fees incurred as a gain or loss related to the termination of the asset. If the exchange or modification is not accounted for as derecognition, the costs or fees incurred will modify the carrying amount of the asset and will be amortised over the remaining maturity of the modified loan.

The Bank considers it a significant change if the contractual currency is modified, or if the contractual interest rate is changed from variable to fix, or inversely.

Write-off of financial assets under legal proceeding

Loans which are under legal proceeding (bankruptcy, liquidation and final proceedings) and in case of enforcement collateral transactions:

- the Bank's contractual right to receive cash flows from the financial asset does not expire,
- the Bank did not transfer the right of collecting cash flows from the financial asset,
- the Bank did not assume any obligation to pay the cash flows from the financial asset,

therefore the Bank does not derecognize such items entirely from its books, but may partially derecognize them.

When the Bank can reasonably not expect to recover part of the financial asset while maintaining the legal claim it is considered as a partial recognition. In such cases, the write-off reduces gross carrying amount of the financial asset.

After the legal waiver of the claim, the Bank may write down the total gross carrying amount of the financial asset if it is not able to be recovered and void according to the relevant internal rules (in this case there is no legal claim).

n) Derecognition of financial liabilities

The Bank removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – when the obligation specified in the contract is fulfilled or cancelled or expires.

Exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The terms are substantially different if under the new terms the present value discounted at the original effective interest rate of the cash flows – including fees received and paid – is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If the exchange of debt instruments or the modification of the terms is treated as cancellation, the Bank will recognize any costs or fees incurred as a gain or loss related to the termination of the liability. If the exchange or modification is not accounted for as cancellation, the costs or fees incurred will modify the current amount of the liability and will be depreciated over the remaining maturity of the modified loan.

o) Financial guarantees

The Bank does not recognise the financial guarantees as contingent items in the Financial Statement because this could cause recognition such income or expense which may not being realisable.

In case when the realisation of income or expense is substantially sure, the asset does not considered as contingent item and it should be recognised in the Financial Statement items assessed permanently in order to the Bank post the changes up the Financial Statement in time.

Insofar the occurrence of economic benefits inflow or outflow being substantially sure, the relating income or expense should be accounted in that period wherein the probability of the occurrence changed.

The Bank considers the occurrence of economic benefits inflow or outflow as substantially sure when the Client written inform the Bank of the intention to draw on guarantee.

The Bank subsequently recognise the contracts on financial guarantee at the higher of the amount of the accounted loss and the amount initially recognised less cumulative income.

p) Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by the Bank which are classified as Fair Value Through Profit or Loss or Amortised cost. Loans and advances are recognised when cash is advanced to borrowers. 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.

If they are measured at amortised cost they are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost, otherwise they are measured at fair value. 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.

q) Non-current assets held for sale and discontinued operations

Financial instruments that meet the IFRS 5 standard criteria's are recognized as held for sale by the Bank. The Bank classifies a non-current asset as held for sale, if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.

A disposal group is a group of assets that are intended to be disposed by sale or in another way, collectively, as a single group, in a single transaction and the liabilities directly attributable to those assets that are transferred during the transaction.

To meet the criteria for classification as held for sale:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable,
- for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated,

- the plan or decision to sell must be approved in accordance with the relevant rules of the Bank in order for the sale to be considered as highly probable and it is also necessary to include it in the report,
- the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value or the Bank advertise it at the appropriate forum,
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification,
- actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets held for sale or disposal groups should be recognized separately in the statement of financial position.

A disposal group classified as held for sale may qualify for the definition of the discontinued operations.

Discontinued operations are a part of the Bank that has been disposed of or classified as held for sale and embody a distinct, major industry or geographical area of activity and are part of a coordinated plan for disposing a separate business or geographical area of activity.

The result of the discontinued operation and the gains or losses at sale should be recognized in a separate line in the Statement of Profit or Loss and Other Comprehensive Income by the Bank.

The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount or fair value less cost to sell.

If the fair value less cost to sell is less than the carrying amount of the non-current assets or assets or liabilities part of the disposal group at the date of classification as held for sale an impairment loss shall be recognized.

Fair value less cost to sell must be re-determined at each reporting date and, if higher than the carrying amount, the impairment loss should be reversed up to the amount of impairment loss recognized previously.

Please find further details on non-current financial assets and liabilities held for sale in Note 39.

r) Financial assets and liabilities held for trading

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 Bank 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 recognized in the Statement of Profit or Loss and Other Comprehensive Income. Subsequently, their fair values are remeasured, and all gains and losses from changes therein should be recognised in the Statement of Profit or Loss and Other Comprehensive Income in “Other operating income / (expense), net” as they arise.

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

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 Profit or Loss and Other Comprehensive Income.

Structured Bonds

MKB issues structured bonds for its retail and institutional clients since 2008. The Bank 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 Bank 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 Profit or Loss and Other Comprehensive Income. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in “Interest and similar to interest income”.

s) Securities

Investments in securities are classified as asset held for liquidity purposes 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. By these assets the objective is to achieve both collecting contractual cash flows and selling financial assets. Financial investments are recognised on trade date, when the Bank enters into contractual arrangements with counterparties to purchase securities, and are derecognised when either the securities are sold or the borrowers repay their obligations.

The liquid securities are initially measured at fair value modified by direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income. Relating to these assets impairment loss should be accounted in Statement of Profit or Loss. When these securities are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the Statement of Profit or Loss and Other Comprehensive Income as “Other operating income / (expense), net”.

t) 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 if host contract is financial asset, then embedded derivative is not separated according to the IFRS 9 standard.

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.

u) Leases

In accordance with the requirements of IFRS 16, the Bank, as lessee, introduces a single model to recognise right-of-use asset and lease liability on balance sheet. In this case, presents separately the interest expense for the lease liability and the depreciation charge for the right-of-use asset. In some cases (e.g when there is a change in the lease term or in future lease payments arising from a change in an index or rate) the Bank as lessee remeasures the lease liability.

At the commencement date, the Bank assesses whether the lessee is reasonably certain to exercise an option to extend or not to exercise an option to terminate the lease. The Bank considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option.

The Bank recognises the right-of-use asset and the lease liability as at the commencement date of the lease. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability, adjusted for lease payments incurred on or before the commencement date, increased initial direct costs and costs for dismantling, removing and restoring the underlying asset and for site restoration and less any leasing incentives.

The Bank, as lessor, classifies its leasing contracts as finance or operating leases based on decision tree according to the requirements of the standard. Initially, the Bank recognises the lease liability at the present value of the lease payments outstanding at the commencement date, discounted at the implicit interest rate of the lease. On subsequent measurement, the Bank recognises depreciation on the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

After the commencement date of the lease term, the Bank depreciates the asset on a straight-line basis, from the commencement date to the earlier of the useful life or the end of the lease term.

After the commencement date, the Bank measures the lease liability at amortised cost using the effective interest rate method. The Bank uses the revised interest rate at the date of the revaluation as the revised discount rate. In contrast, the Bank reassesses the lease liability by discounting the revised lease payments if future lease payments are changed due to changes in an index or rate.

Presentation in the financial statements

During the lease term, the Bank recognises lease payments for short-term leases and low value leases as an expense in Statement of Profit or Loss and Other Comprehensive Income.

The right-of-use assets are included in “Intangibles, property and equipment” and lease liabilities in “Other liabilities and provisions” in the Statement of Financial Position.

After the commencement date the Bank recognises the related costs in Statement of Profit or Loss and Other Comprehensive Income, if these are not recognised as part of the cost of the right-of-use asset. Interest on lease liabilities is included in “Interest expense”. The depreciation of a right-of-use asset is recognised as “Operating expense”.

The Bank classify the right-of-use assets arising from operating leases that are leased or subleased in the Statement of Financial Position by reference to the nature of the underlying asset.

v) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank’s sources of debt funding.

When the Bank 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 Bank’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 Bank to fair value through profit or loss category.

The Bank carries some deposits, debt securities and subordinated liabilities at fair value, with fair value changes recognised in profit or loss.

w) Provisions

A provision is recognised if, as a result of a past event, the Bank 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.

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 Bank, 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 in the additional notes.

x) Income tax

Income tax comprises current tax and deferred tax.

By accounting treatment for current and future income tax, the Bank recognises the tax consequences of the future recovery / settlement of the carrying amount of assets, liabilities, transactions and other events of the current period that are recognised in the statement of financial position.

The Bank applies the corporate income tax as income tax.

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 measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the end of the reporting period.

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 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 re-measurement of financial assets measured at fair value through other comprehensive income, which are charged or credited directly to equity, is also credited or charged directly to equity.

y) Interest and similar to interest income and expense

Interest and similar to interest income and expense relating to use the effective interest method is recognised in "Interest and similar to interest income" and "Interest expense" in the statement of comprehensive income.

z) Net income from commissions and fees

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) and
- income earned from the provision of services is recognised as revenue as the services are provided (for example asset management and service fees).

aa) 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 and foreign exchange differences.

bb)Dividends

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

cc) Segment reporting

MKB formed its reporting segments in line with IFRS 8 “Operating Segments”. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; furthermore for which discrete financial information is available. The Bank determines operating segments on nature of the business (business segment) or geographically (geographical segment).

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 Bank 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 38.

The Bank does not have any foreign segments.

dd)Foreign currencies

Items included in the financial statements of each of the Bank’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 Bank 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.

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 expense 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.

Data in HUF million except stated otherwise

ee) Share capital

Shares are classified as share capital 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.

ff) Treasury shares

The cost of the Bank'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.

gg) Earnings per share

The Bank 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 33.

hh) The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2019

The following amendments to the existing standards and new interpretation issued by the IASB and adopted by the EU are effective for the current reporting period:

- **IFRS 16 "Leases**" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),

  Effect of implementation of IFRS 16:

  4.1

	At 1 January 2019
Operating lease commitment at 31 December 2018 as disclosed in the financial statements	18 285
Short term leases and leases of low-value assets	(1 000)
Effect on discounting	(617)
Finance lease liabilities recognized under IAS 17 as at 31 December 2018	8 802
Lease liabilities recognized at 1 January 2019	**25 470**

  By implementing of IFRS 16, the Bank applied modified retrospective method; therefore there is no difference between assets and liabilities. At initial recognition the Bank used a 3.6% as average incremental borrowing rate.

- **Amendments to IFRS 9 "Financial Instruments**" **-** Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 19 “Employee Benefits**” - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IAS 28 “Investments in Associates and Joint Ventures” -** Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 - 2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),

- **IFRIC 23 “Uncertainty over Income Tax Treatments”** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards – except of IFRS 16 - has not led to any material changes in the Bank’s financial statements.

ii) New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, there are new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by EU on 6 December 2019 (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” -** Definition of Material – adopted by EU on 10 December 2019 (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures” – Interest rate Benchmark Reform** – adopted by EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020).

The Bank does not adopt these new standards and amendments to existing standards before their effective date. The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

jj) Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 25 March 2020:

Data in HUF million except stated otherwise

- **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,

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

5. Investments in subsidiaries, jointly controlled entities and associates

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

5.1

2019

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
Euro - Immat Üzemeltetési Kft.	100,00%	100,00%	Hungary	Intangible assets, license maintenance
Exter-Adósságkezelő Kft.	100,00%	100,00%	Hungary	Collecting receivables
Extercom Vagyonkezelő Kft.	100,00%	100,00%	Hungary	Property investments
MKB-Euroleasing Autólízing Szolgáltató Zrt.	100,00%	100,00%	Hungary	Car and consumer finance activities, other finance activities
MKB Bank MRP Szervezet	100,00%	0,00%	Hungary	Special purpose entity for the Employee Share Program
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	100,00%	100,00%	Hungary	Other financial services
MKB Üzemeltetési Kft.	100,00%	100,00%	Hungary	Property operation and maintenance
Retail Prod Zrt.	100,00%	100,00%	Hungary	Car and consumer finance activities
MKB-Pannónia Alapkezelő Zrt.	49,00%	49,00%	Hungary	Investment fund management activity
MKB Digital Szolgáltató Zrt.	100,00%	100,00%	Hungary	IT services

2018

Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
Euro - Immat Üzemeltetési Kft.	100,00%	100,00%	Hungary	Intangible assets, license maintenance
Exter-Adósságkezelő Kft.	100,00%	100,00%	Hungary	Collecting receivables
Extercom Vagyonkezelő Kft.	100,00%	100,00%	Hungary	Property investments
MKB-Euroleasing Autóhitel Zrt.	100,00%	100,00%	Hungary	Car and consumer finance activities
MKB-Euroleasing Autólízing Szolgáltató Zrt.	100,00%	100,00%	Hungary	Car finance activity
MKB Euroleasing Zrt.	100,00%	100,00%	Hungary	Holding of Euroleasing group, other finance activities
MKB Bank MRP Szervezet	66,32%	0,00%	Hungary	Special purpose entity for the Employee Share Program
MKB Bank Teljesítményjavadalmazási MRP szervezete	100,00%	100,00%	Hungary	Special purpose entity for the Employee Share Program
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	100,00%	100,00%	Hungary	Other financial services
MKB Üzemeltetési Kft.	100,00%	100,00%	Hungary	Property operation and maintenance
Retail Prod Zrt.	100,00%	100,00%	Hungary	Car and consumer finance activities
MKB-Pannónia Alapkezelő Zrt.	49,00%	49,00%	Hungary	Investment fund management activity

6. Risk management

a) Introduction and overview

All the Bank's activities involve a certain degree of risk assumption. The measurement, evaluation, acceptance and management of these risks are integral parts of the Bank's daily operative activity.

Risk management is an integral part of the Bank's operations and a crucial component of its business and overall financial performance. The MKB Bank's risk management framework has been designed to support the continuous monitoring of the changes of the risk environment and is supported by the strong commitment to a prudent risk management culture both on the strategy and business line levels.

The main principles and priorities of the Bank's risk management function include the ultimate oversight by the Board of Directors (the approval of the Supervisory Board is also required for some specifically defined risk decisions), the importance of independent review of all risk-taking activities separately from business lines, and the proper evaluation, diversification, limitation, monitoring and reporting of all risks. Decisions in respect of major risk principles are approved at group level, and are implemented individually by the own decision making boards of the Bank members.

The effective communication on risk and risk appetite, the on-going initiatives to better identify, measure, monitor and manage risks, the improvement of efficiency, user-friendliness and awareness of key risk processes and practices, and the employment of highly-skilled staff are the bases of running an effective risk management function in the Bank.

The Bank has exposure to the following risks typically from its use of financial instruments:

- credit risk:
  The risk of lending comprises the potential risk of the business partner failing to fulfil its payment obligations or failing to do so on time as well as the risk of the value of the receivable diminishing because the business partner's credit rating decreases. Risks originated from loans or other loan type commitments extended to associated enterprises are also included in the Bank's credit risk managing mechanism.

- country risk:
  The country risk generally refers to a potential loss triggered by economic, political or other event which takes place in the particular country and cannot be controlled by MKB, as creditor or investor. As a result of such event(s), the obligor cannot fulfilits obligation in time or at all, or the Bank is unable to enforce its rights against the obligor. The components of the country risk are transfer risk, sovereign risk and collective debtor risk.

- participations risk:
  The participations risk is defined as the risk related to the following events:
  - potential losses from providing equity / equity instruments or subordinated loan capital. This involves potential losses realised during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment

  - potential losses from a possible commitment / liability extended in addition to equity investment (i.e. profit / loss transfer agreements), letters of comfort, capital contribution commitments, additional funding obligations)
  - potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.

- market risk (including foreign exchange and interest rate risks):
  Market price risk comprises potential losses from changes in market prices in both the trading and banking books.

- liquidity risk:
  MKB defines liquidity as the ability to serve its payment obligations entirely as they fall due and to fund new business at all times without having to accept unplanned liquidation losses on the asset side or increased refinancing rates on the funding side.

- operational risk:
  Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, conduct risk, reputational risk, modelling risk respectively information and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

- conduct risk:
  The conduct risk is classified among the operational risks and reflects any risk in the supply of financial services originated from an inadequate supply of services or deliberately exhibited impermissible conduct. This includes risks arising from fraud and unfair, unethical or aggressive trading practices harmful to consumers.

- legal risk:
  Legal risk is the risk of losses due to the non-observance of the scope set by legal provisions and jurisdiction caused by ignorance, lack of diligence in applying law, a delay in reacting to changes in legal framework conditions, unexpected or ex post facto changes in legal framework respectively courts diverse legal judgements from the Bank’s side.

- reputational risk:
  Reputational risk is defined as risks have indirect effect on liquidity, capital or profitability based on unfavourable consumer, partnership, shareholder, investor or official sentiment, which is cancelled from the Bank’s expected assessment level.

- model risk:
  Model is the risk of loss resulting from decisions based on using insufficiently accurate models. Mistakes in models are not necessarily, or not primarily occur from negligence instead limitations of knowledge, not enough data, or changes that cannot be read from past data: simply the fact that the models are never perfect.

- information and communication technology (ICT) risk:
  ICT risk means the current or prospective risk of losses due to the inappropriateness or failure of the hardware and software of technical infrastructures, which can compromise the availability, integrity, accessibility and security of such infrastructures and of data. ICT risk also includes risks occur from outsourcing of ICT relevant systems.

- real estate risk:
  Real estate risk covers potential losses that could result from fluctuations in the market value of real estate owned by MKB Bank. Real estate risks arising from collateral provided for real estate loans are covered under credit risk.

- strategic risk:
  Strategic risk is defined as the negative impact on capital and income of business policy decisions, deficient or unsatisfactory implementation of decisions, or slow adjustment to changes in the economic environment.

- business risk:
  Business risk is defined as unexpected changes in the economic environment that cause negative changes in business volume or margins and are not attributable to other types of risk. It quantifies the difference between planned and actual costs and income.

Below information is presented about the Bank’s exposure to each of the above risks, the Bank’s objectives, policies and processes for measuring and managing risk, and the Bank’s management of capital.

b) Risk management governance

The Bank's Risk Strategy was set up in consistence with the Business Strategy and the regulations of the NBH. The tasks incorporated in the Risk Strategy aiming at ensure a balanced risk/return relationship, development of a disciplined and constructive control environment, defining the Bank’s risk assumption willingness, risk appetite and the on-going ability of the Bank to manage its risks and the maintenance of its funds to cover risk exposures in long-term. This will also ensure the capital preservation and guarantee the solvency of the Bank at any time.

Committees	Key responsibilities
Supervisory Board	- Control on the highest level of the harmonized and prudent operation of the Bank and the credit institutions, financial enterprises and investment companies under its controlling influence; - Management of the company and steering of the company's internal audit organization; - Analysis of the regular and ad-hoc reports prepared by the Board of Directors.
Audit Committee	- The Audit Committee assists the Supervisory Board in auditing the financial reporting system, in the selection of the auditor and in facilitating the Supervisory Board's co-operation with the auditor.
Risk and NPL Committee	- In the frame of continuous monitoring of MKB Bank's strategy and risk taking appetite, previously comments the risk taking strategy, the remuneration policy and the quarterly risk reports. Approves the NPL Strategy of the subject year, incl. the related implementation plan and monitors the changes experienced in the proportion of excessively non-performing loans and the NPL Strategy.
Board of Directors	- As the company's operative managing body, it carries out management related tasks and ensures the keeping of the company's business books in compliance with the regulations; - Tasks related to the shares and dividend; - Tasks related to the company's organization and scope of activities; - Tasks related to the strategic plannig (compilation of the business policy and financial plan and approval of the risk taking strategy); - Approves the policies related to risk assumptions; - Evaluation of the regular and ad-hoc risk reports.
Managing Committee	- This is the highest level decision preparation and decision making body working under the control of the Board of Directors; - The Managing Committee makes decisions regarding issues of general and strategic nature submitted for its perusal and issues related to the Group's operation, the company's organization, the control, management and development of HR policies, business issues related to risk taking, furthermore, negotiates issues related to compliance and money laundering and the respective supervision tasks.
Credit Committee	- The Bank's permanent body with the highest delegated decision making authority under the Board of Directors; - It is authorized to make case-by-case decisions on credits according to the Risk Decision Competence Regulation, except for customers handled by the Restructuring and Debt Management Directorate.
Restructuring and Debt Management Committee	- Organization with the highest level decision making authority regarding the customers handled by the Restructuring and Debt Management Committee; - Decision making competence for credit decisions on deals belonging under the Committee's control, according to the provisions specified in the Risk Decision Competence Regulations; - Authority regarding decision making in terms of debt-to-asset and debt-to-equity conversions, as it is determined in the Risk Decision Competence Regulations.
ALCO	- Responsible for the asset and liability management and the management of the Group's liquidity, funding, capital adequacy and market risks; - Responsible for the development, in principle, of policies regarding the liquidity risks, interest rate risks, exchange risks (foreign exchange and securities), capital adequacy risk and the submission of such policies to the Board of Directors at MKBand Group level, including: ▪ measurement guidelines and limit system for the above mentioned risks; ▪ competence and decision-making mechanism; ▪ guideline for managing limit excess.
Investment, Operation and Project Priorization Committee	- The Committee is responsible for controlling the bank's overall cost structure and revenues; supervises adherence to the limits specified in the annual investment and cost plans; continuously monitors recent changes in the OPEX and CAPEX limits and analyzes the effects made by such changes on the business plan. - Decision making body having competence regarding development requirements and programs connected with issues like IT development efforts and projects and other initiatives, investments and cost requirements or the allocation of related resources. It is responsible for ensuring coordination of the Bank Group's strategic goals and for determining the order of priority in the entire portfolio of projects and developments. - Develops and adopts the Bank's product development processes associated with the pricing principles, in accordance with the Bank's business model and risk management strategy; controls the profitability of the current assortment of products and services.
Ethical Committee	- The Committee is responsible for supporting achievement of compliance with the basic principles and expected patterns of behavior stipulated in the Bank's Ethical Code, discusses cases of ethical imperfections and infringements of extreme significance which can impose potential danger to the Bank's operation and goodwill.
Intrernal Protection Lines Committee	- The Committee is responsible for the integration of communication among the various protection lines and for making them regular and systemic features, and for the improvement or, in case, establishment of the communication channels. - By exerting preventive and proactive activities, it ensures, in respect of the MKB Group, timely and successful identification and management (or enforcement of management) of any risk which can lead to any legal non-compliance or to investigations conducted by external authorities or to the adoption by the supervisory authorities of resolutions condemning the Bank's operations. In case, the Committee ensures immediate taking of the necessary correction measures.

c) Credit risk

Credit risk is the risk of financial loss if a customer or a counterparty fails to meet an obligation under a contract. It arises principally from the Bank's lending, trade finance and leasing business, but also from certain off-balance products such as guarantees, and from assets held in the form of debt securities.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk management

The Bank has standards, policies and procedures dedicated to the effective monitoring and managing risk from lending (including debt securities) activities. The risk management of the MKB Bank controls and manages credit risks at high standards, in a centralised manner. Its responsibilities include:

- Formulating the Bank's credit policy in consultation with business units by establishing credit approval policies, standards, limits and guidelines that define, quantify, and monitor credit risk.

- Establishing the authorisation structure for the approval and renewal of credit facilities. In order to establish an adequate credit decision-making system in which decisions are made on time, the limit amounts are established differently according to the customer segment, the customer quality and the business line, for the delegated credit decision authorities and the boards and individual decision-makers of the Business and Risk Units.

- Monitoring the performance and management of retail and wholesale portfolios across the Bank.

- Supervising the management of exposures to debt securities by establishing controls in respect of securities held for trading purposes.

- Establishing and maintaining the Bank's concentration risk management policies ensuring that the concentration of exposure does not exceed the limits stated in the internal and regulatory limit systems and concentration risks are effectively managed without any need for additional capital requirements if possible.

- Developing and maintaining the Bank's risk assessment systems in order to categorise the exposures according to the degree of the risk of financial loss faced and to manage the existing risks adequately. The purpose of the credit (deal) classification system is to define when impairment may be required against specific credit exposures. The risk categorisation system consists of several grades which reflect sufficiently the varying degrees of risk of default and the availability of collateral or other credit risk mitigation options with regard to a specific exposure.

- Providing position statements, guidance and professional support to the business units of the Bank members in credit risk management.

The control systems applied by the Bank enable to control and monitor exposures by customer and retail product segment.

Data in HUF million except stated otherwise

In order to comply with the prudential requirements, MKB Bank developed and operates its borrower group forming concept. As part of that, the borrower group-level monitoring concept is to be highlighted. According to the processes, the complete risk assumption process must be executed at the level of borrower groups: in the case of the individual groups the limit proposal and monitoring process for each individual group members takes place at the same time based on the collective analysis and consideration of risks.

With regards to the management of concentration risks, MKB Bank implemented the global concept of concentration risk limits. As part of the concept, the Bank set up bank and sector level KPI's (key performance indicator) set and product limits, in order to restrain the assumption of further risks arising from the characteristics / risks rooted in different sectors and the assumption of risks of products representing high or special risk. Aiming at avoid high risk concentration within the portfolio, the concentration risk limit value has been established for the total bank portfolio, with the stipulation that the limits of the individual customers / customer groups may exceed this target value only in extraordinary and justified cases, based exclusively on the strategic guidelines approved by the relevant Committee.

