MKB Bank Nyrt.

Consolidated Financial Statements
and
Independent Auditor's Report

December 31, 2020.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MKB Bank Nyrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of MKB Bank Nyrt. and its subsidiaries (the „Group") for the year 2020 which comprise the consolidated statement of financial position as at December 31, 2020 – which shows a total assets of mn HUF 2,781,607 –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of mn HUF 8,423 –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020 and of its consolidated financial performance and its consolidated 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 consolidated 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 consolidated 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 Consolidated Financial Statements*" section of our report.

We are independent of the Group 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 (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code) 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**Related audit procedures**
Impairment of the loan receivables	
(See Sections 11. of the Notes to the Financial Statements for the details) The net value of loans to customers in an amount of HUF 1,113,962 million comprise 40.5% of the total assets (gross book value of HUF 1,158,983 million of loans measured at amortized cost), and the relevant impairment balance at the end of the current year was HUF 45,959 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; - estimates of future cash-flows expected to be realized. The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Bank in calculating the ECL. Based on the significance of the above described circumstances the calculation of impairment of loans was identified as a key audit matter.	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 estimates 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; - reviewing subsequent events (sold receivables), and analyzing of the possible effect on the year audited; - evaluating the impairment triggers related to the non-impaired portfolio. - assessing the requirement for additional allowances considering the Bank's ECL model, particularly in light of the extraordinary volatility in economic scenarios caused by the current COVID-19 pandemic and government responses.

Other Information: The Consolidated Business Report and the Corporate Governance Report

Other information comprises the information included in the Corporate Governance Report and the consolidated business report of the Group for 2020, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled *"Opinion"* does not apply to the other information.

Our responsibility in connection with our audit of the consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. 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 consolidated business report.

In our opinion, the consolidated business report of the Group for 2020 corresponds to the consolidated financial statements of the Group for 2020 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 Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

The auditor's responsibilities for the audit of the consolidated financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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 Group'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 consolidated 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 MKB Bank Nyrt. by the General Meeting of Shareholders on 17 April 2020 and our uninterrupted engagement has lasted for 9 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the MKB Bank Nyrt., which we issued on 30 March 2021 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 Group. In addition, there are no other non-audit services which were provided by us to the MKB Bank Nyrt. and and its controlled undertakings and which have not been disclosed in the consolidated business report.

The engagement partners on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, 30 March 2021

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Józan Bálint
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Registration number: 000083

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Mádi-Szabó Zoltán
Statutory registered auditor
Registration number: 003247

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10 011 922 641 911 401
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Consolidated Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 30 March 2021

31 December 2020

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Data in HUF million except stated otherwise

MKB Bank Nyrt.
Consolidated Statement of Financial Position as at 31 December 2020

	Note	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	7	294 183	55 388
Loans and advances to banks	8	83 558	62 392
Derivative financial assets	9	23 262	18 193
Securities	10	1 174 027	600 894
Loans and advances to customers	11	1 113 962	930 313
Non-current assets held for sale and discontinued operations	38	1 533	4 075
Other assets	12	17 146	15 176
Current income tax assets		1 468	539
Deferred tax assets	23	6 979	8 008
Investments in jointly controlled entities and associates	13	7 295	5 911
Intangibles, property and equipment	14	58 194	58 907
Total assets		**2 781 607**	**1 759 796**
Liabilities			
Amounts due to other banks	15	575 097	195 810
Deposits and current accounts	16	1 862 261	1 226 529
Derivate financial liabilities	17	35 406	44 263
Other liabilities and provisions	18	54 249	55 222
Current income tax liabilities		3	3
Deferred tax liabilities	23	88	126
Subordinated debt	20	44 724	39 381
Total liabilities		**2 571 828**	**1 561 334**
Equity			
Share capital	21	100 000	100 000
Treasury shares		-	(35)
Reserves	22	109 779	98 462
Total equity attributable to shareholders of the Bank		**209 779**	**198 427**
Non-controlling interests	22	-	35
Total equity		**209 779**	**198 462**
Total liabilities and equity		**2 781 607**	**1 759 796**

Budapest, 30 March 2021

dr. Zsolt Barna
Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer

MKB Bank Nyrt.
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

	Note	2020	2019
Statement of profit or loss			
Interest and similar to interest income	**24**	54 308	59 217
Interest expense	**25**	24 668	18 420
Net interest income		**29 640**	**40 797**
Net income from commissions and fees	**26**	23 568	27 316
Other operating income / (expense), net	**27**	6 071	10 108
Impairment / (Reversal) and provision for losses	**28**	7 968	(5 350)
Operating expense	**29**	45 042	43 240
Share of jointly controlled and associated companies' profit		2 949	3 037
Profit before taxation		**9 218**	**43 368**
Income tax (income) / expense	**30**	795	(780)
PROFIT FOR THE YEAR		**8 423**	**44 148**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Revaluation on financial assets measured at FVTOCI	**10**	3 187	(3 281)
Other comprehensive income for the year net of tax		**3 187**	**(3 281)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**11 610**	**40 867**
Profit / (Loss) attributable to:			
Shareholders of the bank		**8 423**	**44 148**
Non-controlling interests		**-**	**-**
Total comprehensive income attributable to:			
Shareholders of the bank		**11 610**	**40 867**
Non-controlling interests		**-**	**-**
Net income available to ordinary shareholders		8 423	44 148
Average number of ordinary shares outstanding (thousands)		100 000	99 906
Earnings per Ordinary Share (in HUF)	**32**		
Basic		84	442
Diluted		84	442

Budapest, 30 March 2021

dr. Zsolt Barna
Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Consolidated Statement of Changes in Equity for the year ended 31 December 2020

	Share capital	Treasury shares	Share premium	Share-based payments	Retained earnings	Revaluation on financial assets measured at FVTOCI	Non-controlling interests	Total equity
At 1 January 2019	100 000	(1 987)	21 729	194	39 709	(3 466)	1 987	158 166
Dividend	-	-	-	-	(4 665)	-	-	**(4 665)**
Profit for the year	-	-	-	-	44 148	-	-	**44 148**
Other comprehensive income for the year	-	-	-	-	-	(3 281)	-	**(3 281)**
Equity settled share-based payments	-	-	-	(194)	194	-	-	**-**
Disposal of treasury shares	-	1 952	-	-	4 094	-	(1 952)	**4 094**
At 31 December 2019	100 000	(35)	21 729	-	83 480	(6 747)	35	198 462
Profit for the year	-	-	-	-	8 423	-	-	**8 423**
Other comprehensive income for the year	-	-	-	-	-	3 187	-	**3 187**
Deconsolidation of subsidiaries	-	-	-	-	(489)	-	-	**(489)**
Disposal of treasury shares	-	35	-	-	196	-	(35)	**196**
At 31 December 2020	100 000	-	21 729	-	91 610	(3 560)	-	209 779

Budapest, 30 March 2021

dr. Zsolt Barna
Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Consolidated Statement of Cash-Flows for the year ended 31 December 2020

	Note	2020	2019
Cash flows from operating activities			
Profit/ (Loss) before taxation		**9 218**	**43 368**
Adjustments for:			
Depreciation, amortisation and impairment	**14**	4 488	4 075
Impairment / (Reversal of impairment) on other assets	**12**	(29)	1 180
(Reversal of provisions for) / Recognise provisions on off-BS items and settlement for customers	**18, 31**	312	(2 509)
Reversal of impairment on loans and advances	**11**	(389)	(23 739)
Reversal of impairment on non-current assets held for sale	**36**	(6 372)	(194)
Impairment on securities and associates	**10, 13**	19	349
Other IFRS adjustment on securities	**10**	2 716	(483)
Deferred tax movement	**28**	991	(2 070)
Net interest income	**24, 25**	(19 760)	(40 512)
Dividends from shares and other non-fixed income securities		(26)	(167)
Revaluation of issued securities	**19**	-	(103)
Revaluation and other result on securities measured at FVTOCI	**Change in Equity**	3 187	(3 281)
Foreign Exchange movement		1 279	977
Cash flows from operating activities		(4 366)	(23 109)
Change in loans and advances to banks	**8**	(21 186)	1 213
Change in loans and advances to customers	**11, 32, 33, 35**	(183 240)	(11 366)
Change in derivative assets	**9**	(5 069)	(279)
Change in other assets	**12**	(1 941)	5 343
Change in amounts due to banks (short term)	**15**	4 444	(32 017)
Change in current and deposit accounts	**16**	635 732	(145 517)
Change in other liabilities and provisions (without provision charge of the year)	**18**	(1 285)	9 306
Change in derivative liabilities	**17**	(8 857)	12 655
Interest received	**24**	57 660	60 497
Interest paid		(37 900)	(19 985)
Income tax	**28**	(1 724)	230
		436 634	(119 920)
Net cash (used in)/ generated operating activities		**432 268**	**(143 029)**
Cash flow from investing activities			
Increase of reserves of group companies	**13**	(1 357)	(1 657)
Disposals of group companies	**13**	40	103
Purchase and disposals of PPEs and intangible assets	**14**	(3 775)	(10 839)
Purchase of securities	**10**	(1 048 911)	(750 421)
Disposals of securities	**10**	473 002	923 187
Non-current assets held for sale and discontinued operations	**36**	8 914	357
Net cash (used in)/ generated by investing activities		**(572 087)**	**160 730**
Cash flow from financing activities			
Increase in issued securities	**19**	196	4 214
Decrease in issued securities	**19**	-	(4 991)
Increase in subordinated liabilities	**20**	19 248	10 524
Decrease in subordinated liabilities	**20**	(15 012)	-
Change in amounts due to banks (Borrowings)	**15**	374 843	13 487
Dividends paid	**Change in Equity**	-	(4 665)
Deconsolidation of subsidiaries	**Change in Equity**	(489)	-
Net cash generated by financing activites		**378 786**	**18 569**
Net increase of cash and cash equivalents		**238 967**	**36 270**
Cash reserves at 1 January		**55 388**	**19 240**
FX change on cash reserve		(172)	(122)
Cash reserves at the end of period		**294 183**	**55 388**

Budapest, 30 March 2021

dr. Zsolt Barna
Chairman and Chief Executive Officer

János Nyemcsók
Deputy Chief Executive Officer

Notes to the Financial Statements

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1. General information

MKB Bank Nyrt. (former MKB Bank Zrt., hereinafter: “MKB” or “MKB Bank” 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.

The consolidated financial statements of the Group as at and for the year ended 31 December 2020 comprise the Bank and its subsidiaries (together referred to as the “MKB Group” or “Group”). The Group provides its domestic non-financial services through domestic non-banking subsidiaries.[1].

From 30 May 2019 MKB pursues its activity as a public limited company, the shares of MKB Bank were added to the product list of the Budapest Stock Exchange (hereinafter: BSE), by which the shares of MKB were admitted to the BSE. 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 BSE was 17 June 2019 in the Standard category of the equity section of BSE.

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Magyar Bankholding Zrt. commenced its effective operation as a holding company on 15 December 2020, after the bank shares of the key owners of Budapest Bank Zrt., MKB Bank Nyrt. and MTB Zrt. were transferred to the joint holding company in possession of the approval of National Bank of Hungary (hereinafter: NBH). The owners transferred their shares to Magyar Bankholding Zrt. as a result the second largest banking group in Hungary has been established, with the Hungarian State owning 30.35% of the shares through Corvinus Nemzetközi Befektetési Zrt., the previous direct owners of MKB acquiring 31.96% of the shares and the previous direct owners of MTB acquiring 37.69% of the shares. All required approval has been obtained for these changes. No significant change is expected in the strategy of the Bank.

Following the contribution, the financial holding company will perform strategic decision-making, prudential control and group management functions over the three banking groups, as well as plan and manage the merger process that optimises the operation of the banks. The detailed merger plan and the business strategy will be established in 2021. Budapest Bank, MKB Bank and MTB will preserve their individual legal status, and will operate as separate brands until the merger. After the contribution in kind the synergistic of the intercompany transactions will be immediately utilize.

[1] For further information on consolidated subsidiaries please see Note 5.

Data in HUF million except stated otherwise

The shareholder structure of MKB Bank is the following as of 31 December 2020:

1.1

Name of the shareholders of MKB Bank Nyrt.	Number of shares (pieces)	Total face value of shares (HUF)	Ownership share (%)
Magyar Bankholding Zrt.	97 185 008	97 185 008 000	97.19%
Free float ratio: 2.81%			

Magyar Bankholding Zrt. has a 97.19% direct ownership interest in MKB Bank. The ownership structure of Magyar Bankholding Zrt. is:

1.2

Name of the shareholders of Magyar Bankholding Zrt.	
Name of the shareholder	Ownership share (%)
Corvinus Nemzetközi Befektetési Zrt.	30.35%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
EIRENE Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
PRIME FINANCE Future Zrt.	0.84%
Magyar Takarék Befektetési és Vagyongazdálkodási Zrt.	37.69%

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 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 consolidated financial statements of the Group 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 30 March 2021.

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 2020 figures in these consolidated financial statements have been compiled on the basis of the standards effective from 1 January 2020.

3. Basis of measurement

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

The Group 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 consolidated 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 34.

4. Summary of significant accounting policies

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

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

a) Financial statement presentation

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

The presentation and functional currency of the Group was determined as Hungarian Forint ("HUF").

b) Consolidation

Subsidiaries

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

Funds management

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

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expense arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

c) Investments in Associates and Joint Ventures

Jointly controlled entities

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

Associates

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

If the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate.

After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Please find further details on Jointly controlled entities and Associates in Note 5.

d) Intangible assets

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

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 Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life.

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.

e) Property, plant and equipment

Items of property and equipment including leasehold improvements and investment properties are measured initially at cost, including transaction cost, and 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 Group 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 of property and equipment are recognised in “Other operating income / (expense), net”, in the year of disposal.

f) Investment property

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

The Group uses the cost model for investment property, according to which the property is accounted in the Group'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.

g) 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 Group in the management of its short-term commitments.

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

h) Initial recognition and measurement of Financial Instruments

Outbound loans and claims, and debt securities are recognized by the Group on settlement date. All other debt securities are recognized when the Group 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 amortized cost, are recognized at a modified fair value by the Group. 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 Group. All related transaction costs incurred at their inception, issuance, and / or purchase is accounted as expense through Profit or Loss when they incurred. If accounts payables do not contain significant financing component, they are recognized at transaction price by the Group.

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

Amortized 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
- amortized 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 Group 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 Group's financial assets or financial liabilities and the method used to allocate and recognises interest income and interest expense in a given period.

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).

i) 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 Group'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 Group 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 Group aims to realize long-term 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 Group, 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group as the fair value through profit or loss category.

j) Classification and subsequent measurement of financial liabilities

The Group classifies its financial liabilities into the following categories:

- mandatory FVTPL measurement (FVTPL category), 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.

Financial liabilities not held for trading are initially measured at fair value less transaction cost by the Group. These liabilities are subsequently measured at amortised cost calculated by using the effective interest method.

k) Fair Value Option (FVO)

At initial recognition, the Group 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 Group, 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.

l) Determination and recognition of the Expected Credit Loss

During classification of the Group'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 Group 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 Group assesses at each reporting date whether the credit risk of the financial asset has increased significantly since the initial recognition.

The Group 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 Group evaluates 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 Group 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 Group 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). Group 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 they 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 Group 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 Group always calculates the 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 Group 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 Group recognises the loss on the asset at an amount of the 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 Group 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 Group 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 Group 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 Group is unable to distinguish the expected credit loss calculated for the loan and for the undrawn components, the Group 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 Group 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 Group recognises the accumulated changes in the lifetime expected credit loss since the initial recognition. In the Group's practice, typically forint-denominated receivables appear as purchased or originated credit-impaired financial assets.

The Group 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 Group determines the amount of provision individually,
- in other case the Group 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.

m) 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 Group recognises a trading gain or loss on inception of the financial instrument.

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

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

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

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

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

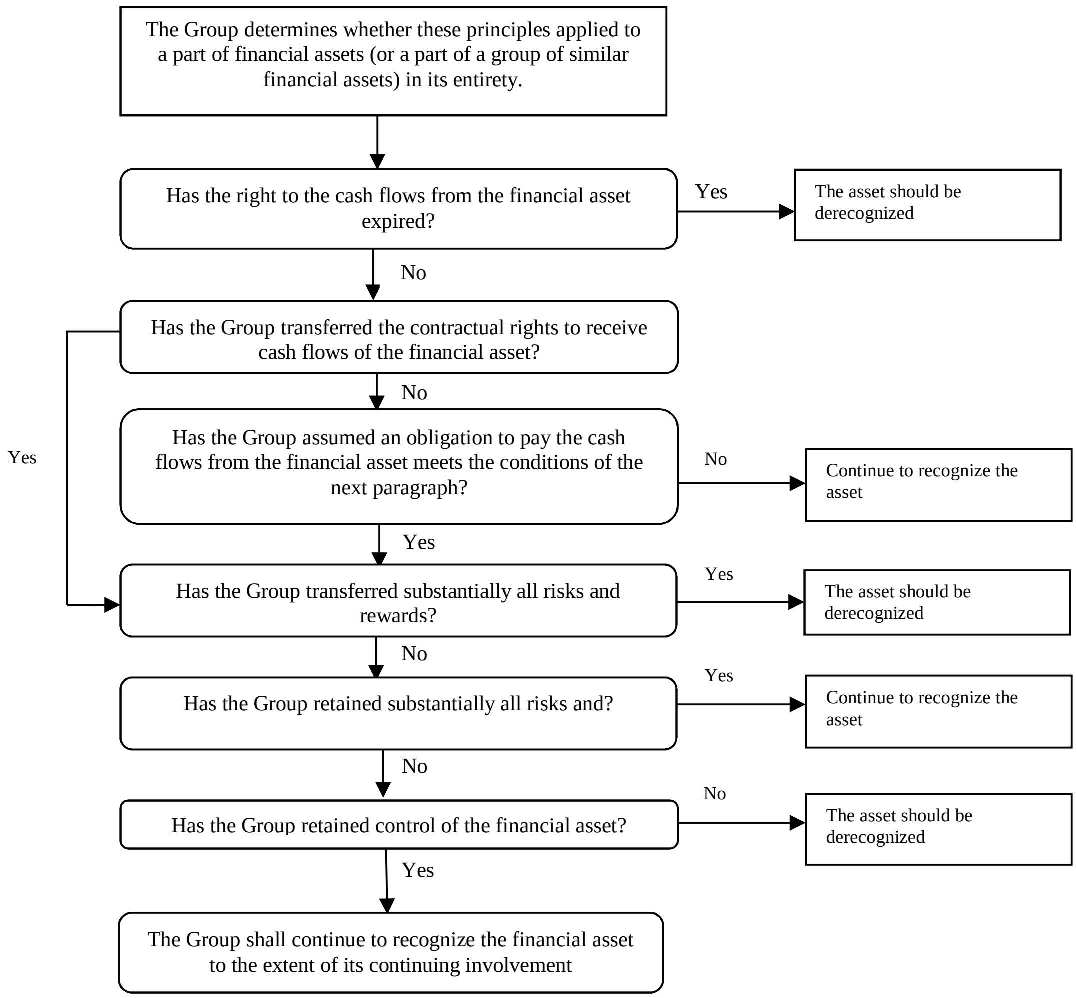
Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about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

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

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

n) Derecognition of Financial Assets

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



The Group 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 Group treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- The Group 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 Group 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 Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group 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 Group transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The Group examines the following before derecognition:

- if the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer,
- if the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group shall continue to recognize the financial asset,
- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group shall determine whether it has retained control of the financial asset. In this case:
    - if the Group 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 Group 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 Group's continuing involvement in the transferred asset is the extent to which the Group is exposed to changes in the value of the transferred asset.

The transfer of risks and rewards is evaluated by comparing the Group’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 Group 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 Group 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 Group 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 Group 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 Group's contractual right to receive cash flows from the financial asset does not expire,
- the Group did not transfer the right of collecting cash flows from the financial asset,
- the Group did not assume any obligation to pay the cash flows from the financial asset,

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

When the Group 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 Group directly reduces the gross carrying amount of the financial asset.

After the legal waiver of the claim, the Group 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).

o) Derecognition of financial liabilities

The Group 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 derecognition, the Group 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 derecognition, the costs or fees incurred will modify the current amount of the liability and will be amortised over the remaining maturity of the modified loan or financial liability.

p) Financial guarantees

The Group does not recognise the financial guarantees as contingent items in the Financial Statement items 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 Group 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 Group 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 Group 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.

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 Group. The Group 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 Group 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 Group 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 Group 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 Group.

The Group 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 38.

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 Group enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction are recognised in 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 income when it becomes due. The dividends earned on trading equity instruments are disclosed separately among the interest income when received. Interest payable on financial liabilities acquired for trading purposes is reported as interest expense.

Structured Bonds

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

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and are normally derecognised when sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken directly to the Statement of 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 Group 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 the Other comprehensive income. Relating to these assets impairment loss should be accounted in the Other comprehensive income. When these securities are sold, cumulative gains or losses previously 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 Group, as lessee, introduces a single model to recognise right-of-use asset and lease liability on balance sheet. In this case, the Group 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 Group as lessee remeasures the lease liability.

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

The Group 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 Group, as lessor, classifies its leasing contracts as finance or operating leases based on decision tree according to the requirements of the standard. Initially, the Group 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 Group 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 Group 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 Group measures the lease liability at amortized cost using the effective interest rate method. The Group uses the revised interest rate at the date of the revaluation as the revised discount rate. In contrast, the Group 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 Group 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 Consolidated Statement of Financial Position.

After the commencement date the Group 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 Group classifies the right-of-use assets arising from operating leases that are leased or subleased in the Consolidated 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 Group's sources of debt funding.

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

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

w) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group, and present obligation that arises from past events but is not recognised, because it is not probable that an outflow of resources embodying economic benefits will be require to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the financial statements but are disclosed 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 Group 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 Group 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 typically relating to use the effective interest method is recognised in “Interest and similar to interest income” and “Interest expense” in the Statement of Profit or Loss and Other 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 Group that engages in business activities from which it may earn revenues and incur expense, and whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; furthermore for which discrete financial information is available. The Group 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 Group allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm's length terms and conditions. Please find further details on segment reporting in Note 37.

The Group does not have any foreign segments.

dd) Foreign currencies

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

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

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

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

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

gg) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group 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 32.

hh) The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2020

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:

- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by EU on 29 November 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 29 November 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),

- **Amendments to IFRS 16 "Leases"** – Covid 19-Related Rent Concessions adopted by EU on 9 October 2020 (effective for annual periods beginning on or after 1 June 2020),

- **Amendments to IFRS 3 "Business Combinations"** – adopted by EU on 21 April 2020 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these amendments to the existing standards has not led to any material changes in the Group'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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2** adopted by EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021)

- **Amendments to IFRS 4 "Insurance Contracts" deferral of IFRS 9** adopted by EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021)

The Group does not adopt these new standards and amendments to existing standards before their effective date. The Group 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 Group 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 29 April 2021:

- **IFRS 17 "Insurance Contracts" including amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IFRS 3 "Business Combinations"; IAS 16 "Property, Plant and Equipment"; IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" -** Annual Improvements (effective fog annual periods beginning on or after 1 January 2022),

- **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 2023),

- **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).

- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 -** Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023),

- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023)

The Group 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 Group in the period of initial application.

5. Group of consolidation

The Bank has performed an analysis in order to examine, whether as an investor it controls its investees, and to what extent the control exists. This control determines the disclosure of the investees as a subsidiary, joint arrangement (joint operation or joint venture) or as an associate in the consolidated financial statements of the Group.

The conclusions were prepared in accordance with the International Financial Reporting Standards and the Accounting policies (4. Financial statement presentation, 4. Consolidation, 4. Investments in jointly controlled entities and associated companies).

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

The Group consolidates those subsidiaries, which operate as finance company, investment fund, subsidiary company and their total assets are more than HUF 3,000 million.

Subsidiaries (businesses to be included in the full consolidation approach) were excluded as well, in case three of the following conditions are jointly met:

- the net revenues are less than HUF 500 million,
- the share capital is less than HUF 500 million,
- the total equity is less than HUF 1,000 million, and
- the amount of total assets is less than HUF 3,000 million, because those investees are not considered material.

In case one of the subsidiaries of the exempted subsidiaries is to be consolidated based on the above thresholds, then the previously exempted subsidiary must be consolidated as well.

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

- the Group's share in net revenues are less than HUF 500 million,
- the Group's share in share capital is less than HUF 500 million,
- the Group's share in total equity is less than HUF 1,000 million, and
- the Group's amount of total assets is less than HUF 3,000 million, because those investees are not considered material.

Furthermore the Bank can exempt the subsidiary, jointly controlled entity and associated company from the group of consolidation, if:

- the headquarter is situated in a country, where the legal system does not allow the submission of the necessary data and information,
- the consolidation would lead to misleading results (particularly, in case the duration of the control or the participation is foreseen to be less than one year),
- MKB's ability to control the investee is restricted legally or contractually,
- without these entities, the consolidated financial statements of the Group provide a true and fair view about the financial position and performance of the Bank and other subsidiaries. In case there are more subsidiaries complying with this requisite, they must be examined together, whether the exemption of these entities distort the true and fair value of the parent company and other subsidiaries, namely the sum of the total assets and contingent liabilities individually and collectively are less than 1% of total assets and contingent liabilities of the parent company,

Data in HUF million except stated otherwise

- in case the entities do not reach the minimum of the defined conditions individually, but they exceed those collectively, they cannot be considered negligible, the Bank does not exempt them from the group of consolidation.

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

5.1

2020

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
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 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

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

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

a) Vehicle financing:

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 2020, the Group dynamically increased its new financing volume. Managed portfolio also rose, which contributes significantly to further improvement of 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.

Members of the MKB-Euroleasing Group are: the financing company **MKB-Euroleasing Autólízing Zrt.** (directly 100% owned by MKB Bank), **Retail Prod Zrt.**, which is also a financial company (directly 100% owned by MKB-Euroleasing Autólízing Zrt., indirectly 100% owned by MKB Bank), **Euroleasing Kft**. (directly 100% owned by MKB-Euroleasing Autólízing Zrt., indirectly 100% owned by MKB Bank), which provides back office services also within the Group and to external partners, and the **ICE Kft.** (directly 100% owned by MKB-Euroleasing Autólízing Zrt., indirectly 100% owned by MKB Bank), which performs tasks related to debt collection.

MKB Bank applies full consolidation approach to MKB-Euroleasing Autólízing Zrt. and its wholly owned subsidiary Retail Prod Zrt.

Euroleasing Group's profit after taxation for the 2020 amounted to HUF 1,598 million.

b) Managing

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

MKB Üzemeltetési Kft.
Euro - Immat Üzemeltetési Kft.

Management of investment funds

MKB-Pannónia Alapkezelő Zrt. (minority interest)
Solus Capital Kockázati Tőkealap-kezelő Zrt.

On 19 October 2017, MKB Bank Nyrt. acquired 49% minority interest in Pannónia CIG Alapkezelő Zrt. by raising capital. Due to the transaction share capital rose to HUF 306 120 000. MKB is not able to affect the variable returns and control the relevant activities; therefore it was consolidated with equity method as joint venture. The company was renamed MKB-Pannónia Alapkezelő Zrt. and its headquarters and location also changed. MKB Pannónia Alapkezelő Zrt. is specialised primarily – besides other finance services – in investment fund management and portfolio management activities. The company aims to satisfy needs relating to asset management in a professional manner, meeting the requirements of international norms as well. One of the fundamental objectives of MKB-Pannónia Alapkezelő Zrt. is the continuous increase of market share. Taking into account the changes in the pension insurance market, and the related consolidation needs, the company places still particular emphasis on the acquisition of new customers for pension fund. Besides providing successful asset management services for voluntary and private pension funds, MKB-Pannónia Alapkezelő Zrt. has been focusing since 2018 also on the management of open-end investment funds, furthermore on the acquisition of new customers as well.

Solus Capital Kockázati Tőkealap-kelező Zrt. is owned 99% by MKB-Pannónia Alapkezelő Zrt. and 1% by MKB Bank. The company manages currently two funds: Solus I. and Solus II. Venture Capital Funds.

Solus I. Venture Capital Fund is a hybrid fund co-financed by the Smart Specializations Venture Capital Scheme (GINOP-8.1.3/B-17), and by MKB Group and its strategic partners as private investors. By the end of 2023, Solus I. will invest venture capital in innovative SMEs in a volume of more than HUF 13.4 billion. Solus I. Venture Capital Fund had a portfolio of 28 companies at the end of December 2020, and investment decision was already made about 11,542 million.

Solus II. Fund, which is co-financed by the Digital Welfare Finance Program (GINOP-8.2.7-18), was registered by the NHB on 16 August 2019. By the end of 2023, Solus II. will invest venture capital amounting to almost HUF 8 billion in micro-, small- and medium sized enterprises with digital focus. Solus II. Fund had a portfolio of 11 companies at the end of December 2020, and investment decision was already made about 3,620 million.

Information Technology services

MKB Digital Szolgáltató Zrt.

An another step to improve the efficiency of operation was that the Bank established MKB Digital Szolgáltató Zrt. on 9 May 2019, which wholly owned by the Bank. MKB Digital Zrt. began its operation on 1 June 2019 with a staff transferred from MKB Bank with successive employer rights. The purpose of outsourcing is to fulfil all IT operation development and strategic tasks of the Group comprehensively and efficiently and to top digital IT service provider's model for the Bank..

In 2020, the Pandemic has posed a major challenge to the entire Banking Group from an IT point of view, which was handled by the transition from office job to smooth work-at-home by MKB Digital Zrt. Last year, MKB Digital Szolgáltató Zrt. participated in two projects outside the Group, which were the first steps in becoming a market service provider. In order to strengthen the competencies of the CORE system, these competencies have been outsourced to a subsidiary of MKB Digital Zrt.

Profit after tax achieved in 2020: HUF 82.19 million.

c) Employee Share Ownership Program

On 14 July 2016 MKB Bank established the Employee Share Ownership Program (ESOP) in order to purchase and manage the Bank's shares issued for empleyees. On 14 November 2017 MKB Bank established and registered another MRP organization ("MRP organization") to manage the rights to buy shares and bonds are granted on the remuneration policy on allowance of top management. The organisation, as an independent legal entity ended its operation on 30 June 2019, therefore its tasks granted by Employee Share Ownership Program (ESOP). The Bank is exposed to the variable returns of the MRP organization because employee shares that serve as a basis for unearned performance bonuses are returned to the Bank and therefore the MRP is recognized as a special purpose entity in the Group's financial statements.

d) Non-consolidated entities

The percentage of equity owned by the Group as well as the total asset and total revenue of the below listed companies is not material and therefore exempted from the group of consolidation:

Subsidiaries:

- MKB Ingatlan Kft.
- Extercom Kft.
- Exter-Reál Kft.
- Exter-Immo Zrt.
- Euroleasing Kft.
- I.C.E. Kft.
- MKB Inkubátor Kft.

- Arete Zrt.
- MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.

Associates:
- Pannonhalmi Apátsági Pincészet Kft.

Other affiliated entities:
- Danube Capital R&A Zrt.
- Danube Capital Advisory Kft.
- MKB Consulting Zrt.
- Consulting Vagyonkezelő Kft.
- St34dy IT Services Kft.
- Solus Capital Kockázati Tőkealap-kezelő Zrt.
- Garantiqa Hitelgarancia Zrt.
- SWIFT
- Budapesti Értéktőzsde Zrt.
- CIG Pannónia Életbiztosító Nyrt.
- Elevator Lending Kft.
- Elevator Technologies Kft.
- Family Finances Kft.
- FintechX Technologies Zrt.
- Blueopes Zrt.
- Tőkeportál Zrt.
- Coinrule Ltd.
- Cégjelző Kft.
- Amon Card Ltd
- Judulimp S.A.

e) Other entities sold and de-consolidated during the reporting periods

On 27 February 2020, MKB Bank sold its 5% interest in Core Solutions Kft.

On 1 April 2020, MKB Bank sold its 100% interest in MKB Kockázati Tőkelap-kezelő Zrt. to NUKLEUS Consulting Kft.

On 18 May 2020, MKB Bank Nyrt. sold its interest in Exter Adósságkezelő Kft., representing 100% of the share capital and voting rights, to Danube Capital R&A Zrt. In accordance with the NBH’s permission on the modification in the close relationship, Exter Adósságkezelő Kft. was removed from the Bank's accounting and prudential consolidation scope on 31 August 2020.

Due to the 100% of ownership in Extercom Kft. the Bank is entitled to delegate chief officers, and so could control the relevant activities of this company. Financing of Extercom Kft. is provided fully by MKB Bank. On 30 September 2020, in accordance with the permission of the NHB, Extercom Kft. was removed from the Bank’s accounting consolidation scope. The Company was also exempted from consolidated supervision on the date of delisting.

MKB owns 100% of the shares of MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft. and has 100% of the voting rights. Accordingly MKB is entitled to appoint chief executives. The main tasks of the Company are to provide administrative and IT assistance to the voluntary and private segment of MKB Pension Fund, as well as to the MKB-Pannónia Health and Mutual Fund, and to provide technical conditions for the uninterrupted operation of the Funds. At the end of the reporting period, in accordance with the permission of the NBH, Kiszolgáló Kft. is included in the Group's financial statements as a non-consolidated subsidiary, as it was removed from the scope of consolidation and consolidated supervision as of 30 September 2020.

The result generated by the companies de-recognised modified the Group's result until the date of de-recognition.

f) Other entities purchased during the reporting periods

On 14 May 2020, ST34DY IT SERVICES Kft. was established by MKB Digital Zrt. and R34DY Zrt., in which MKB Digital Zrt. holds 49% interest directly and the same interest is held by MKB Bank indirectly.

MKB Bank Nyrt. carried out a capital increase in MKB Consulting Zrt in August 2020, after which it has a direct shareholding of 64.65%.

6. Risk management

a) Introduction and overview

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

Risk management is an integral part of the Group’s operations and a crucial component of its business and overall financial performance. The Group’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 Group’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 Group 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 Group.

The Group 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 Group'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 the Group, as creditor or investor. As a result of such event(s), the obligor cannot fulfil its obligation in time or at all, or the Group 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:
  The Group 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 and information and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

- 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 Group's side.

- 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.

- 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 Group'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 Group. 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 Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Risk management governance

The Group's Risk Strategy was set up in consistence with the Business Strategy, the Business Strategy of the Magyar Bankholding Zrt. 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 Group's risk assumption willingness, risk appetite and the on-going ability of the Group 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 Group at any time.

Committees	Main 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 steers the company's internal audit organization; - Analyzing of the regular and ad-hoc reports prepared by the Board of Directors.
Audit Committee	- The Audit Committee assists the Supervisory Board in the audit of the financial reporting system and in the selection of the auditor and in cooperation with the auditor.
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.
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 strategic planning (preparation of the business policy and financial plan, and approval of the risk strategy); - Approves the policies related to risk assumptions; - Evaluation of regular and ad-hoc risk reports.
Managing Committee	- Highest level operational decision preparation and decision making body; - It operates as the supporting organisation to the general director in decision preparation of general executive cases. In affairs relating to operation of the MKB Group or the organisation of the company, or cases relevant to compliance and protection against money laundering, and supervision it operates as decision making body.
Credit Committee	- Permanent body with the highest delegated decision-making authority under the Board of Directors; - Make decisions on credits case-by-case according to the Risk Decision Competence Regulation, except of the customers handled by Restructuring and Debt management Directorate.
Restructuring and Debt Management Committee	- Organization with the highest level risk decision authority regarding the customers handled by Restructuring and Debt management Directorate; - Decision-making competency for credit decisions on deals handled by the Directorate according to the Risk Decision Competence Regulation; - Authority regarding decision making in terms of debt-to-asset and debt-to-equity conversation as it is determined in the Risk Decision Competence Regulation Assumption.
ALCO	- The asset and liability management and management of the Group's liquidity, funding, capital adequacy and market risks; - Elaboration of policies in principle for the management of liquidity risk, interest rate risk, exchange rate risk (foreign exchange and securities), capital adequacy risk, and the submission of this policy to the Board of Directors at MKB and Group level, including: ▪ measurement guidelines and limit system for the above risks; ▪ competence and decision-making mechanism; ▪ guideline for managing limit excess.
Investment, Operation and Project Priorisation Committee	- Is responsible for ensuring the bank's overall cost structure and control over its revenue; - Development needs, programs, investments and costs associated with IT developments, projects and other initiatives, and the decision-making body responsible for the related resource allocation, the task of which is to ensure consistency between the development needs and the strategic objectives of the banking group; - Develop and adopt the bank's product development processes associated with the pricing principles in accordance with the bank's business model and the risk management strategy, control the product and service palette profitability.
Ethical Committee	- it is responsible for supporting compliance with the basic principles and expected behaviour patterns stipulated in the Bank's Ethical Code, furthermore, it discusses and decides on ethical issues and misuse cases of particular significance brought forward which could pose a threat to the Bank's operation and reputation
Internal Defence Lines Committee	- it is responsible for the integration of communication among the various defence lines and making them regular and systemic features, and for the improvement and establishment of communication channels where appropriate. - by means of preventive and proactive activities it ensures in respect of the MKB Group timely and effective identification and management of any risk which could lead to legal non-compliance, or investigation conducted by external authorities or to the adoption by the supervisory authorities of resolutions condemning the Bank's operations, and it provides for immediate correction measures as necessary

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 Group'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 Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk management

The members of the Group have standards, policies and procedures dedicated to the effective monitoring and managing risk from lending (including debt securities) activities. The Bank sets a requirement for the Group members to elaborate and publish their own regulations that comply with the Group-level rules approved by it. The risk management of the members of the Group control and manage credit risks at high standards, in a centralised manner. Its responsibilities include:

- Formulating the Group member'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 Group.

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

- Establishing and maintaining the Group members' 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 Group members' 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 Group members in credit risk management.

Each group member must implement and apply the credit policy, harmonised at group level, with credit approval authorities delegated by the authorised decision maker bodies. Each Group member must prepare regular and ad hoc reports to the local management and, in certain cases, to the Group leader covering the major cases and events of lending. Each group member is responsible for the quality and results of its credit portfolio and for monitoring and controlling all credit risks in its portfolios. This includes managing its own risk concentrations by market sector, geography and product. The control systems applied by the Group enable the Group members to control and monitor exposures by customer and retail product segment.

In order to comply with the prudential requirements, Group 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, Group implemented the global concept of concentration risk limits. As part of the concept, the Group 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 the Group, available on our website www.mkb.hu.

Data in HUF million except stated otherwise

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

6.1

31 December 2020	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	-	-	8 650	-	-	-
Default	-	-	11 534	-	-	829
Total individually impaired gross amount	-	-	20 184	-	-	829
Total individually impaired allowance for impairment	-	-	(9 724)	-	-	(381)
Total individually impaired carrying amount	**-**	**-**	**10 460**	**-**	**-**	**448**
Collectively impaired						
Non-default	271 557	82 657	1 023 949	550 106	-	326 605
Default	-	-	18 639	-	-	487
Total collectively impaired gross amount	271 557	82 657	1 042 588	550 106	-	327 092
Total collectively impaired allowance for impairment	(34)	(40)	(36 235)	(168)	-	(1 753)
Total collectively impaired carrying amount	**271 523**	**82 617**	**1 006 353**	**549 938**	**-**	**325 339**
Past due but not impaired						
Non-default	-	-	280	-	-	-
Default	-	-	23	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**303**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	22 660	941	95 908	-	-	85 317
Default	-	-	-	-	-	-
Total neither past due nor impaired carrying amount	**22 660**	**941**	**95 908**	**-**	**-**	**85 317**
Total assets measured at fair value	**-**	**-**	**938**	**624 089**	**23 262**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	3 561
Provision for other contingent liablities	-	-	-	-	-	(696)
Total gross amount	**294 217**	**83 598**	**1 159 921**	**1 174 195**	**23 262**	**416 799**
Total allowance for impairment	**(34)**	**(40)**	**(45 959)**	**(168)**	**-**	**(2 830)**
Total carrying amount	**294 183**	**83 558**	**1 113 962**	**1 174 027**	**23 262**	**413 969**

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	-	-	9 991	-	-	-
Default	-	-	18 039	-	-	361
Total individually impaired gross amount	-	-	28 030	-	-	361
Total individually impaired allowance for impairment	-	-	(16 062)	-	-	(216)
Total individually impaired carrying amount	**-**	**-**	**11 968**	**-**	**-**	**145**
Collectively impaired						
Non-default	3 269	60 648	900 022	286 468	-	289 526
Default	-	-	23 933	-	-	335
Total collectively impaired gross amount	3 269	60 648	923 955	286 468	-	289 861
Total collectively impaired allowance for impairment	-	(20)	(30 306)	(82)	-	(1 245)
Total collectively impaired carrying amount	**3 269**	**60 628**	**893 649**	**286 386**	**-**	**288 616**
Past due but not impaired						
Non-default	-	-	416	-	-	-
Default	-	-	28	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**444**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	52 119	1 764	22 894	-	-	66 143
Default	-	-	35	-	-	60
Total neither past due nor impaired carrying amount	**52 119**	**1 764**	**22 929**	**-**	**-**	**66 203**
Total assets measured at fair value	**-**	**-**	**1 323**	**314 508**	**18 193**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	1 228
Provision for other contingent liablities	-	-	-	-	-	(1 058)
Total gross amount	**55 388**	**62 412**	**976 681**	**600 976**	**18 193**	**357 653**
Total allowance for impairment	**-**	**(20)**	**(46 368)**	**(82)**	**-**	**(2 519)**
Total carrying amount	**55 388**	**62 392**	**930 313**	**600 894**	**18 193**	**355 134**

The effect of pandemic on the Credit risk management

Because of the general payment moratorium the system does not calculate delays, thus status was frozen by the Group on March 18. Except for clients who voluntarily undertake the payment during the moratorium period, where traditional credit behaviour can be measured.

For customers in the moratorium, the Group uses alternative solutions that can be used to track changes in credit risk:
For retail customers:

- For customers with primary banking relationship, the Group monitors the changes in income credits. It can help in the estimation of the ratio of future default in the terms of customer and product group.
- The Group has a risk model based on CRM data which include account and credit card history that allows the Group to revise the client's rating on a monthly basis without credit behaviour information. To do this, databases are available monthly, and the Group can examine the evolution of customer-level ratings. In addition for covering the potential stage 2 transactions management overlay was recognized.

For corporate customers:

- The Group continues to determine the extent of impairment based on the rating grades and monitoring results. For the rating, the Group identified the industries under stress. And the standard monitoring activity has been completed by sector and individual customer level categorization based on the estimated crisis impact.
- Changes in the risks include in the potential effects of pandemic are measured at individual level for each customer, which is reflected in the rating and also in the monitoring process.
- Where identified risks require a unique plan of action will be applied.

In addition to the above, the Group also updated the macro parameters for the whole portfolio. The Group applies the most recent parameters from the MNB Inflation Report, and above that management overlay is added based on internal stress parameters.

In summary, the Group's current modelling methodology is capable of creating a new risk measure on the basis of the above information. It allows to create well-defined customer profiles for customer management. The management overlays were constituted by the Group because of the uncertainty arisen from the current pandemic situation, the expected regulatory expectations and the future variability of the economic climate.