The tables required by CRR, but not presented in this Note are available in the Disclosure according to Regulation (EU) No. 575/2013 prepared by MKB Bank, available on our website www.mkb.hu.

The table below shows the Bank's maximum exposure to credit risk at the end of the reporting period:

6.1

31 December 2019	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Individually impaired						
Non-default	-	-	-	-	-	-
Default	-	-	17 769	-	-	361
Total individually impaired gross amount	-	-	17 769	-	-	361
Total individually impaired allowance for impairment	-	-	(15 226)	-	-	(216)
Total individually impaired carrying amount	**-**	**-**	**2 543**	**-**	**-**	**145**
Collectively impaired						
Non-default	3 269	60 648	746 696	286 468	-	289 526
Default	-	-	19 337	-	-	335
Total collectively impaired gross amount	3 269	60 648	766 033	286 468	-	289 861
Total collectively impaired allowance for impairment	-	(20)	(24 992)	(82)	-	(1 245)
Total collectively impaired carrying amount	**3 269**	**60 628**	**741 041**	**286 386**	**-**	**288 616**
Past due but not impaired						
Non-default	-	-	411	-	-	-
Default	-	-	28	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**439**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	52 119	1 764	178 557	-	-	74 826
Default	-	-	35	-	-	60
Total neither past due nor impaired carrying amount	**52 119**	**1 764**	**178 592**	**-**	**-**	**74 886**
Total assets measured at fair value	**-**	**-**	**1 323**	**314 508**	**18 193**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	789
Provision for other contingent liablities	-	-	-	-	-	(619)
Total gross amount	**55 388**	**62 412**	**964 156**	**600 976**	**18 193**	**365 897**
Total allowance for impairment	**-**	**(20)**	**(40 218)**	**(82)**	**-**	**(2 080)**
Total carrying amount	**55 388**	**62 392**	**923 938**	**600 894**	**18 193**	**363 817**

Data in HUF million except stated otherwise

31 December 2018	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Individually impaired						
Non-default	-	-	-	-	-	-
Default	-	-	32 897	-	-	467
Total individually impaired gross amount	-	-	32 897	-	-	467
Total individually impaired allowance for impairment	-		(27 102)	-	-	(99)
Total individually impaired carrying amount	**-**	**-**	**5 795**	**-**	**-**	**368**
Collectively impaired						
Non-default	9	62 790	698 466	61 541	-	310 313
Default	-	-	42 134	-	-	376
Total collectively impaired gross amount	9	62 790	740 600	61 541	-	310 689
Total collectively impaired allowance for impairment		(15)	(36 774)	(63)	-	(1 245)
Total collectively impaired carrying amount	**9**	**62 775**	**703 826**	**61 478**	**-**	**309 444**
Past due but not impaired						
Non-default	-	-	3	-	-	-
Default	-	-	50	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**53**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	19 231	835	175 461	349 799	-	102 470
Default	-	-	111	-	-	112
Total neither past due nor impaired carrying amount	**19 231**	**835**	**175 572**	**349 799**	**-**	**102 582**
Total assets measured at fair value	**-**	**-**	**7 898**	**361 752**	**17 914**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	21 751
Provision for other contingent liablities	-	-	-	-	-	(1 241)
Total gross amount	**19 240**	**63 625**	**957 020**	**773 092**	**17 914**	**435 489**
Total allowance for impairment	**-**	**(15)**	**(63 876)**	**(63)**	**-**	**(2 585)**
Total carrying amount	**19 240**	**63 610**	**893 144**	**773 029**	**17 914**	**432 904**

In order to provide a more accurate picture of the Bank's maximum exposure, the structure of the note has been changed.

Offsetting of financial assets and liabilities

This disclosure represents the financial instruments that are set off or that are subject to an enforceable master netting agreement or similar agreement, irrespective whether they are set off or not.

As of 31 December 2019 the Bank had no enforceable master netting agreement or similar agreement which should be set off in accordance with IAS 32.42.

The below table presents all the amounts that could potentially have been subject to an enforceable master netting agreement or similar agreement that are recognized financial instruments. As these agreements and the amounts related to them as financial collateral do not meet some or all offsetting criteria in IAS 32.42., the Bank does not apply offsetting to either of them. This is because the agreements constitute rights for an offset that is enforceable only in case of default, insolvency or bankruptcy of the Bank or its counterparties. In addition the Bank or the counterparties do not intend to settle on a net basis or realize the assets and settle the liabilities simultaneously.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Data in HUF million except stated otherwise

The Bank receives and gives collateral in the form of cash and marketable securities in respect of following transactions:

- derivatives
- sale and repurchase agreements, reverse sale and repurchase agreements.

Such collateral is subject to standard industry terms, including an ISDA Credit Support Annex.

The table below presents the potential effect of the not implemented offsetting as well.

6.2

31 December 2019 / Offsetting financial assets	IAS 32.42			similar netting arrangement			Net amount of financial assets after offsetting/ similar agreement /collaterals
	Gross carrying amount before offsetting	Gross amounts of offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivable collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivate financial assets	63 561	-	63 561	-	568	568	62 993
Receivables concerning repos							
Loans and advances to customers	29 413	-	29 413	-	-	-	29 413
Financial assets under netting agreements	**92 974**	**-**	**92 974**	**-**	**568**	**568**	**92 406**

31 December 2018 / Offsetting financial assets	IAS 32.42			similar netting arrangement			Net amount of financial assets after offsetting/ similar agreement /collaterals
	Gross carrying amount before offsetting	Gross amounts of offsetting	Recognised net carrying amount set off	Carrying amounts of accompanied liabilities	Received collaterals	Carrying amounts + receivable collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivate financial assets	21 873	-	21 873	-	570	570	21 303
Receivables concerning repos							
Loans and advances to customers	23 767	-	23 767	-	-	-	23 767
Financial assets under netting agreements	**45 640**	**-**	**45 640**	**-**	**570**	**570**	**45 070**

The gross amounts of financial assets and liabilities presented in the table above measured in the financial statements on the following bases:

- Financial assets measured at FVTPL – fair value,
- Derivative financial instruments – fair value,
- Loans and advances to customers – amortised cost, pledged collateral – fair value,
- Deposits and current accounts – amortised cost, pledged collateral – fair value.

Data in HUF million except stated otherwise

The table below reconciles the Net amount after offsetting to the related individual line items of the Statement of Financial position.

6.3

31 December 2019 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial assets	31 781	18 193	(13 588)
Loans and advances to customers	29 413	923 938	894 525

31 December 2019 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	-	44 263	44 263
Deposits and current accounts	-	1 237 260	1 237 260

31 December 2018 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial assets	21 873	17 914	(3 959)
Loans and advances to customers	23 767	893 144	869 377

31 December 2018 Line item of Statement of Financial Position	Net amount after offsetting / similar agreement / collaterals	Carrying amount in the statement of financial position	Financial assets not in scope of offsetting disclosure
Derivative financial liabilities	-	31 608	31 608
Deposits and current accounts	-	1 380 838	1 380 838

Credit risk classification system

The Bank's credit risk classification systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss.

For individually significant wholesale financial assets, the classifications are reviewed regularly and amendments, where necessary, are implemented at least monthly in terms of provisions and exposure classification.

Exposures below specific amounts are assessed on a collective basis, in relation to which the credit risk parameters are reviewed at least yearly or, more frequently if required, in line with the changes of the main economic conditions.

The Bank for each balance sheet closing date (the last day of the month) evaluates the changes in the credit risk that have occurred since the initial recognition of the financial assets and allocate the appropriate stage categories.

During the valuation the Bank assesses the change in the risk of default over the life of the financial instrument using all reasonable and supportable information, which is available without undue cost or effort and without exhaustive search of information. The Bank represents lifetime credit losses in the case where credit risk increased significantly.

The financial assets are initially in the stage 1 category, and they can be returned from stage 2 or from stage 3 if the necessary conditions are performed.

The credit risk of the deals are determined by the extent of change between the initial and the actual PD level, the duration of the delay, the client rating and the client handling method. In case of significant credit risk increase the deal is reclassified to stage 2 and lifetime credit losses are recognised on these financial assets.

If the credit risk of a financial asset increases to the point that it is considered credit-impaired (defaulted), the financial asset is transferred to stage 3.

In the stage 1, the time horizon is one year, in the stage 2 the lifetime PiT PD's are estimated. The stage 3 contains the defaulted customers, where the PD equals to 1. In the stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used.

Collective valuation

According to the credit risk characteristics, similar (homogeneous) financial assets are subject to collective valuation. The basis for the formation of homogeneous groups is the client segmentation and the credit risk product type.

The collectively allocated impairment and provisioning methodology is applied to all retail clients, to the wholesale customers in stage 1 and stage 2 and to the wholesale customer in stage 3 below the client exposure limit.

Determining the collective loss allowance the expected credit loss (ECL) method is applied according to the IFRS 9.

The expected credit loss is determined on the basis of the probability of default (PD), actual losses realized on non-performing transactions the actual losses realized on non-performing deals (LGD) and the credit conversion factor (CCF) probability of becoming a balance sheet item.

The risk parameters are determined based on statistical models. The models are validated at least once a year and reviewed if necessary.

The expected credit loss for financial assets in stage 1 is determined on the basis of a 12-month expected credit loss. Lifetime expected credit losses are recognised on the financial assets in stage 2 and stage 3.

The purchased or originated credit-impaired (POCI) financial assets at the reporting date represent the cumulative changes in lifetime credit risk from the initial recognition. In the Bank's practice, the loans originally disbursed in foreign currency have been converted to forint, and therefore present as POCI assets. Typically mortgage loans were involved.

In the case of financial assets recorded at fair value, the Bank calculates the credit risk component of the discount factor on the basis of the principles used in determining the expected credit loss.

Individual-based valuation

Financial assets in the stage 3 are assessed individually over the exposure limit level.

In determining the level of allowances on individually significant financial assets in stage 3, the Bank applies the scenario-based discounted cash flow method. The amount and timing of expected receipts and recoveries, the value of collateral and the probability of realization are considered in estimating the allowance in each scenario. The scenario weights are used in the calculation of the loss allowance.

The credit conversion factor is taken into account in loss allowance calculation for contingent liabilities.

In case of financial assets are measured individually at fair value the expected loss calculation uses the cash-flow scenarios.

Write-off policy

The Bank, in compliance with the stipulations of legal regulations, writes off a loan / security balance (and any related allowances for impairment losses) when there is documented evidence that no further recovery can be expected. This determination is reached on the basis of a final statement in case of liquidation or upon establishment that after ceasing the debtor and/or collateral provider to exist, and/or after using all proceeds from collaterals there is still unrecovered exposure remaining.

Collateral structure

The Bank applies the basic principle, whereby it extends loans primarily in relation to and based on the customer's repayment capacity, instead of relying too much on the available collateral. Depending on the customer's paying capacity and rating, as well as the product type, unsecured loans may be extended only in strictly regulated and controlled cases. Nevertheless, collateral could mitigate the credit risk.

The main collateral types are as follows:

- primarily mortgages on residential properties in the retail sector;
- pledge on business assets, such as real estates, stock and debtors, in the commercial and industrial sector;
- mortgages on the financed properties in the commercial real estate sector; and
- securities, guarantees,
- money, securities deposited as collateral.

The Bank establishes the coverage ratio required for individual exposures and makes its decisions on the basis of the so-called collateral value of the collateral items instead of their market value. This value is adjusted by conservative estimation, which assists the prudent management of occurring risks, taking into consideration the relevant order of accountability and resolution making during the action. In case of collaterals of non-performing clients the Bank applies so-called liquidation value, which is established by the revaluation of the collateral, involving additional costs arising during the forced sale in relatively short period.

Taking into account the EU and Hungarian regulatory environment and legal practices, and relying on its own experiences and known Hungarian experiences in the enforcement of the collateral items, the Bank restricted, as much as possible (within the limits of the economies of scale) the rules of acceptability of the various collateral items and the calculation of the collateral and liquidation values assigned to them. The regular monitoring and revaluation of the collateral items securing the individual exposures is an important pillar in the Bank's monitoring system.

Data in HUF million except stated otherwise

The market values of collaterals held to the amount of the assets' carrying amounts at the end of the reporting period were as follows:

6.4

2019	Loans and advances	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	22 694	10 296	59	843
Debt securities issued by				
Central governments	55	-	-	-
Companies	59 747	411	-	829
Mortgage				
Building (incl. plot)	262 346	13 271	6 452	17 561
Other (ship, patent, chattel, goods stock, lien on assets over total assets, etc.)	59 211	30 109	7 295	16 702
Guarantees from				
Central governments	117 241	28 766	12 758	30 489
Other banks	15 019	689	-	-
Companies	31 247	13 254	-	25 322
Others	29 288	2 913	-	3 856
Total collateral	**596 848**	**99 709**	**26 564**	**95 602**

2018	Loans and advances	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	14 223	12 734	99	3 596
Debt securities issued by				
Companies	61 330	432	-	89
Mortgage				
Building (incl. plot)	270 049	9 087	2 783	18 788
Other (ship, patent, chattel, goods stock, lien on assets over total assets, etc.)	11 978	10 677	32	1 928
Guarantees from				
Central governments	98 250	47 873	11 581	14 349
Other banks	27 636	787	-	-
Companies	7 607	889	-	9 140
Others	18 444	-	-	-
Total collateral	**509 517**	**82 479**	**14 495**	**47 890**

Valuation methods

The aim of collateral valuation is to conduct advisable and stable evaluation of value, taking into consideration the fluctuation of market prices.

The basis of the collateral valuation is provided by the collateral value (reflecting the value that can be realized on its own, independently from the course of business).

Data in HUF million except stated otherwise

Cash deposits:
In case of bails, if the type of the currency of commitments and collaterals is the same, the amount of bail can be taken into account in 100%.

Securities:
The value of securities equals with the latest accessible market value. Revaluation is done in every sixth month.

Mortgage:
In case of real estates the calculation of the collateral value is done on the basis of individual evaluation of the real estate on the occasion of reception, taking into account minimum correction factors determined by the Bank.

The Bank applies 3 main revaluation methods:

- evaluation by experts involved in the list;
- evaluation by the Bank's own experts involving relevant information provided by the 'list' experts;
- statistical method mostly in case of residential real estates

Guarantees:
In course of definition of collateral value, the probability of non-performance of the guarantee (depending on the quality of the guarantor), the Bank's outstanding relevant to guarantee and the empirical value on possibility of calling in guarantees are taken into considerations.

The Bank didn't obtain any assets by taking possession of collateral held as security, or exercising other credit enhancement options.

The management and processes of such assets obtained are regulated in the Bank's Wholesale and Retail Debt to Asset / Debt to Equity Policy.

Concentrations

The Bank monitors and analyses the concentration of credit risk in term of economic activities and risk classification.

An analysis on the gross exposures of credit risk concentration in terms of exposure types and risk classification at the end of the reporting periods is shown below:

6.5

2019	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Category I - without country risk	-	20 930	9 610	240	4 007	1 066
Category II - with low to medium country risk	-	4 205	1 970	7 271	1 753	448
Category III - with medium to high country risk	-	16	127	-	48	6
Total exposure	**-**	**25 151**	**11 707**	**7 511**	**5 808**	**1 520**

2018	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Category I - without country risk	-	22 774	10 209	-	1 469	4 006
Category II - with low to medium country risk	-	8 981	1 211	882	1 581	2 163
Category III - with medium to high country risk	-	96	186	-	34	6
Total exposure	**-**	**31 851**	**11 606**	**882**	**3 084**	**6 175**

- Category I comprises the EMU countries
- Category II comprises countries with Moody's rating AAA - Baa3
- Category III comprises countries with Moody's rating Ba1 or worse

Data in HUF million except stated otherwise

The Bank classified the total exposure according to the internationally used and recognized NACE Statistical Classifications of Economic Activities issued by the European Commission.

The following tables show the gross amount and impairment of total exposure by NACE codes and exposure types at the end of the reporting periods:

6.6

31 December 2019	Gross amount					
	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	-	-	481	-	-	101
Mining and quarrying	-	-	96	-	-	97
Construction	-	-	39 723	-	2 775	64 016
Manufacturing	-	-	103 139	8 340	407	61 363
Human health services and social work activities	-	-	3 746	-	-	487
Information and communication	-	-	33 267	11	13	3 786
Real estate activities	-	-	21 623	-	73	5 007
Public administration and defence, compulsory social security	-	-	73 824	559 895	3 928	38 871
Agriculture, forestry and fishing	-	-	15 075	-	7	4 544
Arts, entertainment and recreation	-	-	1 633	-	5	11 798
Wholesale and retail trade	-	-	62 782	-	391	33 947
Education	-	-	360	-	1	374
Professional, scientific and technical activities	-	-	54 264	1 317	16	41 877
Accommodation and food service activities	-	-	4 416	-	-	2 078
Transport and storage	-	-	35 148	-	64	7 881
Electricity, gas, steam, air conditioning and water supply	-	-	24 969	26	146	12 602
Financial and insurance activities	55 385	62 335	217 728	31 387	7 554	43 111
Other services	3	77	271 882	-	2 813	33 957
Total exposure	**55 388**	**62 412**	**964 156**	**600 976**	**18 193**	**365 897**

31 December 2019	Impairment					
	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	-	-	36	-	-	-
Mining and quarrying	-	-	1	-	-	-
Construction	-	-	5 613	-	-	481
Manufacturing	-	-	11 346	51	-	289
Human health services and social work activities	-	-	1 118	-	-	1
Information and communication	-	-	1 600	-	-	72
Real estate activities	-	-	350	-	-	10
Public administration and defence, compulsory social security	-	-	283	27	-	9
Agriculture, forestry and fishing	-	-	283	-	-	15
Arts, entertainment and recreation	-	-	59	-	-	3
Wholesale and retail trade	-	-	2 137	-	-	118
Education	-	-	22	-	-	4
Professional, scientific and technical activities	-	-	3 405	-	-	73
Accommodation and food service activities	-	-	206	-	-	4
Transport and storage	-	-	526	-	-	16
Electricity, gas, steam, air conditioning and water supply	-	-	999	-	-	5
Financial and insurance activities	-	20	919	4	-	29
Other services	-	-	11 315	-	-	951
Impairment	**-**	**20**	**40 218**	**82**	**-**	**2 080**

31 December 2018	Gross amount					
	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	-	-	7 126	-	-	51
Mining and quarrying	-	-	47	-	-	113
Construction	-	-	51 068	-	2 380	63 585
Manufacturing	-	-	97 885	8 403	418	62 860
Human health services and social work activities	-	-	2 982	-	-	729
Information and communication	-	-	33 090	18	8	6 478
Real estate activities	-	-	31 485	-	55	6 092
Public administration and defence, compulsory social security	-	-	55 126	742 687	4 140	74 976
Agriculture, forestry and fishing	-	-	14 283	-	19	3 780
Arts, entertainment and recreation	-	-	8 383	-	-	6 753
Wholesale and retail trade	-	-	68 698	-	139	31 161
Education	-	-	396	-	-	292
Professional, scientific and technical activities	-	-	61 705	882	13	49 568
Accommodation and food service activities	-	-	4 808	-	-	5 313
Transport and storage	-	-	38 588	-	162	16 995
Electricity, gas, steam, air conditioning and water supply	-	-	9 832	22	39	14 898
Financial and insurance activities	18 466	63 536	209 267	21 080	7 419	35 443
Other services	774	89	262 251	-	3 122	56 402
Total exposure	**19 240**	**63 625**	**957 020**	**773 092**	**17 914**	**435 489**

Data in HUF million except stated otherwise

31 December 2018	Impairment					
	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Administrative and support service activities	-	-	55	-	-	-
Mining and quarrying	-	-	1	-	-	16
Construction	-	-	3 601	-	-	267
Manufacturing	-	-	10 316	23	-	170
Human health services and social work activities	-	-	1 110	-	-	2
Information and communication	-	-	768	-	-	236
Real estate activities	-	-	1 139	-	-	9
Public administration and defence, compulsory social security	-	-	131	38	-	35
Agriculture, forestry and fishing	-	-	290	-	-	6
Arts, entertainment and recreation	-	-	93	-	-	12
Wholesale and retail trade	-	-	2 724	-	-	80
Education	-	-	24	-	-	8
Professional, scientific and technical activities	-	-	15 756	-	-	66
Accommodation and food service activities	-	-	177	-	-	6
Transport and storage	-	-	454	-	-	14
Electricity, gas, steam, air conditioning and water supply	-	-	1 530	-	-	7
Financial and insurance activities	-	15	865	2	-	31
Other services	-	-	24 842	-	-	1 620
Impairment	**-**	**15**	**63 876**	**63**	**-**	**2 585**

Other services include private retail loans.

d) Liquidity risk

Liquidity risk is the risk that the Bank's cash flows may not be adequate to fund operations and meet commitments on a timely and cost-effective basis. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk

The Bank’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the MKB’s reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to approval by the Board of Directors following the prior review and approval by the Asset-Liability Management Committee (hereinafter: “ALCO”).

Contractual maturity of liabilities

6.7

2019	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(195 683)	(202 207)	(7 666)	(6 831)	(19 709)	(82 838)	(85 163)
Deposits and current accounts	(1 237 260)	(1 238 049)	(1 140 435)	(31 278)	(43 399)	(22 937)	-
Issued debt securities	(1 331)	(1 331)	-	-	(930)	(401)	-
Subordinated debt	(39 381)	(45 702)	(763)	-	(1 264)	(33 151)	(10 524)
	(1 473 655)	**(1 487 289)**	**(1 148 864)**	**(38 109)**	**(65 302)**	**(139 327)**	**(95 687)**
Derivative financial liabilities							
Trading: outflow		(368 554)	(105 162)	(119 318)	(83 017)	(39 289)	(21 768)
Trading: inflow		320 966	99 565	103 699	46 651	46 960	24 091
	(44 263)	**(47 588)**	**(5 597)**	**(15 619)**	**(36 366)**	**7 671**	**2 323**
Loan commitments		(242 662)	(19 610)	(9 861)	(87 610)	(54 577)	(71 004)

Data in HUF million except stated otherwise

2018	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(214 153)	(219 167)	(38 614)	(6 682)	(34 999)	(83 571)	(55 301)
Deposits and current accounts	(1 380 838)	(1 382 323)	(1 147 219)	(101 959)	(76 364)	(56 781)	-
Issued debt securities	(5 696)	(5 696)	(146)	(1 442)	(3 774)	(334)	-
Subordinated debt	(28 002)	(35 387)	(674)	-	(1 230)	(4 922)	(28 561)
	(1 628 689)	**(1 642 573)**	**(1 186 653)**	**(110 083)**	**(116 367)**	**(145 608)**	**(83 862)**
Derivative financial liabilities							
Trading: outflow		(409 520)	(117 583)	(119 218)	(97 729)	(51 521)	(23 469)
Trading: inflow		353 110	113 921	109 260	48 863	55 641	25 425
	(31 608)	**(56 410)**	**(3 662)**	**(9 958)**	**(48 866)**	**4 120**	**1 956**
Loan commitments		(250 648)	(17 808)	(7 999)	(71 333)	(72 857)	(80 651)

The above table shows the undiscounted contractual cash flows of the Bank's financial liabilities and loan commitments based on their earliest possible date of maturity. The disclosure for derivatives shows the gross inflow and outflow amount for derivatives (e.g., forward exchange contracts and currency swaps).

The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and loan commitments are not all expected to be drawn down immediately. Due to the significant difference between the expected and the contractual cash flows, the Bank's risk management department use both analyses to manage liquidity risk.

The expected, undiscounted cash flows of the Bank's financial liabilities were as follows:

Expected maturity of liabilities

6.8

2019	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(195 683)	(202 207)	(7 666)	(6 831)	(19 709)	(82 838)	(85 163)
Deposits and current accounts	(1 237 260)	(1 238 049)	(68 375)	(2 445)	(2 578)	(1 184)	(1 163 467)
Issued debt securities	(1 331)	(1 331)	-	-	(930)	(401)	-
Subordinated debt	(39 381)	(45 702)	(763)	-	(1 264)	(33 151)	(10 524)
	(1 473 655)	**(1 487 289)**	**(76 804)**	**(9 276)**	**(24 481)**	**(117 574)**	**(1 259 154)**
Derivative financial liabilities							
Trading: outflow		(368 554)	(105 162)	(119 318)	(83 017)	(39 289)	(21 768)
Trading: inflow		320 966	99 565	103 699	46 651	46 960	24 091
	(44 263)	**(47 588)**	**(5 597)**	**(15 619)**	**(36 366)**	**7 671**	**2 323**
Loan commitments		(53 559)	(17 574)	(35 148)	(837)	-	-

2018	Carrying amount	Gross nominal inflow/(outflow)	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and over
Non-derivative liabilities							
Amounts due to other banks	(214 153)	(219 167)	(38 614)	(6 682)	(34 999)	(83 571)	(55 301)
Deposits and current accounts	(1 380 838)	(1 383 663)	(100 935)	(9 759)	(8 449)	(16 619)	(1 247 901)
Issued debt securities	(5 696)	(5 696)	(146)	(1 442)	(3 774)	(334)	-
Subordinated debt	(28 002)	(35 387)	(674)	-	(1 230)	(4 922)	(28 561)
	(1 628 689)	**(1 643 913)**	**(140 369)**	**(17 883)**	**(48 452)**	**(105 446)**	**(1 331 763)**
Derivative financial liabilities							
Trading: outflow		(409 520)	(117 583)	(119 218)	(97 729)	(51 521)	(23 469)
Trading: inflow		353 110	113 921	109 260	48 863	55 641	25 425
	(31 608)	**(56 410)**	**(3 662)**	**(9 958)**	**(48 866)**	**4 120**	**1 956**
Loan commitments		(40 404)	(14 337)	(26 067)	-	-	-

Data in HUF million except stated otherwise

The decision of the Management of the Bank, however, is also based on the liquidity gap (net position) between contractual expected in- and outflows, therefore both financial assets and liabilities are grouped into liquidity buckets.