Data in HUF million except stated otherwise

The net exposure of Group's customers under moratorium was as follows (percentage of the portfolio is based on the total amount of the Group's net exposure):

6.1.1

31 December 2020	Number of loans	Outstanding balance	% of portfolio
Core business			
Wholesale			
Refinanced loan	85	17 953	24.19%
Funding for Growth Scheme	581	22 944	20.21%
Overdraft	327	18 835	48.76%
Széchenyi Loans	1 292	15 823	36.25%
Car finance	570	1 908	2.17%
Other	2 042	67 614	16.93%
Total Wholesale	***4 897***	***145 077***	***18.77%***
Retail			
Residential mortgage	13 365	92 822	49.05%
HUF	*13 294*	*92 036*	48.81%
Foreign currency	*71*	*786*	82.05%
Overdraft	7 392	642	83.05%
Personal loan	4 796	3 543	39.76%
Car finance	9 700	25 726	26.84%
Other	1 608	25 218	58.46%
Total Retail	***36 861***	***147 951***	***27.95%***
Total Core business	**41 758**	**293 028**	**26.34%**
Non-core business			
CRE	***-***	***-***	***0.00%***
Total	**41 758**	**293 028**	**26.31%**

The gross exposure and the impairment of Group's customers under moratorium was as follows on 31 December 2020:

6.1.2

Gross amount*	Non-impaired loans		Impaired loans	POCI	Loans at FVTPL
	Stage 1	Stage 2	Stage 3		
Retail					
Low risk	33 021	510	-	2	184
Medium risk	89 571	10 969	-	1 708	98
High risk	4 313	6 871	-	943	4
Default	-	-	5 795	2 188	8
Total Retail	***126 905***	***18 350***	***5 795***	***4 841***	***294***
Wholesale					
Low risk	12 540	13	-	-	-
Medium risk	96 860	5 207	-	-	272
High risk	2 606	34 390	-	-	-
Default	-	-	9 479	-	-
Total Wholesale	***112 006***	***39 610***	***9 479***	***-***	***272***
CRE					
Total CRE	***-***	***-***	***-***	***-***	***-***

****Gross amount of loans measured at FVTPL represents the fair value of loans***

Data in HUF million except stated otherwise

Impairment	Non-impaired loans Stage 1	Stage 2	Impaired loans Stage 3	POCI
Retail				
Low risk	664	26	-	-
Medium risk	1 957	383	-	231
High risk	105	221	-	143
Default	-	-	3 288	1 218
Total Retail	***2 726***	***630***	***3 288***	***1 592***
Wholesale				
Low risk	13	-	-	-
Medium risk	1 353	275	-	-
High risk	131	7 264	-	-
Default	-	-	7 250	-
Total Wholesale	***1 497***	***7 539***	***7 250***	-
CRE				
Total CRE	-	-	-	-

The modified cash flows of Group's customers under moratorium were as follows:

6.1.3

Financial assets modified during the period	31 December 2020
Gross carrying amount before modification	1 161 353
Loss allowance before modification	(45 959)
Net amortised cost before modification	1 115 394
Net modification gain/(loss)	(2 370)
Impairment gain or loss	-
Net amortised cost after modification	**1 113 024**

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 2020 the Group 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 Group 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 Group or its counterparties. In addition the Group 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 Group 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 2020 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 + receivabl. collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivate financial assets	10 735	-	10 735	3 018	2 418	5 436	5 299
Receivables concerning repos							
Loans and advances to customers	82 751	-	82 751	-	82 751	82 751	-
Financial assets under netting agreements	**93 486**	**-**	**93 486**	**3 018**	**85 169**	**88 187**	**5 299**

31 December 2020 Offsetting financial liabilities	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 + receivabl. collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivate financial assets	(16 684)	-	(16 684)	3 018	(19 702)	(16 684)	-
Liabilities concerning repos							
Deposit and current accounts	2 732	-	2 732	-	2 732	2 732	-
Financial liabilities under netting agreements	**(13 952)**	**-**	**(13 952)**	**3 018**	**(16 970)**	**(13 952)**	**-**

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 + receivabl. collaterals	
	debit	credit		debit	credit		
Derivatives							
Derivate financial assets	31 781	-	31 781	-	568	568	31 213
Receivables concerning repos							
Loans and advances to customers	29 413	-	29 413	-	-	-	29 413
Financial assets under netting agreements	**61 194**	**0**	**61 194**	**0**	**568**	**568**	**60 626**

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 2020 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	10 735	23 262	12 527
Loans and advances to customers	82 751	1 113 962	1 031 211

31 December 2020 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	(16 684)	35 406	52 090
Deposits and current accounts	2 732	1 862 261	1 859 529

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	930 313	900 900

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	-	1 226 529	1 226 529

Credit risk classification system

The Group'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 Group 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 Group 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 Group 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 IFRS9.

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 Group'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 Group 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 Group 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 Group, 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 Group 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 Group 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 Group 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 Group 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 Group's monitoring system.

Data in HUF million except stated otherwise

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

6.4

2020	Loans and advances	Guarantees and contingencies	Letter of credit	Undrawn credit
Cash deposit	9 841	13 505	223	364
Debt securities issued by				
Companies	62 185	1 298	-	809
Mortgage				
Building (incl. plot)	168 774	14 634	6 326	17 904
Other (ship, patent, chattel, goods stock, lien on assets over total assets, etc.)	188 336	41 539	8 704	25 074
Guarantees from				
Central governments	177 298	40 143	13 384	24 612
Other banks	20 881	12 489	-	-
Companies	63 163	16 647	508	31 152
Others	175 872	3 116	-	4 582
Total collateral	**866 350**	**143 371**	**29 145**	**104 497**

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	191 194	2 913	-	3 856
Total collateral	**758 754**	**99 709**	**26 564**	**95 602**

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).

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 Group.

The Group applies 3 main revaluation methods:

- evaluation by experts involved in the list;
- evaluation by the Group’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 Group’s outstanding relevant to guarantee and the empirical value on possibility of calling in guarantees are taken into considerations.

The Group 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 Group’s Wholesale and Retail Debt to Asset / Debt to Equity Policy.

Data in HUF million except stated otherwise

Concentrations

The Group 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 sector and risk classification at the end of the reporting periods is shown below:

6.5

2020	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Category I - without country risk	29 574	10 103	175	2 553	618
Category II - with low to medium country risk	10 052	2 374	1 547	418	5 820
Category III - with medium to high country risk	17	173	876	242	5
Total exposure	**39 643**	**12 650**	**2 598**	**3 213**	**6 443**

2019	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**

- 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

The Group 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 2020	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	-	-	397	-	-	91
Mining and quarrying	-	-	1 654	-	-	149
Construction	-	-	78 730	12 333	4 003	72 166
Manufacturing	-	-	151 856	21 352	2 271	73 326
Human health services and social work activities	-	-	4 500	-	-	1 013
Information and communication	-	-	33 970	8 606	13	5 084
Real estate activities	-	-	41 500	5 638	321	7 695
Public administration and defence, compulsory social security	-	-	119 507	1 091 150	4 166	52 729
Agriculture, forestry and fishing	-	-	15 402	1 312	24	4 447
Arts, entertainment and recreation	-	-	10 922	-	-	11 729
Wholesale and retail trade	-	-	65 792	-	453	38 968
Education	-	-	335	-	2	296
Professional, scientific and technical activities	-	-	87 135	2 508	74	51 380
Accommodation and food service activities	-	-	45 900	-	-	1 658
Transport and storage	-	-	51 663	-	97	10 014
Electricity, gas, steam, air conditioning and water supply	-	-	68 104	525	118	8 116
Financial and insurance activities	292 860	83 523	78 400	26 217	9 039	32 206
Other services (include private retail loans)	1 357	75	304 154	4 554	2 681	45 732
Total exposure	**294 217**	**83 598**	**1 159 921**	**1 174 195**	**23 262**	**416 799**

Data in HUF million except stated otherwise

31 December 2020	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	-	-	34	-	-	-
Mining and quarrying	-	-	390	-	-	1
Construction	-	-	7 510	-	-	382
Manufacturing	-	-	7 888	53	-	529
Human health services and social work activities	-	-	700	-	-	11
Information and communication	-	-	1 609	14	-	106
Real estate activities	-	-	1 165	27	-	55
Public administration and defence, compulsory social security	-	-	201	72	-	25
Agriculture, forestry and fishing	-	-	570	-	-	31
Arts, entertainment and recreation	-	-	870	-	-	4
Wholesale and retail trade	-	-	2 158	-	-	207
Education	-	-	21	-	-	3
Professional, scientific and technical activities	-	-	4 690	-	-	106
Accommodation and food service activities	-	-	2 825	-	-	22
Transport and storage	-	-	2 157	-	-	126
Electricity, gas, steam, air conditioning and water supply	-	-	4 179	-	-	22
Financial and insurance activities	34	40	1 204	2	-	307
Other services (include private retail loans)	-	-	7 788	-	-	893
Impairment	**34**	**40**	**45 959**	**168**	**-**	**2 830**

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	-	-	1 458	-	-	97
Construction	-	-	56 355	-	2 775	64 016
Manufacturing	-	-	145 859	8 340	407	61 363
Human health services and social work activities	-	-	4 664	-	-	487
Information and communication	-	-	35 418	11	13	3 786
Real estate activities	-	-	25 949	-	73	4 599
Public administration and defence, compulsory social security	-	-	74 419	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	33 847
Education	-	-	360	-	1	374
Professional, scientific and technical activities	-	-	63 361	1 317	16	41 877
Accommodation and food service activities	-	-	37 810	-	-	2 078
Transport and storage	-	-	51 244	-	64	7 881
Electricity, gas, steam, air conditioning and water supply	-	-	54 264	26	146	12 602
Financial and insurance activities	55 385	62 335	62 255	31 387	7 554	35 375
Other services (include private retail loans)	3	77	283 294	-	2 813	33 957
Total exposure	**55 388**	**62 412**	**976 681**	**600 976**	**18 193**	**357 653**

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	-	-	398	-	-	-
Construction	-	-	5 781	-	-	481
Manufacturing	-	-	11 740	51	-	289
Human health services and social work activities	-	-	1 119	-	-	1
Information and communication	-	-	1 622	-	-	72
Real estate activities	-	-	437	-	-	10
Public administration and defence, compulsory social security	-	-	289	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	-	-	3 522	-	-	73
Accommodation and food service activities	-	-	881	-	-	4
Transport and storage	-	-	771	-	-	16
Electricity, gas, steam, air conditioning and water supply	-	-	3 604	-	-	5
Financial and insurance activities	-	20	939	4	-	468
Other services (include private retail loans)	-	-	12 728	-	-	951
Impairment	**-**	**20**	**46 368**	**82**	**-**	**2 519**

Data in HUF million except stated otherwise

d) Liquidity risk

Liquidity risk is the risk that the Group'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 Group'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 Group's reputation.

The Group requires its operating entities to maintain a strong liquidity position and to manage the liquidity profile of their assets, liabilities and commitments with the objective of ensuring that cash flows are appropriately balanced and all obligations can be met when due.

The management of liquidity and funding is primarily carried out locally in the operating entities of the Group in accordance with practices and limits set by the Board of Directors. These limits vary by entity to take account of the depth and liquidity of the market in which the entity operates. It is the Group's general policy that each banking entity should be self-sufficient with regards to funding its own operations.

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

2020	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	(575 097)	(592 410)	(19 599)	(4 527)	(33 885)	(407 282)	(127 117)
Deposits and current accounts	(1 862 261)	(1 863 142)	(1 657 443)	(136 788)	(65 770)	(3 141)	-
Subordinated debt	(44 724)	(50 310)	(922)	-	(1 397)	(47 713)	(278)
	(2 482 082)	**(2 505 862)**	**(1 677 964)**	**(141 315)**	**(101 052)**	**(458 136)**	**(127 395)**
Derivative financial liabilities							
Trading: outflow		(220 019)	(50 442)	(20 837)	(63 207)	(41 461)	(44 072)
Trading: inflow		198 557	45 819	17 716	55 107	32 824	47 091
	(35 406)	**(21 462)**	**(4 623)**	**(3 121)**	**(8 100)**	**(8 637)**	**3 019**
Loan commitments		(266 843)	(24 081)	(21 438)	(59 453)	(83 803)	(78 068)

Data in HUF million except stated otherwise

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	(195 810)	(202 333)	(7 671)	(6 831)	(19 709)	(82 960)	(85 162)
Deposits and current accounts	(1 226 529)	(1 227 316)	(1 135 904)	(31 268)	(42 383)	(17 761)	-
Subordinated debt	(39 381)	(45 702)	(763)	-	(1 264)	(33 151)	(10 524)
	(1 461 720)	**(1 475 351)**	**(1 144 338)**	**(38 099)**	**(63 356)**	**(133 872)**	**(95 686)**
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	-	(234 535)	(18 359)	(9 860)	(87 609)	(54 560)	(64 147)

The above table shows the undiscounted contractual cash flows of the Group'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 Group'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 Group's risk management department use both analyses to manage liquidity risk.

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

Expected maturity of liabilities

6.8

2020	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	(575 097)	(592 410)	(19 599)	(4 527)	(33 885)	(407 282)	(127 117)
Deposits and current accounts	(1 862 261)	(1 863 142)	(108 441)	(14 630)	(5 544)	(257)	(1 734 270)
Subordinated debt	(44 724)	(50 310)	(922)	-	(1 397)	(47 713)	(278)
	(2 482 082)	**(2 505 862)**	**(128 962)**	**(19 157)**	**(40 826)**	**(455 252)**	**(1 861 665)**
Derivative financial liabilities							
Trading: outflow		(220 019)	(50 442)	(20 837)	(63 207)	(41 461)	(44 072)
Trading: inflow		198 557	45 819	17 716	55 107	32 824	47 091
	(35 406)	**(21 462)**	**(4 623)**	**(3 121)**	**(8 100)**	**(8 637)**	**3 019**
Loan commitments		(54 518)	(17 586)	(36 932)	-	-	-

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	(195 810)	(202 333)	(7 671)	(6 831)	(19 709)	(82 960)	(85 162)
Deposits and current accounts	(1 226 529)	(1 227 317)	(68 374)	(2 445)	(2 578)	(1 184)	(1 152 736)
Subordinated debt	(39 381)	(45 702)	(763)	-	(1 264)	(33 151)	(10 524)
	(1 461 720)	**(1 475 352)**	**(76 808)**	**(9 276)**	**(23 551)**	**(117 295)**	**(1 248 422)**
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)	-	-

Data in HUF million except stated otherwise

The decision of the Management of the Group, 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

	2020		2019	
	Up to 1 year	Over 1 year	Up to 1 year	Over 1 year
Loans and advances to banks	*62 599*	*20 999*	*55 648*	*6 764*
measured at AC	62 599	20 999	55 648	6 764
Loans and advances to customers	*105 311*	*1 054 610*	*102 819*	*873 862*
measured at AC	105 311	1 053 672	102 819	872 539
measured at FVTPL	-	938	-	1 323
Derivative financial assets	*10 358*	*12 904*	*2 507*	*15 686*
Securities	*8 309*	*1 165 886*	*5 571*	*595 405*
measured at AC	-	550 106	-	286 469
measured at FVTPL	6 300	10 622	842	4 058
measured at FVTOCI	2 009	605 158	4 729	304 878

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 45,399 million (2019: HUF 46,368 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 Group'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 Group, 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 Group market risk management policies. ALCO has the overall responsibility for establishing and managing market risk policies for the Group, 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 Group. At the operational level, market risk is managed by the Money and Capital Markets Managing Directorate on a group-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 Group 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 Group 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 Group’s retail and commercial banking activity and the interest rate management of the Group’s retail and commercial banking assets and liabilities. The Group'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 Group 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 Group 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). The Group 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 Group 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 Group’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 Group’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 Group's trading portfolios (i.e. only its trading book) as at 31 December and during the period is as follows:

6.10

2020	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	32	155	5	223
Interest rate risk	105	279	17	-
Equity risk	7	12	1	-
Overall market risk of trading book	**144**	**446**	**23**	**223**
Credit spread risk of trading book	95	236	8	-

2019	Average	Maximum	Minimum	Stress (15%)
Foreign currency risk	13	56	2	175
Interest rate risk	46	112	14	-
Equity risk	2	3	1	-
Overall market risk of trading book	**61**	**171**	**17**	**175**
Credit spread risk of trading book	60	150	17	-

Important notes in connection with the table above:

- Group 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)
- Group calculates specific interest rate risk (credit spread risk) separately from general interest rate risk based on the swap and bond yield curve spread.
- Group calculates VaR only on trading-book position.
- There is no commodity in the Group position.
- Group 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 223 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.

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

Data in HUF million except stated otherwise

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

6.11

As at 31 December 2020

Fixed rate instruments	Gross amount
Financial assets	1 183 220
Financial liabilities	(933 020)
Net fixed rate instruments	**250 200**

Variable rate instruments	Denominated in HUF	CHF	EUR	USD	Other currencies
Financial assets	953 417	1 850	265 835	9 888	3 504
Financial liabilities	(1 144 019)	(4 082)	(322 557)	(71 875)	(6 529)
Net variable rate financial instruments	**(190 602)**	**(2 232)**	**(56 722)**	**(61 987)**	**(3 025)**

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	715 259	1 083	216 987	3 082	2 300
Financial liabilities	(795 684)	(4 178)	(256 998)	(68 296)	(5 097)
Net variable rate financial instruments	**(80 425)**	**(3 095)**	**(40 011)**	**(65 214)**	**(2 797)**

According to the annual review, the Group revised its interest rate risk modelling of sight deposits in 2020. According to the results mainly the estimated level of core deposits has changed in the risk modelling of sight deposits. The estimated level of core deposits has increased in case of HUF and EUR currencies both in retail and wholesale business units. In case of USD currency the estimated level of core deposits has increased in retail and has decreased in wholesale business units. The Group has implemented that, the core deposits are divided into monthly equal amounts during the predicted period in case of HUF, EUR and USD currencies.

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

6.12

2020	Effect on equity	Effect on P/L
HUF		
200 bp increase	(18 821)	2 522
200 bp decrease	30 394	(1 338)
CHF		
200 bp increase	0	(30)
200 bp decrease	(0)	(20)
EUR		
200 bp increase	5 552	373
200 bp decrease	(943)	1 176
USD		
200 bp increase	(546)	(17)
200 bp decrease	299	(358)
Other currencies		
200 bp increase	9	24
200 bp decrease	(7)	(32)

This report contains those subsidiaries which are monitored directly by MKB on monthly basis.

2020			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	5 552	(943)	(943)
USD	(546)	299	(546)
CHF	-	-	-
GBP	1	(1)	(1)
JPY	-	-	-
Others	(18 814)	30 388	(18 827)
Total	**(13 807)**	**29 743**	**(20 317)**

2019	Effect on equity	Effect on P/L
HUF		
200 bp increase	(22 197)	(2 712)
200 bp decrease	26 246	(6 221)
CHF		
200 bp increase	4	(19)
200 bp decrease	-	(10)
EUR		
200 bp increase	7 837	681
200 bp decrease	(9)	(1 119)
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)

This report contains those subsidiaries which are monitored directly by MKB on monthly basis.

2019			
			in HUF millions
FCY	Yield curve stress + 200 Bp	Yield curve stress - 200 Bp	Adverse case
EUR	7 837	(9)	(9)
USD	2 086	(1 819)	(1 819)
CHF	4	-	-
GBP	1	(1)	(1)
JPY	-	-	-
Others	(22 209)	26 256	(22 209)
Total	**(12 281)**	**24 427**	**(24 038)**

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	2020	2019
Changes during the reporting period	-	(137)
Changes cumulatively (since designation of the financial liabilities)	-	137

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.

- 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.

Data in HUF million except stated otherwise

Exposure to other market risks – non-trading portfolios

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

6.14

2020	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Net assets	2 364 808	46 657	352 452	2 108	15 582	2 781 607
Net liabilities	2 243 762	84 587	435 629	5 496	12 133	2 781 607
Net derivative and spot instruments (short) / long position	(121 139)	37 884	83 282	3 432	(3 459)	-
Total net currency positions	**(93)**	**(46)**	**105**	**44**	**(10)**	**-**

2019	In functional currencies	In foreign currencies USD	EUR	CHF	Other	Total
Net assets	1 430 838	13 522	311 359	928	3 149	1 759 796
Net liabilities	1 279 790	87 863	378 978	5 643	7 522	1 759 796
Net derivative and spot instruments (short) / long position	(150 322)	74 369	67 215	4 715	4 023	-
Total net currency positions	**726**	**28**	**(404)**	**-**	**(350)**	**-**

f) Encumbered assets

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

6.15

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution				
Loans on demand	113	113	244	244
Debt securities	495 488	492 158	163 348	163 348
Loans and advances other than loans on demand	132 220	132 220	100 154	77 916
Total encumbered assets	**627 821**	**624 491**	**263 746**	**241 508**

Data in HUF million except stated otherwise

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 2020		
Collateral received by the reporting institution		
Loans on demand	4 291	-
Loans and advances other than loans on demand	83 830	-
Other collateral received	-	347 673
Collateral received and own debt securities issued	**88 121**	**347 673**
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**

6.17

	31 December 2020		31 December 2019	
	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	*188 727*	*627 821*	*93 345*	*263 746*
Derivatives	19 835	48 497	11 442	57 515
Deposits	168 892	579 324	81 903	206 231
Repurchase agreements	2 732	-	-	-
Collateralised deposits other than repurchase agreements	166 160	579 324	81 903	206 231
Total Sources of encumbrance	**188 727**	**627 821**	**93 345**	**263 746**

At the end of 2020 the level of encumbered assets determined in accordance with the aforementioned regulation was 21.89%. The total of Group’s encumbered assets belonged to MKB Bank. The main sources and types of encumbrance were arising from having corporate loans covered by NBH, secured refinancing, from collaterals of mortgage loans, money market deposits as well as collateralized derivative transactions and repo transactions, furthermore the Group took the opportunity to borrow unconditional fixed-rate secured loan granted by NBH. Encumbrance due to collateral requirement of used clearing systems and central counterparties was not significant. The Group did not have covered bonds issued 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 Group'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. Group'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 Group 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, reputational risk, modelling risk and information and communication technology (ICT) 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 Group 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 Group's risk management process and in the work processes.

The centralised unit of the Group'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. Group fulfils oprisk COREP data delivery to NBH on half-yearly basis.

Risk management methods and tools

Loss data collection
Group has been performing operational risk loss data collection continuously which includes the electronic reporting and managing of operational risk loss events.

OpRisk Self-Assessment – ORSA
Group 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.

Key Risk Indicators - KRIs
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 Group intends to help forecasting, preventing and reducing operational risks.

Scenario analysis
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 Group performs scenario analysis on yearly basis.

Model list
The model list contains all models on department level being used in the Group 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.

Product list
The Bank has established the product list, which contains the most important product groups at MKB Bank Nyrt. and MKB Euroleasing-group in order to identify conduct risk related to customer service. It contains the general characteristics of the products as well as the conduct risk factors. By exploring risks, it is possible to reduce or consciously accept them.

Business Continuity Planning

In order to undisturbedly maintain the Group’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 Group’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 Group’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 Group’s lead regulator, the NBH sets and monitors capital requirements for the Group as a whole.

Capital allocation

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

Basel III

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

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

Basel III provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements. The Group 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 Group currently has adopted the standardized approach to the determination of Group operational risk capital requirements.

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

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

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.

Data in HUF million except stated otherwise

6.18

	31 December 2020 Basel III IFRS	31 December 2019 Basel III IFRS
Share capital	100 000	100 000
Outstanding share capital	*100 000*	*100 000*
Reserves	102 997	93 184
Deferred tax	(6 979)	(8 008)
Intangible assets	(28 679)	(24 466)
AVA - additional valuation adjustments	(684)	(378)
Additional Tier 1	**-**	**-**
Tier 1: Net core capital	**166 655**	**160 332**
Subordinated debt	39 165	36 222
Tier 2: Supplementary capital	**39 165**	**36 222**
Regulatory capital	**205 820**	**196 554**
Risk-weighted assets (RWA)	828 587	686 142
Operational risk (OR)	164 270	175 470
Market risk positions (MR)	11 770	8 590
Total risk weighted assets	**1 004 627**	**870 202**
Regulatory capital / Total assets	7.40%	11.18%
Tier1 ratio	16.59%	18.42%
Capital adequacy ratio	**20.49%**	**22.59%**

The table above contains the MKB Bank's consolidated capital adequacy ratio.

As at 31 December 2020, as an actual figure of the Group regulatory capital was HUF 205.8 billion based on Basel III IFRS under Supervisory Regulation. The increase of regulatory capital - by HUF 9.3 billion – is derived from the increase of profit and subordinated debt (repurchase in the amount of EUR 48.1 million and new issuance in the amount of EUR 51.3 million, as a result decrease of unused subordinated debt due to the maturity date), decrease of deduction of ESOP program and deferred tax and decrease of negative revaluation reserve, which was compensated by the increase of deduction of intangible assets and increase of negative AVA.

Risk-weighted assets including operational and market risk increased by 15.5% from HUF 870.2 billion in 2019 to HUF 1,004.6 billion besides approximately 10.5% weakening of domestic currency. The main part of the increase derived from the increase of business volumes and increase of market risk, which was compensated by the decrease of operational risk.

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

j) Forborne assets

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

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

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

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

The Group generally applies the following types of forbearance measures:

- extension of the tenor / final maturity of the loan,
- renegotiation of original repayment schedule, reschedule instalments,
- agreement on instalment payment,
- 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 Group on the basis of guidelines and procedure rules set by internal regulations incorporating also both legal and supervisory requirements and recommendations. When the conditions of forbearance cease to exist and the following cure period expires, respective assets are returned to normal treatments both from business and risk management perspectives.

Data in HUF million except stated otherwise

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.

Comparing to the previous financial year, there were no changes in forbearance policies and in practices applied by the Group. The forbearance definition will change due to the law change to implement in January, 2021. That change would have effect on the definition of place of treatment (Unit). Before the decision making, it is obligatory to examine and define the effect of proposed construction, forborne contract on the NPV (net present value) in all the cases of clients to forborne, treated by Business Units.

It is important to emphasize, that the moratorium linked to pandemic practically postpones the possibility and the realisation of the restructuring concerning the relevant loans to restructure (ceteris paribus the extension of the loans' expiry date) in time to 2021 H2 minimum on the basis of the regulation, because a big part of our clients „applied" for the moratorium.

6.19

	31 December 2020	31 December 2019
Corporate Banking		
Forborn financial assets	10 825	2 640
Allowances for impairment	(8 623)	(1 893)
Carrying amount	2 202	747
Retail and Private Banking		
Forborn financial assets	8 761	9 838
Allowances for impairment	(3 162)	(3 623)
Carrying amount	5 599	6 215
Total carrying amount	**7 801**	**6 962**

Data in HUF million except stated otherwise

7. Cash and cash equivalents

7.1

	31 December 2020	31 December 2019
Cash and balances with Central Banks	294 183	55 388
Cash and cash equivalents	**294 183**	**55 388**

The Group is required to maintain a minimum reserve with the NBH equivalent to 1 % (2019: 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 15,583 million as at 31 December 2020 (2019: HUF 13,832 million). As at 31 December 2020, cash on hand amounted to HUF 22,646 million (2019: HUF 13,397 million).

8. Loans and advances to banks

8.1

	31 December 2020	31 December 2019
Current and clearing accounts	17 518	6 844
Money market placements	46 021	50 361
Loans and advances	20 059	5 207
Loans and advances to banks (gross amount)	**83 598**	**62 412**
Allowance for impairment at the end of period	**(40)**	**(20)**
Carrying amount	**83 558**	**62 392**

9. Derivative financial assets

9.1

	31 December 2020			31 December 2019		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	11 677	11 677	-	4 248	4 248
Interest-based derivative instruments	-	11 168	11 168	-	13 446	13 446
Options	229	188	417	104	395	499
Derivative financial assets	**229**	**23 033**	**23 262**	**104**	**18 089**	**18 193**

Data in HUF million except stated otherwise

10. Securities

10.1

	31 December 2020	31 December 2019
Securities measured at FVTOCI		
Hungarian Government bonds	572 959	295 511
Hungarian corporate sector bonds	34 208	6 827
Foreign Government bonds	-	5 953
Foreign equities	-	1 317
Less allowance for impairment	(273)	(70)
Securities measured at AC		
Hungarian Government bonds	491 125	235 990
Hungarian corporate sector bonds	58 981	50 478
Less allowance for impairment	(168)	(82)
Securities measured at FVTPL		
Government Treasury bills	96	24
Government bonds	10 377	4 189
Hungarian corporate sector bonds	245	603
Hungarian equities	103	84
Foreign equities	1 547	-
Investment fund shares	4 554	
Securities	**1 174 027**	**600 894**

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 assets.

The amount of debt securities measured at FVTOCI was HUF 607,167 million at the end of the reporting period. The Group did not have equity instruments measured at FVTOCI on 31 December 2020.

The revaluation on financial assets measured at FVTOCI has changed to HUF 3,187 million from HUF (3,281) million. The effect on deferred tax is disclosed in Note 30.

At 31 December 2020, HUF 495,488 million (2019: HUF 163,348 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 2020, the total amount of revaluation reserve comprises HUF (3,560) million (2019: HUF (6,747) million).

In 2020 HUF 5,462 million gain (2019: HUF 23,299 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 6,706 million interest income (2019: HUF 13,413 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 1,113,962 million, of which HUF 1,113,024 million was measured at amortised cost and HUF 938 million at fair value. The amount of fair value customer loans belonging to the wholesale portfolio was HUF 275 million, while the amount of retail loans was HUF 663 million on 31 December 2020.

11.1

	31 December 2020	31 December 2019
Loans and advances to customers		
measured at AC	1 113 024	928 990
measured at FVTPL	938	1 323
Loans and advances to customers	**1 113 962**	**930 313**

Loans and advances to customers measured at amortised cost:

11.2

31 December 2020	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	75 197	(313)	(679)	(240)	(1 232)	73 965
Funding for Growth Scheme	119 609	(705)	(4 898)	(462)	(6 065)	113 544
Factoring	15 642	(138)	(12)	(38)	(188)	15 454
Overdraft	40 310	(257)	(342)	(1 086)	(1 685)	38 625
Széchenyi Loans	45 008	(576)	(93)	(692)	(1 361)	43 647
Car finance	90 711	(1 026)	(1 098)	(461)	(2 585)	88 126
Other	417 059	(2 259)	(6 480)	(8 928)	(17 667)	399 392
Total Wholesale	***803 536***	***(5 274)***	***(13 602)***	***(11 907)***	***(30 783)***	***772 753***
Retail						
Residential mortgage	197 923	(2 055)	(416)	(6 216)	(8 687)	189 236
HUF	*196 733*	*(2 046)*	*(406)*	*(6 003)*	*(8 455)*	*188 278*
Foreign currency	*1 190*	*(9)*	*(10)*	*(213)*	*(232)*	*958*
Credit card	2 164	(52)	(51)	(65)	(168)	1 996
Overdraft	995	(19)	(68)	(135)	(222)	773
Personal loan	9 473	(189)	(31)	(342)	(562)	8 911
Car finance	99 802	(698)	(224)	(3 036)	(3 958)	95 844
Other	44 154	(480)	(6)	(533)	(1 019)	43 135
Total Retail	***354 511***	***(3 493)***	***(796)***	***(10 327)***	***(14 616)***	***339 895***
Total Core business	**1 158 047**	**(8 767)**	**(14 398)**	**(22 234)**	**(45 399)**	**1 112 648**
Non-core business						
CRE	***936***	***(4)***	***-***	***(556)***	***(560)***	***376***
Total	**1 158 983**	**(8 771)**	**(14 398)**	**(22 790)**	**(45 959)**	**1 113 024**

Data in HUF million except stated otherwise

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	60 532	(158)	(1 797)	(591)	*(2 546)*	57 986
Factoring	20 349	(145)	(11)	(63)	*(219)*	20 130
Overdraft	67 459	(383)	(234)	(1 493)	*(2 110)*	65 349
Széchenyi Loans	31 715	(204)	(101)	(784)	*(1 089)*	30 626
Car finance	80 332	(957)	(1 022)	(307)	*(2 286)*	78 046
Other	320 731	(1 666)	(6 154)	(14 876)	(22 696)	298 035
Total Wholesale	***636 974***	***(3 649)***	***(9 968)***	***(18 353)***	***(31 970)***	***605 004***
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
Car finance	88 095	(113)	*(9)*	(3 533)	(3 655)	84 440
Other	27 390	(33)	*(3)*	(453)	(489)	26 901
Total Retail	***326 555***	***(796)***	***(384)***	***(12 174)***	***(13 354)***	***313 201***
Total Core business	**963 529**	**(4 445)**	**(10 352)**	**(30 527)**	**(45 324)**	**918 205**
Non-core business						
CRE	***11 829***	***(41)***	-	***(1 003)***	***(1 044)***	***10 785***
Total	**975 358**	**(4 486)**	**(10 352)**	**(31 530)**	**(46 368)**	**928 990**

In 2020, other items included HUF 234,069 million working capital loans, HUF 82,751 million receivables relating to repurchase agreements, HUF 41,196 million investment loans, HUF 76,466 million syndicated loans and HUF 46,983 million loans relating to purchased loans.

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.

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 Group'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. The Group fulfilled the commitment by the end of 2017. Even so, the portfolio has been reduced significantly in 2018-2019. Fulfilled the EU commitments successfully, the Group has the intention to continue the CRE-financing. Thus, the performing CRE portfolio (HUF 10.7 billion) was transferred to Business Unit in Q1 2020. Only one CRE customer's claim (HUF 557 million; under liquidation) remained in the portfolio of Restructuring and Debt Management Directorate.

Data in HUF million except stated otherwise

Due to the officially fulfilled EU commitments and the transfer of performing CRE-portfolio to Business Unit, the separated registration of CRE portfolio (i.e. SCU portfolio) was finished on reporting level.

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 Group keeps some assets in long-term in order to maximize recovery from those assets.

Allowances for impairment

11.3

	31 December 2020	31 December 2019
Allowances for impairment on loans and advances to customers		
Balance at 1 January	46 368	70 112
Impairment loss for the year:		
Increases due to origination and acquisition	8 078	5 186
Decreases due to derecognition	(12 259)	(33 726)
Changes due to change in credit risk (net)	4 830	5 295
Changes due to modifications without derecognition (net)	146	23
Decrease in allowance account due to write-offs	(1 351)	(637)
Other adjustments	147	115
Allowance for impairment at the end of period	**45 959**	**46 368**

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.

Note 6.1 provides additional information on the calculation of the Group's impairment.

Data in HUF million except stated otherwise

The tables below show the breakdown of the gross value and impairment of Loans and advances to customers measured at amortised cost, by stages:

11.3.1

31 December 2020	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	88 101	533	-	2
Medium risk	217 859	14 635	-	2 500
High risk	6 832	8 066	-	990
Default	-	-	12 044	2 949
Total Retail	***312 792***	***23 234***	***12 044***	***6 441***
Wholesale				
Low risk	158 564	13	-	-
Medium risk	541 856	6 657	-	-
High risk	10 324	69 481	-	-
Default	-	-	16 641	-
Total Wholesale	***710 744***	***76 151***	***16 641***	***-***
CRE				
Medium risk	380	-	-	-
Default	-	-	556	-
Total CRE	***380***	***-***	***556***	***-***
Total gross amount	**1 023 916**	**99 385**	**29 241**	**6 441**

31 December 2020	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	805	26	-	-
Medium risk	2 574	518	-	389
High risk	114	252	-	150
Default	-	-	8 203	1 585
Total Retail	***3 493***	***796***	***8 203***	***2 124***
Wholesale				
Low risk	170	-	-	-
Medium risk	3 995	316	-	-
High risk	1 109	13 286	-	-
Default	-	-	11 907	-
Total Wholesale	***5 274***	***13 602***	***11 907***	***-***
CRE				
Medium risk	4	-	-	-
Default	-	-	556	-
Total CRE	***4***	***-***	***556***	***-***
Total allowance for impairment	**8 771**	**14 398**	**20 666**	**2 124**

Data in HUF million except stated otherwise

31 December 2019	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	69 075	24	-	-
Medium risk	223 039	5 891	-	2 898
High risk	2 255	4 676	-	396
Default	104	-	13 541	4 655
Total Retail	***294 473***	***10 591***	***13 541***	***7 949***
Wholesale				
Low risk	124 323	-	-	-
Medium risk	412 150	3 556	-	-
High risk	13 709	59 785	-	-
Default	207	-	23 245	-
Total Wholesale	***550 389***	***63 341***	***23 245***	***-***
CRE				
Medium risk	10 825	-	-	-
Default	-	-	1 004	-
Total CRE	***10 825***	***-***	***1 004***	***-***
Total gross amount	**855 687**	**73 932**	**37 790**	**7 949**

31 December 2019	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	95	-	-	-
Medium risk	684	243	-	335
High risk	17	141	-	32
Default	-	-	9 344	2 463
Total Retail	***796***	***384***	***9 344***	***2 830***
Wholesale				
Low risk	316	-	-	-
Medium risk	2 452	55	-	-
High risk	881	9 913	-	-
Default	-	-	18 353	-
Total Wholesale	***3 649***	***9 968***	***18 353***	***-***
CRE				
Medium risk	41	-	-	-
Default	-	-	1 003	-
Total CRE	***41***	***-***	***1 003***	***-***
Total allowance for impairment	**4 486**	**10 352**	**28 700**	**2 830**

Data in HUF million except stated otherwise

The tables below show the changes of the gross value and impairment of Loans and advances to customers measured at amortised cost, by stages:

11.3.2

Gross amount	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2020	**855 687**	**73 932**	**37 790**	**7 949**	**975 358**
Transfers:					
Transfers from Stage 1 to Stage 2	(39 536)	39 536	-	-	-
Transfers from Stage 1 to Stage 3	(2 492)	-	2 492	-	-
Transfers from Stage 2 to Stage 1	38 844	(38 844)	-	-	-
Transfers from Stage 2 to Stage 3	-	(4 523)	4 523	-	-
Transfers from Stage 3 to Stage 1	513	-	(513)	-	-
Transfers from Stage 3 to Stage 2	-	2 163	(2 163)	-	-
Transfers to non-current assets held for sale and discontinued operations	(3)	-	(5 474)	(569)	(6 046)
Transfers from non-current assets held for sale and discontinued operations	-	2	1 170	92	1 264
New financial assets originated or purchased	240 898	24 870	3 037	194	268 999
Modification of contractual cash flows of financial assets	(1 966)	(305)	(106)	(95)	(2 472)
FX and other movements	(68 029)	2 554	(11 515)	(1 130)	(78 120)
Balance at 31 December 2020	**1 023 916**	**99 385**	**29 241**	**6 441**	**1 158 983**

Allowance for impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2020	**4 486**	**10 352**	**28 700**	**2 830**	**46 368**
Transfers:					
Transfers from Stage 1 to Stage 2	(337)	337	-	-	-
Transfers from Stage 1 to Stage 3	(220)	-	220	-	-
Transfers from Stage 2 to Stage 1	264	(264)	-	-	-
Transfers from Stage 2 to Stage 3	-	(376)	376	-	-
Transfers from Stage 3 to Stage 1	7	-	(7)	-	-
Transfers from Stage 3 to Stage 2	-	279	(279)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	-	(4 481)	-	(4 481)
Transfers from non-current assets held for sale and discontinued operations	-	-	848	-	848
New financial assets originated or purchased	2 437	(295)	2 703	(32)	4 813
Changes in PDs/LGDs/EADs	1 587	6 056	617	75	8 335
Modification of contractual cash flows of financial assets	2 474	1 225	-	239	3 938
FX and other movements	(1 927)	(2 916)	(8 031)	(988)	(13 862)
Balance at 31 December 2020	**8 771**	**14 398**	**20 666**	**2 124**	**45 959**

Gross amount	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2019	**810 952**	**62 316**	**66 774**	**17 376**	**957 418**
Transfers:					
Transfers from Stage 1 to Stage 2	(79 047)	79 047	-	-	-
Transfers from Stage 1 to Stage 3	(3 822)	-	3 822	-	-
Transfers from Stage 2 to Stage 1	54 322	(56 272)	-	-	(1 950)
Transfers from Stage 2 to Stage 3	-	(11 740)	11 740	-	-
Transfers from Stage 3 to Stage 1	1 854	-	(1 854)	-	-
Transfers from Stage 3 to Stage 2	-	7 640	(7 640)	-	-
Transfers to non-current assets held for sale and discontinued operations	(2 707)	(78)	(23 483)	(7 665)	(33 933)
Transfers from non-current assets held for sale and discontinued operations	257	130	1 388	1 370	3 145
New financial assets originated or purchased	124 456	7 441	876	10	132 783
Modification of contractual cash flows of financial assets	712	-	-	-	712
FX and other movements	(51 290)	(14 552)	(13 833)	(3 142)	(82 817)
Balance at 31 December 2019	**855 687**	**73 932**	**37 790**	**7 949**	**975 358**

Data in HUF million except stated otherwise

Impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Purchased or originated credit-impaired	Total
Balance at 1 January 2019	**4 465**	**7 766**	**50 074**	**7 807**	**70 112**
Transfers:					
Transfers from Stage 1 to Stage 2	(1 619)	1 619	-	-	-
Transfers from Stage 1 to Stage 3	(52)	-	52	-	-
Transfers from Stage 2 to Stage 1	1 524	(1 524)	-	-	-
Transfers from Stage 2 to Stage 3	-	(986)	986	-	-
Transfers from Stage 3 to Stage 1	34	-	(34)	-	-
Transfers from Stage 3 to Stage 2	-	669	(669)	-	-
Transfers to non-current assets held for sale and discontinued operations	-	(2)	(21 715)	(4 996)	(26 713)
Transfers from non-current assets held for sale and discontinued operations	8	13	1 037	571	1 629
New financial assets originated or purchased	(1 128)	695	(424)	2 042	1 185
Changes in PDs/LGDs/EADs	2 198	627	272	18	3 115
Modification of contractual cash flows of financial assets	(441)	(139)	(5)	43	(542)
FX and other movements	(503)	1 614	(874)	(2 655)	(2 418)
Balance at 31 December 2019	**4 486**	**10 352**	**28 700**	**2 830**	**46 368**

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 has been 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.

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 2020 there were no loans designated as hedged item in a fair value hedge relationship.

Data in HUF million except stated otherwise

12. Other assets

12.1

	31 December 2020	31 December 2019
Prepayments and other debtors	12 329	13 355
Inventory	774	594
Collaterals held in possession	-	220
Other taxes refundable	5 594	2 587
Impairment	(1 551)	(1 580)
Other assets	**17 146**	**15 176**

13. Investments in jointly controlled entities and associates

13.1

	31 December 2020	31 December 2019
Cost	7 295	5 911
Investments in associates	**7 295**	**5 911**

In 2020 the Group realised HUF 2,949 million gain related to MKB-Pannónia Alapkezelő Zrt., associate consolidated using the equity method. This transaction increased the value of the investment, while at the same time HUF 2,402 million dividend payment of this associate within the Group caused a decrease in the investment value. The Bank raised the capital of MKB Inkubátor Kft. by HUF 550 million in July, 2020, and revised the impairment on its investments in Extercom Kft. in September 2020, and reversed it in the amount of HUF 230 million, which indicated an increase in investments in subsidiaries. On 1 April 2020 the Group sold its investment in MKB Kockázati Tőkealapkezelő Zrt. therefore investments decreased by HUF 13 million.

Data in HUF million except stated otherwise

General and financial data of the jointly controlled entities and associates are as follows as at 31 December 2020:

13.2

	31 December 2020	31 December 2019
	MKB-Pannónia Alapkezelő Zrt.	**MKB-Pannónia Alapkezelő Zrt.**
General data		
Principal activity	Investment fund management activity	Investment fund management activity
Country of incorporation	Hungary	Hungary
Ownership % (direct & non-direct)	49.00%	49.00%
Proportion of the voting rights held	49.00%	49.00%
Relation	associate	associate
Involvement	equtiy	equtiy
Financial data		
Cash & cash equivalents	257	101
Other current assets	5 537	5 145
Current assets	**5 794**	**5 246**
Non-current assets	**268**	**248**
Total assets	**6 062**	**5 494**
Other current liabilities	546	877
Current liabilities	**546**	**877**
Total liabilities	**546**	**877**
Equity	**5 516**	**4 617**
Book value of investment	4 613	4 066
(Carrying amount of the Group's interest in the Company)		
Interest income	1	-
Other income	5 979	5 978
Revenues	**5 980**	**5 978**
Depreciation and amortization	45	26
Income tax expense	416	386
Other Expenses	1 267	1 711
Expenses	**1 728**	**2 123**
Profit/(Loss) after taxation for the year	**4 252**	**3 854**
Total comprehensive income for the year	**4 252**	**3 854**
Dividends received by MKB Bank from the associate	2 402	1 822

Data in HUF million except stated otherwise

14. Intangibles, property and equipment

14.1

31 December 2020	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	76 341	40 723	21 257	138 321
Additions – including internally developed	15 980	3 284	2 906	22 170
Other modification	(2)	(95)	(15)	(112)
Disposals	(7 653)	(8 638)	(1 841)	(18 132)
Disposal due to deconsolidation	(37)	-	(114)	(151)
Balance at 31 December	**84 629**	**35 274**	**22 193**	**142 096**
Depreciation and impairment loss				
Balance at 1 January	51 875	12 384	15 155	79 414
Amortization and depreciation for the year	3 819	1 544	1 758	7 121
Impairment loss	295	-	112	407
Disposals	(39)	(1 192)	(1 743)	(2 974)
Other modification	-	(66)	-	(66)
Balance at 31 December	**55 950**	**12 670**	**15 282**	**83 902**
Carrying amounts				
At 1 January	24 466	28 339	6 102	58 907
Balance at 31 December	**28 679**	**22 604**	**6 911**	**58 194**

Data in HUF million except stated otherwise

31 December 2019	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	68 563	37 622	21 297	127 482
Additions – including internally developed	10 371	4 206	1 819	16 396
Other modification	(51)	(82)	(30)	(163)
Disposals	(2 542)	(1 023)	(1 829)	(5 394)
Balance at 31 December	**76 341**	**40 723**	**21 257**	**138 321**
Depreciation and impairment loss				
Balance at 1 January	49 165	11 542	14 632	75 339
Amortization and depreciation for the year	2 807	1 551	1 662	6 020
Impairment loss	-	79	84	163
Disposals	(97)	(782)	(1 213)	(2 092)
Other modification	-	(6)	(10)	(16)
Balance at 31 December	**51 875**	**12 384**	**15 155**	**79 414**
Carrying amounts				
At 1 January	19 398	26 080	6 665	52 143
Balance at 31 December	**24 466**	**28 339**	**6 102**	**58 907**

Depreciation and amortization is presented among “Operating expenses”.

In 2020, the most significant components of the investments and developments were the costs related to the introduction of the instant payment system, furthermore in the reporting period the Bank has fine-tuned its Core banking system, replaced at the end of June 2018, which increased the amount of investments and developments. In addition, the Bank disclosed several other items here concerning capitalisations of functional developments of other IT systems and improvements of the Bank’s digital services.

Changes in the value of right-of-use assets during the reporting period are disclosed in Note 31.

Data in HUF million except stated otherwise

15. Amounts due to other banks

15.1

	31 December 2020	31 December 2019
Due on demand	3 112	3 279
Money market deposits	2 527	648
Borrowings	566 726	191 883
Repurchase agreement owed to bank	2 732	-
Amounts due to other banks	**575 097**	**195 810**

The largest balance of the Amounts due to other banks is HUF 167,367 million, which is the re-financing loans relating to Funding for Growth Scheme at NBH.