The following table shows the gross amounts of financial current and non-current assets:

6.9

	2019		2018	
	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year
Loans and advances to banks	*55 648*	*6 764*	*62 526*	*1 100*
measured at AC	55 648	6 764	62 526	1 100
Loans and advances to customers	*86 187*	*877 969*	*78 131*	*878 888*
measured at AC	86 187	876 646	78 063	871 059
measured at FVTPL		1 323	68	7 829
Derivative financial assets	*2 507*	*15 686*	*2 278*	*15 636*
Securities	*5 571*	*595 405*	*151 133*	*621 896*
measured at AC		286 469	987	410 290
measured at FVTPL	842	4 058	59 419	2 059
measured at FVTOCI	4 729	304 878	90 728	209 546

The table above represents the gross amounts expected to be recovered or settled within time categories. Impairment on loans and advances to customers has an amount of HUF 40,218 million (2018: HUF 63,876 million).

e) Market risk

Market risk is the risk that changes in market prices, such as interest rate (interest rate risk), equity prices (equity risk), and foreign exchange rates (foreign exchange risk) will affect the Bank's income or the value of its holdings of financial instruments.

Management of market risks

As part of the Risk strategy, the Board of Directors approves the maximum amount and scope of market risks incurable by the Bank, ensured by a comprehensive limit structure broken down by relevant portfolios. The main market risk limit is arising from the annual capital allocation process based on ICAAP requirements.

ALCO is responsible for developing and monitoring the Bank's market risk management policies. ALCO has the overall responsibility for establishing and managing market risk policies for the Bank, within the framework of internal policies, covering risk management, assessment of risk and related limits, competence and decision-making mechanism, and regulation for breaches of limits, approved by the Board of Directors. The members of the ALCO are senior executives who have principal decision-making responsibilities for businesses throughout the whole Bank. At the operational level, market risk is managed by the Money and Capital Markets Managing Directorate on a bank-wide basis.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios include those positions arising from market-making, customer business driven proprietary position-taking and other marked-to-market positions as designated. According to the risk strategy of the Bank there is no own account activity (proprietary trading) with the purpose of short term profit arising from market changes. Trading activities include transactions with debt and equity securities, foreign currencies, and derivative financial instruments.

Non-trading portfolios include positions that arise from the Bank’s retail and commercial banking activity and the interest rate management of the Bank’s retail and commercial banking assets and liabilities. The Bank's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments.

Exposure to market risks – trading portfolios

The Bank manages exposure to market risk by establishing and monitoring various limits on trading activities. These limits include:

- Product volume limits define maximum aggregate amounts of trading products and contracts that the Bank may hold at any time.
- FX position limits restrict the long and short position for each currency and the total net amounts of FX positions that can be held in the trading and banking books.
- VaR limits: The VaR limit of a trading portfolio is the estimated maximum loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). MKB Bank applies historical and parametric VaR method with 1-day holding period at 99% confidence level.
- PLA (Potential Loss Amounts) limits define maximum amount of loss that the Bank is willing to assume.

The VaR model used is based mainly on historical data. Taking account of market data from the previous one year (250 business days in case of historical VaR and and 187 business days in case of parametric VaR), and observed relationships between different markets and prices, the model calculates both diversified and undiversified total VaR, and VaR by risk factors such as interest rate, equity and currency VaR.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- VAR only covers “normal” market conditions.
- The VaR measure is dependent upon the Bank’s position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured on a daily basis. Daily reports of utilisation of VaR limits are prepared by the Bank’s Risk Unit and regular summaries are submitted to ALCO.

Data in HUF million except stated otherwise

A summary of the VaR position of the Bank's trading portfolios (i.e. only its trading book) as at 31 December and during the period is as follows:

6.10

2019	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	11	56	1	95
Interest rate risk	46	112	14	-
Equity risk	2	3	1	-
Overall market risk of trading book	**59**	**171**	**16**	**95**
Credit spread risk of trading book	60	150	17	-

2018	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	26	102	2	154
Interest rate risk	87	206	14	-
Equity risk	1	1	-	-
Overall market risk of trading book	**114**	**309**	**16**	**154**
Credit spread risk of trading book	50	92	17	-

Important notes in connection with the table above:

- MKB applies historical and parametric VaR for general market risk:
    - Historical VaR: (1 day holding period; 99% confidence level, number of observation: 250 business days)
    - Parametric VaR: Risk metrics methodology (1 day holding period; 99% confidence level, 0.94 decay factor, number of observation: 187 business days)
- MKB calculates specific interest rate risk (credit spread risk) separately from general interest rate risk based on the swap and bond yield curve spread.
- Bank calculates VaR only on trading-book position.
- There is no commodity in MKB position.
- MKB does not have a significant open position from options therefore there is no volatility VaR calculation.

A potential adverse 15% change in the FX rates (HUF appreciation for long position and HUF depreciation for short position) would cause HUF 95 million losses based on the year-end FX open position.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows of financial instrument because of a change in market interest rates.

The management of interest rate risk is supplemented by monitoring the sensitivity of the financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point parallel fall or rise in all yield curves worldwide.

Data in HUF million except stated otherwise

ALCO is the monitoring body for compliance with approved limits and is assisted by Risk Controlling in its monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

At the end of the reporting period the interest rate profile of the Bank's interest-bearing financial instruments was:

6.11

As at 31 December 2019

Fixed rate instruments	Gross amount
Financial assets	698 132
Financial liabilities	(331 467)
Net fixed rate instruments	**366 665**

Variable rate instruments	Denominated in				
	HUF	CHF	EUR	USD	Other currencies
Financial assets	718 166	1 083	204 795	3 068	2 300
Financial liabilities	(819 717)	(4 178)	(244 900)	(68 296)	(5 097)
Net variable rate instruments	**(101 551)**	**(3 095)**	**(40 105)**	**(65 228)**	**(2 797)**

As at 31 December 2018

Fixed rate instruments	Gross amount
Financial assets	784 115
Financial liabilities	(526 439)
Net fixed rate instruments	**257 676**

Variable rate instruments	Denominated in				
	HUF	CHF	EUR	USD	Other currencies
Financial assets	802 479	2 518	196 106	8 204	3 289
Financial liabilities	(780 032)	(3 779)	(242 510)	(67 159)	(8 770)
Net variable rate instruments	**22 447**	**(1 261)**	**(46 404)**	**(58 955)**	**(5 481)**

According to the annual review, the MKB revised its interest rate risk modelling of sight deposits in 2019. According to the results no substantial change was required in the risk modelling of sight deposits.

An analysis of the Bank’s sensitivity to an increase or decrease in market interest rates is as follows:

6.12

2019	Effect on equity	Effect on P/L
HUF		
200 bp increase	(22 090)	(2 681)
200 bp decrease	26 214	(6 085)
CHF		
200 bp increase	4	(19)
200 bp decrease	-	(10)
EUR		
200 bp increase	7 833	690
200 bp decrease	(9)	(1 035)
USD		
200 bp increase	2 086	389
200 bp decrease	(1 819)	(1 089)
Other currencies		
200 bp increase	(11)	91
200 bp decrease	10	(74)

2019			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	7 833	(9)	(9)
USD	2 086	(1 819)	(1 819)
CHF	4	-	-
GBP	1	(1)	(1)
JPY	-	-	-
Others	(22 102)	26 225	(22 102)
Total	**(12 178)**	**24 396**	**(23 931)**

2018	Effect on equity	Effect on P/L
HUF		
200 bp increase	(8 097)	(9 325)
200 bp decrease	(5 241)	(6 988)
CHF		
200 bp increase	(7)	(1)
200 bp decrease	-	(14)
EUR		
200 bp increase	6 364	(181)
200 bp decrease	(124)	(1 015)
USD		
200 bp increase	1 910	427
200 bp decrease	(2 130)	(1 121)
Other currencies		
200 bp increase	6	(14)
200 bp decrease	(3)	(61)

2018			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	6 364	(124)	(124)
USD	1 910	(2 130)	(2 130)
CHF	(7)	-	(7)
GBP	4	(2)	(2)
JPY	-	-	-
Others	(8 096)	(5 242)	(8 098)
Total	**175**	**(7 498)**	**(10 361)**

The amount of change, during the period and cumulatively, in the fair value of the financial liabilities designated as at fair value through profit or loss, that is attributable to changes in the credit risk of that liabilities are the followings:

6.13

Effect of credit risk changes of liabilities measured at Fair Value Through Profit or Loss	2019	2018
Changes during the reporting period	(134)	15
Changes cumulatively (since designation of the financial liabilities)	134	(134)
Difference between the financial liability's carrying amount and the amount contractually required to pay at maturity	-	157

The amount which reflects on changes in market conditions for these liabilities as changes in interest rate, is estimated as follows:

- First, computing the liability’s internal rate of return at the start of the period using the observed market price of the liability and the liability’s contractual cash flows at the start of the period. It deducts from this rate of return the observed (base rate of the relevant market) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.

Data in HUF million except stated otherwise

- Next, calculating the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of
  - the observed (base rate of the relevant market) interest rate at the end of the period and
  - the instrument-specific component of the internal rate of return

  as determined in the first point.

- The difference between the observed market price of the liability at the end of the period and the amount determined in the second point is the change in fair value that is not attributable to changes in the observed (base rate in the relevant market) interest rate.

Exposure to other market risks – non-trading portfolios

The Bank is exposed to foreign exchange risk through its holdings of financial instruments denominated in foreign currencies. Exchange risk management aims to reduce the adverse impact of potential changes in the market value of foreign currency financial instruments induced by exchange rate fluctuations.

The Bank's financial position in foreign currencies at the end of the reporting periods was as follows:

6.14

2019	In functional currencies	In foreign currencies				Total
		USD	EUR	CHF	Other	
Net assets	1 455 308	13 508	299 541	928	3 171	1 772 456
Net liabilities	1 304 748	87 863	366 680	5 643	7 522	1 772 456
Net derivative and spot instruments (short) / long position	(150 152)	74 369	67 215	4 715	3 853	-
Total net currency positions	**408**	**14**	**76**	**-**	**(498)**	**-**

2018	In functional currencies	In foreign currencies				Total
		USD	EUR	CHF	Other	
Net assets	1 529 607	10 197	311 912	2 408	4 505	1 858 629
Net liabilities	1 359 363	93 021	387 847	5 459	12 939	1 858 629
Net derivative and spot instruments (short) / long position	(169 734)	82 441	75 771	3 124	8 398	-
Total net currency positions	**510**	**(383)**	**(164)**	**73**	**(36)**	**-**

Data in HUF million except stated otherwise

f) Encumbered assets

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

6.15

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution				
Loans on demand	244	244	291	291
Debt securities	163 348	153 240	202 562	200 935
Loans and advances other than loans on demand	100 154	-	47 083	-
Total encumbered assets	**263 746**	**153 484**	**249 936**	**201 226**

6.16

	Non-encumbered	
	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
31 December 2019		
Collateral received by the reporting institution		
Loans on demand	648	-
Loans and advances other than loans on demand	31 245	-
Other collateral received	-	251 036
Collateral received and own debt securities issued	**31 893**	**251 036**
31 December 2018		
Collateral received by the reporting institution		
Loans on demand	749	-
Loans and advances other than loans on demand	25 571	-
Other collateral received	-	268 682
Collateral received and own debt securities issued	**26 320**	**268 682**

6.17

	31 December 2019		31 December 2018	
	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	*93 345*	*263 746*	*73 640*	*249 937*
Derivatives	11 442	57 515	5 179	48 652
Deposits	81 903	206 231	68 461	201 285
Collateralised deposits other than repurchase agreements	81 903	206 231	68 461	201 285
Total Sources of encumbrance	**93 345**	**263 746**	**73 640**	**249 937**

At the end of 2019 the level of encumbered assets determined in accordance with the aforementioned regulation was 14.62%. The total of Bank's encumbered assets belonged to MKB Bank. The main sources and types of encumbrance were arising from having secured refinancing, from collaterals of mortgage loans, money market deposits as well as collateralized derivative transactions and repo 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 facilities were participating in the "Funding for Growth Scheme" refinancing loan program of the NBH. The majority of collateralized derivative transactions were concluded to hedge on balance sheet FX position and interest rate.

g) Credit spread risk

Credit spread risk is the risk of changing market price of the bonds due to change in spread of bonds' issuer which may have negative impact on the Bank's performance.

Managing and monitoring credit spread risk

The framework of credit spread risk management is defined in the risk strategy. According to this risk strategy credit spread risk may be taken only within the approved limits. Credit spread risk is managed on operative level by the Money and Capital Market Managing Directorate. Bank's Risk Unit is responsible for measuring credit spread risk, controlling limit utilisations and reporting it to ALCO.

Risk measurement

Similar to the general interest rate risk measurement the Bank establishes the credit spread risk figures based on the present value of future cash flows.

The applied credit spread stress test values are revised regularly, but at least semi-annually. The length of liquidation periods used for the calculations are matched to the required liquidation time of the products.

h) Operational risks

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk, conduct risk and reputational risk. Operational risk does not include business and strategic risks.

Procedure

The principles, rules and procedures that serve to properly identify, manage and monitor operational risk are defined in the Risk Strategy and in the OpRisk policy.

Risk measurement

The operational risk capital requirement of MKB Bank is calculated by using The Standardised Approach (TSA) both at single and group level since January 1st 2008. According to the Standardised Approach the operational risk capital requirement is the average of the preceding three years' total of the weighted governing indicators of the business lines (gross income).

Risk management and monitoring

The system that serves to evaluate operational risk is fully integrated in the Bank's risk management process and in the work processes.

The centralised unit of the Bank's operational risk management is the Centralised OpRisk Management that is responsible for the establishment and maintenance of the internal regulation and organisation of operational risk management and for the establishment and coordination of the oprisk management methods and tools. Besides, its task is to ensure proper loss data collection and in connection with that the reporting obligations.

Besides the Centralised OpRisk Management, Decentralized OpRisk Units (extended to the whole organisation) were established that identify, report and manage operational risks and their tasks and responsibilities are included in the oprisk regulations. The Centralised OpRisk Management keeps independent control over the Decentralised OpRisk Managers that are assigned in the various units and responsible for managing operational risk and reporting of loss events.

At group level the Centralised OpRisk Management of MKB determines the operational risk regulations required from the subsidiaries, and also the framework for operational risk management at group level and in this respect supervises the subsidiaries as well. The centralised and decentralised operational risk management units have also been established in the subsidiaries that have loss data collection and reporting obligation towards the Centralised OpRisk Management of MKB.

The Oprisk Forum started its operation in 2016, where the most significant oprisk events and the relevance and necessity of setting up risk reducing action plans are discussed on quarterly basis.

The Centralised OpRisk Management of MKB prepares a report on the current status of the operational risk management of the Bank and of the subsidiaries for the Board of Directors on a quarterly basis. The Bank fulfils oprisk COREP data delivery to NBH on half-yearly basis.

<u>Risk management methods and tools</u>

<u>Loss data collection</u>
MKB Bank has been performing operational risk loss data collection continuously which includes the electronic reporting and managing of operational risk loss events.

<u>OpRisk Self-Assessment – ORSA</u>
The Bank performs the oprisk self-assessment unit by unit, in order to recognise and understand the operational risks related to the work processes and to increase the level of risk-awareness of the units.

<u>Key Risk Indicators - KRIs</u>
The key risk indicators are those performance/risk ratios that are suitable for revealing areas and factors critical for operational risk, the change of value of which indicates the change of factors important from the point of view of risk occurrence. By defining and monitoring the values of the suitable indicators the Bank intends to help forecasting, preventing and reducing operational risks.

<u>Scenario analysis</u>
Scenario analysis is an expert estimation based on the analysis of current internal processes in order to estimate the frequency and loss effect of rare but significant oprisk events.

The Bank performs scenario analysis on yearly basis.

Model list

The model list contains all models on department level being used in the Bank and describes their goals. It also contains the frequency of their maintenance and validations as well as the way in which their results are used.

Business Continuity Planning

In order to undisturbedly maintain the Bank's operational processes it is necessary to evaluate the potential threats of the certain processes, their probability of occurrence and the potential damages resulting from the fallout of the processes. This risk analysis and the procedures needed to maintain the functionality of the Bank's organisation is included in the Business Continuity Plan and the Disaster Recovery Plan (BCP-DRP). The BCP-DRP includes measures that have to be taken when the processes that are critical regarding the Bank's operation and (eg. IT) resources that support these processes get damaged or become unmaintainable.

Membership of the Hungarian Interbank Operational Risk Database (HunOR)

The Bank is one of the foundation members of the Hungarian Interbank Operational Risk Database (HunOR) and reports their loss data towards regularly and anonymously.

i) Capital management

The Bank's lead regulator, the NBH sets and monitors capital requirements for the Bank as a whole.

Capital allocation

The Bank measures the pillar 1 and pillar 2 risks and the Bank'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 Bank operational risk capital requirements.

Data in HUF million except stated otherwise

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

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.

6.18

	31 December 2019 Basel III IFRS	31 December 2018 Basel III IFRS
Share capital	100 000	100 000
Outstanding share capital	*100 000*	*100 000*
Reserves	92 103	56 834
Deferred tax	(7 718)	-
Intangible assets	(21 043)	(17 014)
AVA - additional valuation adjustments	(378)	(422)
Additional Tier 1	**-**	**-**
Tier 1: Net core capital	**162 964**	**139 398**
Subordinated debt	36 222	28 002
Tier 2: Supplementary capital	**36 222**	**28 002**
Regulatory capital	**199 186**	**167 400**
Risk-weighted assets (RWA)	601 486	656 326
Operational risk (OR)	171 889	160 681
Market risk positions (MR)	8 590	9 298
Total risk weighted assets	**781 965**	**826 305**
Regulatory capital / Total assets	11,24%	9,01%
Tier1 ratio	**20,84%**	**16,87%**
Capital adequacy ratio	**25,47%**	**20,26%**

The table above contains the MKB Bank’s separate capital adequacy ratio.

As at 31 December 2019, as an actual figure of the Bank regulatory capital was HUF 199.2 billion based on Basel III IFRS under Supervisory Regulation. The increase of regulatory capital - by HUF 31.8 billion – is derived from the increase of profit and subordinated debt and decrease of deduction of ESOP program, which was compensated by the increase of deduction of intangible assets, decrease of revaluation reserve.

Risk-weighted assets including operational and market risk decreased by 5.4% from HUF 826.3 billion in 2018 to HUF 782 billion besides approximately 2.8% weakening of domestic currency. The main part of the decrease derived from decrease of business volumes in work out and CRE segment, increase of collateral and the result of RWA reduction project.

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.

j) Forborne assets

During the normal course of business, the Bank 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 Bank, 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 Bank 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 Bank 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 Bank generally applies the following types of forbearance measures:

- extension of the tenor / final maturity of the loan,
- renegotiation of original repayment schedule, reschedule instalments,
- agreement on instalment payment,

Data in HUF million except stated otherwise

- reduction of the collateral coverage parallel reducing exposure,
- refinancing of the loan,
- interest rate cut, or lower conditions,
- interest capitalization.

Such exposures and associated credit risks are managed, monitored and reported distinctly by specific restructuring and debt management units of the Bank 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.

Forborne 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 forborne 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 IFRS 9.

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

6.19

	31 December 2019	31 December 2018
Corporate Banking		
Forborn financial assets	2 520	15 958
Allowances for impairment	(1 998)	(14 895)
Carrying amount	522	1 063
Retail and Private Banking		
Forborn financial assets	9 467	20 160
Allowances for impairment	(3 912)	(10 294)
Carrying amount	5 555	9 866
Total carrying amount	**6 077**	**10 929**

Data in HUF million except stated otherwise

7. Cash and cash equivalents

7.1

	31 December 2019	31 December 2018
Cash and balances with Central Banks	55 388	19 240
Cash and cash equivalents	**55 388**	**19 240**

The Bank is required to maintain a minimum reserve with the NBH equivalent to 1% (2018: 1%) of certain deposits. The balance of the minimum reserve, in line with the prescription of NBH, is based on the balance at the end of October of these deposit accounts and amounted to HUF 13,832 million as at 31 December 2019 (2018: HUF 13,334 million). As at 31 December 2019, cash on hand amounted to HUF 13,397 million (2018: HUF 15,267 million).

8. Loans and advances to banks

8.1

	31 December 2019	31 December 2018
Current and clearing accounts	6 843	15 676
Money market placements	50 361	47 796
Loans and advances	5 208	153
Loans and advances to banks (gross amount)	**62 412**	**63 625**
Allowance for impairment at the end of period	**(20)**	**(15)**
Carrying amount	**62 392**	**63 610**

9. Derivative financial assets

9.1

	31 December 2019			31 December 2018		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	4 248	4 248	-	2 517	2 517
Interest-based derivative instruments	-	13 446	13 446	-	14 761	14 761
Options	104	395	499	299	337	636
Derivative financial assets	**104**	**18 089**	**18 193**	**299**	**17 615**	**17 914**

Data in HUF million except stated otherwise

10. Securities

10.1

	31 December 2019	31 December 2018
Securities measured at FVTOCI		
Hungarian Government bonds	295 511	281 414
Hungarian corporate sector bonds	6 827	17 978
Foreign Government bonds	5 953	-
Foreign equities	1 317	882
Less allowance for impairment	(70)	(65)
Securities measured at AC		
Hungarian Government bonds	235 990	372 499
Hungarian corporate sector bonds	50 478	38 841
Less allowance for impairment	(82)	(63)
Securities measured at FVTPL		
Government Treasury bills	24	59 211
Government bonds	4 189	1 673
Hungarian corporate sector bonds	603	535
Hungarian equities	84	59
Securities	**600 894**	**773 029**

The amount of impairment of the FVTOCI financial assets, which is accounted for between other comprehensive income reserve and profit or loss, does not decrease the carrying amount of the financial asset.

The amount of debt securities measured at FVTOCI was HUF 308,291 million and the amount of equity instruments measured at FVTOCI was HUF 1,317 million at the end of the reporting period.

The revaluation on financial assets measured at FVTOCI is changed to HUF (3,281) million from HUF (13,255) million.

At 31 December 2019, HUF 163,348 million (2018: HUF 202,562 million) from the total amount of 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.

As at 31 December 2019 the total amount of revaluation reserve comprises HUF (6,747) million (2018: HUF (3,466) million).

In 2019, HUF 23,299 million gain (2018: HUF 3,718 million gain) was recognized in the profit or loss relating to securities measured at FVTOCI, which is a reclassification from other comprehensive income into profit or loss.

Related to debt securities measured at amortised cost HUF 13,413 million Interest and similar to interest income (2018: HUF 10,032 million) was recognized in the Statement of Profit or Loss and Other Comprehensive Income during the year.

Data in HUF million except stated otherwise

11. Loans and advances to customers

The net amount of Loans and advances to customers was HUF 923,938 million, of which HUF 922,615 million was measured at amortised cost and HUF 1,323 million at fair value. The amount of fair value customer loans belonging to the wholesale portfolio was HUF 547 million, while the amount of retail loans was HUF 776 million on 31 December 2019.