16. Deposits and current accounts

16.1

	31 December 2020	31 December 2019
Corporate clients related	1 460 373	891 949
Retail clients related	401 888	334 580
Deposits and current accounts	**1 862 261**	**1 226 529**

As at 31 December 2020 and 2019 the Group had no deposit and current accounts measured at fair value from the total amount.

17. Derivative financial liabilities

17.1

	31 December 2020			31 December 2019		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	6 892	6 892	-	2 634	2 634
Index-based derivative instruments	-	4	4	-	2	2
Interest-based derivative instruments	-	28 416	28 416	-	41 009	41 009
Credit default swaps	-	-	-	-	36	36
Options	21	73	94	668	(86)	582
Derivative financial liabilities	**21**	**35 385**	**35 406**	**668**	**43 595**	**44 263**

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

Data in HUF million except stated otherwise

18. Other liabilities and provision

18.1

	31 December 2020	31 December 2019
Accruals and other creditors	34 473	38 633
Lease liabilities	15 057	12 262
Other taxes payable	1 888	1 808
Provisions for contingencies and commitments	2 831	2 519
Other liabilities and provisions	**54 249**	**55 222**

Provision for contingencies and commitments

18.2

	31 December 2020	31 December 2019
Provision for contingencies and commitments		
Balance at 1 January	2 519	4 383
Provisions made during the year	2 012	1 310
Provisions used/reversed during the year	(1 712)	(3 180)
Other movements	11	6
Balance at the end of the reporting period	**2 830**	**2 519**

Further information about provisions for contingencies and commitments are disclosed in Note 33.

19. Issued debt securities

As at 31 December 2020 the Group had no own issued bonds (2019: HUF Null million).

19.1

Interest	Balance at 1 January	Repurchased debt securities	Repaid debt securities	Revaluation result	Balance at 31 December
31 December 2019					
Structured	4 906	188	(4 991)	(103)	-
Accrued interest	68	-	-	-	-
Total	**4 974**	**188**	**(4 991)**	**(103)**	**-**

The Group 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. The last transaction recognized at fair value through profit or loss as option at initial recognition expired on 2 July 2019.

20. Subordinated debt

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

20.1

31 December 2020	Interest	Date of issue	Maturity date	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	14.06.2024	36 900 000	EUR	13 845
Subordinated debt	Fixed rate	28.03.2019	15.04.2026	31 000 000	EUR	11 631
Subordinated debt	Fixed rate	26.05.2020	20.07.2028	51 300 000	EUR	19 248
Total				**119 200 000**	**EUR**	**44 724**

31 December 2019	Interest	Date of issue	Maturity date	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	14.06.2024	70 000 000	EUR	23 765
Subordinated debt	Fixed rate	19.03.2018	14.06.2024	15 000 000	EUR	5 092
Subordinated debt	Fixed rate	28.03.2019	15.04.2026	31 000 000	EUR	10 524
Total				**116 000 000**	**EUR**	**39 381**

By the end of the reporting period the amount of the subordinated debt increased to EUR 119.2 million. In May 2020 there was a new issuance in the amount of EUR 51.3 million, and the Bank also repurchased EUR 48.1 million from the subordinated bonds issued previously.

21. Share capital

The Bank’s authorised, issued, and fully paid share capital comprises 100 million (2019: 100 million) ordinary shares of HUF 1,000 (2019: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

22. 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 Group less any dividend payment.

Data in HUF million except stated otherwise

General reserve

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

The Group discloses general reserve as part of retained earnings. In 2020, MKB recognized general reserve of HUF 11,448 million (2019: HUF 10,825 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 Group has recognized an impairment loss in accordance with IFRS 9, which is shown in the Revaluation reserve.

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

Non-controlling interest

At the end of 2020, the Group does not disclose Non-controlling interest (2019: HUF 35 million), as the Employee Share Ownership Program (ESOP) was terminated, and financial settlement was made to the participating members.

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

23.1

	31 December 2020			31 December 2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Intangibles, property and equipment	171	376	(205)	179	537	(358)
Securities	380	-	380	1 596	32	1 564
Loans and advances to customers	13	13	-	690	18	672
Allowances for loan losses	66	-	66	70	-	70
Amounts due to other banks and customers	-	-	-	479	-	479
Issued debt securities	-	-	-	-	36	(36)
Provision	119	-	119	152	-	152
Derivatives	-	-	-	122	6	116
Other items	-	-	-	73	28	45
Tax loss carry-forwards	6 531	-	6 531	4 438	-	4 438
Offsetting	(301)	(301)	-	(531)	(531)	-
Assets held for sale	-	-	-	40	-	40
Effect on implementation of IFRS	-	-	-	700	-	700
Net tax assets / (liabilities)	**6 979**	**88**	**6 891**	**8 008**	**126**	**7 882**

Data in HUF million except stated otherwise

24. Interest and similar to interest income

24.1

	2020	2019
Cash and cash equivalents	1 666	317
Loans and advances to banks	203	307
Loans and advances to customers	33 136	30 918
Derivatives	5 495	7 665
Securities	13 808	20 010
Interest and similar to interest income	**54 308**	**59 217**

Included within various captions under interest income for the year ended 31 December 2020 is a total of HUF 935 million (2019: HUF 1,324 million) accrued on credit impaired financial assets.

25. Interest expense

25.1

	2020	2019
Amounts due to other banks	2 264	957
Deposits from customers	3 019	2 241
Issued debt securities	39	-
Subordinated liabilities	1 867	1 590
Other fee and commision similar to interest expense	347	294
Derivatives	17 132	13 338
Interest expense	**24 668**	**18 420**

Data in HUF million except stated otherwise

26. Net income from commissions and fees

26.1

	2020	2019
Commission and fee income	**30 353**	**35 756**
Payment and account services	18 235	20 976
Credit related fees	2 117	2 295
Card services	2 700	2 927
Brokerage fees and other securities business	4 448	5 037
Other commission and fee income	2 853	4 521
Commission and fee expense	**6 785**	**8 440**
Payment and account services	396	1 680
Credit related fees	1 637	1 877
Card services	1 775	1 777
Brokerage fees and other securities business	814	1 154
Other commission and fee expense	2 163	1 952
Net income from commissions and fees	**23 568**	**27 316**

27. Other operating income / (expense), net

27.1

	2020	2019
Realized net gain/(loss) on securities measured at fair value	7 557	24 212
Realized net gain/(loss) on securities measured at amortised cost	(233)	5 247
Net gain/(loss) on loan and advances measured at fair value	(16)	134
Net gain/(loss) on derivative transactions	16 668	(10 801)
Net foreign exchange gain/(loss)	1 225	9 011
Net fair value results from FVTPL revaluation (FVO)	-	123
Expense relating to bank levies	(1 800)	(2 023)
Transaction duty	(10 265)	(11 935)
Net gain/(loss) on investments in Group companies	(84)	(318)
Other taxes	(1 817)	(3 479)
Other operating income/(expense), net	(5 164)	(63)
Other operating income/(expense), net	**6 071**	**10 108**

In 2020, the Group did not recognize any result from fair value revaluation of structured bonds designated at fair value through profit or loss (2019: 123 million gains).

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

Data in HUF million except stated otherwise

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

28.1

	Note	2020	2019
Net impairment loss / (reversal)			
Loans and advances to banks	**8**	(54)	5
Loans and advances to customers	**11**	6 972	2 452
Securities	**10**	286	19
Other assets	**12**	(26)	(1 169)
Realised loss on sale of loans		662	(1 036)
Non-current assets held for sale and discontinued operations	**38**	(172)	(5 839)
Provision on			
Guarantees and contingencies	**33**	300	218
Impairment and provision for losses		**7 968**	**(5 350)**

29. Operating expense

29.1

	2020	2019
General and administration expense	4 987	3 394
Legal and advisory services	2 194	2 201
Wages and salaries	17 589	17 158
Compulsory social security obligations	4 232	4 225
Occupancy costs	9 717	9 655
Marketing and public relations	809	761
Communication and data processing	5 514	5 677
Operating expense	**45 042**	**43 240**

In 2020, the Group's average statistical employee number was 2,026 (2019: 2,026).

30. Income tax

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

30.1

	2020	2019
Current tax expense		
Corporate tax charge – on current year profit	97	1 384
Corporate tax charge – effect of self-monitoring in previous years	-	(417)
Deferred tax (income) / expense		
Origination (reversal) of temporary differences	698	(1 747)
Income tax (income) / expense	**795**	**(780)**

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.

Reconciliation of effective tax rate

30.2

	2020 %	2020 HUF million	2019 %	2019 HUF million
Profit before income tax		9 218		43 368
Income tax using the domestic corporation tax rate	9.00%	844	9.00%	4 161
Effect of tax rates in foreign jurisdictions	0.03%	3	0.05%	22
Movement of unrecognized temporary differences	24.15%	2 226	0.00%	-
Non-deductible expense	2.32%	214	0.16%	73
Tax exempt income	-10.57%	(974)	-1.03%	(476)
Re-assessment of unrecognised tax losses carryforwards	-24.06%	(2 218)	-7.27%	(3 363)
Effect of transition	7.59%	700	-1.51%	(700)
Other tax effects	0.00%	-	-1.08%	(497)
Income tax (income) / expense	**8.47%**	**795**	**-1.69%**	**(780)**

The Group used a prudent approach concerning tax losses. Group companies generating current year losses were not allowed to recognize any deferred tax assets above the limit of deferred tax liability in their books. Other group companies used their available business plan figures 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.

Data in HUF million except stated otherwise

On 31 December 2020, the Group had unused tax losses amounting to HUF 287,717 million (2019: HUF 354,237 million) with the following maturity:

30.3

	2020	2019
Maturity between 1 and 5 years	16 725	72 709
Mature between 5 and 10 years	270 992	281 528
Tax loss carryforwards	**287 717**	**354 237**

The Group has HUF 215,156 million (2019: HUF 304,926 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.

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

30.4

2020 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	689	(675)		14
Provision for losses on loans and advances	70	(4)		66
Financial assets measured at FVTPL	122	(122)		-
Securities	1 598	(926)	(292)	380
Intangible Assets	179	(8)		171
Non-current assets as held for sale	40	(40)		-
Other Assets	73	(73)		-
Liabilities				
Amounts due to other banks, Deposits and current accounts	480	(480)		-
Provisions	152	(33)		119
Deferred Tax Assets - due to tax losses	4 438	2 093		6 531
Deferred Tax Assets - Tax Credits	700	(700)		-
Subtotal DTA before netting	**8 541**	**(968)**	**(292)**	**7 281**
Deferred Tax Liabilities - due to taxable temporary differences				
Assets				
Loans and advances to bank, Loans and advances to customers	(19)	6		(13)
Securities	(34)	34		-
Property, plant and equipment and investment property	(537)	161		(376)
Other Assets				-
Liabilities				
Issued debt securities	(36)	36		-
Derivative financial liabilities	(6)	6		-
Other liabilities	(27)	27		-
Subtotal DTL before netting	**(659)**	**270**	**-**	**(389)**
Subtotal DTA after netting completely with DTL	**8 008**	**(737)**	**(292)**	**6 979**
Subtotal DTL after netting completely with DTA	**(126)**	**38**	**-**	**(88)**

Data in HUF million except stated otherwise

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	689	-	-	689
Provision for losses on loans and advances	78	(8)	-	70
Financial assets measured at FVTPL	122	-	-	122
Securities	1 410	(134)	322	1 598
Property, plant and equipment and investment property	3	(3)	-	-
Intangible Assets	204	(25)	-	179
Non-current assets as held for sale	40	-	-	40
Other Assets	73	-	-	73
Liabilities				
Amounts due to other banks, Deposits and current accounts	480	-	-	480
Provisions	350	(198)	-	152
Deferred Tax Assets - due to tax losses	3 104	1 334	-	4 438
Deferred Tax Assets - Tax Credits	700	-	-	700
Subtotal DTA before netting	**7 253**	**966**	**322**	**8 541**
Deferred Tax Liabilities - due to taxable temporary differences				
Assets				
Loans and advances to bank, Loans and advances to customers	(95)	76	-	(19)
Provision for losses on loans and advances	(688)	688	-	-
Securities	(34)	-	-	(34)
Property, plant and equipment and investment property	(538)	1	-	(537)
Other Assets	(16)	16	-	-
Liabilities				
Issued debt securities	(37)	1	-	(36)
Derivative financial liabilities	(6)	-	-	(6)
Other liabilities	(27)	-	-	(27)
Subtotal DTL before netting	**(1 441)**	**782**	**-**	**(659)**
Subtotal DTA after netting completely with DTL	**5 812**	**1 874**	**322**	**8 008**
Subtotal DTL after netting completely with DTA	**-**	**(126)**	**-**	**(126)**

DTA and DTL are determined on each subsidiaries.

31. Leases

At the date of the initial application the Group had only a few leases that were previously classified as finance lease, for which transition to IFRS 16 had no significant impact.

The Group leases personal and commercial vehicles, leases and sub-leases office spaces.

The Group reassessed the classification of a sub-lease contracts, in which it acts as a lessor and there is no change in the classification of these contracts as a consequence there was not significant impact.

Data in HUF million except stated otherwise

31.1

31 December 2020	Other assets	Properties	IT equipments	Total
Cost or deemed cost				
Balance at 1 January	17	8 259	412	8 688
Additions	-	2 225	766	2 991
Revaluation	-	(98)	-	(98)
Other modification	-	109	-	109
Balance at 31 December	**17**	**10 495**	**1 178**	**11 690**
Depreciation and impairment losses				
Balance at 1 January	4	2 921	138	3 063
Depreciation for the year	4	887	85	976
Revaluation	-	(69)	-	(69)
Balance at 31 December	**8**	**3 739**	**223**	**3 970**
Carrying amounts				
Balance at 1 January	13	5 338	274	5 625
Balance at 31 December	**9**	**6 756**	**955**	**7 720**

31 December 2019	Other assets	Properties	IT equipments	Total
Cost or deemed cost				
Balance at 1 January	17	8 246	450	8 713
Additions	-	13	(38)	(25)
Balance at 31 December	**17**	**8 259**	**412**	**8 688**
Depreciation and impairment losses				
Balance at 1 January	-	2 056	67	2 123
Depreciation for the year	4	871	82	957
Disposals	-	(6)	(11)	(17)
Balance at 31 December	**4**	**2 921**	**138**	**3 063**
Carrying amounts				
Balance at 1 January	17	6 190	383	6 590
Balance at 31 December	**13**	**5 338**	**274**	**5 625**

Data in HUF million except stated otherwise

31.2

31 December 2020	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	586	2 412	6 931	3 548	10 889	24 366

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	253	1 603	5 065	3 345	11 532	21 798

31.3

31 December 2020	Long-term	Short-term	Total
Carrying amount of lease liabilities	13 188	1 869	15 057
31 December 2019	**Long-term**	**Short-term**	**Total**
Carrying amount of lease liabilities	11 358	904	12 262

31.4

	2020	2019
Interest expense recognized on lease liabilities	1 082	1 038
Expense recognized for short-term leases	-	66
Depreciation charged for the year	(974)	940
Cash outflow for leases	1 103	458

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

The Group 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 95 million for the reporting period.

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

31.5

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Lease payments that depend on an index	1 448	1 371	1 137	344	244	162	122	80	4

32. Earnings per share

The calculation of basic earnings per share on 31 December 2020 based on the net income attributable to ordinary shareholders of HUF 8,423 million (2019: HUF 44,148 million) and a weighted average number of ordinary shares outstanding of 100,000 thousands (2019: 99,906 thousands).

Basic value

31 December 2020

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 8,423 million}}{\text{100,000 thousands}} = \text{HUF 84}$$

31 December 2019

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 44,148 million}}{\text{99,906 thousands}} = \text{HUF 442}$$

The calculation of fully diluted earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after any adjustment for the effects of all dilutive potential ordinary shares. In the reporting period and in the previous period there were no dilution factors.

Diluted value

31 December 2020

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 8,423 million}}{\text{100,000 thousands}} = \text{HUF 84}$$

31 December 2019

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 44,148 million}}{\text{99,906 thousands}} = \text{HUF 442}$$

33. Contingencies and commitments

33.1

31 December 2020	Gross amount	Provision Stage 1	Provision Stage 2	Provision Stage 3	Provision IAS 37	Net amount
Contingencies						
Guarantees and similar obligations	119 328	(209)	(395)	(41)	-	118 683
Obligations from letters of credit and other short term trade related items	17 226	(14)	-	-	-	17 212
Other contingent liablities (including litigation)	11 947	(11)	(9)	-	(696)	11 231
Total contingencies	**148 501**	**(234)**	**(404)**	**(41)**	**(696)**	**147 126**
Commitments						
Undrawn commitments to extend credit	268 298	(877)	(113)	(465)	-	266 843
Total commitments	**268 298**	**(877)**	**(113)**	**(465)**	**-**	**266 843**

31 December 2019	Gross amount	Provision Stage 1	Provision Stage 2	Provision Stage 3	Provision IAS 37	Net amount
Contingencies						
Guarantees and similar obligations	98 357	(101)	(166)	(93)	-	97 997
Obligations from letters of credit and other short term trade related items	14 570	(9)	-	-	-	14 561
Other contingent liablities (including litigation)	9 232	(6)	(2)	(127)	(1 058)	8 039
Total contingencies	**122 159**	**(116)**	**(168)**	**(220)**	**(1 058)**	**120 597**
Commitments						
Undrawn commitments to extend credit	235 494	(306)	(366)	(285)	-	234 537
Total commitments	**235 494**	**(306)**	**(366)**	**(285)**	**-**	**234 537**

34. Use of estimates and judgements

Management discusses with the Group Supervisory Board the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 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 Group's accounting policies

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

Valuation of financial instruments

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

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

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

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

Counterparty risk (CVA) and own credit risk (DVA) is also taken into account by calculation of fair value of derivative transactions except of the followings:

1. Netting of NPVs to counterparty level is allowed only in case of International Swaps and Derivatives Association (ISDA) agreement is available.
2. If the partners have Credit Support Annex (CSA) for the derivative then both CVA and DVA are 0.
3. If the contract covered by collateral then CVA=0.

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

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

Data in HUF million except stated otherwise

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

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

34.1

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
31 December 2020					
Derivative financial assets	**9**	-	23 262	-	23 262
Securities	**10**	544 554	79 535	-	624 089
Loans and advances to customers	**11**	-	-	938	938
Derivate financial liabilities		-	35 406	-	35 406
Total		**544 554**	**138 203**	**938**	**683 695**
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
Total		**293 234**	**83 730**	**1 323**	**378 287**

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 2020.

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, the Group 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. The inputs of the where the yield-curve and the applied based currency mismatched it is consider as Level 3 valuation.

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

Data in HUF million except stated otherwise

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

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:

34.2

	Note	Interest	Foreign exchange rate	Other
31 December 2020				
Derivative financial assets	**9**	12 094	11 997	-
Securities	**10**	617 886	36 033	-
Loans and advances to customers	**11**	938	22	-
Derivative financial liabilities	**17**	28 416	6 892	98
Total		**659 334**	**54 944**	**98**
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
Total		**357 328**	**26 586**	**620**

Data in HUF million except stated otherwise

35. 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 34), 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.

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

35.1

31 December 2020	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**	-	294 183	-	294 183	294 183
Loans and advances to banks	**8**	-	83 558	-	83 558	82 642
Derivative financial assets	**9**	23 262	-	-	23 262	23 262
Securities	**10**	16 922	549 938	607 167	1 174 027	1 172 547
Loans and advances to customers	**11**	938	1 113 024	-	1 113 962	1 086 079
Total		**41 122**	**2 040 703**	**607 167**	**2 688 992**	**2 658 713**
Financial liabilities						
Amounts due to other banks	**15**	-	575 097	-	575 097	575 097
Deposits and current accounts	**16**	-	1 862 261	-	1 862 261	1 862 261
Derivate financial liabilities	**17**	35 406	-	-	35 406	35 406
Subordinated debt	**20**	-	44 724	-	44 724	44 724
Total		**35 406**	**2 482 082**	**-**	**2 517 488**	**2 517 488**

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	928 990	-	930 313	929 004
Total		**24 416**	**1 333 156**	**309 608**	**1 667 180**	**1 654 456**
Financial liabilities						
Amounts due to other banks	**15**	-	195 810	-	195 810	195 810
Deposits and current accounts	**16**	-	1 226 529		1 226 529	1 226 529
Derivate financial liabilities	**17**	44 263	-	-	44 263	44 263
Subordinated debt	**20**	-	39 381	-	39 381	39 381
Total		**44 263**	**1 461 720**	**-**	**1 505 983**	**1 505 983**

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 Group 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, 2020 and the counterparty marge is available in the Group'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 Group 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 the Group own credit risk. For determining own credit risk (DVA – Debit Value Adjustment) the Group 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.

Data in HUF million except stated otherwise

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.

36. Related parties

The Group's related parties include the parent companies, subsidiaries, joint ventures, associates, Key Management Personnel of the Bank and its parent,, close family members of Key Management Personnel, consolidation group 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 Group like Supervisory Board and the members of the Board of Directors.

Transactions with related parties

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

36.1

	Parent company and its group		Non-consolidated subsidiaries		Associates		Key Management Personnel		Other related parties	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets										
Amounts due from other banks	884	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	15 744	1 745	1 078	-	237	183	370	208	-
Derivative finacial assets	-	57	-	-	-	-	-	-	372	66
Debt securities	14 109	-	1 086	-	-	-	-	-	-	-
Equity instruments	-	-	1 503	686	150	610	-	-	137	147
Liabilities										
Amounts due to other banks	53 433	-	-	-	-	-	-	-	-	-
Current and deposit accounts	671	11 342	854	192	74	149	289	386	3 328	2 143
Derivative finacial liabilities	852	-	-	-	-	-	-	-	506	149
Other liabilities	1	-	-	-	-	-	-	-	-	-
Income statement										
Interest and similar income	705	702	16	24	-	5	4	7	2	1
Interest expense	(369)	(10)	(3)	-	-	-	-	-	(2)	(1)
Net income from commissions and fees	193	610	15	8	64	51	49	3	18	14
Other net income / (expense)	(110)	(560)	(11)	(6)	(2)	(3)	(1 175)	(1 190)	(12)	(8)
Contingencies and commitments	*10*	*3 779*	*2 864*	*1 791*	-	*40*	*515*	*13*	*994*	*490*
Allowances for impairment	*5*	*5 636*	*3 984*	*2 462*	-	*3*	*1*	-	*2*	*1*

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

Data in HUF million except stated otherwise

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.

Key management personnel compensation for the period comprised:

36.2

	2020	2019
Short-term employee benefits	691	737
Termination benefits	72	-
Share-based payment transactions	400	450
Total	**1 163**	**1 187**

37. Segment information

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

Business segments

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

As of 31 December 2020, the Group's business segments and their main products were:

Corporate Banking

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

Institutional Banking

Group 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 Group participates in bank-to-bank finance.

Retail and Private Banking

The Group provides a wide range of deposit and savings instrument, credit and debit cards, portfolio management, and a limited number of loan products to high net worth individuals and entrepreneurs through 51 full-service branches and sub-branches (2019: 51 branches), ATMs, telephone and electronic channels.

Leasing

The leasing portfolio of the Group is managed by the MKB-Euroleasing Group, in which the Bank acquired 100% share in 2015. The former single focus model of operation limited to vehicle financing was replaced by a multi-focus model. The activities were extended to financing agricultural machinery, large commercial vehicles, buses and general machinery.

Other

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

Data in HUF million except stated otherwise

37.1

31 December 2020	Note	Corporate Banking	Euroleasing Group / Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Assets							
Cash and cash equivalents	**7**	-	-	-	294 183	-	294 183
Loans and advances to banks	**8**	-	-	-	83 558	-	83 558
Derivative financial assets	**9**	-	-	-	23 262	-	23 262
Securities	**10**	82 187	-	-	1 091 840	-	1 174 027
Loans and advances to customers	**11**	685 304	183 971	244 687	-	-	1 113 962
Non-current assets held for sale and discontinued operations	**38**	504	-	-	-	1 029	1 533
Other assets	**12**	-	-	-	-	17 146	17 146
Current income tax assets		-	-	-	-	1 468	1 468
Deferred tax assets	**23**	-	-	-	-	6 979	6 979
Investments in jointly controlled entities and associates	**13**	-	-	-	-	7 295	7 295
Intangibles, property and equipment	**14**	-	-	-	-	58 194	58 194
Total assets		**767 995**	**183 971**	**244 687**	**1 492 843**	**92 111**	**2 781 607**
Liabilities							
Amounts due to other banks	**15**	-	-	-	575 097	-	575 097
Deposits and current accounts	**16**	1 460 373	-	401 888	-	-	1 862 261
Derivate financial liabilities	**17**	-	-	-	35 406	-	35 406
Other liabilities and provisions	**18**	39 076	-	3 331	-	11 842	54 249
Current income tax liabilities		-	-	-	-	3	3
Deferred tax liabilities	**23**	-	-	-	-	88	88
Subordinated debt	**20**	-	-	-	44 724	-	44 724
Shareholders' equity	**21, 22**	-	-	-	-	209 779	209 779
Total liabilities		**1 499 449**	**-**	**405 219**	**655 227**	**221 712**	**2 781 607**
Income statement							
Interest and similar income	**24**	12 724	6 011	10 525	25 833	(785)	54 308
Interest expense	**25**	(709)	(2)	(51)	(25 236)	1 330	(24 668)
Net income from commissions and fees	**26**	13 981	(131)	6 375	3 343	-	23 568
Other Income	**27**	(5 829)	193	1 991	28 825	(17 309)	7 871
(Impairment) / Reversal and provision for losses	**28**	(4 242)	(933)	(2 875)	(134)	216	(7 968)
Operating costs	**29**	(18 683)	(3 603)	(17 234)	(5 632)	110	(45 042)
Expense related to bank levies	**27**	-	-	-	-	(1 800)	(1 800)
Share of associates' profit		-	-	-	-	2 949	2 949
Segment result		**(2 758)**	**1 535**	**(1 269)**	**26 999**	**(15 289)**	**9 218**
Other information							
Capital expenditure		-	-	6 102	-	16 068	22 170
Depreciation and amortisation	**14**	-	-	-	-	7 121	7 121
Other non-cash expense		871	167	795	260	(5)	2 088

Data in HUF million except stated otherwise

31 December 2019	Note	Corporate Banking	Euroleasing Group / Leasing	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**	34 080			566 814		600 894
Loans and advances to customers	**11**	538 288	162 486	229 539			930 313
Non-current assets held for sale and discontinued operations	**39**	3 930		145			4 075
Other assets	**12**					15 176	15 176
Current income tax assets						539	539
Deferred tax assets	**24**					8 008	8 008
Investments in jointly controlled entities and associates	**13**					5 911	5 911
Intangibles, property and equipment	**14**					58 907	58 907
Total assets		**576 298**	**162 486**	**229 684**	**702 787**	**88 541**	**1 759 796**
Liabilities							
Amounts due to other banks	**15**				195 810		195 810
Deposits and current accounts	**16**	891 949		334 580			1 226 529
Derivate financial liabilities	**17**				44 263		44 263
Other liabilities and provisions	**19**	848				54 374	55 222
Current income tax liabilities						3	3
Deferred tax liabilities	**24**					126	126
Issued debt securities	**20**						-
Subordinated debt	**21**				39 381		39 381
Shareholders' equity	**22, 23**					198 462	198 462
Total liabilities		**892 797**	**-**	**334 580**	**279 454**	**252 965**	**1 759 796**
Income statement							
Interest and similar income	**25**	12 740	6 411	9 697	30 043	326	59 217
Interest expense	**26**	(938)	-	(72)	(17 410)	-	(18 420)
Net income from commissions and fees	**27**	17 500	(99)	7 594	2 321	-	27 316
Other Income	**28**	6 037	244	1 417	17 840	(10 370)	15 168
(Impairment) / Reversal and provision for losses	**29**	(2 920)	(262)	8 331	(6)	207	5 350
Operating costs	**30**	(18 266)	(3 339)	(16 537)	(3 075)	(2 023)	(43 240)
Expense related to bank levies	**30**	-	-	-	-	(2 023)	(2 023)
Segment result		**14 153**	**2 955**	**10 430**	**29 713**	**(13 883)**	**43 368**
Other information							
Capital expenditure				3 754		12 642	16 396
Depreciation and amortisation	**14**					6 020	6 020
Other non-cash expense		801	272	732	55	(62)	1 798

Measurement of segment profit or loss

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

Calculation of intersegment revenue

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

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

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

Data in HUF million except stated otherwise

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

In the first half of 2019, the key management of the Group 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. On 31 December 2019, 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).

On 31 December 2020, a loan portfolio in net amount of HUF 504 million was reclassified to non-current assets held for sale (gross value of HUF 2,975 million, relating loss allowances of HUF 2,471 million). Furthermore the Group discloses one of the real estates of MKB Üzemeltetési Kft. in the amount of HUF 1,028 million as non-current assets held for sale, the disposal of the real estate is expected to be completed in 2021.

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

38.1

	2020	2019
Assets		
Loans and advances to customers	504	4 075
Intangibles, property and equipment	1 029	-
Total assets	**1 533**	**4 075**

39. 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.

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.

In order to alleviate the negative economic effects of the COVID-19 coronavirus pandemic and to avoid credit market disruptions, on 20 April 2020, the NBH launched the FGS Go construction, which is part of the FGS Program. The limit of the new program was set by the Monetary Council at HUF 1,500 billion. On 17 November 2020, the Monetary Council decided to increase the limit of the program by HUF 1,000 billion to HUF 2,500 billion.

Under the Program the NBH provides refinancing loans to credit institutions, at 0 per cent interest rate and with a maximum maturity of 20 years (in case of specified working capital loans and subsidy pre-financing loans, the maturity of the refinancing loans can be maximum 3 years), which are lent further by the credit institutions to the SMEs with a capped annual costs and they also refinance financial enterprises for the same purpose.

The Group participated in all phases of the Scheme, and lent HUF 432,690 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. Until 31 December 2020, HUF 114,823 million was disbursed under the FGS Go construction In the fourth quarter of 2019 the Group has 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 Group, 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 8,640 million) and to Other liabilities (HUF 19,623 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 146,043 million as of 31 December 2020 (2019: HUF 86,541 million).

Group 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.

Group 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 Group concluded HIRS transactions with NBH in a total amount of HUF 120 billion.

Data in HUF million except stated otherwise

40. Share based compensation

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

Details of the share based compensation:

40.1

2020	Number of shares	Weighted average exercise price (HUF/share)
outstanding at the beginning of the period	94 246	370
sold during the period	(94 246)	370
outstanding at the end of the period	-	370

2019	Number of shares	Weighted average exercise price (HUF/share)
outstanding at the beginning of the period	5 379 403	370
forfeited at the beginning of the period*	13 947	370
reallocated at the period	(13 947)	370
sold during the period	(5 285 157)	370
outstanding at the end of the period	94 246	370

*Those shares which are not valid consist of shares held for employees or chief officers until the termination of the legal relationship.

The cash-based payment has been completed until the end of 2020. The stock of the shares was sold to one of the Shareholders of the Bank at market price. The related costs that amounted to HUF 3,289 million were accounted - of which HUF 20 million in 2020, HUF 168 million in 2019, HUF 2,980 million in 2018 - through profit or loss and HUF 194 million through the equity. Treasury share transactions related to the disposal improved the shareholder's equity of the Group by HUF 4.3 billion.

41. Events after the end of the reporting period

On February 26, 2021 MKB Bank Nyrt. purchased 100% of shares of Első Értékpapírosítási Tanácsadó Zrt. from Budapest Stock Exchange Ltd. As a result of the transaction MKB Bank has become the sole shareholder of the Company.

The employment relationship of dr. András Csapó, the Deputy CEO for Legal, Corporate Governance, Group Management and Priority Deals and therefore his internal membership in the Board of Directors was terminated as of 3 March 2021 with mutual consent. The CEO of the Company appointed dr. Ilona Török as Head of the CEO's Cabinet in Deputy CEO position with the effect of the receipt of the relevant approval of the National Bank of Hungary.

MANAGEMENT REPORT
to the consolidated 2020 financial statements of
MKB Bank Nyrt. (Prepared under IFRS)

In 2020, the scope of activities of MKB Bank Nyrt.'s subsidiaries and jointly controlled companies comprised the following sectors

- **banking services**
- **finance and operating leases**
- **financial and investment services**
- **valuation and sales tasks related to work-out activities**
- **maintenance of buildings and fixed asset investments**
- **property investment**
- **other loans (motor, car and other vehicle loans)**
- **renting vehicles, trade and repair**
- **management of investment funds**

The activities of subsidiary companies and jointly controlled entities were tightly fit to the core credit institutional feature and, moreover, to MKB Bank Nyrt's own business strategy and business policies.

In line with group-wide business policy targets elaborated early 2001, finance and operating lease activities were concentrated in MKB-Euroleasing Group.

The Group's profit after taxation for 2020 under IFRS amounted to HUF 8,423 million gain.

Consolidated shareholders' equity was HUF 209,779 million at 2020 year-end.

As at 31 December 2020, the Group did not hold repurchased own shares in its portfolio (2019: HUF 35 million).

Budapest, 30 March 2021

dr. Zsolt Barna
Chairman and Chief Executive Officer

János Nyemcsók
Deputy Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

The following section of the Annual Report provides a discussion and analysis of the Group'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 2020. The forthcoming analyses are based on figures reported in MKB Bank's Consolidated Financial Statements prepared in accordance with IFRSs, and for the financial year ended 31 December 2020 and audited by Deloitte Könyvvizsgáló és Tanácsadó Kft. chartered accountants. On this basis, the discussion focuses on the performance of the Group as an entity. The Consolidated Financial Statements prepared in accordance with IFRS are presented separately.

OPEARTING ENVIRONMENT

International macroeconomic environment

Although optimistic expectations were observed in early 2020, the COVID-19 outbreak caused a sudden shock in the global economy: due to the nature of the pandemic, the treatment method was the partial or complete shutdown of economies. The world's economies suffered a significant, in many cases record decline in Q2 2020 (e.g. euro area: -14.7%, US: -9.0%, y/y). After the recovery in Q3, the second (autumn-winter) wave of epidemics led to a decline in performance of the world economic in Q4, although not to the same extent as in the spring.

Governments around the world have provided fiscal stimulus, while central banks (e.g. ECB, Fed) have supported economies during the pandemic with asset purchases and lower interest rates, which provided significant support to the prices of financial assets. At the end of the year, the appearance of vaccinations also increased optimism among economic, financial and capital market participants.

In addition to the COVID-19 pandemic, the critical issue of the 2020 year was the UK's exit from the European Union. The Brexit Agreement was concluded on 24 December, creating a free trade agreement between the parties based on duty- and quota-free access. The United Kingdom withdrew from the EU at the end of 2020.

Another highlight of 2020 was the US presidential election, where Democratic candidate Joe Biden won the presidency. In addition to the House of Representatives, Democrats also have a majority in the Senate, giving the new president a much greater opportunity to carry out his programs.

Hungarian macroeconomic environment

The COVID-19 pandemic and the accompanying restrictive measures have driven domestic economic performance. The domestic economy fell by 13.6% (y/y) in Q2 2020. The economic reopening and recovery after the spring epidemic was also reflected in Q3 data, with growth of 11.4% on a quarterly basis (y/y: -4.6%). The Q4 performance was marked by the second, autumn wave of the epidemic (-3.7%, raw data, y/y). Overall, domestic GDP fell by 5.0% in 2020 compared to 2019. Danube Capital's Quarterly Macroeconomic Outlook for December 2020 projected a 4.5% economic growth in Hungary for 2021.

The situation caused by the COVID-19 pandemic, deteriorating economic performance, weaker tax revenues, and government rescue packages have led to a surge in the general government deficit. As a result, gross government debt as a share of GDP also increased, reaching 81% by the end of 2020 (end of 2019: 65.5%).

Inflation dynamics were also driven by the pandemic in 2020. However, after figures above 4% at the beginning of the year the indicator remained between 2-4% for the rest of the year. Inflation averaged 3.3% in 2020. Meanwhile, internal price pressures remained high, with core inflation averaging 4.1% on an annual basis. Looking ahead, Danube Capital forecasted in December 2020 that in 2021 the domestic headline inflation rate may slow to 3.1% while core inflation may slow to 3.6%.

The MNB has introduced several old and new monetary policy instruments to mitigate the economic effects of the pandemic. Key steps: one-week commercial bank deposit facility was relaunched, the central bank initiated and maintained a government securities and mortgage bond purchase program, started a long-term secured loan program, expanded the Funding for Growth Scheme (FGS) and introduced adjustments for the Bond Funding for Growth Scheme. Furthermore, the MNB reduced the central bank base rate from 0.90% to 0.60% in two steps during the summer of 2020.

Yields were virtually unchanged in the Hungarian government securities market until the beginning of the COVID-19 pandemic. Following the announcement of the emergency, there was a larger increase in yields, followed by a significant drop in yields in Q2 (due to the MNB's programs and the improvement in global sentiment): the 10-year domestic government securities yield essentially closed 2020 at the level of the beginning of the year, but meanwhile showed significant fluctuations (between 1.8-3.3%).

Overview of the banking sector[2]

2020 was the year of COVID-19, which resulted in accelerated digitalization, state-subsidized credit programs and a payment moratorium in the banking sector. In March 2020, the COVID-19 epidemic also required banks to adjust their business operations in a couple of days, for which they have not been prepared in advance. A change in customer needs and life situations, put pressure on customers and employees, too. Many banks have introduced home office and only the most necessary employees were allowed to work in the office considering health aspects. As a result of the pandemic, almost everything has shifted to the digital space; hence, digitalisation developments have accelerated in the financial sector as well, and banks have strengthened their online services and internal processes one by one.

However, this crisis is different from 2008, as banks were now much more prepared financially. They have met the challenges by the coronavirus epidemic with strengthened capital positions. Banks played an important role in stimulating the economy in 2020 through government-subsidized loans (NHP Hajrá, Exim Compensation Loan, Széchenyi Card Program, MFB Crisis Program) and by paying the one-off special tax. In terms of banking sector results, the year was characterized by rising operating income and rising costs and significant provisioning / impairment.

According to the preliminary, prudential data of the Hungarian National Bank, the net profit measured in 2020 was HUF 390 billion, which means a decrease of almost 44 percent compared to 2019. The interest income increased by 10.4%, while fee and commission income grew by 1.4%, due to the expanding HUF 60,609 billion (+ 22.5%) assets and exchange rate effects. The loan portfolio increased by 22.7 percent and deposits by 25.3 percent compared to the 2019 audited data. During the year, due to the economic impact of the coronavirus epidemic and the repayment moratorium it was a major impairment and loan loss provisioning, which increased nearly threefold, HUF 399 billion in 2020 compared to HUF 103 billion in 2019. Operating expenses show an increase of 6.3 percent based on preliminary data for 2020, which is the result of potential cost reductions from home office

[2] Source: NBH

and health measures due to the pandemic, as well as cost scheduled due to significant digital developments.

In terms of digitalisation, perhaps the timing was essential considering the introduction of the instant payment system during the spring that created a new era. This generated opportunities for several pioneering developments throughout the year. These include payment requests and QR code payments, but also required significant resources to prepare for the introduction of strict customer authentication related to the PSD2 directives. New mobile applications and mobile payment solutions became available, but video banking services and appointment booking systems also appeared. The range of products can be ordered online has also expanded, which are also increasingly accepted by customers.

PERFORMANCE OF GROUP IN 2020

The Bank (consolidated) IFRS total assets – increasing with more than a thousand billion HUF or 58.1% – amounted to HUF 2,781.6 billion at the end of 2020. The portfolio of customer loans increased by 19.7% to HUF 1,114.0 billion, while customer deposits rose by 51.8% to HUF 1,862.3 billion, which is almost double of the market growth MKB Bank's profitability in 2020 was under pressure from the economic downturn caused by COVID-19: profit after tax fell to HUF 8.4 billion after last year's record profit of HUF 44.1 billion.

The Group'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 2020, the pandemic situation changed the customers' previous expectations and habits in a high number of areas; under the changed circumstances, greater emphasis than before was placed in Retail sales on expert consulting and support provided to customers, be it liquidity management, crisis loans, a moratorium or digital solutions providing remote access.

The Bank continued the developments started earlier, which focus on quality customer service, customer experience enhancement, lending and the premium segment, thus further increasing the market share of MKB Bank's Retail Business Line even under the circumstances changed due to the pandemic.

MKB achieved outstanding results in the area of increasing the number of customers in the premium segment and their managed assets due to the fact that customer contacts with focused, elaborated value proposals and the development of a premium consulting system providing greater added value continued also in 2020. As a result, the business line achieved more than 50% growth in the number of Premium customers and 41% in managed assets. Due to sample portfolio-based investment consulting, the portfolio of open-end investment funds of MKB-Pannónia Alapkezelő Zrt. increased by 17% in the premium segment, further increasing the diversification of its customers' investments.

In the area of retail lending, the Bank also performed better than planned in mortgage and "Babaváró" loans and, as an important step in consumer lending, a personal loan product

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

that can be applied for also online was introduced, with an offer for a specific loan amount after pre-qualification by the Bank.

In 2020, special emphasis was placed on the full service and support of customers in the small business segment. The Bank offers its customers a number of solutions that help them with their day-to-day banking, liquidity management and foreign exchange transactions, all this with a focus on the circumstances created by the pandemic. MKB Bank was among the first to introduce a wide range of new subsidised loans, the favourable reception of which is also demonstrated by the loan volumes placed in the segment.

Despite the difficulties caused by the pandemic situation, the Bank remained committed to carrying out developments that enable it to greatly increase its customers' sense of comfort and security.

The Bank completed the transition to the Immediate Payment System by the deadline, and banking operations have been smooth ever since. The Bank's customers received the available additional services positively. One third of the transactions qualifying as immediate payment were initiated and executed outside working hours.

Loan repayment moratorium was implemented in the second quarter. Moratorium participation at the end of 2020 was 49.95% of total retail exposures.

Back in the second quarter of 2020, the Bank started the development of a digital customer queue management system in its branch network, which enables customers to take queuing numbers and to make appointments online, thus minimising waiting times at the branch, avoiding possible queuing and waiting there. The extension of the new customer call service to the entire branch network was completed in the first quarter of 2021, thus enabling customers at all branches to take queuing numbers and to make appointments remotely.

The Bank drew the attention of customers to the possibility of using alternative channels, and a number of information leaflets were prepared to facilitate the use of electronic channels.

From the end of the first quarter of 2020, the activities of the branch network were greatly affected by the international and national health emergency arising in connection with the pandemic. In order to protect customers and employees, the branch network operated in compliance with the conditions of safe and responsible customer service at the branches throughout the year, in accordance with the then-current government measures and regulations. In addition to the still wide-ranging and continuously expanding options allowing customers to handle their matters online, MKB Bank continues to provide personal customer service at 51 branches nationwide.

MKB Bank's branch network development strategy is based on the continuous improvement of the standard of customer service, in which providing an as efficient and convenient customer service as possible plays a key role. Adapting to market conditions and the pandemic situation, the Bank continued to modernise and renovate its branch customer service areas in 2020. As a result, the full renovation of the Szent István tér Branch was completed, creating a Premium customer centre, which also presents the most advanced digital facilities and provides outstanding customer experience.

Aiming at a high level of customer service, branch network training was transformed and expanded in 2020. Both training aimed to develop sales and soft skills and segment-specific training became available online for the branch network staff. Also, adapting to the current pandemic situation, the on-site sales support in the branch network was placed on a new footing. A comprehensive and full sales dynamisation programme was introduced to increase the quality of customer service and to enhance customer experience.

In 2020, similarly to previous years, the strategic cooperation between MKB Bank and CIG Pannónia Insurers continued, so pension, investment, risk and health insurance products were available in the Bank's branch network, enabling customers to diversify their investment portfolios. Due to the economic effects of the pandemic, 2020 was also a special year in insurance sales. In the case of regular premium life insurance, the Bank achieved 70% of its performance in the previous year and 119% in the case of single premium products. The Euro-based Gravis Single Premium Life Insurance introduced in April 2020 efficiently contributed to the latter result.

On 1 December 2020, CIG Pannónia Életbiztosító Nyrt. introduced its new service, Pannónia SelfID, which made remote identification and digital signature possible in the sales process. The service aimed to create fast, convenient, location-independent sales, thereby improving both the efficiency and regulated operation of insurance sales and the continuous enhancement of customer experience, making completely paperless, digital customer service available.

In the sale of home insurance, the *OKÉ* (Home, Garden and Value) product of Aegon Magyarország Általános Biztosító Zrt. is still available in MKB Bank's branch network. Furthermore, taking out insurance online on MKB Bank's website became possible, so customers can take out home insurance conveniently, without visiting a branch.

The brokerage sales channel was able to achieve significant development in 2020 in both retail and small business sales compared to the previous year. Sales through cooperation with our partners also increased in absolute value and in proportion to the branch network.

On the retail side, the temporary decline in the second quarter associated with the pandemic was not only compensated for in the rest of the year, but was also exceeded. In the case of retail mortgage loans, the volume of brokerage transactions exceeded 42%.

On the small business side, the demand for soft loans introduced by the government to stimulate the economy and to save jobs increased perceptibly, with brokers catalysing the process, the result of which was also reflected in the volume of loans disbursed. The achievement of the results was facilitated by the measures that put online solutions at the forefront of partner communication and administration as well and reduced personal meetings to the most necessary level.