11.1

	31 December 2019	31 December 2018
Loans and advances to customers		
measured at AC	922 615	885 246
measured at FVTPL	1 323	7 898
Loans and advances to customers	**923 938**	**893 144**

Loans and advances to customers measured at amortised cost:

11.2

31 December 2019	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Allowance for impairment	Carrying amount
Carrying amount						
Wholesale						
Refinanced loan	55 856	(136)	(649)	(239)	(1 024)	54 832
Funding for Growth Scheme	86 486	(158)	(1 797)	(591)	(2 546)	83 940
Factoring	20 349	(145)	(11)	(63)	(219)	20 130
Overdraft	80 602	(383)	(234)	(1 493)	(2 110)	78 492
Széchenyi Loans	31 715	(204)	(101)	(784)	(1 089)	30 626
Other	437 536	(1 666)	(6 153)	(14 668)	(22 487)	415 049
Total Wholesale	***712 544***	***(2 692)***	***(8 945)***	***(17 838)***	***(29 475)***	***683 069***
Retail						
Residential mortgage	200 838	(528)	(293)	(7 627)	(8 448)	192 390
HUF	*199 503*	*(524)*	*(290)*	*(7 303)*	*(8 117)*	*191 386*
Foreign currency	*1 335*	*(4)*	*(3)*	*(324)*	*(331)*	*1 004*
Credit card	2 336	(21)	*(41)*	(81)	(143)	2 193
Overdraft	1 147	(11)	*(27)*	(155)	(193)	954
Personal loan	6 749	(90)	*(11)*	(325)	(426)	6 323
Other	27 390	(33)	*(3)*	(453)	(489)	26 901
Total Retail	***238 460***	***(683)***	***(375)***	***(8 641)***	***(9 699)***	***228 761***
Total Core business	**951 004**	**(3 375)**	**(9 320)**	**(26 479)**	**(39 174)**	**911 830**
Non-core business						
CRE	***11 829***	***(41)***	***-***	***(1 003)***	***(1 044)***	***10 785***
Total	**962 833**	**(3 416)**	**(9 320)**	**(27 482)**	**(40 218)**	**922 615**

Data in HUF million except stated otherwise

31 December 2018	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Allowance for impairment	Carrying amount
Carrying amount						
Wholesale						
Refinanced loan	54 212	(245)	(45)	(64)	(354)	53 858
Funding for Growth Scheme	70 549	(155)	(1 645)	(546)	(2 346)	68 203
Factoring	12 879	(33)	(99)	(68)	(200)	12 679
Overdraft	89 388	(213)	(133)	(1 434)	(1 780)	87 608
Széchenyi Loans	31 638	(164)	(140)	(819)	(1 123)	30 515
Other	440 488	(951)	(4 679)	(28 642)	(34 272)	406 216
Total Wholesale	***699 154***	***(1 761)***	***(6 741)***	***(31 573)***	***(40 075)***	***659 079***
Retail						
Residential mortgage	220 537	(903)	(333)	(19 391)	(20 627)	199 910
HUF	*218 184*	*(898)*	*(330)*	*(18 403)*	*(19 631)*	*198 553*
Foreign currency	*2 353*	*(5)*	*(3)*	*(988)*	*(996)*	*1 357*
Credit card	2 306	(21)	*(44)*	(105)	(170)	2 136
Overdraft	1 260	(13)	*(43)*	(138)	(194)	1 066
Personal loan	7 068	(634)	*(70)*	(219)	(923)	6 145
Other	2 040	(32)	*(3)*	(717)	(752)	1 288
Total Retail	***233 211***	***(1 603)***	***(493)***	***(20 570)***	***(22 666)***	***210 545***
Total Core business	**932 365**	**(3 364)**	**(7 234)**	**(52 143)**	**(62 741)**	**869 624**
Non-core business						
CRE	***16 757***	***(7)***	***(98)***	***(1 029)***	***(1 134)***	***15 623***
Total	**949 122**	**(3 371)**	**(7 332)**	**(53 172)**	**(63 875)**	**885 247**

In 2019, other items included HUF 240,002 million working capital loans, HUF 40,136 million investment loans, HUF 69,246 million syndicated loans, HUF 21,453 million loans relating to purchased loans.

In 2018, other items included HUF 225,436 million working capital loans, HUF 43,014 million investment loans, HUF 64,877 million syndicated loans, HUF 35,830 million loans relating to purchased loans.

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 the 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 had to be reduced below HUF 60 billion by the end of 2019. MKB fulfilled the commitment by the end of 2017. Even so, the portfolio has been reduced significantly in 2018-2019. The total amount of CRE portfolio was HUF 22.8 billion on 31 December 2019. Fulfilled the EU commitments successfully, the Bank has the intention to continue the CRE-financing. Thus, the actual performing CRE portfolio (HUF 10.7 billion) should be transferred to Business Unit due to the expected approval of competent decisionmaker committees in Q1 2020.

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.

Allowances for impairment

11.3

	31 December 2019	31 December 2018
Allowances for impairment on loans and advances to customers		
Balance at 1 January	63 875	86 481
Impairment loss for the year:		
Increases due to origination and acquisition	2 445	6 345
Decreases due to derecognition	(31 122)	(13 555)
Changes due to change in credit risk (net)	5 520	(9 650)
Changes due to modifications without derecognition (net)	23	(740)
Decrease in allowance account due to write-offs	(637)	(5 663)
Other adjustments	114	657
Allowance for impairment at the end of period	**40 218**	**63 875**

The aim of the IFRS 9 credit risk scoring system is to assign a PiT (point-in-time) PD to each relevant customer. The IRB rating system for Pillar II. capital requirement calculation was modified according to IFRS 9 requirements. Both of rating systems use the same default definition and model structure, including the quantitative and qualitative sub-models and the explicative variables. The calibration processes are different. In the case of IFRS 9 it depends on the stage of a given customer. In the stage 1, the time horizon is one year, in the stage 2 the lifetime PiT PD's are estimated. The stage 3 contains the defaulted customers, where the PD equals to 1.

In the stage 2, the one year PD is transformed to the lifetime PD, based on the Markov chain, and Vintage analysis estimation of transition probabilities and taken into account the macroeconomic forecast, especially the year-on-year GDP forecasts, in the first three years of the estimation horizon. From the fourth year, the TTC (through-the-cycle) PD has been used.

Data in HUF million except stated otherwise

11.3.1

31 December 2019	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	59 338	-	-	-
Medium risk	152 801	4 644	-	2 898
High risk	2 055	2 363	-	396
Default	104	-	9 206	4 655
Total Retail	***214 298***	***7 007***	***9 206***	***7 949***
Wholesale				
Low risk	276 052	-	-	-
Medium risk	350 572	3 326	-	-
High risk	12 368	47 306	-	-
Default	207	-	22 713	-
Total Wholesale	***639 199***	***50 632***	***22 713***	***-***
CRE				
Medium risk	10 825	-	-	-
Default	-	-	1 004	-
Total CRE	***10 825***	***-***	***1 004***	***-***
Total gross amount	**864 322**	**57 639**	**32 923**	**7 949**

31 December 2019	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	85	-	-	-
Medium risk	581	240	-	335
High risk	17	135	-	32
Default	-	-	5 811	2 463
Total Retail	***683***	***375***	***5 811***	***2 830***
Wholesale				
Low risk	308	-	-	-
Medium risk	1 635	48	-	-
High risk	749	8 897	-	-
Default	-	-	17 838	-
Total Wholesale	***2 692***	***8 945***	***17 838***	***-***
CRE				
Medium risk	41	-	-	-
Default	-	-	1 003	-
Total CRE	***41***	***-***	***1 003***	***-***
Total allowance for impairment	**3 416**	**9 320**	**24 652**	**2 830**

Data in HUF million except stated otherwise

31 December 2018	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	48 394	-	-	-
Medium risk	137 133	3 219	-	2 620
High risk	3 321	3 662	-	587
Default	134	-	19 972	14 169
Total Retail	***188 982***	***6 881***	***19 972***	***17 376***
Wholesale				
Low risk	264 661	-	-	-
Medium risk	343 809	1 801	-	-
High risk	7 399	41 203	120	-
Default	351	-	39 810	-
Total Wholesale	***616 220***	***43 004***	***39 930***	***-***
CRE				
Medium risk	14 173	1	-	-
High risk	-	1 522	-	-
Default	1	-	1 060	-
Total CRE	***14 174***	***1 523***	***1 060***	***-***
Total gross amount	**819 376**	**51 408**	**60 962**	**17 376**

31 December 2018	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	153	-	-	-
Medium risk	1 412	255	-	87
High risk	38	237	-	16
Default	-	-	12 764	7 704
Total Retail	***1 603***	***492***	***12 764***	***7 807***
Wholesale				
Low risk	86	-	-	-
Medium risk	1 334	210	-	-
High risk	341	6 532	67	-
Default	-	-	31 505	-
Total Wholesale	***1 761***	***6 742***	***31 572***	***-***
CRE				
Medium risk	7	-	-	-
High risk	-	98	-	-
Default	-	-	1 029	-
Total CRE	***7***	***98***	***1 029***	***-***
Total allowance for impairment	**3 371**	**7 332**	**45 365**	**7 807**

The deals of customers belonging to the retail portfolio are classified in sets (pools) homogenous from risk consideration. In pools PD, LGD and CCF values are allocated. Internal rating based models calculate the risk parameters which determine the level of impairment.

In case of individually not significant wholesale customers the calculation of impairment and provision have changed to internal rating based method. The required provisioning rates are calculated based on the credit conversion factor, the statistical analysis of default and the loss given default. Individually assessed items where no specific provision has been set aside the impairment and provision have to be calculated based on the above method.

Data in HUF million except stated otherwise

In case of retail and wholesale exposures collectively assessed provision is allocated for the following portfolios on monthly basis:

- on performing loans Incurred Loss (ICL) is calculated, and
- on non-performing loans Specific Loan Loss Provisions (SLLP) is accumulated.

Since the Bank has introduced the performing and non-performing classification in its provision allocation method instead of product based collective assessment in retail and the new internal method in wholesale, the level of incurred loss has grown.

At 31 December 2019 there were no loans designated as hedged item in a fair value hedge relationship.

12. Other assets

12.1

	31 December 2019	31 December 2018
Prepayments and other debtors	13 100	16 459
Inventory	488	458
Collaterals held in possession	33	-
Other taxes refundable	2 215	-
Impairment	(1 580)	(399)
Other assets	**14 256**	**16 518**

13. Investments in subsidiaries, jointly controlled entities and associates

13.1

	31 December 2019	31 December 2018
Cost	46 708	42 972
Investments in subsidiaries, jointly controlled entities and associates	**46 708**	**42 972**

On 30 September 2018 the Bank sold its investment in Kisvállalkozás-Fejlesztő Pénzügyi Zrt., therefore other investments decreased by HUF 100 million. The Bank revised the impairment on its investments in MKB Üzemeltetési Kft. and Euro-Immat Kft. in the amount of HUF 1,703 million because of the net asset value of the subsidiary has significantly increased. The Bank raised the capital of Euro-Immat Kft. by HUF 3,000 million, MKB Inkubátor Kft. by HUF 200 million and Exter-Reál Kft. by HUF 100 million. The aim of the Employee Share Ownership Program (ESOP) has partially fulfilled, the required settlements between the Bank and the ESOP were performed, which indicated further decrease in the amount of the investments in subsidiaries.

Data in HUF million except stated otherwise

14. Intangibles, property and equipment

14.1

31 December 2019	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	38 119	6 547	3 294	47 960
Additions – including internally developed	8 777	14 618	650	24 045
Other modifications	-	(31)	(38)	(69)
Disposals	(2 534)	-	(1 087)	(3 621)
Balance at 31 December	**44 362**	**21 134**	**2 819**	**68 315**
Depreciation and impairment losses				
Balance at 1 January	21 105	3 165	1 497	25 767
Amortization and depreciation for the year	2 242	2 114	291	4 647
Impairment loss	-	-	2	2
Disposals	(28)	-	(506)	(534)
Other modifications	-	(6)	-	(6)
Balance at 31 December	**23 319**	**5 273**	**1 284**	**29 876**
Carrying amounts				
At 1 January	17 014	3 382	1 797	22 193
Balance at 31 December	**21 043**	**15 861**	**1 535**	**38 439**

31 December 2018	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	30 798	6 536	2 645	39 979
Additions – including internally developed	9 387	11	1 114	10 512
Disposals	(2 066)	-	(465)	(2 531)
Balance at 31 December	**38 119**	**6 547**	**3 294**	**47 960**
Depreciation and impairment losses				
Balance at 1 January	19 308	2 865	1 503	23 676
Amortization and depreciation for the year	1 805	300	297	2 402
Disposals	(8)	-	(303)	(311)
Balance at 31 December	**21 105**	**3 165**	**1 497**	**25 767**
Carrying amounts				
At 1 January	11 490	3 671	1 142	16 303
Balance at 31 December	**17 014**	**3 382**	**1 797**	**22 193**

Depreciation and amortization is presented among the “Other operating income / (expense), net”.

Data in HUF million except stated otherwise

During 2018, the most significant component of these investments and developments was the costs related to the Core system replacement process at the Bank. MKB Bank has completed successfully its entire digital transformation, including a full replacement of its core banking system, between 29 June and 5 July 2018 in accordance with plans. The services relating to the new digital core system were implemented gradually in daily operational functioning of the credit institution. In addition, the Bank disclosed several other items here concerning capitalisations of functional developments of other IT systems.

In accordance with requirements of IFRS 16, the Bank, as lessee recognises the right-of-use assets in “Intangibles, property and equipment” line since 1 January 2019. On 31 December 2019 the carrying amount of the right-of-use assets was HUF 15,239 million. Changes in the value of right-of-use assets during the reporting period are disclosed in Note 32.

15. Amounts due to other banks

15.1

	31 December 2019	31 December 2018
Due on demand	3 279	4 787
Money market deposits	648	31 157
Borrowings	191 756	178 209
Amounts due to other banks	**195 683**	**214 153**

The largest balance of the Amounts due to other banks is HUF 74,088 million, which is the re-financing loans relating to Funding for Growth Scheme at NBH.

16. Deposits and current accounts

16.1

	31 December 2019	31 December 2018
Corporate clients related	902 680	1 059 776
Retail clients related	334 580	321 062
Deposits and current accounts	**1 237 260**	**1 380 838**

As at 31 December 2019 and 2018 the Bank had no deposit and current accounts measured at fair value from the total amount.

Data in HUF million except stated otherwise

17. Derivative financial liabilities

17.1

	31 December 2019			31 December 2018		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	2 634	2 634	-	2 986	2 986
Index-based derivative instruments	-	2	2	-	1	1
Interest-based derivative instruments	-	41 009	41 009	-	28 063	28 063
Credit default swaps	-	36	36	-	132	132
Options	668	(86)	582	223	203	426
Derivative financial liabilities	**668**	**43 595**	**44 263**	**223**	**31 385**	**31 608**

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

18. Derivative liabilities held for risk management

The Bank 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 Bank had no positive or negative fair value derivatives designated in a qualifying hedge relationship.

Other derivatives held for risk management

The Bank 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.

19. Other liabilities and provision

19.1

	31 December 2019	31 December 2018
Accruals and other creditors	35 375	33 564
Lease liabilities	21 797	-
Other taxes payable	1 731	2 553
Provisions for contingencies and commitments	2 080	2 591
Other liabilities and provisions	**60 983**	**38 708**

In the previous year financial lease liabilities accounted as “Deposit and current accounts”, its amount was HUF 8,828 million.

Data in HUF million except stated otherwise

Provision for contingencies and commitments

19.2

	31 December 2019	31 December 2018
Provision for contingencies and commitments		
Balance at 1 January	1 946	2 912
Provisions made during the year	1 310	1 154
Provisions used/reversed during the year	(1 182)	(2 125)
Unwinding effect of discount	-	3
Other movements	6	1
Balance at the end of the reporting period	**2 080**	**1 946**

Provisions recognized for different type of products are disclosed in Note 34.

20. Issued debt securities

The table below shows the new issuance, repayment and other changes during the year:

20.1

Interest	Balance at 1 January	Issued debt securities	Repurchased debt securities	Repaid debt securities	Revaluation result	Balance at 31 December
31 December 2019						
Zero coupon	733	996	-	(398)	-	1 331
Structured	4 895	-	188	(4 991)	(92)	-
Accrued interest	68	-	-	-	-	-
Total	**5 696**	**996**	**188**	**(5 389)**	**(92)**	**1 331**

Interest	Balance at 1 January	Issued debt securities	Repurchased debt securities	Repaid debt securities	Revaluation result	Balance at 31 December
31 December 2018						
Zero coupon	496	533	-	(300)	4	733
Fixed rate	1 276	-	300	(1 711)	135	-
Structured	9 314	-	117	(4 735)	199	4 895
Accrued interest	33	-	-	-	-	68
Total	**11 119**	**533**	**417**	**(6 746)**	**338**	**5 696**

The Bank used fair value option revaluation through profit or loss for structured bonds, as they were related to assets, which shared the same risk that gave rise to opposite changes in fair value. On 31 December 2019, the carrying amount of own issued bonds amounted to HUF 1,331 million (2018: HUF 5,696 million). The transaction recognized at fair value through profit or loss as option at initial recognition expired on 2 July 2019.

21. Subordinated debt

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

21.1

31 December 2019	Interest	Date of issue	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	70 000 000	EUR	23 765
Subordinated debt	Fixed rate	19.03.2018	15 000 000	EUR	5 092
Subordinated debt	Fixed rate	28.03.2019	31 000 000	EUR	10 524
Total			**116 000 000**	**EUR**	**39 381**

31 December 2018	Interest	Date of issue	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	70 000 000	EUR	23 061
Subordinated debt	Fixed rate	19.03.2018	15 000 000	EUR	4 941
Total			**85 000 000**	**EUR**	**28 002**

The amount of the subordinated debt increased by EUR 31 million to EUR 116 million related to new issuance in March 2019.

22. Share capital

The Bank’s authorised, issued, and fully paid share capital comprises 100 million (2018: 100 million) ordinary shares of HUF 1,000 (2018: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

23. Reserves

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 Bank less any dividend payment.

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.

Data in HUF million except stated otherwise

The Bank discloses general reserve as part of retained earnings. In 2019, MKB recognized general reserve of HUF 10,825 million (2018: HUF 6,624 million).

Revaluation reserves

Revaluation reserve of financial assets measured at FVTOCI includes the cumulative net change in the fair value until the derecognition. For financial instruments measured at fair value through other comprehensive income, the Bank has recognized an impairment loss in accordance with IFRS 9, which is shown in the Revaluation reserve.

The Bank did not apply any reclassification adjustments relating to components of other comprehensive income.

24. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

24.1

	31 December 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangibles, property and equipment	179	41	138	203	45	158
Securities	1 596	32	1 564	1 274	33	1 241
Loans and advances to customers	690	-	690	690	-	690
Amounts due to customers	479	-	479	479	-	479
Issued debt securities	-	36	(36)	-	36	(36)
Provision	169	56	113	169	-	169
Derivatives	122	6	116	122	6	116
Other items	74	28	46	73	27	46
Tax loss carry-forwards	3 868	-	3 868	2 168	-	2 168
Offsetting	(199)	(199)	-	(147)	(147)	-
Assets held for sale	40	-	40	40	-	40
Effect on implementation of IFRS	700	-	700	700	-	700
Net tax assets / (liabilities)	**7 718**	**-**	**7 718**	**5 771**	**-**	**5 771**

25. Interest and similar to interest income

25.1

	2019	2018
Cash and cash equivalents	317	547
Loans and advances to banks	307	60
Loans and advances to customers	25 456	25 051
Derivatives	7 665	8 059
Securities	23 182	19 141
Interest and similar to interest income	**56 927**	**52 858**

Included within various captions under Interest and similar to interest income for the year ended 31 December 2019 is a total of HUF 1,324 million (2018: HUF 2,329 million) accrued on credit impaired financial assets.

Data in HUF million except stated otherwise

26. Interest expense

26.1

	2019	2018
Amounts due to other banks	957	723
Deposits from customers	2 829	2 436
Issued debt securities	-	8
Subordinated liabilities	1 590	1 166
Other fees and commisions similar to interest expense	294	402
Derivatives	13 338	11 843
Interest expense	**19 008**	**16 578**

27. Net income from commissions and fees

27.1

	2019	2018
Commission and fee income	**35 653**	**35 178**
Payment and account services	20 976	21 699
Credit related fees	2 101	1 784
Card services	2 927	2 539
Brokerage fees and other securities business	5 140	5 207
Other commission and fee income	4 509	3 949
Commission and fee expense	**8 282**	**9 348**
Payment and account services	1 680	2 694
Credit related fees	1 719	1 081
Card services	1 777	1 789
Brokerage fees and other securities business	1 154	1 456
Other commission and fee expense	1 952	2 328
Net income from commissions and fees	**27 371**	**25 830**

28. Other operating income / (expense), net

28.1

	2019	2018
Realized net gain / (loss) on securities measured at fair value	24 212	3 965
Realized net gain / (loss) on securities measured at amortised cost	5 247	(2 095)
Net gain / (loss) on loan and advances measured at fair value	134	(738)
Net gain / (loss) on trading derivative transactions	(10 757)	10 384
Net foreign exchange gain/(loss)	9 011	12 330
Net fair value results from FVTPL revaluation (FVO)	123	14
Expense relating to bank levies	(1 875)	(2 073)
Transaction duty	(11 935)	(12 432)
Net gain / (loss) on investments in Group companies	1 373	-
Other taxes	(3 080)	(3 139)
Other operating income / (expense), net	(841)	(821)
Other operating income / (expense), net	**11 612**	**5 395**

The result from fair value revaluation of structured bonds designated at fair value through profit or loss was HUF 123 million gain (2018: 14 million gain).

Banking tax is shown under “Other expense” as it does not meet the criteria of current income tax.

Data in HUF million except stated otherwise

29. Net impairments / (reversal) and provisions for losses

29.1

	Note	2019	2018
Net impairment loss / (reversal)			
Loans and advances to banks	**8**	-	4
Loans and advances to customers	**11**	2 195	(536)
Securities	**10**	19	(195)
Other assets	**12**	(1 169)	(34)
Realised loss on sale of loans		(1 036)	(175)
Non-current assets held for sale and discontinued operations	**39**	(5 839)	296
Provision on			
Guarantees and contingencies	**34**	1 803	(866)
Impairment and provision for losses		**(4 027)**	**(1 506)**

30. Operating expense

30.1

	2019	2018
General and administration expense	1 885	4 106
Legal and advisory services	1 919	2 693
Wages and salaries	15 246	16 739
Compulsory social security obligations	3 512	4 712
Occupancy costs	7 549	8 231
Marketing and public relations	669	1 054
Communication and data processing	8 810	6 759
Operating expense	**39 590**	**44 294**

In 2019, the Bank's average statistical employee number was 1,634 (2018: 1,858).

31. Income tax

Income tax expense recognized in the Statement of Profit and Loss and Other Comprehensive Income

31.1

	2019	2018
Current tax expense		
Corporate tax charge – on current year profit	1 369	1 467
Corporate tax charge – effect of self-revision in previous years	(418)	-
Deferred tax (income) / expense		
Origination (reversal) of temporary differences	(1 624)	(2 024)
Income tax (income) / expense	**(673)**	**(557)**

Both in the reporting period and in 2019 9% current income tax rate was applied on taxable profit in Hungary. Due to this, 9% rate was applied both for current income tax and deferred tax purposes.

Self-revision of corporate tax corresponds to tax refunds related to research and development for previous years.

Reconciliation of effective tax rate

31.2

	2019		2018	
	%	HUF million	%	HUF million
Profit before income tax		41 339		24 717
Income tax using the domestic corporation tax rate	9,00%	3 720	9,00%	2 224
Effect of tax rates in foreign jurisdictions	0,05%	22	0,11%	26
Non-deductible expense	0,12%	48	0,57%	141
Tax exempt income	-0,73%	(300)	-3,10%	(765)
Re-assessment of unrecognised tax losses carryforwards	-7,37%	(3 046)	-5,79%	(1 430)
Effect of transition	-1,69%	(700)	-2,83%	(700)
Other tax effects	-1,01%	(417)	-0,21%	(53)
Income tax (income) / expense	**-1,63%**	**(673)**	**-2,23%**	**(557)**

MKB Bank used a prudent approach concerning tax losses. The Bank relied on its available business plans for calculating the amount of tax losses that can be offset against future tax bases. Tax losses can be offset against up to 50% of future tax bases.

On 31 December 2019, the Bank had unused tax losses amounting to HUF 323,056 million (2018: HUF 337,980 million) with the following maturity:

31.3

	2019	2018
Maturity up to 2020	59 428	58 102
Maturity up to 2030	263 628	279 878
Tax loss carryforwards	**323 056**	**337 980**

The Bank has HUF 280,078 million (2018: HUF 313,891 million) tax losses carried forward, on which no deferred tax asset was recognised.

In 2015, the rules of utilization of tax losses carried forward have changed in Hungary: tax losses arising in 2015 and in following years, can be utilized solely in the subsequent five years following the tax year in which they were generated. Tax losses incurred before 2015 can be utilized until 2030.

Data in HUF million except stated otherwise

The following table presents the main factors of change in deferred tax:

31.4

2019 P/L-effective and neutral effects on deferred tax assets (DTA) and deferred tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deferred Tax Assets - due to taxable temporary differences				
Assets				
Loans and advances to bank, Loans and advances to customers	690	-	-	690
Derivative financial assets	122	-	-	122
Securities	1 274	-	322	1 596
Intangible Assets	203	(24)	-	179
Non-current assets as held for sale	40			40
Other Assets	73			73
Liabilities				
Amounts due to other banks, Deposits and current accounts	479	-	-	479
Provisions	169	-	-	169
Deferred Tax Assets - due to tax losses	2 168	1 700	-	3 868
Deferred Tax Assets - Tax Credits	700	-	-	700
Subtotal DTA before netting	**5 918**	**1 676**	**322**	**7 916**
Deferred Tax Liabilities - due to taxable temporary differences				
Assets				
Securities	(32)	-	-	(32)
Property, plant and equipment and investment property	(45)	4	-	(41)
Liabilities				
Issued debt securities	(36)	-	-	(36)
Derivative financial liabilities	(6)	-	-	(6)
Provisions	-	(56)	-	(56)
Other liabilities	(27)	-	-	(27)
Subtotal DTL before netting	**(146)**	**(52)**	**-**	**(198)**
Subtotal DTA after netting completely with DTL	**5 771**	**1 624**	**322**	**7 717**

2018 P/L-effective and neutral effects on deferred tax assets (DTA) and deferred tax liabilities (DTL)	Opening balance DTA/DTL	P/L-effective movement of DTA/DTL	P/L-neutral movement of DTA/DTL	Closing balance DTA/DTL
Deferred Tax Assets - due to taxable temporary differences				
Assets				
Loans and advances to bank, Loans and advances to customers	690	-	-	690
Derivative financial assets	122	-	-	122
Securities	892	-	382	1 274
Intangible Assets	210	(7)	-	203
Non-current assets as held for sale	40	-	-	40
Other Assets	54	19	-	73
Liabilities				
Amounts due to other banks, Deposits and current accounts	479	-	-	479
Provisions	150	19	-	169
Deferred Tax Assets - due to tax losses	857	1 311	-	2 168
Deferred Tax Assets - Tax Credits	-	700	-	700
Subtotal DTA before netting	**3 494**	**2 042**	**382**	**5 918**
Deferred Tax Liabilities - due to taxable temporary differences				
Assets				
Securities	(112)	-	80	(32)
Property, plant and equipment and investment property	(27)	(18)	-	(45)
Liabilities				
Issued debt securities	(36)	-	-	(36)
Derivative financial liabilities	(6)	-	-	(6)
Other liabilities	(27)	-	-	(27)
Subtotal DTL before netting	**(208)**	**(18)**	**80**	**(146)**
Subtotal DTA after netting completely with DTL	**3 285**	**2 024**	**462**	**5 771**

Data in HUF million except stated otherwise

32. Leases

At the date of the initial application the Bank has only a few leases that is previously classified as finance lease, for which transition to IFRS 16 have no significant impact.

The Bank has no significant sub-lease contracts.

32.1

	Cost			
	Balance at 1 January 2019	Addition	Derecognition	Balance at 31 December 2019
Other assets	17	-	-	17
Properties	8 179	13	-	8 192
Group's properties	12 867	-	(2 035)	10 832
IT equipments	450	(38)	-	412
Total	**21 513**	**(25)**	**(2 035)**	**19 453**

	Depreciation			
	Balance at 1 January 2019	Depreciation	Addition (+) / Derecognition (-)	Balance at 31 December 2019
Other assets	-	(4)	-	(4)
Properties	(2 056)	(864)	6	(2 914)
Group's properties	-	(1 282)	(124)	(1 158)
IT equipments	(67)	(82)	11	(138)
Total	**(2 123)**	**(2 232)**	**(107)**	**(4 214)**

Carrying amount	Balance at 31 December 2019
Other assets	13
Properties	5 278
Group's properties	9 674
IT equipments	274
Total right-of-use asset	**15 239**

32.2

31 December 2019	Within 3 months	Within 3 months and 1 year	Within 1 year and 3 years	Within 3 years and 5 years	Over 5 years	Total
Contractual value of lease liabilities	580	2 583	7 681	5 961	16 764	33 569

Data in HUF million except stated otherwise

32.3

31 December 2019	Long-term	Short-term	Total
Carrying amount of lease liabilities	19 990	1 807	21 797

32.4

	2019
Interest expense recognized on lease liabilities	1 542
Expense recognized for short-term leases	66
Depreciation charged for the year	(2 215)
Cash outflow for leases	2 051

The value of contracts for which the Bank does not expect to exercise the extension and / or exercise option is immaterial.

The Bank elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets (e.g including printers, IT equipment). The expense relating to leases of low-value assets and short-term leases was HUF 103 million for the reporting period.

The relevant rules on measurement, recognition and presentation are disclosed in Note 4.

32.5

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Lease payments that depend on an index	2 601	2 578	2 512	2 363	2 292	2 196	2 120	2 085	2 047	3

33. Earnings per share

The calculation of basic earnings per share on 31 December 2019 based on the net income attributable to ordinary shareholders of HUF 42,012 million (2018: HUF 25,274 million) and a weighted average number of ordinary shares outstanding of 100,000 thousands (2018: 100,000 thousands).

Basic value

31 December 2019

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 42,012 million}}{\text{100,000 thousands}} = \text{HUF 420}$$

31 December 2018

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 25,274 million}}{\text{100,000 thousands}} = \text{HUF 253}$$

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. At the end of 2019 and 2018, there were no any dilution factors that might cause an adjustment in the weighted average number of ordinary shares, therefore basic and diluted EPS were equivalent.

Diluted value

31 December 2019

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 42,012 million}}{\text{100,000 thousands}} = \text{HUF 420}$$

31 December 2018

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 25,274 million}}{\text{100,000 thousands}} = \text{HUF 253}$$

34. Contingencies and commitments

34.1

31 December 2019	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Contingencies						
Guarantees and similar obligations	98 914	(101)	(166)	(93)	-	98 554
Obligations from letters of credit and other short term trade related items	14 570	(9)	-	-	-	14 561
Other contingent liablities (including litigation)	8 793	(6)	(2)	(127)	(619)	8 039
Total contingencies	**122 277**	**(116)**	**(168)**	**(220)**	**(619)**	**121 154**
Commitments						
Undrawn commitments to extend credit	243 620	(306)	(366)	(285)	-	242 663
Total commitments	**243 620**	**(306)**	**(366)**	**(285)**	**-**	**242 663**

31 December 2018	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Contingencies						
Guarantees and similar obligations	148 275	(109)	(285)	(70)	-	147 811
Obligations from letters of credit and other short term trade related items	14 164	(10)	-	-	-	14 154
Other contingent liablities (including litigation)	21 751	-	-	(220)	(1 241)	20 290
Total contingencies	**184 190**	**(119)**	**(285)**	**(290)**	**(1 241)**	**182 255**
Commitments						
Undrawn commitments to extend credit	251 299	(361)	(149)	(140)	-	250 649
Total commitments	**251 299**	**(361)**	**(149)**	**(140)**	**-**	**250 649**

35. Use of estimates and judgements

Management discusses with the Bank Supervisory Board the development, selection and disclosure of the Bank'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 6).

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 4).

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 allowances. 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 Bank's accounting policies

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

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under Note 4.

The Bank 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 Bank 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 Bank 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.

Data in HUF million except stated otherwise

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

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

35.1

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
31 December 2019					
Derivative financial assets	**9**	-	18 193	-	18 193
Securities	**10**	293 234	21 274	-	314 508
Loans and advances to customers	**11**	-	-	1 323	1 323
Derivate financial liabilities	**17**	-	44 263	-	44 263
Issued debt securities	**20**	-	1 331	-	1 331
Total		**293 234**	**85 061**	**1 323**	**379 618**
31 December 2018					
Derivative financial assets	**9**	-	17 914	-	17 914
Securities	**10**	184 947	176 805	-	361 752
Loans and advances to customers	**11**	-	-	7 898	7 898
Derivate financial liabilities	**17**	-	31 608	-	31 608
Issued debt securities	**20**	-	5 696	-	5 696
Total		**184 947**	**232 023**	**7 898**	**424 868**

The determination of fair value level and the transfers between levels are in line with accounting policy (see Note 4). There were no transfers between fair value levels in the reporting period ended on 31 December 2019.

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 Bank 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 Bank 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.

Data in HUF million except stated otherwise

In determining fair values, the Bank 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.

The following table 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 Statement of Financial Position.

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

35.2

	Note	Interest	Foreign exchange rate	Other
31 December 2019				
Derivative financial assets	**9**	4 748	15 340	-
Securities	**10**	310 248	8 416	-
Loans and advances to customers	**11**	1 323	196	-
Derivative financial liabilities	**17**	41 009	2 634	620
Issued debt securities	**20**	1 331	-	1 331
Total		**358 659**	**26 586**	**1 951**
31 December 2018				
Derivative financial assets	**9**	3 111	15 823	43
Securities	**10**	360 812	3 191	-
Loans and advances to customers	**11**	7 898	318	-
Derivative financial liabilities	**17**	28 063	2 986	560
Issued debt securities	**20**	5 696	-	5 696
Total		**405 580**	**22 318**	**6 299**

36. 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 4, and Note 35), 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 Bank's financial assets and financial liabilities:

36.1

31 December 2019	Note	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	**7**	-	55 388	-	55 388	55 388
Loans and advances to banks	**8**	-	62 392	-	62 392	61 709
Derivative financial assets	**9**	18 193	-	-	18 193	18 193
Securities	**10**	4 900	286 386	309 608	600 894	590 162
Loans and advances to customers	**11**	1 323	922 615	-	923 938	922 629
Total		**24 416**	**1 326 781**	**309 608**	**1 660 805**	**1 648 081**
Financial liabilities						
Amounts due to other banks	**15**	-	195 683	-	195 683	195 683
Deposits and current accounts	**16**	-	1 237 260		1 237 260	1 237 260
Derivate financial liabilities	**17**	44 263	-	-	44 263	44 263
Issued debt securities	**20**	1 331	-	-	1 331	1 331
Subordinated debt	**21**	-	39 381	-	39 381	39 381
Total		**45 594**	**1 472 324**	**-**	**1 517 918**	**1 517 918**

31 December 2018	Note	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	**7**	-	19 240	-	19 240	19 240
Loans and advances to banks	**8**	-	63 610	-	63 610	62 534
Derivative financial assets	**9**	17 914	-	-	17 914	17 914
Securities	**10**	61 478	411 277	300 274	773 029	769 384
Loans and advances to customers	**11**	7 898	885 246	-	893 144	886 574
Total		**87 290**	**1 379 373**	**300 274**	**1 766 937**	**1 755 646**
Financial liabilities						
Amounts due to other banks	**15**	-	214 153	-	214 153	214 153
Deposits and current accounts	**16**	-	1 380 838	-	1 380 838	1 380 838
Derivate financial liabilities	**17**	31 608	-	-	31 608	31 608
Issued debt securities	**20**	5 696	-	-	5 696	5 696
Subordinated debt	**21**	-	28 002	-	28 002	28 002
Total		**37 304**	**1 622 993**	**-**	**1 660 297**	**1 660 297**

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

Cash and cash equivalents

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

Derivative financial instruments

Fair values of Derivative financial instruments are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Securities

The fair values of instruments grouped into 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 10.

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 31 December 2019 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

37. Related parties

The Bank's related parties include the parent companies, subsidiaries, 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 related parties, 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 Bank during the period as follows:

37.1

	Parent company and its group		Consolidated subsidiaries		Non-consolidated subsidiaries		Associates		Key Management Personnel		Other related parties	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets												
Loans and advances to customers	15 744	12 796	126 484	141 167	1 078	976	237	332	370	134	-	-
Derivative financial assets	57	-	-	-	-	-	-	-	-	-	66	109
Equity instruments	-	-	45 606	41 832	686	715	610	611	-	-	147	244
Other assets	-	-	14 620	904	-	-	-	-	-	-	-	138
Liabilities												
Current and deposit accounts	11 342	25 807	12 088	16 372	192	276	149	207	386	258	2 143	4 658
Derivative finacial liabilities	-	-	-	-	-	-	-	-	-	-	149	229
Other liabilities	-	-	526	507	-	-	-	-	-	-	-	70
Income statement												
Interest and similar to interest income	702	700	986	739	24	21	5	6	3	10	1	-
Interest expense	(10)	-	(80)	(56)	-	(1)	-	-	-	-	(1)	-
Net income from commissions and fees	539	692	121	141	8	8	51	6	2	2	14	7
Other net income / (expense)	(560)	(144)	(64)	(56)	(6)	(4)	(3)	46	(738)	(659)	(8)	(4)
Contingencies and commitments	*3 779*	12 202	8 699	10 187	*1 791*	1 089	*40*	97	*1*	711	*490*	290
Allowances for impairment	*5 636*	*2 637*	*34 784*	*36 651*	*2 462*	*2 113*	*3*	*4*	-	-	*1*	-

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.

Other related parties include the interests of the Key Management Personnel and other investments.

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.

Data in HUF million except stated otherwise

Key management personnel compensation for the period comprised:

37.2

	2019	2018
Short-term employee benefits	737	658
Total	**737**	**658**

38. 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 Bank is based on IFRS presenting the following segments.

Business segments

The business segments identified by the Bank represent the organizational structure as reflected in its internal management reporting systems. The Bank 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 Bank's overall strategic direction.

As of 31 December 2019, the Bank's business segments and their main products were:

Corporate Banking

The Bank provides trade finance, a wide array of credit, account and deposit products, forfeiting and factoring, letters of credit, guarantees, international payments, project and structured finance, investment and financial advisory services to large entities through branches and electronic delivery channels.

Institutional Banking

MKB Bank serves financial institutions, financial service companies and other entities with financial services, as well as international and domestic payments, the Treasury department deals with investments in securities, hedging transactions and correspondent banking services, the Bank participates in bank-to-bank finance.

Retail and Private Banking

The Bank 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 51 full-service branches and sub-branches (2018: 51 branches), ATMs, telephone and electronic channels.

Data in HUF million except stated otherwise

Other

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

38.1

31 December 2019	Note	Corporate Banking	Retail and Private Banking	Institutional Banking	Other	Total
Assets						
Cash and cash equivalents	7			55 388		55 388
Loans and advances to banks	8			62 392		62 392
Derivative financial assets	9			18 193		18 193
Securities	10	34 079		566 815		600 894
Loans and advances to customers	11	694 399	229 539			923 938
Non-current assets held for sale and discontinued operations	39	3 930	145			4 075
Other assets	12				14 256	14 256
Current income tax assets					455	455
Deferred tax assets	24				7 718	7 718
Investments in jointly controlled entities and associates	13				46 708	46 708
Intangibles, property and equipment	14				38 439	38 439
Total assets		**732 408**	**229 684**	**702 788**	**107 576**	**1 772 456**
Liabilities						
Amounts due to other banks	15			195 683		195 683
Deposits and current accounts	16	902 680	334 580			1 237 260
Derivate financial liabilities	17			44 263		44 263
Other liabilities and provisions	19	848			60 135	60 983
Issued debt securities	20			1 331		1 331
Subordinated debt	21			39 381		39 381
Shareholders' equity	22, 23				193 555	193 555
Total liabilities		**903 528**	**334 580**	**280 658**	**253 690**	**1 772 456**
Income statement						
Interest and similar to interest income	25	13 689	9 696	30 043	3 499	56 927
Interest expense	26	(314)	(72)	(17 410)	(1 212)	(19 008)
Net income from commissions and fees	27	17 456	7 594	2 321	-	27 371
Other Income	28	6 037	1 417	17 840	(11 807)	13 487
(Impairment) / Reversal and provision for losses	29	(2 920)	6 745	(6)	208	4 027
Operating expense	30	(18 188)	(16 466)	(3 061)	(1 875)	(39 590)
Expense related to bank levies	28				(1 875)	(1 875)
Segment result		**15 761**	**8 913**	**29 727**	**(13 062)**	**41 339**
Other information						
Capital expenditure			14 586		9 459	24 045
Depreciation and amortisation	14				4 647	4 647

Data in HUF million except stated otherwise

31 December 2018	Note	Corporate Banking	Retail and Private Banking	Institutional Banking	Other	Total
Assets						
Cash and cash equivalents	**7**			19 240		19 240
Loans and advances to banks	**8**			63 610		63 610
Derivative financial assets	**9**			17 914		17 914
Securities	**10**	70 501		702 528		773 029
Loans and advances to customers	**11**	684 350	208 794			893 144
Non-current assets held for sale and discontinued operations	**39**	3 359	879			4 238
Other assets	**12**				16 518	16 518
Deferred tax assets	**24**				5 771	5 771
Investments in jointly controlled entities and associates	**13**				42 972	42 972
Intangibles, property and equipment	**14**				22 193	22 193
Total assets		**758 210**	**209 673**	**803 292**	**87 454**	**1 858 629**
Liabilities						
Amounts due to other banks	**15**			214 153		214 153
Deposits and current accounts	**16**	1 059 776	321 062			1 380 838
Derivate financial liabilities	**17**			31 608		31 608
Other liabilities and provisions	**19**	855			37 853	38 708
Issued debt securities	**20**	156	4 498	1 042		5 696
Subordinated debt	**21**			28 002		28 002
Shareholders' equity	**22, 23**				159 624	159 624
Total liabilities		**1 060 787**	**325 560**	**274 805**	**197 477**	**1 858 629**
Income statement						
Interest and similar to interest income	**25**	13 376	9 080	29 585	817	52 858
Interest expense	**26**	(736)	(114)	(15 728)		(16 578)
Net income from commissions and fees	**27**	16 215	7 444	3 945	(1 774)	25 830
Other Income	**28**	(3 281)	(3 552)	(1 021)	15 322	7 468
(Impairment) / Reversal and provision for losses	**29**	(4 368)	3 256	157	2 461	1 506
Operating expense	**30**	(19 208)	(19 961)	(5 125)		(44 294)
Expense related to bank levies	**28**				(2 073)	(2 073)
Segment result		**1 998**	**(3 847)**	**11 813**	**14 753**	**24 717**
Other information						
Capital expenditure					10 512	10 512
Depreciation and amortisation	**14**	1 844	558			2 402

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 separate financial statements. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information which are regularly reviewed by the chief operating decision maker.

Calculation of intersegment revenue

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

Since the Bank’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.

Both revenues and non-current assets can be connected to domestic activities based on geographical location.

Data in HUF million except stated otherwise

39. Non-current assets held for sale and discontinued operations

On 31 December 2018, a loan-portfolio in net amount of HUF 4,238 million was reclassified to non-current assets held for sale (gross value of HUF 13,274 million, relating loss allowances of HUF 9,036 million).

In the first half of 2019, the key management of the Bank decided to sale a loan portfolio of HUF 43,213 million (related loss allowances of HUF 32,878 million), which resulted in a reclassification of HUF 10,335 million of loans to held for sale. The Agreement of receivables assignment was signed in the third quarter of 2019. The buyer paid up the total price of HUF 9,022 million. At the end of the reporting period the net amount of non-current assets held for sale and discontinued operations was HUF 4,075 million (gross value of HUF 13,274 million, relating loss allowances of HUF 9,036 million).

Non-current assets held for sale and assets and liabilities discontinued operation include the followings:

39.1

	2019	2018
Assets		
Loans and advances to customers	4 075	4 238
Total assets	**4 075**	**4 238**

40. Government grants

The 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 NBH 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 HUF 298,912 million loan to SME's since the beginning of the program, with an interest rate of 2.5% and EUR 56 million in course of the third phase. In the fourth quarter of 2019 the Bankhas finished the acquisition of HUF 7,000 million Hungarian Development Bank's loan portfolio related to FGS at NBH.

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 denominated in HUF was deferred to Other assets (HUF 19,796 million) and to Other liabilities (HUF 20,032 million), 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.

The fair value of the loans denominated in HUF amounted to HUF 76,704 million as of 31 December 2019 (2018: HUF 68,114 million).

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 NBH also started to phase out the NHP III program.

MKB Bank undertook a HUF 25 billion growth in the net volume of SME lending in 2016 concerning Market-based Lending Scheme (PHP), which increased by HUF 5 billion in 2017 in the framework of the second phase of PHP. Therefore MKB concluded HIRS transactions with NBH in a total amount of HUF 120 billion.

The NBH intends to improve the structure of domestic SME lending through the NHP Fixed Income Facility, by improving access to long-term, fixed-rate loans for SMEs, which will be part of the NHP, starting January 1, 2019. Under the NHP Fix program, the NBH provides credit institutions with a null per cent interest rate refinancing loan for a maximum of 10 years, which they further lend to SMEs in the form of loans or financial leases at a limited interest rate up to 2.5% per annum.

41. Events after the end of the reporting period

On 10 February 2020, the Bank sold a loan portfolio held for sale in net value of HUF 3,622 million (gross value of HUF 11,049 million, related loss allowances of HUF 7,427 million).

On the initiative of dr Ádám Balog, Chairman and CEO; the Bank donated HUF 1,000 million on 13 March 2020 to support government efforts related to the protection of the coronavirus, in particular to disclosure of information and protect the elderly.

On 19 March 2020, Government Decree 47/2020. (18 March) entered into force on immediate measures necessary for alleviating the effects of the coronavirus pandemic on national economy. Paragraph 1 discloses a payment moratorium on loans already disbursed on the basis of contracts existing at midnight, 18 March 2020, i.e. the capital-, interest-, and fee payment obligations of debtors arising from credit, loan or financial lease contracts have been suspended up to 31 December 2020. Note 6 contains further information in connection with the Bank’s credit risk at the end of the reporting period.

MANAGEMENT REPORT
to the separate 2019 Financial Statements of

MKB Bank Nyrt. (Prepared under IFRS)

In 2019, the scope of activities of MKB Bank Nyrt. comprised the following sectors:

- **banking services**
- **finance and operating leases**
- **financial and investment services**
- **other loans**

MKB Bank's profit after taxation for 2019 under IFRS amounted to HUF 42,012 million gain.

Shareholders' equity was HUF 193,555 million at 2019 year-end.

Budapest, 25 March 2020

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

The following section of the Annual Report provides a discussion and analysis of the Bank's financial condition and results of operations so as to help the reader to assess any changes in the financial condition and profits for the year 2019. The forthcoming analyses are based on figures reported in the Bank's separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") as at, and for the financial year ended 31 December 2019 and audited by Deloitte Könyvvizsgáló és Tanácsadó Kft. chartered accountants. On this basis, the discussion focuses on the performance of the Bank. The separate financial statements prepared in accordance with IFRS are presented separately.

OPEARTING ENVIRONMENT

International macroeconomic environment

Significant changes took place in the communication, decisions and monetary policy outlook of the central banks of developed markets in 2019: while at the end of 2018 the US central bank, the Fed and the European Central Bank (ECB) were on the verge of monetary tightening, both central banks have taken the path of monetary easing.

Economic growth in the euro area has slowed steadily since 2018, showing only 0.9% GDP growth in the last quarter of 2019, compared with 1.2% a year earlier. In addition, inflation in the area was far below the central bank's target for 2019, with an average annual rate of 1.2% in 2019.

In 2019, two global risk factors were in focus in the world: the UK's exit from the European Union (Brexit) and trade tensions between the US and China.

The UK House of Commons repeatedly rejected the UK-EU exit agreement in 2019, resulting in several postponements of the Brexit deadline during the year, with the last amendment changing to 31 January 2020. In addition, on December 12, early elections were held in the country, where the formerly ruling Conservative Party had won by leaps and bounds, leading to Brexit.

In 2019, trade tensions between the US and China escalated further, with a number of serious trade-restrictive measures taken by both sides, and a series of mutually increasing import surcharges. Uncertainty over trade tensions has continued, but it is a positive development that by the end of 2019, a first-stage agreement between the US and China has been established, following which negotiations will continue.

Hungarian macroeconomic environment

Overall, in 2019, the Hungarian economic growth was 4.9% compared to 2018, slightly lagging behind the 2018 GDP growth of 5.1%. Increase in employment and wages, as well as continued high levels of consumer confidence, contributed significantly to consumption growth.

At the same time, domestic economic growth is expected to slow down from 2020, mainly due to the slowdown in the growth of consumption and investment. The former is due to the expected low level of employment growth and slowing wage dynamics, which may be partly offset by high consumer confidence and savings in previous years. In addition, the decline in

EU funds in government investment is holding back growth dynamics, while private investment is expected to slow down most after 2019.

By the end of 2019, the general government debt-to-GDP ratio had fallen to 66.4% from 70.2% at the end of 2018.

In 2019, annual inflation was 3.4% on average, which meant that inflationary pressures increased from the 2.8% average in 2018. In addition, in December 2019 the domestic price level deteriorated by 4%, bringing inflation to the upper limit of the NBH's tolerance band. Domestic inflation may accelerate further in 2020, mainly due to buoyant domestic economic activity and the weaker forint exchange rate. Domestic pressure also remained high in 2019, with domestic core inflation averaging 3.8%. Core inflation will continue to rise in excess of the overall decline in price levels in 2020, close to 4%.

While the NBH moved towards monetary policy normalization in the first quarter of 2019 (raising its overnight deposit rate in March), monetary conditions remained unchanged in Hungary in the subsequent quarters, despite strong internal pressures. In addition to the increasingly bleak global economic outlook, the Fed's and ECB's monetary policy easing has also contributed.

High domestic pressures, as well as their likely persistence and even possible exacerbation, may cause the NBH to fine-tune its monetary policy instruments in 2020, but it is not expected to raise the base rate. However, it is important to see that due to international circumstances there is no compulsion to tighten at the NBH, and looser monetary policy conditions are expected globally for longer than previously expected.

In the Hungarian government securities market, in spite of fluctuations, but overall, a significant decline in yields was observed in 2019: while at the beginning of January the 10-year domestic government securities yield was still 2.86%, the rate declined to 2.01% by the end of December. (reaching its low of 1.47% in August, followed by correction and paging).

Overview of the banking sector[2]

In 2019, both retail and corporate loans continued to grow: the portfolio increased by nearly HUF 2,000 billion, further boosting the balance sheet total of the credit institution sector. Household loans increased by 15.6 per cent between December 2018 and December 2019, while corporate loans also increased significantly, by 11.3 per cent year-on-year. The NHP fixed program, the launch of Babaváró Loans, the launch of MÁP + in the field of savings and the NKP on corporate resources had a significant impact on loan growth. In addition to corporate lending, the SME sector's loan portfolio grew by more than 15%, contributing to corporate credit expansion.

While banks' profitability has slightly decreased, it remains high in international comparison. Reversal of impairment played a decreasing but still important role in profitability in the first half of 2019. Banks need to take further efficiency measures to ensure sustainable profitability: significant improvement in sustainable profitability requires significant convergence in both efficiency indicators and digitalisation of the banking system. The banking system's consolidated capital adequacy ratio was 17.9% in September 2019, and all credit institutions met the required solvency requirements. The external vulnerability of credit institutions is historically low, with the balance sheet total of short-term external liabilities standing at only 4.6% at the end of June 2019.

[2] Source: NBH

Worsening external trade and geopolitical tensions in 2019 and deteriorating external environment in some regions have worsened the outlook for domestic economic growth and thus puts the domestic banking system at risk for 2020.

Expected effects of the coronavirus (COVID-19)

The outbreak of the COVID-19 coronavirus will result in increased risks in 2020, which could have an impact on lending activity and economic growth. At present, the impact cannot be quantified due to the rapidly changing situation. MKB Bank supports the measures to prevent the spread of the virus with its available resources, while striving to keep its operation as smooth as possible. The Bank is constantly assesses the impact of the rapidly changing situation on its customers, and is analyses the possibility of customer support solutions. The Bank expects a real financial impact only in the case of a prolonged situation that significantly impedes the operation of businesses (for example a total retail ban, state measures, taking over control).

Changes in macroeconomic parameters used in impairment calculations and unfavourable results of sectors affected by the COVID pandemic might result in not yet quantifiable changes in impairment losses on loan receivables. However, the trigger event occurred in the 2020 business year, so its effects will be included in the 2020 Management report.

Note 6.6 to the Financial Statements contains further information about credit risk of the Bank according to industrial classification.

PERFORMANCE OF THE BANK IN 2019

The Bank (separate) IFRS total assets amounted to HUF 1,772.5 billion at the end of 2019, down 4.6% year-on-year. The portfolio of customer loans increased by 3.4% to HUF 923.9 billion, while customer deposits dropped by 10.4% to HUF 1,237.3 billion. The Bank’s profitability improved considerably in 2019: its profit after taxes grew to HUF 42.0 billion from HUF 25.3 billion in 2018.

The Bank's financial and business fundamentals, including capitalisation, liquidity, funding structure, balance sheet structure and the performance of its business lines, are stable.

PERFORMANCE OF THE INDIVIDUAL BUSINESS LINES[3]

Retail segment

In line with our strategic priorities, the retail and small business lines were merged in 2019 to achieve a higher level of customer service at the branch network and a significant increase in customer value. The developments in 2019 were aimed at increasing the number of customers, lending and the premium segment, thus increasing the market share of the business line. In addition to organic growth, the Bank has emphasized its corporate relationships, strategic partnerships with its subsidiaries, leveraging synergies, MKB Pension Fund, MKB-Pannonia Health and Mutual Fund and MKB-Euroleasing.

Retail borrowing followed the upward trend of previous years: a further 2.2% year-on-year, taking into account the Family Protection Action Plan launched in July. The possibility of

[3] Source: NBH, KAVOSZ, Eximbank, MFB, MKB’s own calculation

fulfilling the demands of the population was further increased by the wider range of available state subsidies, and the partners also had strong expectations regarding the Family Protection Action Plan, which was introduced in July. Accordingly, brokerage partners played an important role in the sale of consumer mortgages, along with significantly expanded family support products. In particular, Babaváró loans were popular, giving new impetus to market loans, thereby increasing disbursements. Throughout the year, the intermediary channel had a 38.5% share of retail mortgages.

The portfolio of retail assets managed by the Bank at the end of the year exceeds HUF 700 billion. The structure of savings changed slightly: the proportion of government securities considerably increased (10%+ increase due to the introduction of MÁP+ government securities in June) compared to a decrease of 18% deposits and an average of 5% in investment funds.

In 2019, we were able to further increase the number of satisfied customers with our onboarding and next best offer programs, thanks to a more conscious retail campaign management activity. We also achieved outstanding results in the growth of the premium segment's customer base and managed assets. Thanks to targeted customer inquiries and a premium value-added advisory system, the premium customer base increased by nearly 46% and assets under management by 38% over the past year. Because of the investment portfolio-based investment advisory, MKB-Pannónia Fund's open-ended investment funds increased by 22.45%.

Particular emphasis was placed on the training and education of sales staff, thereby reinforcing advisory within the branch network. Together, these enhancements guarantee a higher customer experience in both branch and digital banking.

The development and implementation of a small business customer management model has made the customer service process within the account more efficient and simpler, and has strengthened the customer value based acquisition strategy. As a result of the review of small business sales channels, profitability factors related to the business line improved. By focusing on the focus of the sales management concept, there is progress in demand-based customer service practices and the strengthening of the Bank Group approach.

The Bank's branch network development strategy is based on the continuous improvement of customer service, in which the most efficient and convenient customer service plays an important role. In line with the market conditions, the Bank continued to modernize and renovate customer space in settlements and localities with significant customer / corporate potential customer base in 2019, and decided to completely redevelop the Hercegprímás Street Premium and Digital Customer Center in 2020.

In addition to our current and extensive online administration, the Bank currently provides personal customer service in 51 branches across the country.

The Bank had taken into account the expected performance of the intermediary channel already at the planning stage. The expansion of the partnerships was a result of ongoing acquisition work during the year and several operational or process improvements aimed at enhancing the satisfaction of the partners, and indirectly the clients. Opened in December 2018, the Partner Center in Budapest fulfilled its expectations as it reached the planned disbursement volume and, according to the feedback received, improved the partner experience. Based on the positive experiences, the Bank will also explore the possibility of developing the Partner Center.

Based on a strategic agreement between the Bank and CIG Pannónia Life Insurance Plc., the branch network of the Bank sells CIG Pannónia's pension and life insurance products. 2019 was the most successful year of cooperation with the Insurer. Compared to 2018, sales of regular premium life insurance increased by 28%. Together with the Insurer, we organized Open Days for our clients in several of our branches in Budapest and in the countryside, which have been outstandingly successful. Our clients have been informed about available retirement, investment, risk and health insurance and, with the help of our colleagues and CIG representatives, have been able to diversify their investment portfolio.

In the case of mortgage-backed credit insurance, we introduced a new package that includes a broader range of risk events, and the pricing of previous packages has been streamlined.

MKB SZÉP Card

As of January 2, 2019, the Bank has taken over the issuance and registration services of MKB SZÉP Card and concluded an account agreement with more than 218 thousand customers by the end of the year. MKB Pension Fund and Healthcare Fund Servicing Ltd., which previously issued the MKB SZÉP Card, will terminate its SZÉP Card activity by 31 May 2020.

As of 2019, only the SZÉP Card remained a favorable tax-paying fringe benefit, and this change in tax legislation significantly contributed to the outstanding performance of the MKB SZÉP Card in 2019.

The employer's contribution of HUF 26.8 billion referred to MKB SZÉP Card holders in 2019 increased by 72% compared to the previous year. With six million transactions in 2019, SZÉP Card Spending increased by 44% to nearly HUF 21.5 billion.

The assets on MKB SZÉP Prepaid Accounts exceeded HUF 10 billion on an annual average.
MKB SZÉP Card holders can use their cards for payment at 24,000 contracted service providers.

Digital products and channels

Building on the successful roll-out of the 2018 core system, where MKB laid the foundation for tomorrow's digital architecture, MKB continued to develop its digital services in 2019, further enhancing customer experience and satisfaction.

It added new services to the mobile app with more than 40,000 active users, introducing Alfred, the smart assistant module. Alfred has a real-time decision engine that allows customers to receive relevant information and offers in real time. By analyzing users' banking habits and geolocation information, the app is able to provide customers with the most relevant offer for their situation, thereby contributing to the success of campaigns and customer satisfaction.

Retail and SME customers also have the option of FX conversion at a specific rate. We have developed an online share subscription feature for our investment clients, making listing transactions even easier to access.

Digitization is, therefore, a long-term investment, based on careful planning, including the launch of preparations for our services to be launched in 2020, including projects to renew online lending and account opening, and mobile application and mobile payment.

In 2019, statutory projects (PSD2, Customer Identification, AFR) generated a number of digital channel tasks that our bank, as a supporter of open banking, successfully solved in partnership with fintech companies, and we continue to trust that new services experience and satisfaction.

Corporate and institutional customers

MKB's permanent strategic objective is to maintain a strong corporate business line, based on our traditional strengths. The corporate business line is focused on local knowledge, professional service provision, advice-based sales and the provision of innovative solutions.

What MKB sells to its customers is not simply a variety of products but complex business solutions and advice, setting up complex credit facilities and satisfying special banking needs when necessary. MKB can provide effective and efficient solutions to all participants of the corporate segment, regardless of customer size.

To continue the development of the customer life-cycle based approach the Bank devoted major resources in 2019 to further optimising the product development processes and models, as well as to developing digitised solutions.

Despite major limitations and restrictions entailed by the EU commitments, maintaining portfolios continue to be crucial for the Bank in the large corporate business line, thereby keeping up the strong market positions and the diversified loan portfolios and avoiding the build-up of material risk, industry or customer concentrations.

Small and medium-sized (SME) customers continued to be a key segment for the Bank in 2019. Meeting the new additional requirements of the guarantee institutions was paramount: the Bank is continuously fine tuning its SME financing possibilities to make sure that the options enabled by the programmes are available primarily for those SMEs that are most in need of them.

In the framework of the Széchenyi Programme the Bank is a mayor player with a lending portfolio of HUF 36.6 billion, with which it maintained its significant – 15.4% – market share. As one of the elements of opening towards the agricultural sector – by continuously optimising and enhancing the available options – MKB participated in the financing of the Agricultural Rural Development Programme. The Bank has also introduced a new product for SMEs specifically for the purchase of agricultural land, and it provides agricultural land development loans in line with programs supported by the European Union and the Ministry of Agriculture.

We have been traditionally closely cooperating with Eximbank to maximise the number of customers provided with funding.

MKB has been supporting businesses in their efforts at improving their competitiveness and the effective utilisation of funds by providing useful information and face-to-face advice through the network of MFB Points which have been in operation since July 2017.

Investment services

The Group provides a wide range of investment banking type services, including Treasury services (trading on commission, custody services and sales), fund management, capital market and transaction consultancy, Private Banking, tender drafting and project management consultancy as well as venture capital fund management.

In 2019, the Bank continued to expand the range of investment funds in order to better serve its customer needs. In addition to MKB-Pannónia Fund Manager (which continues to be a strategic partner) the products of four foreign and six domestic partners were available for various customer segments by the end of 2019.

When selecting newly launched investment funds, it was a priority to meet customer needs focused on sectors such as Artificial Intelligence, Biotechnology or Sustainable Development (ESG Funds). In addition to investment fund sales, the sales of certificates increased dynamically last year.

The Bank is a primary and contracted dealer of institutional and retail government securities. Sales of retail government securities, both in volume and in number of transactions, increased significantly compared to 2018, mainly due to the newly introduced retail government securities (MÁP +) of the Government Debt Management Agency. In 2019, the Bank further increased its number of Distributors.

MKB's Capital Markets and Transaction Advisory Directorate has played a significant role in listing the Bank, continuing its Nominated Advisor (NOMAD) function on the BSE's Xtend market, and has been one of the market's leading investment service providers in the NBH Bond Funding For Growth Scheme (BGS): contributed to three successful bond issues totalling HUF 78.6 billion.

MKB Private Banking continued to grow its managed assets by a significant 20% in 2019, making it one of the market leaders in its segment. The division is managing assets worth a total of HUF 700 billion. At the same time, the average volume of the portfolios managed by the division is also outstanding, over HUF 300 million, the highest average per-customer amount of assets managed by service providers associated with banks.

First in Hungary, Private Banking has launched its market-leading MasterCard World Elite card for its customers and expanded its offering with new investment funds to further enhance customer satisfaction, ensuring modern investment strategies are achieved. Close co-operation with MKB-Pannónia Fund Manager in the field of investment fund sales and personalized asset management continued.

The Premium investment service involves the provision of personalised investment advice based on sample portfolios, together with a broad product range and individual products, as well as consultancy with our highly trained professionals. The success of the Premium investment service launched in 2016 is unbroken among clients, which is well illustrated by the fact that the number of clients using the service increased by nearly 50% compared to 2018. The increase in customer numbers is also reflected in the increase in assets under management: it has increased to HUF 141 billion in 2019 compared to HUF 107 billion in 2018. There was no change in the volume of average customer assets, which is still HUF 30 million. MKB aims to continue to improve the quality of the priority service – based on customers’ needs surveyed –, and to launch a vigorous acquisition campaign. To this end, the Bank is reconsidering the value proposition, the service level and the service provision model for the segment.

Service quality and customer satisfaction

The Bank focuses its operations on enhancing customer experience as one of its key strategic objectives. The Bank maintains continuous dialogue with its customers, monitoring their satisfaction. It was to this end that the Bank set up at the end of 2017 the on-line panel called MKB Dialog, in order to ensure that customer’s opinions are integrated in the Bank’s day-to-day operations, whether regarding the introduction of new products or even new on-line solutions. In 2019 MKB Dialog has been extended to the SME segment and the Bank conducted a customer satisfaction survey across all segments.

SUBSIDIARIES / STRATEGIC ARRANGEMENTS AND PARTNERS

The range of MKB's own banking products and services is supplemented by those provided by its subsidiaries and partners. The key objectives include maintaining or enhancing the market positions of the subsidiaries engaged in business activities, increasing cooperation among the members of the Group and strengthening the auxiliary financial services.

SUBSIDIARIES[4]

MKB Euroleasing Group

MKB Euroleasing Group, as one of the leading domestic leasing companies, continues to be highly active and dominant as in previous years, mainly due to its strong market share in car financing and financing agricultural machines. In addition to these segments, MKB-Euroleasing Group provides its clients with a full range of services in financing commercial vehicles and general purpose machines.

The goal of the MKB Euroleasing Group (considering the segments and the portfolio within the segments) is to build a risk and business diversified portfolio that ensures the long-term operation of a profitable business model. taking into account both the financing segments and the portfolio of contracts within the segments.

In 2019, the Group dynamically increased its new financing volume. Managed portfolio also rose, which contributes significantly to further improving operational efficiency. In the car financing and the agricultural machine financing segments MKB Euroleasing is one of the three largest market participants.

MKB Euroleasing's strategic goal is to retain the already secured market share and status as a leading domestic leasing company, provide for a stable market presence primarily by strengthening vendor, supplier and importer relationships and developing new ones. In addition, the Group is at the forefront of developing and deploying innovative digital solutions to serve the needs of its customers and partners.

MKB Consulting

In 2019, MKB Consulting provided a complex consulting portfolio to its corporate, government and higher education clients. Advice for business innovation and R&D grants resulted in development nearly HUF 6 billion nationwide. Counselling for county-level cities, the Budapest Stock Exchange and various venture capital fund managers has led to the launch of programs that generate significant improvements in certain rural regions and sectors.

MKB Consulting is not only consulting on innovation, but is also constantly improving its service activities. With this in mind, in 2019, MKB Consulting launched a new business line, based on the process optimization software CELONIS. The viability of the service is demonstrated both by the pilot project launched and completed jointly with the Bank and the strong interest in medium and large companies for this consulting.

[4] Source: Hungarian Leasing Association, BAMOSZ

Danube Capital R&A Zrt.

In 2019, within the Group, dedicated expertise in macroeconomic analysis, corporate valuation, sector analysis and market research was established through the establishment of Danube Capital R&A Zrt. Danube Capital published 125 professional blog posts in 2019, which reached more than 22,000 visitors in the second half of 2019. Danube Capital's professional team has been supporting the clients of Group with complex corporate valuation, industry analysis and macroeconomic analysis and consulting.

MKB Inkubátor Kft. - MKB Fintechlab

Launched in 2016, MKB Fintechlab celebrated its third anniversary in November. MKB Fintechlab acts as an innovation laboratory and international startup incubator for the MKB and helps the organization's innovation work with knowledge, relationships and development. Besides this, MKB Fintechlab's priority is to support the Group in the digital transformation and strengthen the design mindset within the organization.

MKB Fintechlab focused on building digital competencies in 2019, continued the strategic expansion launched at the end of 2018. MKB Fintechlab has created a unique design competence centre to take digital design expertise to the strategic level within the Group. MKB Fintechlab’s design competence centre has conducted extensive research and developed digital product concepts with the Bank's counterparts to achieve the highest customer experience possible.

MKB Fintechlab’s startup program was also a success, with 110 startups in 15 countries applying in 2019. The best ideas were presented at Demo Day event as a solemn end to the three-month incubation program.

The Fintechlab Design Summit, held in November 2019, which focused on customer-centricity and customer experience design, also marks MKB Fintechlab’s international relationships and the success and recognition of its work. At the full house event, the most successful international fintech companies and digital banks also presented their experiences.

MKB Fintechlab is expected to further strengthen and support the organisation's innovation and digital strategy in 2020 and to build further partnerships by its startup program.

Solus Capital Venture Capital Fund Manager

In August 2019 Solus Capital Venture Capital Fund Manager established Solus II. Venture Capital Fund, thus, the Company now manages two venture capital funds (together with Solus I Venture Capital Fund) with nearly HUF 21.4 billion in registered capital.

Solus I Venture Capital Fund seeks to contribute to regional development and the technological modernization of the SME sector under the S3 Venture Capital Program. The Capital Fund invests in small and medium-sized enterprises that are capable of rapid growth through innovation in the field of smart technology. Solus I Venture Capital Fund currently has a portfolio of 14 companies. The Fund has already invested nearly HUF 2.5 billion in various manufacturing and service industries.

Solus II. Venture Capital Fund launched active capital investment activities at the end of 2019, aims to support the strategic goals of the Digital Success Program (DJP): to assist the development of digital infrastructure, competencies and the digital economy through venture capital investments. Solus II. Venture Capital Fund invests in micro, small and medium-sized companies whose development goals are related to the strategic goals of DJP, such as education (EdTech), government services (GovTech), health and welfare services (MedTech, SportsTech), various sectors of the digital economy (AgTech, E-commerce, Sharing Economy), information security (Cybersecurity) and the latest innovations (5G developments and related innovations).

STRATEGIC COOPERATION ARRANGEMENTS AND PARTNERS[5]

MKB Pension Fund

MKB Pension Fund is one of the leading domestic funds: its favourable conditions, robust technical/professional track record, stable and prudent operation and skilled asset manager team, as well as its long term investment results guarantee for the savings of its members. The Voluntary segment of MKB Pension Fund, with a history of 25 years, had nearly 80,000 members and managed more than HUF 138 billion worth of assets (an increase of approximately 5% compared to the previous year) at the end of 2019. With a stable market share, it also completed its plans under more difficult market conditions, closing the year positively. Its Private segment had a total of 3,693 members and managed HUF 20.3 billion in assets at the end of 2019. The ratio of members paying contributions was well above the minimum requirement of 70%.

By choosing the fund facility customers access significant benefits. Enabled by low costs, tax-free yields and tax benefits provided by the state they can accumulate substantial amounts even without any financial expertise to supplement their pensions, contributing to the maintenance of the standards of living they secured themselves during their economically active years.

The Fund lays particular attention to maximising the satisfaction of customer requirements, therefore it is constantly seeking for and applying new and innovative solutions. The features of Personal storage space and Electronic business enable users to simply and quickly view the data stored in the system, monitor the increase of their savings, the annual account history and the current portfolios.

Following the improvements of previous years, the Fund has completed several successful projects last year with the expansion of new digital services: launched the online credit card payment and expanded the Members' Portal, among the first in the market. The Employer portal offers efficient administrative solutions by enabling electronic administrative procedures. The Fund continues to focus on maximizing customer service needs, and is constantly seeking and applying new, innovative solutions.

MKB-Pannónia Health and Mutual Fund

MKB-Pannónia Health and Mutual Fund has been one of the largest, best-performing funds for 22 years. On July 1, 2019, Kardirex Health Fund have been acquired by the Fund, signalling the company's strong market position. In 2019, despite regulatory changes affecting the sector, the Fund's assets amounted to HUF 14.8 billion. Based on its market share, MKB-Pannónia Health and Mutual Fund remains the first in the ranking of health funds. The Fund’s membership exceeded a total of 207,300 by the end of the year. In line with the decision of the Board of Directors, the Fund has developed a comprehensive strategy to preserve its ability of value creating and be able to adapt to the changed market environment while transforming itself into a competitive, modern Fund in the coming years. The Fund has a total of 15,700 contracted partners across Hungary, of which nearly 9,000 also accept payment with MKB Health Fund cards.

[5] Source: Association of Mutual Funds

The Fund continues to aim at providing a social service package with a healthcare element to ensure the widest possible use of health-related and potential disease-related services.

Personal storage space provides quick and easy access to current portfolios, annual account history and certain types of cases can be managed electronically.

The Fund renewed its entire IT infrastructure and launched online credit card payment as a new digital service in 2019. In addition to the introduction of other convenience services, the Fund plans to completely transform and modernize its online presence in 2020.

FINANCIAL PERFORMANCE

Statement of Financial Position

Total assets of the Bank decreased by 4.64%, compared to the end of 2018, and amounted to HUF 1,772,456 million as at 31 December 2019.

Cash reserves increased by HUF 36,148 million compared to the end of 2018: cash on hand declined by HUF 1,869 million, while the balance of the account held at National Bank of Hungary grew by HUF 38,017 million.

Loans and advances to banks decreased by 1.91%, i.e. HUF 1,218 million compared to the end of 2018.

Derivative financial assets measured at fair value showed a decrease, driven by HUF 1,954 million lower balances of derivative transactions.

Securities decreased by 22.27%, i.e. HUF 172,135 million compared to prior year end. In 2019, the balance of Loans and advances to customers increased by 3.45% compared to the end of 2018, and amounted to HUF 923,938 million as at 31 December 2019.

The amount of Non-current assets held for sale and discontinued operations decreased by HUF 163 million compared to 2018 year-end.

Other assets decreased by HUF 2,262 million at the end of 2019, mainly due to a decrease in claims on currency exchange agents.

Investments in jointly controlled entities and associates increased by HUF 3,736 million comparing 2019 year-end to 2018.

During the reporting period Amounts due to other banks reflected a decrease of 8.62%, i.e. HUF 18,470 million. Deposits and current accounts owed to customers declined by 10.4%, i.e. HUF 143,578 million in comparison with the volume as at 2018 year-end.

Among liabilities, Derivative financial liabilities increased by 40.04%, i.e. by HUF 12,655 million, primarily due to fair value change of interest- and currency-related derivative transactions.

Other liabilities and provisions increased by HUF 22,275 million or 57.55%, from 2018 year-end.

Data in HUF million except stated otherwise

Statement of Profit or Loss and Other Comprehensive Income

In 2019, Net interest income showed a HUF 1,639 million increase compared to the previous year mainly caused by increased interest expenses from economical hedge accounting derivatives.

Net income from commissions and fees increased by 5.97%, i.e. HUF 1,541 million in 2019 compared to the previous year, due to the decrease of payment and account services expenses.

The net balance of other operating income and expense showed an increase of HUF 6,217 million, and amounted to HUF 11,612 million net income as at 31 December 2019.

Impairments and provisions dropped by HUF 2,521 million compared to prior year end, and amounted to HUF 4,027 million net release of provisions in 2019. The main driver of the significantly lower provision was the improved quality of customer loans as a part of the portfolio has been separated.

Operating expenses decreased by HUF 4,704 million, mainly due to lower administrative expenses and personnel related expenses.

Expense for Legal and advisory services contain the following other audit service fees for 2019:

2019	Amount in HUF
Engagement related to performing status of mortgage loans **	
Assurance engagement relating to performing status of mortgage loans offered as coverage	2 394 000 +VAT
Other audit service fees*	**2 394 000 +VAT**

* Fixed fee per each service.

** Several services are completed during the year. Total amount represents fees accounted for all completed services during 2019.

Fees for audit services contain the following 2019:

2019	Amount in HUF
Audit fee of the Bank	91 300 000 +VAT
Total audit fee	**91 300 000 +VAT**

Based on above factors, MKB Bank's profit after taxation for 2019 amounted to HUF 42,012 million.

For the end of 2019, total other comprehensive income increased by HUF 9,974 million compared to the previous year and resulted in HUF 3,281 million loss due to higher revaluation on financial assets measured at FVTOCI.

CAPITAL MANAGEMENT

The Capital situation of MKB Bank was sufficient at the end of 2019. As a result of the 2019YE profit (and therefore core capital accumulation) and the increase of the subordinated debt stock the available core capital increased significantly. The owner of the MKB Bank is committed to maintain the bank's capital adequacy and implement all the necessary measures.

Domestic and international guidelines require the Bank to maintain certain minimum capital-to-asset ratios. These risk-based ratios are determined by allocating assets and specified off-balance sheet instruments into different weighted categories, with higher levels of capital being required for categories perceived as representing higher risk. Regulatory capital is divided into Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Bank may raise regulatory capital by issuing several types of financial instruments to the public. These financial instruments are then classified as either Tier 1 or Tier 2, depending on the types of conditions or covenants they place upon the issuer.

As at 31 December 2019, as an actual figure of the Bank regulatory capital was HUF 199.2 billion based on Basel III IFRS under Supervisory Regulation. The increase of regulatory capital - by HUF 31.8 million – is derived from the increase of profit, subordinated debt and decrease of deduction of ESOP program, which was compensated by the increase of deduction of intangible assets, decrease of revaluation reserve.

Risk-weighted assets including operational and market risk decreased by 5.4% from HUF 826.3 billion in 2018 to HUF 782 billion besides approximately 2.8 % weakening of domestic currency. The main part of the decrease derived from decrease of business volumes in work out and CRE segment, increase of collateral and the result of RWA reduction project.

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

Legal limits defined by the
Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act), Regulation (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT on prudential requirements for credit institutions and investment firms and amending Regulation (CRR):

- CRR 395-400.§, Banking Act 302.§ large loan limit -> no excess
- Banking Act 100.§ investment limit -> no excess
- Banking Act 101-102.§ total investment limit -> no excess

INFORMATION RELATED TOR SHARES AND OWNERS

The share capital (subscribed capital) of MKB Bank Nyrt. is HUF 100,000,000,000 i.e. one hundred billion forints, representing a cash contribution made available in total amount. The share capital is divided into 100,000,000 registered, dematerialized, series "A", ordinary shares with a nominal value of HUF 1,000 i.e. one thousand forints each. All Series “A” Ordinary Shares (“Ordinary Shares”) bear the same rights and all Ordinary Shares were listed in the Budapest Stock Exchange Standard category on 30 May 2019. Each shareholder holds solely ordinary shares.

The Articles of Association of the Company do not restrict the transfer of shares representing the subscribed capital of MKB Bank Nyrt. The Company has no issued shares representing special controlling rights. Voting rights are not restricted at MKB Bank Nyrt.

Rights and obligations of the shareholders

Rights of the shareholders at the General Meeting

a) The shareholder is entitled to attend the General Meeting. The shareholder, or a shareholder's proxy as defined in Section 151-155 of the Capital Market Act, who - as a result of the shareholders registration - was registered in the Register of Shares on the second business day preceding the start of the General Meeting, the latest, may attend the General Meeting of the Company. Persons, whose name is included in the Register of Shares at the time, when the Register of Shares is closed, shall be entitled to exercise the shareholder's rights at the General Meeting. The day of closing the Register of Shares is the second business day preceding the starting day of the General Meeting.

b) The shareholder may also exercise his/her rights at the General Meeting by way of proxy. Internal member of the Board of Directors, member, chairman of the Supervisory Board and the auditor cannot be persons authorised by proxy. The shareholder may give a proxy to the external member of the Board of Directors or to a managing officer of the Company - if he/she is not an internal member of the Board of Directors. The proxy shall be valid for one General Meeting, or for the period specified in the proxy, a maximum of 12 months. The validity of the proxy shall cover the continuation of the suspended General Meeting or the General Meeting re-convened because of the lack of quorum. The proxy shall be drawn up in the form of a public document or a private document providing full evidence and it shall be submitted to the Company. The authorisation issued by the shareholder's proxy shall state that the representative is acting as shareholder's proxy.

c) The shareholder has the right to be informed about cases on the agenda of the General Meeting In line with which right, in reply to the written request of the shareholder submitted at least eight days before the day of the General Meeting the Board of Directors shall provide information necessary to discuss the agenda item of the General Meeting three days before the day of the General Meeting, the latest.

d) The Company ensures that the rights to be informed, to comment and to suggest at the General Meeting are granted to every shareholder attending the General Meeting, on the condition that the exercising of these rights shall not hinder the lawful and proper operation of the General Meeting. In the interest of exercising the shareholder's rights specified in this present point the Chairman of the General Meeting shall grant the right of speech to the shareholder at the General Meeting, on the condition that the Chairman of the General Meeting may specify the duration of the speech, may withdraw the right to speak, especially in case the shareholder is off the point, furthermore he/she can specify the sequence of the speeches, if there are several speeches at the same time, in order to ensure the lawful and proper operation of the General Meeting.

e) Voting rights attached to shares are determined by the nominal value of such shares. The shareholder cannot exercise his/her right to vote until he/she has performed his/her due cash contribution.

Minority rights

a) Shareholders jointly representing at least 1% of the voting rights may request the convocation of the General Meeting at any time without specifying the reason or the purpose. If the Board of Directors fails to take action to convene the General Meeting for the earliest possible date within eight days after the receipt of the request, the registering court shall convene the meeting in reply to the application of the shareholders suggesting the meeting or the registering court shall authorise the suggesting shareholders to convene the meeting. The expected costs shall be advanced by the suggesting shareholders.

b) If shareholders jointly representing at least 1% of the votes communicate a proposal to the Board of Directors to supplement the agenda in line with the rules of the levels of detail or a draft resolution concerning an item on the agenda or an item to be added to the agenda within eight days after the announcement of the convocation of the General Meeting is published, the Board of Directors shall publish an announcement about the supplemented agenda, the draft resolutions proposed by the shareholders after the communication of the proposal pursuant to THE Articles of Association. The issue specified in the announcement shall be deemed added to the agenda.

c) If the General Meeting rejected or did not allow the submission to enforce a claim of the Company from any member, managing officer, member of the Supervisory Board or the auditor for a resolution to be adopted, shareholders representing at least 1% of the voting rights may enforce the claim themselves for the benefit of the Company and representing the Company within a thirty-day limitation period.

d) If the General Meeting rejected or did not allow the submission to have the last report or an economic event or commitment related to the activity of the Board of Directors in the last two years audited by a specially commissioned auditor for a resolution, the registering court shall order the audit and appoint an auditor at the cost of the Company in reply to the application of the shareholders jointly representing at least 1% of the voting rights submitted within the thirty-day limitation period following the General Meeting. The registering court shall reject the fulfilment of the application if the submitting shareholders abuse the minority rights

Right to dividend

The shareholder shall be entitled to a dividend from the profit of the Company, which can be shared and which was ordered to be shared by the General Meeting in the proportion of the nominal value of his/her share.

Obligations of the shareholders

a) The shareholder shall provide cash contribution to the Company in amount corresponding to the nominal or issue value of the shares received or quoted by his/her person. The shareholder may not be validly exempted from his/her obligation - excepting the case of share capital decrease.

b) The shareholder with at least 1% share or the shareholder acquiring such share shall report his/her indirect share and its changes to the Company providing his/her details suitable for identification at the same time.

Persons with indirect influence over 10% in MKB Bank Nyrt. are disclosed below:

Metis Private Equity Fund holds 35.000001% direct share in MKB Bank Nyrt. Metis Private Equity Fund is managed by Opus Global Befektetési Alapkezelő Zrt., in which Lőrinc Mészáros (address: 8086 Felcsút, Fő utca 311/5.) has a majority influence.

RKOFIN Befektetési és Vagyonkezelő Kft. holds 13.620597% direct share in MKB Bank Nyrt. The sole member of RKOFIN Befektetési és Vagyonkezelő Kft. is Metis 2 Private Equity Fund. Metis 2 Private Equity Fund is managed by Opus Global Befektetési Alapkezelő Zrt., in which Lőrinc Mészáros (address: 8086 Felcsút, Fő utca 311/5.) has a majority influence.

Blue Robin Investments S.C.A. holds a 32.90% direct interest in MKB Bank Nyrt. (Blue Robin Investments Betéti Részvénytársaság). The managing fully liable member of Blue Robin Investments S.C.A. is Blue Robin Management S.a.r.l. Blue Robin Management S.a.r.l. has only one member, UNCIA Finance Zrt., the sole shareholder of which is UNCIA Alpha Kft., in which company UNCIA Private Equity Fund if the sole member. UNCIA Private Equity Fund is managed by QUARTZ Alapkezelő Zrt.

MKB Bank Nyrt. is not aware any agreement concluded between its owners that may result in restrictions on the transfer of issued securities and/or voting rights.

MKB Bank Nyrt. is not aware of any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is not obliged to disclose such information on the basis of other legal requirements.

Employee share scheme

With the modification of the ESOP Act, which came into effect on 28 November 2015, a new type of Employee Share Ownership Programme could be launched. MKB Bank was one of the first to use this opportunity to establish its own ESOP Organisation on 30 May 2016. The launch of the ESOP was closely linked to MKB Bank's reorganisation efforts, as it created ownership interest among its employees. MKB Bank currently runs two ESOP Remuneration Policies through its ESOP Organisation: the Investment ESOP Remuneration Policy and the ESOP Performance Remuneration Policy. The point of the investment ESOP is that the ESOP Organisation has purchased Issuer Ordinary Shares for investment purposes for the benefit of participating employees and senior executives. Employees who made a declaration of participation to the ESOP Organisation did not become the owners of the shares, the shares were owned by the ESOP Organisation and are also currently owned by the ESOP Organisation. Participating employees acquired membership stakes in the ESOP Organisation. Initially, ESOP stake in the Company was 15% of the Issuer's share capital, which decreased to less than 5% by 1 March 2019 due to the continued implementation of the investment ESOP Remuneration Policy, i.e., the sale of shares by ESOP Organisation. Following the fulfilment of the stated purpose or condition of the investment ESOP, participating employees or senior executives may claim the earnings per share.

* * *

Considering that MKB Bank Nyrt's shares were listed in the Budapest Stock Exchange (BSE) standard category on 30 May 2019, in accordance with market practice and the BSE Corporate Governance Recommendations (Recommendations), MKB is preparing a Corporate Governance Report, which shall be published for the first time after the General Meeting of the Company on 17 April 2020 on the website of the Company (www.mkb.hu). In its Corporate Governance Report, the Company presents its corporate governance practices for the financial year and, on the other hand, details its compliance with each section of the Recommendations.

SUPREME, EXECUTIVE AND MANAGEMENT ORGANS, SUPERVISORY BODY, COMPOSITION AND OPERATION OF COMMITTEES

General Meeting

The supreme body of the Company is the General Meeting. The General Meeting has the exclusive competence to approve and amend the Articles of Association, except for the modification of the Company's headquarters, premises, branches and, except for the core activity of the Company, the activities of the Company as the Board of Directors is entitled to amend the Articles of Association in that regard. Pursuant to the Articles of Association of MKB Bank Nyrt., the General Meeting of the Company has the exclusive competence to recall and elect the Chairman and members of the Board of Directors. Members of the Board of Directors shall be elected by the General Meeting for a definite term of maximum five years. The members of the Board of Directors may be re-elected and may be recalled at any time by the General Meeting without giving reasons, in accordance with the provisions of the Articles of Association.

Board of Directors	Supervisory Board	Audit Committee
Chairman:	**Chair person:**	**Chairman:**
Dr Ádám Balog	Ágnes Hornung	Törtel András Oszlányi
Members:	**Members:**	**Members:**
Dr András Csapó	Rita Feodor	Rita Feodor
Márk Hetényi	Albert Godena	Dr László Ipacs
Imre Kardos	Dr László Ipacs	
Balázs Nyitrai	Ferenc Müller	
	János Nyemcsok	
	Törtel András Oszlányi	

Board of Directors

The Board of Directors is the executive body of the Company. The members of the Board of Directors represent the Company vis-a-vis third parties and before court and other authorities. The Board of Directors shall develop and manage the work organisation of the Company.

The scope of authority of the Board of Directors is included in the Articles of Association of the Company with the proviso that within the framework of effective laws and resolutions adopted by the General Meeting, the Board of Directors shall be entitled to take any actions and make any decisions that do not form part of the exclusive powers of the General Meeting or the Supervisory Board. The decision on the acquisition or the sale of own shares, as well as the increase of the registered capital through the issue of shares belongs to the competence of the General Meeting subject to the condition that the General Meeting may authorize the Board of Directors to decide on registered capital increase.

Supervisory Board

The Supervisory Board shall control the management of the Company in order to protect the interests of MKB Bank Nyrt.

Audit Committee

The Audit Committee provide assistance to the Supervisory Board in supervising the financial report regime, in selecting an auditor, and in working with the auditor.

Risk and NPL Committee	Remuneration Committee	Nomination Committee
Chairman:	**Chair person:**	**Chairman:**
Balázs Nyitrai	Rita Feodor	Imre Kardos
Members:	**Members:**	**Members:**
Rita Feodor	Imre Kardos	Rita Feodor
Imre Kardos	Balázs Nyitrai	Balázs Nyitrai

Risk and NPL Committee

As part of its ongoing monitoring of the Bank's risk-taking strategy and risk appetite, the Risk and NPL Committee reviews the risk strategy, remuneration policy and quarterly risk report in advance, approves the NPL Strategy and related implementation plan for the year, and monitors the high non-performing loan rate and the NPL Strategy.

Remuneration Committee

The Remuneration Committee is a consultative body that oversees the remuneration of directors and employees in risk management and internal lines of defence, and prepares remuneration decisions based on the long-term interests of shareholders, investors and other stakeholders in the company.

Nomination Committee

The Nomination Committee is responsible for nominating and recommending nominees to the Supervisory Board and the Board of Directors, with the exception of the members of the Supervisory Board representing the employees.

The Committees operate in accordance with the rules laid down in their rules of procedure. Bodies shall meet as often as necessary to carry out their functions and shall take their decisions in the form of a meeting or in writing and without a meeting. The work of the bodies is organized by the chairman of the body.

In accordance with the recruitment policy for the selection of members of the management bodies of MKB Bank Nyrt. and the Diversity Policy (Nomination Policy) applicable to the selection, members of the management boards of the members of the Bank Group, individuals with different professional skills, versatile regional and industry experience are elected into the managing bodies of the Bank group and they also take advantage of these differences in their operations in the operation of those bodies, which the members of the Bank Group consider as a key consideration in determining the optimal composition of their bodies. Board appointments are based on the pool of expertise, experience, independence and knowledge represented by the candidates, taking into account what the body as a whole needs to function effectively. The members of the Bank Group pay particular attention to the representation of both genders in executive bodies which is why they strive to reach 15% female members in executive bodies. To this end, they commit themselves to favouring the member of the under-represented gender of the same management body among two candidates of the same capacity who are otherwise suitable, unless otherwise justified by professional judgment.

There is no agreement with an executive officer or an employee that provides for compensation in the event of a manager's resignation or termination by the employee or unlawful termination of the executive officer's or employee's relationship, or termination of the relationship due to a public takeover bid.

MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM OF THE COMPANY

The provisions regarding the operation, management and functions of the internal control system of the Company are set out in the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Hpt.), the provisions of the Civil Code (Act V of 2013, hereinafter referred to as “the Civil Code”) on business companies, Act CXX of 2001 on the Capital Markets; the applicable recommendations of the NBH (primarily Recommendation NBH 27/2018. (10 December) on the establishment and operation of internal lines of defence, the management and control functions of financial organisations), the Bank’s Memorandum of Association and the Bank’s effective rules of organisation and operation.

Section 154 (1) of the Hpt. requires banks to operate an internal control system. The elements of the internal control system include the management information system, in-process and management controls, and the independent internal audit organisation.

The *concept of a management information system* encompasses all computer-based or manual systems that transform data into useful information for decision-makers. Its main tasks are to produce ad hoc and regular reports and to support (in general) decision making.

In-process and management controls are forms of control directly or indirectly integrated into business processes. These controls are performed by persons who are functionally involved in the processes or by those responsible for the final outcome of the audited activities.

Independent internal audit is part of the internal control (monitoring) system independent of the process. Internal audits should be performed by persons who are not involved in the Bank's workflows and are therefore independent of the entities and workflows being audited. Accordingly, MKB Bank operates an independent organisational unit, the Executive Directorate for Internal Audit (hereinafter: BEI).

Also in view of the NBH recommendation 27/2018. (10 December) referred to above, the system of lines of defence is interpreted in the Bank's monitoring framework system. The above control mechanisms, which are also stressed in the Hpt as the elements of the Bank's internal monitoring system (distinguished from the external monitoring independent of the Bank (e.g. customers, NBH, other authorities) and the external monitoring system elements (e.g., auditor) related to the Bank) can be classified as follows:

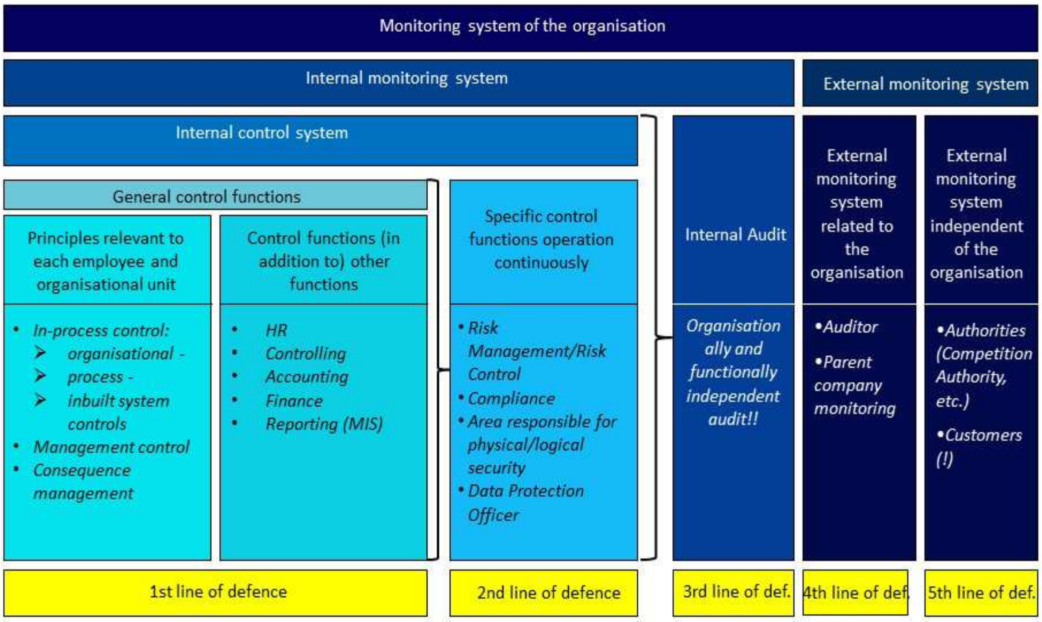
The Bank's internal monitoring system consists of an internal control system and independent internal audit.

Within the Bank's internal control system, we can distinguish between general principles (e.g. consistent responsibility management), practices (e.g. management control), organisational solutions (e.g. in-process controls), and areas with a control function (e.g. Controlling) and activities (e.g. management information system), which together form the first line of defence of the Bank's internal monitoring system. In fact, this line of defence includes all employees and managers who, through their prudent work, protect the Bank's interests and values.

Another element of the Bank's internal control system is all those organisations, activities and persons responsible for performing dedicated operational functions, activities and control functions (e.g., Risk Control, Compliance, Bank Security, Data Protection Officer), which together constitute the Bank's second line of defence. The function of the second line of defence can also be formulated by overseeing and supporting the activities of the first line of defence.

Independent internal audit, as another element of the internal monitoring system alongside the internal control system, is the Bank's third line of defence. Internal audit is an independent, objective assurance tool and consulting activity that adds value to the Bank's operations and improves its quality. It is responsible for examining the Bank's risk management, governance processes and the internal control system (or the Bank's first and second lines of defence) in a systematic and regulatory manner, evaluating and improving its operation, thereby contributing to the achievement of organisational goals.

The model of the Bank's monitoring system, including the place and role of independent internal audit, is illustrated in the figure below.



BRIEF DESCRIPTION OF THE COMPANY'S RISK MANAGEMENT SYSTEM AND PRINCIPLES APPLIED IN RISK MANAGEMENT

MKB Bank's Risk Control reviews the risk strategy of the MKB Group every year with the involvement of the relevant areas. In line with the current economic environment and in accordance with the Bank's business strategy and capital plan, the Risk Strategy sets out the risk strategy principles and objectives of the Bank Group for each risk type and risk appetite. The approval of the risk strategy falls within the scope of competence of the Board of Directors.

In line with the basic regulatory requirements, a concept for the Group's comprehensive risk-taking processes has been developed and is constantly being fine-tuned.

The main elements of the concept are:

- Group-wide application of risk management principles;
- Applying the Unified Segmentation to the entire clientele of the group;
- A decision-making system that depends on customer quality and risk-taking;
- The use of Basel conform rating tools, in compliance with IRBF and analytical and behavioural scorecards, as well as a corresponding client rating regime, which adequately supports the decision-making activities of the bank management;
- Internal, group-level model validation methodology with annual frequency (rating and scoring tools, validation of related processes);
- Monitoring activities with IT support;
- Establishment of a comprehensive system of criteria that includes and takes into account relevant indicators enabling the detection of threatened loans in order to identify loans at risk as quickly as possible and, based on this, to determine the various types of customer/exposure management, the related tasks and order of procedure.
- IFRS 9 provisioning system;
- Pillar 1 and Pillar 2 capital accounting systems based on IFRS;
- Regular group level management reports, backtesting measurements (Risk Reports, Capital Management Reports, Rating Quality, Rating Monitoring Reports, etc.)
- Definition of a revised recovery plan and its evaluation on a monthly basis.

The key risk management principles include ultimate control at board level, independent control separate from risk areas, and appropriate measurement, diversification, monitoring and reporting of risks.

The effective risk management function of the Bank is ensured by the effective communication of risks and the willingness to assume risks within the organisation, continuous development for recognising, measuring, monitoring and managing risks, turning the key risk management processes and procedures up-to-date and user friendly and improving their efficiency, as well as employing adequately trained work force.

NON-FINANCIAL STATEMENT

Brief description of the strategy and business model of the company

Founded in 1950, MKB Bank, is one of the oldest, dominant members of the Hungarian banking system. After the banking reform in 1987, the Bank continued to function as a universal commercial bank. Its main business activities include SME and large corporate as well as institutional banking services, international banking, retail and private banking, and money and capital market services. Through the members of the financial group and strategic partners the Bank offers its clients complex vehicle financing, asset leasing, fund management, advisory and pension fund and healthcare fund services as well.

MKB Bank provides its services through its nationwide branch network and modern, constantly evolving digital channels.

The basic values for MKB Bank are: tradition, innovation and co-operation.

Respect for traditional banking values and a commitment to leading the way in innovative financial solutions and digitalisation are both present in the financial group.

The knowledge and expert base as well as the embedded system of relations built over seven decades of operation, made MKB Bank a major operator in the Hungarian corporate trade financing, cash and liquidity management and investment market.

MKB is a major and large corporate bank, with strong organisational knowledge in that segment. It puts a strong emphasis on supporting businesses with innovative solutions, professional expertise and development ideas, with financing support tailored to needs and opportunities. The Bank gradually builds strategic partnerships with the major actors of the Hungarian economy. MKB intends to make an active contribution to the achievement of the objectives of its retail and corporate customers with its financing and, indirectly, to also contribute to an increase in the performance of the Hungarian economy.

MKB strongly concentrates on the quality of its customer relations. Professional services to customers is the most important value for the Bank, where the focus is on customer relations and experience, as well as value preservation and generation. That is why the Bank regularly conducts customer satisfaction surveys in each customer segment.

The fair banking values are extremely important in the daily operation and future image of the Bank, therefore it strives towards a sustainable business model and efficient and profitable operation with manageable risks.

Social and employment as well as human rights policy and its results, the applied due diligence processes

Community engagement:

It is important for MKB Bank to use all its available economic power to contribute to the development of the community and it is also committed to building co-operation that encourages extensive community engagement. The co-operation activities involve efforts to develop the financial culture, various educational programmes, targeted sponsoring and other support activities. All these activities are value-driven and have always been and will also be implemented in future to suit the local needs. The Bank does not carry out a risk assessment of its social and community engagement activities, but does so on the basis of its internal rules of procedure, which include relevant procedural rules.

The community engagement programmes of MKB Bank:

Through its donation and sponsoring activities, MKB Bank intends to offer true assistance in the support of programmes and matters serving the interests of the whole society, including financial culture and mindset development, value creation and preservation and the creation of opportunities, which are the most important aspects.

Health preservation activities:

In 2018, MKB Bank launched its # 20 Minute Health scheme, a health promotion programme with the slogan “Health is the best investment” and has been actively running it ever since. In 2019, in addition to physical health, mental health became a major focus. There was a great deal of interest in the lectures on mindfulness and getting out of the comfort zone in the programme. "Spend quality time with your family, loved ones, take time for yourself, exercise regularly and eat healthily!" - these are the key messages that MKB Bank would like to help you with on a daily basis. Each topic has its own expert mentors who provide useful tips and ideas in their area in articles and videos on the programme website.

Social responsibility:

Within the framework of its social corporate responsibility programme, MKB Bank supports with financial and tangible donations the operation of organisations and institutions the activities of which are in line with the principles of the Bank. In order to improve the living conditions of children with cancer and their families, the bank donated a minibus to the Together for Children with Cancer Foundation and, with the support of the Hungarian Interchurch Aid Organization, opened a brand new, modern playground in Orosháza. For the first time in 2019, the MKB Bank Running Team participated in the 5th Beregszás Charity Half Marathon with the help of the aid organisation.

Educational activities:

MKB Bank runs versatile educational programmes and is involved in various educational cooperation.

In co-operation with the National Association of Agricultural Equipment and Machine Distributors (MEGFOSZ), the Bank set an objective of promoting agricultural engineering, responding to changes in modern agricultural production.

The MKB Agro Partner programme, established in 2017 as part of the corporate business line of MKB Bank, supports the foundation and operation of agro businesses as a financial partner understanding agriculture.

As part of the “Become a Field Engineer!” programme, in 2019 400 students travelled to 14 MEGFOSZ member companies nationwide to learn about the operation of an agricultural company, the latest technology and machinery. Thousands of students got acquainted with the job opportunities during the career orientation days, and students from several vocational schools in Hungary participated in the presentation lectures.

Financial culture and awareness developing activities:

The employees of MKB Bank took part voluntarily in the ‘Money Week’ events, founded by the Banking Association and Financial Compass Foundation to increase the financial knowledge of primary and secondary school students.

Activities aimed at equal opportunities:

MKB Bank has a long standing relationship with the International Child Rescue Service (NGYSZ) which supports children facing difficulties in life. Owing to the 22 years of co-operation of the parties, in each academic year one hundred children and young people with outstanding abilities yet in socially disadvantaged positions can benefit from the extraordinary opportunities provided under the MKB Scholarship Scheme. The bank also offers discounted account management for young people with scholarships. The success of the talent management program is demonstrated by the fact that 29 students have successfully achieved their diploma since the project began. One of them graduated in 2019 from the Budapest University of Technology and Economics with a degree in mechanical engineering.

Besides the scholarship schemes, which constitute one pillar of the corporate social responsibility activities of MKB Bank, the MKB Christmas Children’s Gala held in December each year is another major event in the co-operation between the Bank and NGYSZ. The traditional programme of the gala is the classic fairy tale ballet performance ‘The Nutcracker’, which was hosted in 2019 by the Erkel Theatre.

MKB Bank has developed its equal access strategy in line with the requirements of the legislation and the supervisory authority (NBH) with the objective of integrating the requirements of the strategy into the Bank’s daily operation and making them an integrated part of the attitude of executive officers and all members of staff.

Within the scope of corporate social responsibility, state support is available through MKB Bank for disabled persons to be used for making their homes accessible.

As a traditional and major operator of the Hungarian financial sector, MKB Bank is also committed to provide support and makes significant donations. The fundraising programme series called MKB Charity Program, launched in 2018, continued successfully in 2019. Through its fundraising campaigns, the Bank supported the work of the Age of Hope Foundation and the Interchurch Aid Organisation. In addition to fundraising, MKB Bank's benefactor employees have been able to attend monthly volunteer days under the MKB Volunteer Program, which have made life easier for children, families, the elderly, and four-legged friends.

Employment:

MKB Bank completed a risk assessment in employment and identified the risks relevant in terms of its operation which are also taken into account in its HR activities. Human resources actions focused on global trends, domestic and MKB specific (based on survey) areas, such as talent and career management, supportive environment, and workflows. The Bank is organising an Orientation Day for newly joined colleagues. The purpose of that day is to integrate the new colleagues and to deliver the basic training required for employment as well as present the global organisation to them.

Data in HUF million except stated otherwise

The HR strategy concentrates on improving the employee experience by promoting flexible work, using the available digital devices and developing a co-operation-based corporate strategy.

Breakdown of the staff employed by MKB Bank by jobs (FTE):

Area	subordinate	head of department	director	deputy CEO + executive director	Total
Deputy CEO for EU Commitments	13	3	-	1	17
Deputy CEO for Legal, Governance and High Priority Affairs	31	1	2	2	36
Deputy Chief Executive Officer for Risk	142	4	4	1	151
Deputy Chief Executive Officer for Finance and Operations	285	8	8	2	303
Deputy Chief Executive Officer for Business	798	13	79	3	893
Chief Executive’s Office	100	2	4	4	110
Total	**1 369**	**31**	**97**	**13**	**1 510**

Breakdown of the staff employed by MKB Bank by average age, duration of service and area (years):

Area	0-2 years	2-5 years	5-10 years	10 + years	Average
Deputy CEO for EU Commitments	35	44	35	46	42
Deputy CEO for Legal, Governance and High Priority Affairs	40	42	39	44	42
Deputy Chief Executive Officer for Risk	36	38	38	46	41
Deputy Chief Executive Officer for Finance and Operations	37	38	39	47	42
Deputy Chief Executive Officer for Business	38	39	39	45	41
Chief Executive’s Office	36	39	37	49	40
Average	**38**	**39**	**39**	**46**	**41**

Breakdown of the staff employed by MKB Bank by duration of service and area (FTE):

Terület	0-2 years	2-5 years	5-10 years	10 + years	Total
Deputy CEO for EU Commitments	2	6	3	6	17
Deputy CEO for Legal, Governance and High Priority Affairs	8	12	4	12	36
Deputy Chief Executive Officer for Risk	10	43	32	66	151
Deputy Chief Executive Officer for Finance and Operations	88	50	30	135	303
Deputy Chief Executive Officer for Business	292	161	106	334	893
Chief Executive’s Office	37	37	9	27	110
Total	**437**	**309**	**184**	**580**	**1 510**

Data in HUF million except stated otherwise

Breakdown of the staff employed by MKB Bank by gender (number of employees):

Genders	Total staff			Director+		
Area	Male	Female	Total	Male	Female	Total
Deputy CEO for EU Commitments	9	8	17	1	-	1
Deputy CEO for Legal, Governance and High Priority Affairs	15	21	36	2	2	4
Deputy Chief Executive Officer for Risk	50	101	151	4	1	5
Deputy Chief Executive Officer for Finance and Operations	73	230	303	8	2	10
Deputy Chief Executive Officer for Business	278	615	893	53	29	82
Chief Executive's Office	57	53	110	6	2	8
Total	**482**	**1 028**	**1 510**	**74**	**36**	**110**

MKB Bank offers an extra-wage benefit package to its employees, consisting of a number of components. The employee benefit package includes financial benefits and a number of other components aimed at improving the working environment, maintaining a healthy lifestyle, motivated performance at work and strengthens the feeling of being part of a team. These benefits provided by the Bank are described in detail in the Cafeteria Policy.

Talent management at MKB Bank:

A complex calibration process across the company and standard performance evaluation system were introduced for the first time in 2018. A talent management programme covering subsidiaries has also been introduced.

Employee training also plays an important role. In addition to the statutory trainings, the bank organises regular further training. New banking products are also being introduced in a significant number of training hours.

The MKB Academy programme constitutes the framework of the Bank's training strategy. The system has 5 pillars. Besides the mandatory training (Mandatory Pillar), attention is also paid to the professional development of the colleagues, which is assisted with training courses dedicated to various topics (Professional Pillar). Skill development training activities are also available on a number of topics (Soft Skill Pillar). Employees can choose from different training courses to learn how to use the banking tools more effectively (System Pillar). A wide range of skill development training activities are also available as part of the management training (Management Pillar).

Balance of work and private life at MKB Bank:

The flexible working hours at MKB Bank is one of the key elements of the HR strategy as it is an important component of improving the employee experience.

As part of the HR strategy, MKB Bank aims to increase the share of atypical employment. In addition, the Bank intends to make work from home as widely available to a wider range of employees and therefore the tools and devices are also developed constantly. Working from home reduces stress at work, improves the balance of work and private life and thus increases employee satisfaction, work morale, efficiency and loyalty.

MKB Bank and health:

Health development and health preservation are important objectives for MKB Bank, as emphasised in various sports and health campaigns, such as the #20 Minutes Health programme. There are many ways for employees to enjoy sport. A healthy lifestyle also plays a central role. The objective is to provide a healthy work environment for the staff. In the spirit of the Health Year series launched in 2018, we organized office massages and screenings for employees during 2019 too.

Employees benefit from preferential health insurance, which includes diagnostic services and extended consultation hours at the Bank's occupational physician on every day of the week.

Hobby and recreational facilities are also available at MKB Bank. The canteens of the Bank serve fitness food and other items, suitable for special nutrition.

MKB Bank and sports:

The Bank provides a wide range of sports opportunities to its staff. The Váci utca headquarters and the Kassák Lajos utca office building have in total nearly 110 m2 of fitness facilities, which is being used by an increasing number of colleagues. MKB Bank also supports sports in other ways. The MKB Sports Association operates 21 sports sections.

Secure work environment:

In order to fulfil its legislative obligations, MKB Bank has prepared a risk assessment of the head office and other business sites of the Bank, including all branches. As it is an office work environment, there is only a low risk of accidents. Consequently, there are very few work accidents and their number is decreasing.

Health and safety and fire safety training is mandatory for each employee every year. A separate training material has been developed for the employees of the branch on how to respond if the branch is attacked. The personal, material and organisational conditions of safe work were defined in the Health and Safety Regulations of the Bank in compliance with the law.

A Health and Safety Representative also works at the Bank on behalf of the Works Council. The HS Representative is entitled to make sure that the requirements of healthy and safe work are fulfilled at the Bank.

Corporate governance:

MKB Bank, as a publicly traded company, whose shares are listed on the Budapest Stock Exchange (BSE), has prepared and published its Corporate Governance Report on the basis of the Corporate Governance Recommendations of the BSE.

MKB Bank attaches great importance to the development and operation of a corporate governance system that complies with best market practices and ensures efficient and effective operation, and responsible corporate governance. To this end, the Bank regularly reviews and develops its corporate governance practices.

MKB Bank's governance structure takes into account regulatory, supervisory and stock exchange requirements as well as business specifics. MKB Bank intends to comply as much as possible with the Corporate Governance Recommendations of the BSE.

Human rights protection:

Relying on the standards also expressed in the Code of Conduct, the Bank takes into account the interests of its employees based on fair assessment, recognises their right to the integrity of their private life but, in exchange, the Bank expects its employees to responsibly protect their health.

It is especially important for the Bank to see that its employees can equally focus on their families and work as well as professional career. To support that, the Bank offers a healthy work environment without any discrimination. The Bank does not prepare a risk assessment of the enforcement of human rights but it operates in compliance with the Equal Access Strategy and internal banking regulations that outline the procedural rules.

The Equal Access Procedural rules of MKB Bank were developed on the basis of Section 283 of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, the Decree of the Minister of National Economy 22/2016 (29 June) on the rules of equal opportunities for persons with disabilities in access to financial services provided by credit institutions and the NBH Recommendation 4/2017 (13 March) on the treatment of disabled customers. The regulation contains the rules of implementation and details defined in MKB Bank's Equal Access Strategy and constitute an inseparable part thereof.

The Bank's Equal Access Strategy was developed in the spirit of the Bank's social responsibility as the Bank pays special attention to the special needs of disabled customers and to special treatments promoting their equal access to services. The fundamental objective is to integrate the strategic requirements into the Bank's daily operation and to make them an integrated part of the attitude of executive officers and all other employees. The purpose of the regulation is to enable the disabled customers of the Bank to have access, whenever possible, to services of the same quality as those offered to ordinary customers but adapted to their special needs.

The Bank applies a fair treatment based on respect and esteem while keeping contact with its stakeholders. It rejects all forms of discrimination based on sex, age, ethnic origin, religious or political belief, belonging to any interest group, sexual orientation, different native languages and any other direct or indirect discrimination-based excluding conduct.

MKB Bank also operates a notification system (anonimbox@mkb.hu email address), where anyone can report any violation of law, or internal regulation or other rule of conduct experienced by them, even anonymously.

A Works Council (WC) also operates at MKB Bank in compliance with the currently effective Labour Code. The Works Council is the main interest representation forum, representing the interests of the employees. The employees may be involved in the discussion of issues and taking decisions affecting them and can learn about any change therein through the Works Council. The Ethics and Conciliation Committee of the Works Council has the power to resolve conflicts between employees and conflicts between managers and employees.

MKB Bank does not employ children and is not engaged in forced labour either.

Data protection and data security:

Data protection represents the latest generation of human rights and MKB Bank also pays attention to that field accordingly. It has incorporated checkpoints in its business processes and IT development processes to ensure compliance with GDPR requirements.

In line with industry practice and NBH regulations, MKB Bank is constantly updating its security readiness, upgrading and replacing its IT security systems.

The bank also gives high priority to the security of digital channels. In 2019, it was the first domestic bank to introduce the TLS 1.3 protocol for services provided over digital channels, which enhances the protection of data transmitted over the Internet against modification and eavesdropping. In order to comply with the PSD2 directive, the bank introduced a web application firewall for the API channel serving Fintech companies.

In full compliance also with the NBH recommendations, MKB Bank informed its customers on what to do in relation to cyber fraud and data phishing and raised attention about the importance of prevention and alertness regularly on its own platforms as well as in various publications issued on a number of occasions during the year.

The members of staff of MKB Bank have a great deal of experience in how to prevent data phishing, or identify the actual cases as well as implement measures to mitigate losses. Potentially affected customers are contacted by the MKB Cyber Security Centre to make sure that the customer is aware of the transaction in question and has actually initiated it. MKB Bank also takes all security and legal measures required on such occasions in addition to informing its customers.

Regulations on the related policies, the applied due diligence and risk management procedures:

Regulation on the Recruitment and Selection Process.
Cafeteria Policy.
Incentive system.
Regulation on the Internal Training System of MKB Bank.
Regulation on Work at Home.
Employee recognition programme.
Regulation on Sponsorship and Management of Support Requests.
Health and Safety Regulation.
Regulation on the Procedural Rules of Promoting Equal Access at MKB Bank

Environmental policy and its results, applied due diligence processes

MKB Bank is strongly dedicated to social responsibility, and therefore not only assistance to organisations and institutions worthy of support, but also environmental protection are important to it. In that context, the Bank has introduced a number of targeted measures, including the optimisation of energy consumption of office buildings and increasing the environmental awareness of employees. One of the objectives of the Digital Switchover strategy was to reduce the use of paper in branches by using new IT devices. In its environmental risk assessment the Bank took into account the annual energy consumption and annual carbon dioxide emission.

Measures aimed at optimising energy consumption:

The majority of MKB Bank’s energy consumption relates to the utility consumption of buildings and fuel consumption of its vehicle fleet. The consumption of buildings is partly of communal and partly of technology origin. Energy consumption is constantly monitored and supervised in each building. The national centre of this network is at Kassák Lajos street office building.

The lighting system is gradually modernised in all MKB Bank buildings in order to reduce electricity consumption. Presence detectors were installed in the majority of public areas to prevent lamps being left switched on. Natural sources of lighting are preferred in all office buildings and attempts are made not to use any artificial lighting in the rooms if there is sufficient sunlight during the day.

The energy consumption optimising measures also included the upgrade of the cooling of the head office and the replacement of the wet cooling towers of the liquid cooling equipment by pure air cooling-based appliances. Thus the efficiency of energy consumption almost trebled and the water and sewer consumption of the buildings has decreased significantly too.

Data in HUF million except stated otherwise

Annual consumption	2019	2018
Electricity (kWh)	11 739 135	13 443 085
Natural gas (gnm3)	933 664	989 021
Heat (MJ)	2 227 784	2 427 965
Water (m3)	25 808	27 486

The positive impact of the measure can also be observed in the annual energy consumption indicators of the buildings of MKB Bank.

The most recent complete energy efficiency audit for MKB Bank was carried out in 2019 by NKM Optimum Zrt. in full compliance with EU Directive 27/2012, Act LVII of 2015 and Government Decree 122/2015 (26 May). In addition, on the basis of the Decree of the Hungarian Energy and Public Utility Regulatory Authority (MEKH) 2/2017 (16 February), monthly energy desk officer reports are also prepared with energy consumption analyses.

Selective waste collection and management:

MKB Bank focuses on sustainable development. One of its basic pillars is selective waste collection, which is promoted with bins provided on office corridors and kitchens for collecting PET bottles and caps as well as electronic waste (cartridges, toners, etc.). Following adequate treatment, the selectively collected waste may be recycled, thus reducing the impact on the environment.

MKB Bank takes all reasonable efforts to have green operation, in the context of which electric waste management is another key issue. The digitisation strategy described above has also a positive impact on MKB Bank’s paper consumption.

Waste management is governed by a number of laws and regulations, and MKB Bank satisfies all legislative requirements. The Bank prepares waste management reports annually, containing the classification and quantities of waste generated and collected. In 2019, MKB Bank generated 80,520 kg paper and cardboard waste, 60 kg plastic 120 kg scrapped electric and electronic waste.

Environmental measures relating to the vehicle fleet of MKB Bank:

MKB Bank has its own vehicle fleet and runs most of its cars on petrol and only fewer cars on diesel. The scheduled replacement of the fleet began in 2017, as a result of which the vehicles at present are not older than 5-6 years. The bank plans to purchase more electric/hybrid cars, with increased purchase limits to eligible employees as an incentive to opt for such vehicles. MKB Bank also uses taxi services for its employees. The Bank entered into a contract with a new service provider in 2018. The partner selection was also influenced by the fact that this taxi company runs the largest number of electric cars on the Budapest market. At the end of 2019, the bank signed a contract with MOL Limo to replace its petrol-powered taxi service in the future and provide a more environmentally conscious urban transport for its employees.

Anti-corruption and anti-bribery policy and its results, applied due diligence procedures

In compliance with its statutory obligations, MKB Bank laid down its anti-fraud and anticorruption measures in various regulations.

Anti-money laundering and anti-terrorist financing measures:

MKB Bank developed its group anti-money laundering and anti-terrorist financing policy because it uses the available tools to actively participate in the prevention, combating and detection of money laundering, terrorist financing and economic crime both in Hungary and internationally. In order to effectively perform those tasks, the Bank applies the following main principles:

1. The Bank Group consistently meets and complies with all relevant international and Hungarian embargo rules, requirements and regulations concerning the fight against money laundering and the relevant national and international legislation.
2. The Bank Group does not and will not finance illegal arms transactions, drug trafficking, child work, slave trade, prostitution or corruption.
3. The Bank Group does not and will not finance persons or undertakings managed or controlled by persons qualifying as unreliable, having been sentenced for any related criminal act.
4. The Bank Group duly observes the FATF recommendations and pursues its activities in compliance with them.

The AML procedures apply to all employees of the Bank and fully comply with the FATF 40+9 recommendation, the Directive of the European Parliament and of the Commission 2015/849 and the Regulation of the European Council 2015/847. MKB Bank takes all reasonable efforts to prevent using the services offered by the Bank for money laundering or terrorist financing. MKB Bank has a Compliance organisation in which separate departments work on preventing money laundering and terrorist financing. The Bank fully co-operates with the official agencies in the identification of all suspicious cases, with special regard to potential money laundering and terrorist financing. The declarations required under the international regulations are available on the Bank's website.

In order to reduce the risk of money laundering and terrorist financing, the Bank must be aware of the activities of its customers, the nature of business relationships, business partners, financial habits, the Hungarian and business practice, the economic background of debits and credits in the account, the expected sales (amount, currency), hence it maintains a regular and active relationship with its customers. In accordance with the legal requirements, the Bank's staff perform the due diligence of customers. Natural persons and representatives of legal entities must also provide a declaration on the PEP status of the beneficial owner, which is then verified by the Bank's staff in public sources.

MKB Bank prepared its internal risk assessment in compliance with the provisions of Act LIII of 2017 on the prevention and combating of money laundering and terrorist financing, taking into account the Hungarian and international economic conditions and habits and the known risk factors. The Bank is also obliged to apply adequate risk classification on the basis of the nature and volume of the business relationship or a transaction order or the conditions related to the customer, product, service or the applied instrument.

MKB Bank identified its major risks in its risk assessment policy and reserves the right to refuse any customer relationship, transaction or transaction order if it is not in accordance with its risk appetite. The Bank monitors unusual activities and has identified cash transactions as a high risk, in particular in the case of extremely large or highly intensive cash turnover, thus verifying it continuously controls such turnover.

MKB Bank does not maintain a business relationship with customers who carry reputational risks, only customers who use their products for legitimate purposes and whose identity can be determined and verified without any doubt. The Bank does not provide services to natural persons or legal entities who/which are subject to any sanction or are included in any restricted list, such as the restricted list of the United Nations Security Council (UN), the EU

Consolidated Financial Sanctions list (EU), the Restricted List handled by the Foreign Assets Control Office (OFAC) of the United States, which also includes the Specially Designated Nationals and Blocked Persons (SDN). In addition, the Bank also identified industries, products and countries that represent a high risk.

MKB Bank tries to prevent and detect fraud not only in its customer relations. In the supply contracts partners must commit to compliance with the effective laws and regulations. The Bank's Compliance Unit also conducts review on the partners before each new contract or a supply contract that has not been reviewed for a year. The Bank does not enter into any contract with a supplier who does not satisfy the minimum requirements stated by law.

The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the effective law and the internal regulations of the Bank is a basic requirement for each employee and all partners with a business or other contract with the Bank are also expected to comply with the Code of Conduct.

Rules on business gifts:

In order to ensure transparent operation and prevent corruption, the Bank applies strict rules on conflict of interest and gifts to business partners. The Regulations on the Conflict of Interest of Employees and Gifts set out the rules of accepting and providing gifts for employees, the terms and conditions of holding executive officer positions, the restrictions on influential roles in the business organisation and on obtaining an influential share and majority influence as well as the rules of authorisation.

Regulations related to the respective policy and applied due diligence procedures:

On the assessment of reliability of the employees of MKB Bank.
MKB Bank Group Policy on the Prevention of Money Laundering and Terrorist Financing.
On the conflict of interest of employees and on business gifts.
MKB Bank group regulation on the prevention and combating of money laundering and terrorist financing and on the implementation of financial and asset restrictions ordered by the European Union and the UN Security Council.
Regulation on the Fraud Reporting System of MKB Bank
MKB Bank Anti-corruption Policy

Summary of main results of policies pursued in the fields of social and employment issues, respect for human rights, environmental protection and the fight against corruption

Through its traditionally extensive community involvement, MKB continued to actively contribute to the promotion of various health, education, and equal opportunities programmes and activities in 2019.

In the field of employment, in 2019, the introduction of the possibility of working from home was an outstanding achievement. It is gratifying that the health promotion programmes launched in 2018 continue to be popular and more and more sports opportunities are used by our employees. Implemented HR policies contribute to employee satisfaction.

By optimizing the energy consumption of office buildings, the bank's energy consumption was significantly reduced and the employees' environmental awareness was increased in 2019.

In 2019, MKB Bank consistently and effectively applied its anti-corruption, anti-money laundering policies, and its dedicated Anti-Corruption Policy managed by Compliance.

Significant risks relating to social and employment issues, respect for human rights, environmental protection and the fight against corruption concerning business relations, products and services, and the management thereof

MKB Bank identified its major risks in its risk assessment policy. Due to the nature of the Bank's operations, it is exposed to operational risk. Operational risk is the risk of loss due to human error, system failures, inappropriate or faulty internal processes, possible fraud or abuse of bank employees, customers or third parties, or external events, which includes legal risk, conduct risk, modelling risk, information and communication technology risk, and reputational risk. The Bank's key strategic objective is to minimize operational risks by applying risk-reducing controls in its core business processes. The Bank also expresses the requirement of prudent operation in its Code of Conduct. Compliance with the effective law and the internal regulations of the Bank is a basic requirement for each employee and all partners with a business or other contract with the Bank are also expected to comply with the Code of Conduct. MKB Bank does not maintain a business relationship with customers who carry reputational risks, only customers who use their products for legitimate purposes. MKB Bank completed a risk assessment also in employment and identified the risks relevant in terms of its operation which are also taken into account in its HR activities.

Key non-financial performance indicators:

- Energy consumption: (included in the Environmental Policy and its results, applied due diligence processes chapter)
- Breakdown of employees by age and gender: (included in the Social and employment as well as human rights policy and its results, the applied due diligence processes chapter)

Budapest, 25 March 2020

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer

STATEMENT

on the non-consolidated annual financial statements of 2019
and on the Report of the Management
Pursuant to Ministry of Finance Decree no. 24/2008. (VIII.15.)

MKB Bank Nyrt (hereinafter: Bank) declares concerning its non-consolidated annual financial statements – accepted by the Annual General Meeting of the Bank on 17 April 2020 and audited by an independent auditor - the following statement:

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

The Bank declares furthermore that The 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 describes the key risks and uncertainty factors.

Budapest, 17 April 2020

MKB Bank Nyrt.

dr Ádám Balog
Chairman and Chief Executive Officer

Csaba Gábor Fenyvesi
Deputy Chief Executive Officer