Efforts to improve cooperation with our partners in 2020 proved successful; therefore, MKB Bank plans to continue the developments launched in order to be able to further increase its share in the brokerage market.

Digital products and channels

The implementation of the digital strategy and the digital transformation of the customer experience continued also in 2020, in which MKB's primary goal was to enhance customer experience, to introduce new digital products and to expand cooperation with its partners. It managed to appear with a new function on every channel and a new alternative channel was also introduced, and the Bank also took a big step in the area of digital sales. The pandemic situation significantly transformed consumer habits, also diverted customers who were less receptive previously to handle their matters digitally to the digital channel, further increased the number of active users of the channels and also accelerated our digital developments. The Bank strives for harmonising the channels, developing service packages that provide real value creation and their integration into the customers' lives.

At the beginning of 2020, the VideoBank service available to retail and corporate customers, where they can use the service after video chat identification, was introduced at record speed. Among other things, MKB VideoBank also provides assistance in opening securities accounts, applying for a SZÉP Card, advising small businesses, pre-filtering loans and handling matters related to day-to-day banking, and the range of services is continuously expanding.

The number of users of the MKB Mobile Application increased by more than 20%, customers actively use it in their day-to-day banking, and the possibility of applying for a pre-qualified personal loan in the mobile application was launched. Due to the development, pre-qualified customers using MKB's mobile application can access a pre-assessed loan amount of up to HUF 2 million with a few clicks, using their smartphone. During the development, customers were involved with the help of the Bank Group's innovation centre, MKB Fintechlab, in order to provide customers with a digital solution that is actually adapted to their own user needs. The development of the service, in order to further enhance customer experience, will also continue based on customer feedback. In addition, the Apple Pay service became available in September for all bank cards issued by MKB Bank – for the first time in Hungary for the Széchenyi Card, too.

The Bank also introduced new features in the area of digitisation in the branch service; a digital customer call system was introduced, which enables customers to take queuing numbers and to make appointments online, thus allowing the minimisation of waiting times at the branch, which significantly enhanced customer experience during the pandemic.

In addition to the digital developments providing remote service, the ATM network was renewed: the Bank replaced the previous devices with touchscreen, modern machines, which provide premium experience.

In addition to digital developments, it is to be pointed out that the Bank's digital capabilities also developed significantly, and the role of design thinking, UX design and agile product development grew rapidly. These methodologies and capabilities are essential to actively engage customers already in the research, design and market launch of products and services and to enable the Bank to respond quickly to the growing challenges of the digital world.

MKB SZÉP Card

The operation of the MKB SZÉP Card in 2020 was fundamentally determined by the spread of the COVID-19 virus and the government measures taken to curb it: in order to encourage SZÉP Card-based employer benefits, employers have been exempted from paying social contribution tax since 22 April 2020 (until 30 June 2021); the restrictive measures taken to protect health significantly reduced SZÉP Card usage in April and May and at the end of the year. However, between the two emergency periods (in July and August), MKB SZÉP Card usage rose to record highs.

Within the use of SZÉP Cards, the weight of online payment increased significantly in 2020, and since October 2020 it has also been possible to open an MKB SZÉP Card account online using the MKB VideoBank service.

All in all, the MKB SZÉP Card achieved outstanding results in 2020, too; almost all parameters of the product exceeded those in 2019: 227,000 MKB SZÉP Cardholders received nearly HUF 28.6 billion in employer benefits in 2020 through 1.5 million transactions, and SZÉP Cardholders spent nearly HUF 23.6 billion in 2020 through 5.3 million transactions. Cardholders financed 71% of their SZÉP Card expenses from the catering pocket, 19% from the accommodation pocket and 10% from the leisure pocket.

The assets on MKB SZÉP Card accounts approached HUF 14.8 billion on average over the year. Cardholders can now use their cards to pay at as many as 28,000 acceptance points.

Corporate and institutional customers

Based on its traditional strengths, MKB's ongoing strategic goal is to maintain a strong corporate business line. The busines line focuses on local knowledge, professional service, consulting-based sales and the provision of innovative solutions.

MKB does not simply sell products to its customers, but provides comprehensive business solutions and advice, sets up comprehensive loan schemes if necessary and meets special banking needs. MKB is able to provide efficient solutions to all players in the corporate segment, regardless of customer size.

In order to further develop the customer lifecycle-based approach, the Bank devoted significant resources also in 2020 to further optimising product development processes and models, including allocating extra resources to strengthen digitisation solutions in response to the challenge posed by the pandemic.

Business demand for loans declined in the initial stage of the pandemic and then it gradually began increasing in the second half of the year. MKB smoothly introduced the various new subsidised and refinanced loans and surety programmes included in the economic stimulus package. Interest in the new schemes was continuously growing. They have been very popular since their introduction, with a significant willingness to borrow, which firstly gives a boost to the economy and secondly also helps the survival of companies in difficulty. In the MNB's NHP Go! Programme, the Bank managed to achieve an outstanding market share of 8.8%.

Loan repayment moratorium was quickly implemented in the second quarter to ease off pressure on customers' liquidity and profitability. Moratorium participation at the end of 2020 was 27.91% of total corporate exposures.

Retaining portfolios remains one of MKB's top priorities, with maintaining its strong market positions and a diversified loan portfolio and avoiding the build-up of considerable risk, industry or customer concentration.

The Bank considered its small and medium-sized enterprise (SME) customer base as a key segment also in 2020, in which increasing product penetration was a priority task.

Strong customer base of MKB Group allowed for rapid customer deposit increase. Non-financial corporate deposit volume increased 21.9% p/p, to HUF 943.7 billion (HUF +169.7 billion p/p), while market share increased 61 bps p/p to 7.8%.

MKB Bank is still an active participant in the Széchenyi Programme. In 2020, the portfolio placed by the Bank under the Széchenyi Programme was HUF 38.2 billion, which represents a market share of 7.0%.

The Bank has traditionally maintained close cooperation with Eximbank in order to enable as many customers as possible to benefit from their financing sources. In terms of the performance of the Hungarian economy, foreign trade is a top priority, since nearly 90% of the GDP comes from exports, to which not only exporters, but also suppliers organised around exports and companies only now appearing on the export market also contribute. The Bank is particularly proud to have been awarded the 'SME Financier of the Year 2019' recognition in 2020 for supporting representatives of the SME sector with EXIM loans and for the highest funding volume disbursed to the SME segment in 2019. MKB's market share for Exim products was outstanding at 9.3%.

Investment services

In order to serve customer needs at a higher level, in 2020 the Bank continued to further expand the range of investment funds it offered. The result of joint work with MKB-Pannónia Alapkezelő Zrt., considered a strategic partner, is that the 'New World Fund Family' was launched, which wishes to respond to today's investment needs. During the year, the Bank entered into a strategic agreement with Diófa Alapkezelő Zrt., which aims to make a wider range of investment opportunities in the domestic property market available to MKB's customers.

Of course, COVID-19 also had a strong impact on the performance of investment products, but it can be said that the losses incurred at the beginning of the year were eliminated by the end of the year and most funds closed 2020 with a positive performance for the whole year.

Also in view of the ongoing situation due to COVID-19, the Bank was continuously expanding the range of services that can also be accessed without a personal meeting. One of the important stages of this is that Customers can now open a securities account through the VideoBank service introduced during the year.

In addition to sales in investment funds, the sale of Retail Government Securities and certificates was also outstanding during 2020.

MKB's Capital Markets and Transaction Consulting function was one of the key investment service providers of the Growth Bond Programme (NKP) also in 2020: it participated in five successful bond issues, the total value of which reached HUF 46.5 billion. In addition, it also participated in the preparation and execution of additional transactions and continued to act as a Designated Adviser on the Xtend market of the Budapest Stock Exchange.

Private Banking

MKB Private Banking was able to increase its portfolio of managed assets by around over 5% also in 2020. In terms of the volume of managed assets per customer, its business line is still the market leader among domestic service providers and won the first place at the Private Banking Hungary award ceremony in this category. In addition to this recognition, MKB Private Banking also earned the Business Line Developer of the Year award due to its still market-leading bank card portfolio, the development of its investment consulting activities and the professional training of its consulting staff. A staff member of MKB's Private Banking business line also earned the Junior Private Banker of the Year award. MKB's product development did not stop, and a new, internationally highly recognised partner joined its structured bond distribution.

COVID-19 created unprecedented business conditions, in which MKB Private Banking was able to cope. At the beginning of the second quarter, the operation of MKB and all its services were completely switched to smooth telework, from which a flexible return to office work is also possible if necessary. Of course, customer portfolios were affected by extraordinary price movements, but due to the typically long-term investment horizons, the Bank did not change the compositions significantly. The total risk exposure of the portfolios increased moderately in the second quarter (and remained at a higher level until the end of the year) due to attractive entry opportunities for certain products. The number of MKB Private Banking customers is stable, having increased slightly during the year.

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

As one of the leading domestic leasing companies, the MKB-Euroleasing Group was not only able to remain an outstandingly active player, but was also able to finance its customers to an extent greater than the pre-planned sales volume in the extremely difficult year 2020.

The MKB-Euroleasing Group continued to achieve an outstanding market share, mainly in the area of motor vehicle and agricultural machinery financing, as in previous years, but in addition to these segments, it also provides a full range of services to its customers in the area of large commercial vehicle and general machinery financing.

The goal of the MKB-Euroleasing Group is to build a portfolio that is diversified in terms of both risk and business, taking into account both the financing segments and the portfolio of contracts built within the segments. This strategy can ensure stable, low-risk and profitable operations in the long run.

The MKB-Euroleasing Group was able to increase the size of the portfolio under its management also in 2020, which greatly contributes to the further improvement of operational efficiency.

The strategic goal of the MKB-Euroleasing Group remains to further strengthen its market share achieved and its status as a leading domestic leasing company. Its stable market presence is due, in addition to the continuous development of the existing trader and importer relations, to the establishment of new ones. Furthermore, the Group wishes to remain a leading player also in the development and introduction of innovative digital solutions in the future as well, in terms of serving both its customers and partners.

MKB Consulting

Transformed into a private limited company in 2020, MKB Consulting was at the service of its corporate, public administration and higher education customers with a comprehensive consulting portfolio, despite COVID-19. It provided advice to businesses primarily on the preparation and implementation of investment and innovation and R&D projects.

One of the main focuses in 2020 was the digitisation of operational processes. As a result of the COVID-19 global pandemic, customer relations were also maintained at Consulting through digital channels, electronic signatures were introduced and, in addition, the digital transformation of a number of processes was also implemented.

In addition to digitisation, MKB Consulting also carried out significant developments in respect of human resources: several expert staff joined the agricultural and food industry

[4] Source: Hungarian Leasing Association, BAMOSZ

function, which is expected to play an even bigger role in 2021. As a result of fundraising advice provided to cities of county rank and various capital fund management companies, programmes that generate a significant wave of development in some rural regions and certain sectors could be launched.

MKB Consulting also closed successful projects in 2020 within its operational development consulting activities based on its CELONIS process optimisation software and, in addition, at the end of the year it was also awarded a grant of HUF 133 million for the implementation of a digital product development project.

MKB Consulting starts 2021 with expanded consulting services and a strengthened team of experts, as well as digital processes that are in line with the needs of the 21st century.

MKB-Pannónia Alapkezelő Zrt. - MKB-Pannónia Fund Management

In 2020, the epidemic situation caused by COVID-19 was decisive in the activities of MKB-Pannónia Alapkezelő Zrt. both on the operational and investment side. On the operational side, there was no any disruption due to the quick response, and on the investment side, the Fund Management reacted extremely successfully to market events. As a result, MKB-Pannónia achieved record business results in 2020 that exceeded all previous years.

On the product development side, MKB-Pannónia has launched two new ESG funds to meet growing demands. In 2020, the documentation of investment funds was standardized and the new registration system was implemented. The establishment of a real estate fund management business line has started in the second half of the year. As a result, MKB-Pannónia's first real estate investment fund will be launched in April 2021.

On 31 December 2020, the Fund Management managed a total net investment of HUF 609 billion, which means a 7% market share. Within this, it manages the investments of HUF 197 billion in 38 mutual funds, 76 thousand clients, and within the portfolio management it manages investments totalling HUF 412 billion for 9 funds, 3 insurance companies and 4 other clients. MKB-Pannónia Fund Management is the second in the ranking of pension fund asset managers (in terms of assets under management).

Danube Capital R&A Zrt.

During 2019, a dedicated competence in economic analysis and market research was established within the MKB Financial Group with the establishment of Danube Capital R&A Zrt. In addition to its analysis activities, it assists company managers and owners in making business decisions with regular professional publications. During 2020, Danube Capital published 182 professional blog posts, which generated 56,000 views in total. During more than a year of operation, Danube Capital's professional team supported the customers of MKB Financial Group with comprehensive company valuation, sectoral and macroeconomic analyses as well as market research and consulting.

MKB Inkubátor Kft. - MKB Fintechlab

The year 2020 played a key role in the life and development of MKB Fintechlab. As part of the digital business development function, MKB Fintechlab greatly contributes to the adoption of the Bank's digital capabilities and is responsible for integrating the planning and design approach, consciously developing innovation maturity, and exploiting its inherent business potential.

The three pillars of MKB Fintechlab's strategy are the investment function, the digital and design competence centre and innovation management capability.

MKB Fintechlab has a total of 28 startup companies in its investment portfolio, and MKB Fintechlab plans to invest in an additional 10 startup companies in the next 2 years.

Continuing the scaling of the unique banking design and digital competence centre, it supported the digital transformation of the Bank and the Bank Group with nearly 20 specialists by the end of the year. The specialists include transformation experts, digital product designers, service designers and digital performance optimisation specialists.

Despite COVID-19, MKB Fintechlab organised several international innovation events in 2020, including a hackathon co-organised with Corvinus University and MKB Digital Zrt. or the now 2-day international banking digital transformation and design online conference involving nearly 500 people in total, i.e. the Fintechlab Design Summit.

The company will continue its innovation work also in 2021, thus supporting the digital transition of not only MKB Bank, but also the entire domestic financial sector.

Solus Capital Venture Capital Fund Manager

In 2020 Solus Capital Venture Capital Fund Manager has managed two venture capital funds (Solus I and Solus II Venture Capital Fund) with nearly HUF 21.4 billion in registered capital, making it a key player in the venture capital market. The Funds are jointly involving EU and private sources, for which the EU source is provided by MFB Bank as the fund of funds.

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 28 companies. The Fund has already invested nearly HUF 6.8 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).

The first investment was made in 2020, the portfolio currently consists of 11 companies, and the Board of Directors of Solus Capital Zrt. has already decided on a total of 3.6 billion investment.

For both Funds, Solus Capital has met and exceeded its commitment to the total value of Initial Primary Sources and Additional Primary Investments as decided by the Board of Directors in line with the 2020 targets.

In the fall of 2020, Solus I Venture Capital Fund completed its first successful exit. The Fund invested in Medicorp Hungary Zrt. in 2018, the company operates in the MedTech industry.

STRATEGIC COOPERATION ARRANGEMENTS AND PARTNERS[5]

MKB Pension Fund

The Voluntary Branch of the MKB Pension Fund offers a decades-long, efficient savings tool to its nearly 77,500 customers within the MKB Group's full range of investment solutions. The simple, interest tax-free product, which can be used in many ways even in the active years, can be tailored to the return expectations and risk-bearing capacity of the Fund Members. In addition to member and employer contributions, the savings are also increased by a 20% tax allowance, which can be applied to personal income tax up to HUF 150,000 per year, which can be achieved by contributing HUF 750,000. Customers investing in their future with the MKB Pension Fund can take advantage of the combined benefits of impressive above-inflation yields even over 10 and 15 years and low cost levels due to expert asset management. The funds can be used through a flexible range of services.

On 31 December 2020, the HUF 139.6 billion assets of the Fund increased by HUF 1.4 billion year on year. With this, the Fund outperformed its financial plans for 2020 even under the more difficult market conditions due to the COVID-19 pandemic. A positive result of the year is that the individuals' conscious willingness to save is gaining weight in terms of the individual members' contribution activity. In addition, it revived its role as an employer by supporting its employees' retirement savings.

The Private Branch of the MKB Pension Fund closed last year with 3,639 members and HUF 20.5 billion in assets, while the proportion of members paying membership fees remained well above the 70% minimum statutory requirement.

The MKB Pension Fund is one of Hungary's market-leading funds. Its continuous stable and prudent operation for more than 25 years has been supported by well-prepared fund and asset management professional support and dynamically increasing digital developments since 2020. Among the targeted developments of customer service, the extension of e-administration with authentic electronic signatures, the development of a Member Portal and the implementation of a website renewal project were completed last year, resulting in the further enhancement of user experience as a goal achieved from 2021 onwards. Last year, the complete due diligence of internal administrative processes was also carried out in favour of increasing efficiency and streamlining the process that can be implemented. In addition, the focus of business development was on continuous activity, customer reach, and studying and incorporating other new and innovative solutions in order to continuously increase customer satisfaction.

MKB-Pannónia Health and Mutual Benefit Fund

The MKB-Pannónia Health and Mutual Benefit Fund is one of the market-leading health funds in Hungary, providing a wide range of services to more than 205,000 members and having had total assets of HUF 15.3 billion as at 31 December 2020. Adapting quickly and efficiently to the changed environment, the Fund also outperformed its financial plans for 2020 in a turbulent environment resulting from the effects of the COVID-19 pandemic. The positive results of the year were that the Fund closed the year with an increasingly dynamic Member contribution activity, addressing its Members with good sense due to its strengthened business approach. In addition, responding to growing health awareness, it also developed a product with an external partner and successfully introduced a new health insurance product, which can be financed through the Fund, at the end of 2020.

[5] Source: Association of Mutual Funds

From 2020, as a result of dynamic digitisation developments, electronic administration was expanded, the Fund enabled the submission and settlement of scanned product purchase invoices, and created a document upload interface to increase the convenience of e-administration with authentic electronic signatures. In addition to the continuous development of its IT infrastructure, it also renewed its website, so starting in 2021 it will help its members seek information on a web platform that complies with modern UI and UX guidelines. The full due diligence of internal cash administration processes in 2020 is expected to increase organisational efficiency, enabling even smoother customer service. The operation of the Fund was stable and predictable also during 2020, exploring a number of additional new and innovative solutions to continuously increase customer satisfaction.

For its customers, the name of the MKB-Pannónia Health and Mutual Benefit Fund has been associated with the widest range of available health-supporting and cost-reducing services though the financial support of health awareness for nearly 25 years now. The assets of the Health Fund, which can be spent on the needs of the whole family in almost every life situation and can be accumulated with a 20% tax allowance, can be widely used, from having children to private health care expenses to supporting elderly care. In the case of expenses for prevention and a fixed-term deposit for 2 years, the state provides an additional 10% tax allowance to the Members, which can be spent on a wide variety of products and services at its 15,600 partners using traditional payment methods or at nearly 9,500 contracted card acceptance service providers using the elegant MKB Health Card with a look renewed by the end of 2020 and worthy of the MKB Brand.

FINANCIAL PERFORMANCE

Statement of Financial Position

Total assets of the Group increased by 58.1%, compared to the end of 2019, and amounted to HUF 2,781,607 million as at 31 December 2020.

Cash reserves increased by HUF 238,795 million compared to the end of 2019: cash on hand grew by HUF 9,248 million, while the balance of the account held at National Bank of Hungary grew by HUF 229,547 million.

Loans and advances to banks increased by 33.9%, i.e. HUF 21,166 million compared to the end of 2019.

Derivative financial assets measured at fair value showed an increase, driven by HUF 5,069 million higher balances of derivative transactions.

Securities increased by 95.4%, i.e. HUF 573,133 million compared to prior year end. In 2020, the balance of Loans and advances to customers increased by 19.7% compared to the end of 2019, and amounted to HUF 1,113,962 million as at 31 December 2020.

The amount of Non-current assets held for sale and discontinued operations decreased by HUF 2,542 million compared to 2019 year-end.

Other assets increased by HUF 1,970 million at the end of 2020, mainly due to an increase in deferred expenses.

Investments in jointly controlled entities and associates increased by HUF 1,384 million comparing 2020 year-end to 2019.

During the reporting period Amounts due to other banks reflected an increase of 193.7%, i.e. HUF 379,287 million. Deposits and current accounts owed to customers grew by 51.8%, i.e. HUF 635,732 million in comparison with the volume as at 2019 year-end.

Among liabilities, Derivative financial liabilities decreased by 20.0%, i.e. by HUF 8,857 million, primarily due to fair value change of interest- and currency-related derivative transactions.

Other liabilities and provisions decreased by HUF 973 million or 1.8%, from 2019 year-end.

Statement of Profit or Loss and Other Comprehensive Income

In 2020, Net interest income showed a HUF 11,157 million decrease compared to the previous year mainly caused by increased interest expenses.

Net income from commissions and fees decreased by 13.7%, i.e. HUF 3,748 million in 2020 compared to the previous year, due to the decrease of other commission income.

The net balance of other operating income and expense showed a decrease of HUF 4,037 million, and amounted to HUF 6,071 million net income as at 31 December 2020.

Impairment and provisioning increased by HUF 13,318 million in the business year compared to the previous year, the Group reported a total of HUF 7,968 million in net provisioning after the release of the net provision of HUF 5,350 million in the previous year.

The significantly higher provisioning was mainly due to the effects of the economic downturn due to COVID-19.

Operating expenses increased by HUF 1,802 million, mainly due to the HUF 1,343 million increase of amortization costs thanks to the developments made in the previous years.

Data in HUF million except stated otherwise

Expense for Legal and advisory services contain the following other audit service fees for 2020:

2020	Amount in HUF
Review of consolidated financial statements	
Review of interim consolidated financial statements of MKB Bank Nyrt. and its subsidiares based on the requirements of ISRE 2410	16 800 000 +VAT
Engagement related to performing status of mortgage loans **	
Assurance engagement relating to performing status of mortgage loans offered as coverage	2 449 500 +VAT
Agreed upon procedure	
Procedures related to bank indicators	800 000 +VAT
Other audit service fees*	**20 049 500 +VAT**

* Fixed fee per each service.

** Several services are completed during the year. Total amount represents fees accounted for all completed services during 2020.

Fees for audit services contain the following 2020:

2020	Amount in HUF
Audit fee of the Bank	109 800 000 +VAT
Audit fee of the consolidated subsidiaries	31 800 000 +VAT
Total audit fee	**141 600 000 +VAT**

Based on above factors, the Group’s Profit after taxation for 2020 amounted to HUF 8,423 million.

For the end of 2020, total other comprehensive income increased by HUF 6,468 million compared to the previous year and resulted in HUF 3,187 million profit due to higher revaluation on financial assets measured at FVTOCI.

CAPITAL MANAGEMENT

The Capital situation of Group was sufficient at the end of 2020. As a result of the 2020YE 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 2020, as an actual figure of the Group regulatory capital was HUF 205.8 billion based on Basel III IFRS under Supervisory Regulation. The increase of regulatory capital - by HUF 9.3 billion – is derived from the increase of profit and subordinated debt (repurchase in the amount of EUR 48.1 million and new issuance in the amount of EUR 51.3 million, as a result decrease of unused subordinated debt due to the maturity date), decrease of deduction of ESOP program and deferred tax and decrease of negative revaluation reserve, which was compensated by the increase of deduction of intangible assets and increase of negative AVA.

Risk-weighted assets including operational and market risk increased by 15.5 % from HUF 870.2 billion in 2019 to HUF 1004.6 billion besides approximately 10.5 % weakening of domestic currency. The main part of the increase derived from the increase of business volumes and increase of market risk, which was compensated by the decrease of operational risk.

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

Data in HUF million except stated otherwise

INFORMATION RELATED TO SHARES AND OWNERS

The share capital (subscribed capital) of MKB 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.

On 30 October 2020, the Bank has sold all of its shares representing 33.33% ownership in Magyar Bankholding Zrt. to its shareholders.

Magyar Bankholding Zrt. commenced its effective operation as a holding company on 15 December 2020, after the bank shares of the key owners of Budapest Bank Zrt., MKB Bank Nyrt. and MTB Zrt. were transferred to the joint holding company in possession of the approval of National Bank of Hungary (hereinafter: “NBH”). The owners transferred their shares to Magyar Bankholding Zrt. as a result the second largest banking group in Hungary has been established, with the Hungarian State owning 30.35% of the shares through Corvinus Nemzetközi Befektetési Zrt., the previous direct owners of MKB acquiring 31.96% of the shares and the previous direct owners of MTB acquiring 37.69% of the shares. All required approval has been obtained for these changes. No significant change is expected in the strategy of the Bank.

The shareholder structure of MKB Bank is the following:

Shareholder structure of MKB Bank Nyrt.		
Name of shareholder	**Number of shares (pieces)**	**Ownership share (%)**
Magyar Bankholding Zrt.	97 185 008	97.19%
Free float	2 814 992	2.81%
Total:	**100 000 000**	**100.00%**

The parties have more than 10% indirect influence in MKB Bank Nyrt. are presented below, in line with the decisions of the National Bank of Hungary H-EN-I-15/2020., H-EN-I-704/2020. and H-EN-I-705/2020.

Magyar Bankholding Zrt. has a 97.19% direct ownership interest in MKB Bank. The ownership structure of Magyar Bankholding Zrt. is:

Ownership structure of Magyar Bankholding Zrt.	
Name of shareholder	**Ownership share (%)**
Corvinus Nemzetközi Befektetési Zrt.	30.35%
METIS Magántőkealap	11.51%
Blue Robin Investments S.C.A.	10.82%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.48%
EIRENE Magántőkealap	3.29%
Pantherinae Pénzügyi Zrt.	1.02%
PRIME FINANCE Future Zrt.	0.84%
Magyar Takarék Befektetési és	37.69%

The following organisations have more than 10% indirect influence in MKB Bank Nyrt:

- Corvinus Nemzetközi Befektetési Zrt., Hungarian State
- METIS Magántőkealap, Opus Global Befektetési Alapkezelő Zrt.
- Blue Robin Investments SCA, Blue Robin Management S.à r.l., Uncia Finance Zrt., Uncia Alpha Kft., Uncia Private Equity Fund, QUARTZ Alapkezelő Zrt., Dry Immo Zrt., Felis Private Equity Fund
- Magyar Takarék Befektetési és Vagyongazdálkodási Zrt., ABRAHAM Goldmann Zrt.

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.

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 has been terminated in the meantime 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.

As a public limited company, in accordance with market practice and the BSE Corporate Governance Recommendations (Recommendations), MKB Bank Nyrt. prepares a Corporate Governance Report, which shall be published 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. Balog Ádám*	Hornung Ágnes	Oszlányi Törtel András
Members:	**Members:**	**Members:**
dr. Csapó András	dr. Ipacs László	dr. Ipacs László
Benczédi Balázs	Oszlányi Törtel András	Feodor Rita
dr. Gombai Gabriella	Feodor Rita	
Kardos Imre	Nyemcsok János	
Takács Marcell Tamás	Müller Ferenc	
Valkó Mihály	Godena Albert	

*Considering the resignation of dr. Ádám Balog, and in line with the resolutions of the Extraordinary General Meeting, dr. Zsolt Barna is the Chairman of the Board of Directors of MKB Bank Nyrt. from 1 January 2021

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:**	**Chair person:**
Kardos Imre	dr. Gombai Gabriella	Hornung Ágnes
Members:	**Members:**	**Members:**
Benczédi Balázs	Kardos Imre	dr. Ipacs László
Valkó Mihály	Benczédi Balázs	Feodor Rita

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:

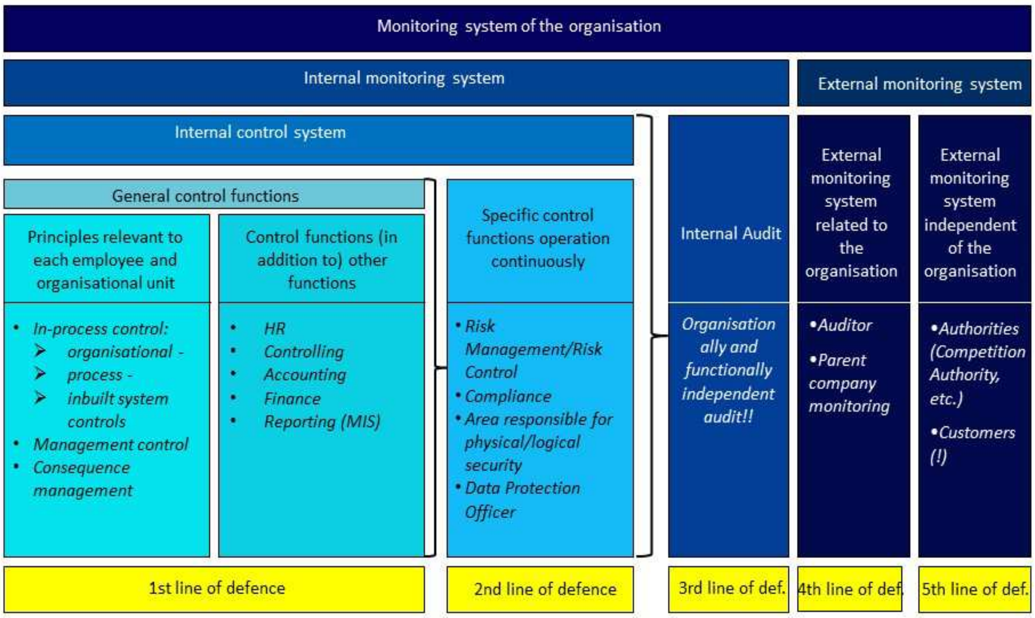
The Bank's internal monitoring system consists of an internal control system and independent internal audit.

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 Group every year with the involvement of the relevant areas. In line with the current economic environment and in accordance with the Bank's and Magyar Bankholding Zrt.'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

STRATEGIC GOALS AND BRIEF DESCRIPTION OF THE BUSINESS MODEL

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 its financial group interests and strategic partners, the Bank offers its customers complex vehicle financing, asset leasing, fund management and advisory as well as pension fund, voluntary pension fund and health fund services.

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

Core values of the MKB Group: tradition, innovation, cooperation.

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.

The MKB Group places special emphasis on the quality of customer relationships and professional customer service. The focus is on customer relations and experience, as well as value preservation and generation.

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.

On 15 December 2020, Magyar Bankholding Zrt. acquired a 97.19% majority stake in MKB through a capital increase implemented with in kind capital contribution. At the same time, Magyar Bankholding Zrt also acquired a controlling interest in Budapest Bank Zrt. and MTB Magyar Takarékszövetkezeti Bank Zrt.

With this step, the second largest banking group in Hungary was established. The new banking group serves 1.9 million customers, operates almost half of the domestic branch network, more than 920 branches nationwide, and has a balance sheet total or nearly HUF 6,800 billion, a loan portfolio of HUF 3,600 billion and a deposit portfolio of HUF 4,300 billion. It serves 200,000 micro-enterprises, 30,000 small and medium-sized enterprises, 6,000 private banking partners and is a market leader in many areas.

According to the plans, Magyar Bankholding Zrt. will develop a detailed merger schedule and a detailed business strategy for the three banks during 2021, within which the bank holding intends to preserve and rely on the values and experience of the 70-year-old MKB Bank Nyrt. Accordingly, the member banks, including MKB, will retain their legal status for the time being and will operate as a separate entity and as a separate brand until the merger process takes place.

POLICIES RELATED TO SOCIAL ISSUES, EMPLOYMENT, RESPECT FOR HUMAN RIGHTS, THE ENVIRONMENT AND THE FIGHT AGAINST CORRUPTION AND THE RESULTS THEREOF, APPLIED DUE DILIGENCE PROCEDURES

Policies on social issues and their results, applied due diligence procedures

It is important for MKB Group 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.

Through its donation and sponsoring activities, MKB Group 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.

Social responsibility:

The corporate social responsibility programme of the MKB Group is very diversified. As a responsible financial institution and a major actor in the domestic financial sector, it considers it important to contribute to community development and the well-being of those affected in the natural and social environment as much as possible depending on the available resources.

In the course of its social responsibility activities, the MKB Group advocates for such important issues as the promotion of culture, sports, social awareness, knowledge development, health care and the help of children and their families in need.

As a socially responsible institution, the MKB Group donated HUF 1 billion as part of its CSR activity to support the government's efforts against the pandemic.

As part of the MKB Donor Programme, the MKB Agricultural Partner Program donated 200 used but operable monitors and 121 used furniture in good condition to Szent István University to support its higher education courses. The MKB Agricultural Partner Program donated an additional 400 used but operable monitors to 8 vocational schools where agricultural training is pursued.

Health preservation activities:

MKB Bank launched its # 20minutes health programme with the slogan of "Health is the best investment" three years ago. This social responsibility programme is designed to raise awareness of the importance of physical and mental health in everyday life. During the pandemic period, this topic was particularly emphasized, as the crisis caused by the virus presented everyone with a challenge that could not be prepared for, during which the issues of mental resilience and physical recreation came to the fore. The programme therefore placed great emphasis on stress management, the pitfalls of home office arrangements, and the importance of family and self-time. At regular intervals, an expert gave lifestyle advice in the context of live lectures on social media and also helped answer any questions. In addition, "virtual community races" were organized in which participant could complete a pre-designated route, safely and individually.

Educational activities:

The MKB Group has a variety of educational programmes. In 2020, the focus was on providing digital educational solutions. In addition to education, employees receive a number of digital, interactive, simulation materials that help them develop outside of education.

MKB also places great emphasis on the professional development of its employees. In addition to the statutory trainings, the Bank organises regular training. New banking products are also being introduced with a significant number of training hours. Thanks to the extensive in-house coaching community, professional training provides high level of banking knowledge.

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 numerous training courses to learn how to use the banking tools more effectively (System Pillar). Further extensive skill development training activities are also available as part of management training (Management Pillar). In 2020, the Academy expanded with a Care pillar, various mental health and well-being training courses and workshops held by psychologists.

MKB Bank 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.

Within the framework of the "Become an Agricultural Engineer!" programme, the "Become an Agricultural Engineer!" National Championship (LETIMOB) was also organised for secondary school students specialised in agricultural mechanics, machine technicians and machine repair in the 2019/2020 academic year. During the educational competition, the participants had to resolve online agricultural professional, financial issues and perform practical tasks. 29 teams from secondary schools of the country took part in the programme with nearly 150 students.

Financial culture and awareness developing activities:

The employees of MKB Bank took part voluntarily in the ‘Money Week’ events, founded by the Hungarian Banking Association and Financial Compass Foundation to increase the financial knowledge of primary and secondary school students.

Together with the Hungarian Interchurch Aid Organization, MKB has set itself the goal of creating a publication aimed at financial awareness, addressing specifically low-status families and children affected by the aid organization. The completed publication was distributed in 500 copies nationwide to children living in the temporary homes of the aid organization in the framework of MKB's Advent campaign.

Activities aimed at equal opportunities:

MKB Bank has had a relationship with the International Child Rescue Service (NGYSZ) which supports children facing difficulties in life. Owing to the 23 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. MKB is also trying to follow young career starter professionals who were former scholarship holders: in 2009, the Graduate Students Club was established for the graduates with scholarships, which now has 29 members.

MKB Bank has been cooperating with the Hungarian Interchurch Aid Organization for many years. In 2020, the Bank supported the work of the Organization in several ways: with immediate financial assistance in connection with the pandemic, and by participating in monetary donations and running competitions to help the Hungarians in Beregszász. In addition, during the Advent period, the employees of MKB Group helped disadvantaged children with gifts hidden in Santa Claus packages with the help of the aid organisation.

In 2020, MKB Bank also supported the work of the Single Parents Club Foundation. From the donation, the Foundation supported the single parent disadvantaged families in the emergency caused by the pandemic with long-lasting food and disinfectants.

During the Advent period, the Bank provided support to the Foundation for the Foundations, and the organization provided gifts to increasingly disadvantaged children from the donated amount.

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 Group is also committed to provide support and makes significant donations. The fundraising programme series called MKB Charity Program, launched in 2018, continued successfully in 2020. 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 continued its cooperation with the Hungarian Red Cross under the Voluntary Program in 2020, and announced blood donations among employees every two months. In the last nearly 20 years, blood donations have been organized at the Bank 76 times, during which 2,800 blood donors from the staff of the MKB Group have helped save the lives of 8,300 people.

MKB Group has developed its equal access strategy in line with the requirements of the legislation and the supervisory authority (MNB) 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.

Data in HUF million except stated otherwise

Employment policies and their results, applied due diligence processes

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.

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 Group by jobs (FTE):

	Subordinate	Head of department	Director	Deputy CEO+ Executive Director	Total
MKB Bank Nyrt.	1 466	34	101	12	1 612
MKB-Euroleasing Group	148	8	4,90	4,90	166
Other subsidiaries	224	14	5	4	247
Total	**1 838**	**55**	**111**	**20**	**2 025**

Breakdown of the staff employed by MKB Group by average age, duration of service and group member (years):

	0-2 years	2-5 years	5-10 years	10 + years	Average
MKB Bank Nyrt.	37	40	39	47	41
MKB-Euroleasing Group	35	39	40	44	38
Other subsidiaries	42	47	48	53	43
Average	**38**	**40**	**40**	**46**	**41**

Breakdown of the staff employed by MKB Group by duration of service and group member (FTE):

	0-2 years	2-5 years	5-10 years	10 + years	Total
MKB Bank Nyrt.	496	351	194	571	1 612
MKB-Euroleasing Group	54	42	24	47	166
Other subsidiaries	214	12	6	15	247
Total	**765**	**404**	**224**	**632**	**2 025**

Data in HUF million except stated otherwise

Breakdown of the staff employed by MKB Group by gender (number of employees):

	Total staff			Director+		
	Male	Female	Total	Male	Female	Total
MKB Bank Nyrt.	536	1 076	1 612	75	39	113
MKB-Euroleasing Group	69	97	166	9	1	10
Other subsidiaries	149	98	247	9	0	9
Total	**754**	**1 271**	**2 025**	**92**	**40**	**132**

MKB Bank offers an extra-wage benefit package to its employees, consisting of a number of components. An employee package is not just about cash benefits. It includes more elements aimed at improving the work environment, maintaining a healthy lifestyle, and strengthening motivated work and the sense of belonging to 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 program, including subsidiaries, was also introduced and re-launched in December 2019. The programme participants were involved in the development of projects that impact the life of the entire organisation. The MKB Group places great emphasis on the training of employees and the care for talents, supporting the expansion of professional knowledge and the development of skills through extensive educational programmes.

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. In 2020, home office work was implemented in 100% of jobs that do not require physical presence and flexible employment was widespread.

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. Sports opportunities are available for employees in many ways and a healthy lifestyle is promoted on several fronts. In 2020, due to the Pandemic, programmes supporting sports were also organized in an online form. Ensuring a healthy work environment for employees is a priority. In the spirit of the Year of Health programme series announced in 2018, we organized screenings for employees during 2020.

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, and restaurant services were made available with home delivery during the Pandemic.

MKB Bank and sports:

The MKB Group 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 400 m^2 of fitness facilities. In 2020, online sports events and trainings became available so that the Bank can support the health of its employees in the home environment. The MKB Group also supports sports in other ways: the MKB Sports Association operates 23 sports departments.

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.

Employees are also required to attend occupational safety and fire training 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, has prepared and published its Corporate Governance Report on the basis of the Corporate Governance Recommendations of the BSE.

MKB Group attaches great importance to the development and operation of a corporate governance system that complies with best market practice and ensures efficient and effective operation, and responsible corporate governance.

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.

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.

Human rights policies and their results, applied due diligence processes

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 MNB 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 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 e-mail 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 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 MNB regulations, MKB Bank is constantly updating its security readiness, upgrading and replacing its IT security systems.

The Bank also prioritises the security of digital channels. We use regular external vulnerability tests and intrusion tests to make sure that the level of security is adequate.

In full compliance also with the MNB 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.

Environmental policy and its results, applied due diligence processes

Sustainability and climate strategy:

The MKB Financial Group is committed to being a key player in creating sustainable economic operation. As a Hungarian financial institution, it has a key role and responsibility in supporting and financing sustainable and climate-oriented investments. By reducing its ecological footprint and acting responsibly, the MKB Group also wants to set an example for market participants and partners, and feels obliged to protect the environment.

To translate the commitment into action, by appointing a responsible leader and setting up a climate task force, the MKB revised and renewed its Sustainability and Climate Strategy in December 2020, setting out its goals for a five-year strategic period.

The strategic goals set out a vision and actions due to MKB Group's role as a financial institution, as well as for the MKB Group as a group of companies.

- *"MKB, partner in green finance"*: as part of the strategy, the goal is to create an infrastructure, product and service range for retail and corporate customers that will help them achieve their own sustainability and climate goals. The MKB attaches great importance to investing in renewable energy and therefore supports the implementation of these projects. MKB is committed to ESG-based funding in its own operations and towards its customers. Part of the MKB's sustainability and climate strategy is the gradual revision of the risk framework and the incorporation of the ESG approach into the risk framework. On the one hand, this affects the full transposition of the requirements of the European Union, as well as the examination of the special elements that can be adjusted to the Hungarian market.
- *"MKB as a responsible group of companies":* As a responsible group of companies, the MKB Group aims to fully comply with the goals of climate neutrality and sustainability, in particular the widest possible paperless and contactless operation in line with ESG principles. The group seeks to achieve these goals through its day-to-day operations, internal processes and the formation of its employee community.

Measures aimed at optimising energy consumption:

The majority of MKB Group's energy consumption relates to the utility consumption of buildings and fuel consumption of its vehicle fleet. 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 Group buildings in order to reduce electricity consumption. Presence detectors were installed in the majority of public areas to prevent lamps being left switched on without a reason in certain premises. 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.

In 2020, a solar system of 573 m^2 of solar panels with a maximum inverter power of 50 kVA was installed on the headquarters building and on the office building on Kassák Lajos Street.

The positive impact of the measure can also be observed in the annual energy consumption indicators of the buildings of MKB Group[6].

Annual consumption	2018	2019	2020
Electricity (kWh)	13 443 085	11 739 135	11 084 110
Natural gas (gnm3)	989 021	933 664	932 862
Heat (MJ)	2 427 965	2 227 784	2 141 367
Water (m3)	27 486	25 808	24 340

In its environmental risk assessment the Bank took into account the annual energy consumption and annual carbon dioxide emission. 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 report is 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, batteries 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 has also a positive impact on MKB Bank's paper consumption.

[6] Remark: When the statement was prepared, the December 2020 energy consumption data were not yet fully available. Missing data were determined based on previous year's 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 2020, MKB Bank generated 49,445 kg paper and cardboard waste, and 12,865 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. From 2020, the Bank will not support the purchase of diesel vehicles. At the same time, an increasing proportion of electric/hybrid cars are appearing in new purchases.

As a result of the scheduled replacement of the fleet, the age of the vehicles is a maximum of 5 years. MKB Bank also uses taxi services for its employees. It was also a factor in the selection of the contracted service provider that it had the largest number of electric car fleet on the Budapest market. At the end of 2019, the Bank also signed a contract with MOL Limo, the aim of which is to replace petrol-powered taxi service in the future and to provide more environmentally friendly urban transport. At the end of 2020, the Bank revised the purchase limits for motor vehicles, significantly increasing the budget for hybrid / electric vehicles.

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 anti-corruption 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:

- 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.
- The Bank Group does not and will not finance illegal arms transactions, drug trafficking, child labour, slave trade, prostitution or corruption.
- 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.
- 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 identified industries, products and countries that represent a high risk.

MKB Bank tries to prevent and detect fraud not only in its customer relations.

The MKB Group has detailed internal regulations covering insiders and potential insiders, which fully comply with the restrictions and prohibitions detailed in the Capital Market Act.

In the supply contracts partners must commit to compliance with the effective laws and regulations. The Bank's Compliance Unit also conducts due diligence 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 of the Bank Group. Compliance with the Code of Conduct is required from all partners with a business or other contract with the MKB Group.

Rules on 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 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
- Policy on the Management of Inside Information, on the Prohibition of Insider Trading, Unlawful Disclosure of Inside Information and of Market Manipulation

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 Group continued to actively contribute to the promotion of various health, education, and equal opportunities programmes and activities in 2020.

In terms of employment it needs to be stressed that in 2020, home office work was implemented in 100% of jobs that do not require physical presence and flexible employment was widespread. It is favourable that the health preservation programmes launched three years ago continue to be popular. Due to the pandemic, in 2020, online sports events and trainings became available so that the Bank can support the health of its employees in the home environment. 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 further increased in 2020. By reducing its ecological footprint and acting responsibly, the MKB Group also wants to set an example for market participants and partners, for which the Bank revised and renewed its sustainability and climate strategy in December 2020.

In 2020, 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:

- Breakdown of employees by job, age and gender: (included in the chapter on Policies related to employment and the results thereof, applied due diligence procedures)
- Energy consumption: (included in the Environmental Policy and its results, applied due diligence processes chapter)

Budapest, 30 March 2021

dr. Zsolt Barna
Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer

STATEMENT

on the consolidated semi-annual financial statements of 2020
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 consolidated annual financial statements – accepted by the Annual General Meeting of the Bank on 29 April 2021 and audited by an independent auditor - the following statement:

The Bank declares that the consolidated annual financial statements have been compiled in accordance with the applicable accounting rules. The 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 and of the consolidated enterprises.

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

Budapest, 29 April 2021

MKB Bank Nyrt.

dr. Zsolt Barna
Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer