



**MKB Bank Zrt.
Group**

10 011 922 641 911 400
statistic code

***Consolidated
Interim Financial
Statements***

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 26 August, 2016

June 30, 2016

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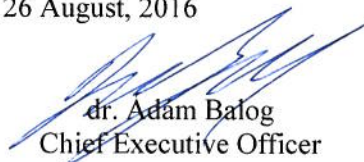
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MKB Bank Zrt.
Consolidated Statement of Financial Position as at June 30, 2016

	Note	2016	2015
Assets			
Cash reserves		28 708	41 494
Loans and advances to banks	6	61 633	51 740
Financial assets measured at FVTPL	7	119 041	93 569
Derivative assets held for risk management	8	15	-
Investments in securities	9	858 399	859 741
Loans and advances to customers	10	797 808	802 954
Non-current assets held for sale and discontinued operation	32	190	32 635
Other assets	11	24 221	20 857
Deferred tax assets		2 571	2 567
Investments in jointly controlled entities and associates	12	3 581	1 529
Intangibles, property and equipment	13	45 482	47 012
Total assets		1 941 649	1 954 098
Liabilities			
Amounts due to other banks	14	324 220	324 651
Deposits and current accounts	15	1 401 626	1 379 168
Negative fair values of derivative financial instruments	16	15 395	20 751
Derivative liabilities held for risk management	17	11 225	-
Other liabilities and provisions	18	42 693	35 018
Deferred tax liabilities		924	900
Issued debt securities	19	35 016	85 625
Total liabilities		1 831 099	1 846 113
Equity			
Share capital	20	225 490	225 490
Reserves	21	(114 940)	(117 505)
Total equity attributable to equity holders of the Bank		110 550	107 985
Non-controlling interests	22	-	-
Total equity		110 550	107 985
Total liabilities and equity		1 941 649	1 954 098

Budapest, 26 August, 2016

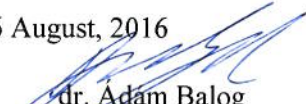

dr. Adam Balog
Chief Executive Officer


Benedek Sándor
Deputy Chief Executive Officer

MKB Bank Zrt.
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended June 30, 2016

	Note	2016	2015
Statement of profit or loss			
Interest income		30 966	39 471
Interest expense		13 231	17 132
Net interest income		17 735	22 339
Net income from commissions and fees		14 289	13 056
Other operating income / (expense), net		(7 327)	(11 608)
Impairments and provisions for losses	23	2 587	8 119
Operating expenses		18 632	20 069
Share of jointly controlled and associated companies' profit / (loss)		250	360
Profit / (Loss) before taxation		3 728	(4 041)
Income tax expense / (credit)	24	2 179	9
Profit / (Loss) for the year from continuing operation		1 549	(4 050)
Profit / (Loss) for the year from discontinued operation	32	-	-
PROFIT / (LOSS) FOR THE YEAR		1 549	(4 050)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Revaluation on AFS financial assets	9	1 018	(3 620)
Exchange differences on translating foreign operations		2	3
Other comprehensive income for the year net of tax		1 020	(3 617)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2 569	(7 667)
Profit / (Loss) attributable to:			
Profit / (Loss) for the period from continuing operation		1 549	(3 471)
Profit / (Loss) for the period from discontinued operation		-	-
Shareholders of the bank		1 549	(3 471)
Profit / (Loss) for the period from continuing operation		-	(579)
Profit / (Loss) for the period from discontinued operation		-	-
Non-controlling interests		-	(579)
Total comprehensive income attributable to:			
Total comprehensive income from continuing operation		2 569	(7 088)
Total comprehensive income from discontinued operation		-	-
Shareholders of the bank		2 569	(7 088)
Total comprehensive income from continuing operation		-	(579)
Total comprehensive income from discontinued operation		-	-
Non-controlling interests		-	(579)
Net income available to ordinary shareholders		1 549	(3 471)
Average number of ordinary shares outstanding (<i>thousands</i>)		225 490	225 490
Earnings per Ordinary Share (in HUF)	25		
Basic		7	(15)
Diluted		7	(15)
Earnings per Ordinary Share from continuing operation (in HUF)	25		
Basic		7	(15)
Diluted		7	(15)
Dividend per Ordinary Share (in HUF)		-	-

Budapest, 26 August, 2016

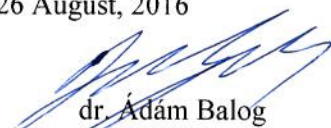

dr. Adam Balog
Chief Executive Officer


Benedek Sándor
Deputy Chief Executive Officer

MKB Bank Zrt.
Consolidated Statement of Changes in Equity for the year ended June 30, 2016

	Note	Share capital	Share premium	Translation of foreign operations	Retained earnings	Revaluation on AFS financial assets	Non-controlling interests	Total equity
At 1 January 2015		225 490	222 886	6	(260 221)	2 021	(1 398)	188 784
Issue of share capital and share premium	20, 21	-	-	-	-	-	-	-
Contributions from the parent company		-	-	-	-	-	-	-
Dividend for the year 2014		-	-	-	-	-	(136)	(136)
Profit/ (Loss) for the year		-	-	-	(75 868)	-	(534)	(76 402)
Other comprehensive income for the year		-	-	(4)	-	(3 313)	-	(3 317)
First / (final) consolidation of subsidiaries		-	-	-	-	-	-	-
Change in non-controlling interests during the period		-	-	-	(3 012)	-	2 068	(944)
At 31 December 2015		225 490	222 886	2	(339 101)	(1 292)	-	107 985
Issue of share capital and share premium	20, 21	-	-	-	-	-	-	-
Dividend for the year 2015		-	-	-	-	-	-	-
Profit/ (Loss) for the year		-	-	-	1 549	-	-	1 549
Other comprehensive income for the year		-	-	2	-	1 018	-	1 020
First / (final) consolidation of subsidiaries		-	-	(4)	-	-	-	(4)
Change in non-controlling interests during the period		-	-	-	-	-	-	-
At 30 June 2016		225 490	222 886	-	(337 552)	(274)	-	110 550

Budapest, 26 August, 2016


dr. Ádám Balog
Chief Executive Officer


Benedek Sándor
Deputy Chief Executive Officer

MKB Bank Zrt. Consolidated Statement of Cash Flows for the year ended June 30, 2016

	Note	2016	2015
Cash flows from operating activities			
Profit/ (Loss) before taxation		3 728	(78 173)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	13	2 472	14 008
Impairment on other assets	11	21	1 010
Provisions for off-BS items and settlement for customers	18	(146)	1 783
Impairment on financial assets (loans and advances)	6, 10	1 084	36 764
Change in post acquisition reserve of jointly controlled entities and associates and due to first consolidation	12	-	2 193
Deferred tax movement	24	19	(2 423)
Net Interest income		(22 734)	(34 018)
Dividends on available for sale securities		(12)	(58)
Revaluation of issued securities	19	(1 093)	17
	6, 10, 11, 18 Change in Equity	583	(4 353)
Foreign Exchange movement		583	(4 353)
Cash flows from operating activities		(16 078)	(63 250)
Change in loans and advances to banks (gross amounts)	6	(9 893)	12 798
Change in loans and advances to customers (gross amounts) without spin-off	10	3 651	92 632
Change in loans and advances to customers (gross amounts) due to spin-off	10	-	213 098
Change in loans and advances to customers - correction due to Consideration received from spin-off	10	-	(95 894)
Change in trading assets	7, 8	(25 487)	(52 169)
Change in other assets (gross amounts)	11	(3 385)	180
Change in amounts due to banks (short term)	14	36 605	95 368
Change in current and deposit accounts	15	22 458	85 497
Change in other liabilities and provisions (without provision charge of the year)	18	5 669	(36 122)
Change in trading liabilities	16, 17	5 869	(14 319)
Interest received		32 125	56 124
Interest paid		(9 391)	(22 106)
Dividends received		12	58
Income tax paid		(24)	1 771
		58 209	336 916
Net cash (used in)/generated by operating activities		42 131	273 666
Cash flow from investing activities			
Investment in group companies	9, 12, OCI	(2 052)	(1 433)
Disposals of group companies	9, 12	4 952	1 002
Purchase of property and equipment	13	(624)	(2 239)
Disposals of property and equipment	13	1 370	12 197
Purchase of intangible assets	13	(1 689)	(2 448)
Disposals of intangible assets	13	1	-
Consideration received from spin-off	10	-	95 894
Change in AFS securities (without revaluation and impairment)	9	283 176	(502 137)
Change in HTM securities (without impairment)	9	(280 817)	(51 827)
Net cash (used in)/generated by investing activities		4 317	(450 991)
Cash flow from financing activities			
Change in issued securities	19	(49 516)	(69 530)
Change in amounts due to banks (Borrowings)	14	(37 035)	30 321
Issuance of new shares and proceeds from share premium	20	-	-
Dividends paid to NCI	Change in equity	-	(136)
Net cash generated by/(used in) by financing activities		(86 551)	(39 345)
Net increase of cash and cash equivalents		(40 105)	(216 670)
Cash reserves at 1 January		41 494	286 586
FX change on cash reserve		(177)	(136)
Non-current assets held for sale and discontinued operations		27 494	(28 286)
Cash reserves at the end of period		28 708	41 494

Budapest, 26 August, 2016


dr. Adam Balog
Chief Executive Officer


Benedek Sandor
Deputy Chief Executive Officer

Notes to the Financial Statements

(from page 8 to page 71)

1 General information

MKB Bank Zrt. ("MKB" or "the Bank") is a commercial bank domiciled in Hungary, organised under the laws of Hungary and registered under the Hungarian Banking Act CCXXXVII of 2013. The address of MKB is Váci u. 38., HU-1056 Budapest, Hungary.

The interim non-audited consolidated financial statements of the Bank as at and for the half year ended 30 June 2016 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group conducts its financial services businesses through domestic non-banking subsidiaries.¹

The Hungarian government acquired 100% direct ownership in MKB Bank Zrt. on 29 September, 2014. The Prime Minister's Office was assigned to exercise the ownership rights and obligations of the Hungarian government. On 18th December 2014, the Financial Stability Board of the National Bank of Hungary ordered the reorganization of MKB Bank based on the Act XXXVII. of 2014 (Act on Resolution). The ownership rights were exercised by the National Bank of Hungary under the reorganization process and NBH together with MKB Bank started restructuring measures aiming at improving profitability. The reorganization of MKB Group has been carried out in compliance with EU directives² in each case. The effective and successful reorganization was managed by the four resolution commissioners assigned by and acting under official and professional control of NBH: the commissioners were exercising the powers of the board of directors and also the general meeting as defined in the statutes of the Bank. On 23 July, 2015 – continuing the reorganization procedure – the reorganizational commissioners were recalled, and through the appointment of the new Chief Executive Officer and election as Chairman of the board, the board of directors is capable of exercising its full powers.

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

The open, transparent and non-discriminatory sales procedure of MKB Bank under close monitoring of the European Commission was successfully closed on 29 June 2016, after the conditions were met, including obtaining permission for the winning consortium members to gain interest and paying the purchase price. The new owners of MKB Bank are members of a consortium established by Blue Robin Investments S.C.A., METIS Private Capital Funds and Pannónia Pension Fund with a share in the Bank of 45%, 45% and 10%, respectively.

On 30 June, 2016, the National Bank of Hungary terminated the resolution process of MKB Bank, after the fulfilment of all objectives of the resolution. From thereon the ownership rights over MKB Bank will be exercised by the new shareholders.

¹ For further information on consolidated subsidiaries please see Note 30

² BRRD

2 Compliance with International Financial Reporting Standards

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

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

These financial statements are presented in Hungarian Forint (HUF), rounded to the nearest million, except if indicated otherwise. These financial statements were authorised for issue by the Board of Directors on 26 August, 2016.

3 Summary of significant accounting policies

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

a, Financial statement presentation

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

b, Consolidation

Subsidiaries

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

Funds management

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

Transactions eliminated on consolidation

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

c, Investments in jointly controlled entities and associated companies

Jointly controlled entities

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

Associates

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

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

A list of the Group's significant jointly controlled and associated companies is set out in Note 12.

d, Intangible assets

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

Goodwill

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

Goodwill is not amortised but annually tested for impairment.

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

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

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

Other intangible assets

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

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

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

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

e, Property, plant and equipment

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

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

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

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

The estimated residual value of some of the buildings is higher than the book value and therefore not depreciated.

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

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

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

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

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

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

The estimated useful lives of investment properties are as follows:

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

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

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

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

f, Cash reserve

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

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

g, Determination of fair value

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

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

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

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

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

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

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

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

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

h, Loans and advances to banks and customers

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

i, Impairment of loans and advances

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

Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the statement of comprehensive income. The carrying amount of impaired loans at the end of the reporting period is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed loans and advances

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

Collectively assessed loans and advances

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

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

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

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as new loans for measurement purposes once the minimum numbers of payments required under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due.

Write-off of loans and advances

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

Reversals of impairment

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

Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans as part of an orderly realisation are recorded as other assets or as assets held for sale if they meet the requirements of IFRS5 and

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

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

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

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

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

Long-term deposit

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

Structured Bonds

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

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

k, Investments in securities

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

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

At the end of each reporting period an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset or group of assets. This usually arises when circumstances are such that an adverse effect on future cash flows from the asset or group of assets can be reliably estimated. If an available-for-sale security is impaired, the cumulative loss (measured as the difference between the asset's acquisition cost (net of any principal repayments and amortisation) and its current fair value, less any impairment loss on that asset previously recognised in the statement of comprehensive income) is removed from equity and included in the statement of comprehensive income.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

l, Derivatives

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

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

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

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

Equity put options shall be checked before evaluation whether the non-controlling interest (NCI) has an access to the future economic benefit and they can practice its owner rights. If NCI have present access to the ownership benefits that are subject to the put option on initial recognition of the liability, the debit entry is to a separated equity element. Subsequent to initial recognition changes in the fair value of an NCI put liability shall be recognized in other comprehensive income. Gains or losses from currency translation shall be recognized directly in currency translation reserve of foreign operation. This application of this method has no impact on the "normal" accounting treatment of NCI.

m, Hedge accounting

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

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

The Group also requires a documented assessment on an ongoing basis in line with IAS 39, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the

fair values of the hedged items. Interest on designated qualifying hedges is included in "Interest income" or "Interest expense".

Fair value hedge

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

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

Hedge effectiveness testing

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

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

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

n, Derecognition of financial assets and liabilities

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

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

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

o, Offsetting financial assets and financial liabilities

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

p, Finance and operating leases

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

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

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

q, Deposits, debt securities issued and subordinated liabilities

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

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

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

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

r, Provisions

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

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

s, Income tax

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

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

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

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

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

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

t, Interest income and expense

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

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

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

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

u, Fees and commission

Fee and commission income is accounted for as follows:

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

v, Other operating income / (expense), net

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

w, Dividends

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

x, Employee benefits

The Group operates a staff pension scheme that qualifies as a defined contribution plan under IFRS. All of the Group's employees are entitled to participate in this plan and the majority of employees have elected to join. Assets of this defined contribution plan are managed separately from the Group.

Payments to the defined contribution plan and state-managed retirement benefit plans, where the Group's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

The Group does not participate in any defined benefit plans.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

y, Segment reporting

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

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

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Group allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm's length terms and conditions. Please find further details on segment reporting in Note 31.

z, Foreign currencies

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

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

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

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

aa, Financial guarantees

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

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

ab, Share capital

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

ac, Earnings per share

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

ad, New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2016, and have not been applied in preparing these consolidated financial statements:

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

On 20 June 2016 the International Accounting Standards Board issued amendments to International Financial Reporting Standard (IFRS) 2 Share-based payment, clarifying how to account for certain types of share-based payment transactions.

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

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018, with earlier application permitted),

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

The group has started a project for the preparation of implementing IFRS 9 standard, the impact on the group financial statement cannot be estimated yet.

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

On 11 September 2014 the International Accounting Standards Board issued amendments to International Financial Reporting Standard (IFRS) 10 Consolidated Financial Statements and International Accounting Standard (IAS) 28 Investments in Associates and Joint Ventures. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business.

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

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

On 30 January 2014 the International Accounting Standards Board issued IFRS 14 Regulatory Deferral Accounts, with the objective to specify the financial reporting

requirements for “regulatory deferral account balances” that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. IFRS 14 is designed as a limited scope Standard to provide an interim, short-term solution for rate-regulated entities that have not yet adopted International Financial Reporting Standards (IFRS).

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

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

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

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

- **IFRS 15 (Amendment) “Revenue from Contracts with Customers” Clarification** (effective for annual periods beginning on or after 1 January 2018)

On 12 April 2016 the International Accounting Standards Board issued amendments to International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers. The amendments clarify how to: identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time.

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

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

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

The International Accounting Standards Board (IASB) issued IFRS 16 Leases in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer (‘lessee’) and the supplier (‘lessor’). IFRS 16 completes the IASB’s project to improve the financial reporting of leases. IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.

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

On 29 January 2016 the International Accounting Standards Board issued amendments to IAS 17 Statement of Cash Flows standard. The improvements to disclosures announced, require companies to provide information about changes in their financing liabilities and come as a response to requests from investors for information that helps them better understand changes in a company’s debt.

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

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

On 19 January 2016 the International Accounting Standards Board issued amendments to IAS 12 Income taxes standard, clarifying how to account for deferred tax assets related to debt instruments measured at fair value. The amendments issued, clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. The adoption of the above presented Amendments would have no significant impact on the financial statements.

ac, Standards effective for annual periods beginning on 1 January 2016

Standards listed below are effective for annual periods beginning on 1 January 2016.

- **IFRS 10 (Amendment) „Consolidated Financial Statements”, IFRS 12 (Amendment) „Disclosures of Interests in Other entities”, IAS 28 (Amendment) „Investments in Associates and Joint Ventures”** – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016, with earlier application permitted)
- **IFRS 11 (Amendment) “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016)
- **Annual improvements to IFRSs 2010-2012 Cycle**, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015)
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).
- **IAS 1 (Amendment) „Presentation of Financial Statements”** – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016, with earlier application permitted)
- **IAS 16 (Amendment) “Property, Plant and Equipment”, IAS 38 (Amendment) “Intangible Assets”** – Clarification of Acceptable Methods of Depreciation and Amortization – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016)
- **IAS 16 (Amendment) “Property, Plant and Equipment”, IAS 41 (Amendment) “Agriculture”** – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016)
- **IAS 19 (Amendment) “Employee benefits”** – Defined Benefit Plans: Employee Contribution, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015)

- **IAS 27 (Amendment) "Separate financial statements"** – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016, with earlier application permitted)

4 Group of consolidation

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

The conclusions were prepared in accordance with the International Financial Reporting Standards and the Accounting policies (3.a Financial statement presentation, 3.b Consolidation, 3.c Investments in jointly controlled entities and associated companies).

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

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

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

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

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

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

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

- the headquarter is situated in a country, where the legal system does not allow the submission of the necessary data and information,
- the consolidation would lead to misleading results (particularly, in case the duration of the control or the participation is foreseen to be less than one year),
- MKB's ability to control the investee is restricted legally or contractually,
- without these entities, the consolidated financial statements of the Group provide a true and fair view about the financial position and performance of the Bank and other subsidiaries. In case there are more subsidiaries compliance with this requisite, then they must be examined together, whether the exemption of these entities distort the true and fair value about the parent company and other subsidiaries, namely the sum of the total assets and contingent liabilities individually and collectively are less than 2% of the total assets of the parent company.

- Financial service companies and auxiliaries with total assets less than EUR 10 million, and are below the thresholds related to net revenues and share capital, are not considered material.
- In case the entities do not reach the minimum of the defined conditions individually, but they exceed those collectively, they cannot be considered negligible, the Bank does not exempt them from the group of consolidation.

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

a) Vehicle financing:

Euroleasing Group

MKB-Euroleasing Zrt.

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

MKB-Euroleasing Autóhítel Zrt.

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

MKB-Euroleasing Autólízing Zrt.

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

Retail Prod Zrt.

In 2015 Retail Prod Zrt. became part of the Group of consolidation as a new car financing subsidiary of MKB-Euroleasing Zrt. MKB-Euroleasing Zrt. acquired 100% ownership and voting rights in the company, obtaining the shares in exchange of a consideration paid in cash in the amount of HUF 1,000. As a result of the acquisition of Retail Prod Zrt. HUF 604 million gain was recognized, disclosed in Other operating income / (expense), net in the financial statements for 2015. In order to cover the risks and potential liabilities in the portfolio of the acquiree, the Group recognized provision for contingent liabilities identified. At the end of the reporting period the balance of the provision amounted to HUF 491 million.

b) Workout activity related to lending

Exter- Adósságkezelő Kft.
Extercom Kft.

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

c) Managing

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

MKB Üzemeltetési Kft.
Euro - Immat Üzemeltetési Kft.

Management of investment funds

MKB Befektetési Alapkezelő Zrt.

SZÉP card, support of health and pension funds:

MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.

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

d) Other entities sold or deconsolidated during the financial year

On 16 December, 2015 the Bank signed an agreement about selling its participations in MKB-Euroleasing Autópark Zrt. and MKB Autópark OOD. The transaction was closed on 30 June, 2016.

e) Non-consolidated entities

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

- MKB Életbiztosító Zrt.
- MKB Általános Biztosító Zrt.

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

- Euro Ingatlan Kft.
- Mogyoróskert Kft.

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

- MKB Consulting Kft.
- Quantum Leap Kft.

- Budapesti Értéktőzsde Zrt.
- Core-Solutions Kft.
- Erzsébet-Utalvány Plusz Kft.
- Füred Service Üzemeltetési Kft.
- Garantiqa Hítelgarancia Zrt.
- Kisvállalkozásfejlesztő Pénzügyi Zrt.
- Medister Kft.
- Pannonhalmi Apátsági Pincészet Kft.
- SWIFT
- Trend Zrt.

5 Risk management

a, Capital management

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

Capital allocation

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

Basel III

The calculations are prepared based on Basel III/CRR (575/2013/EU regulation).

The supervisory objectives of Basel III are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. Basel III is structured around three 'pillars': minimum capital

requirements, supervisory review process and market discipline. The Capital Requirements Regulation (CRR) is directly effective in Hungary.

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

Basel III also introduces capital requirements for operational risk and, again, contains three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardized approach it is one of three different percentages of gross revenues allocated to each of eight defined business lines. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements. 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 in pillar 1. Part of the pillar 2 process is the Internal Capital Adequacy Assessment Process (ICAAP) which is the Bank's self-assessment of risks not captured by pillar 1. The Group has identified the following additional risks not covered in pillar 1 as material and implemented policies and practices to measure the effect of these risks in pillar 2:

- Credit concentration risk
- Participation risk
- Country risk
- Non-trading book interest rate risk (Banking book interest rate risk)
- Settlement risk
- Reputation risk
- Liquidity financing risk
- Strategic risk
- Risk derived from other assets

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

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

5.1 Capital adequacy ratio

	2016 Q2 Basel III IFRS	2015 Basel III IFRS
Share capital	225 490	225 490
<i>Outstanding share capital</i>	<i>225 490</i>	<i>225 490</i>
Reserves	(116 380)	(117 400)
Intangible assets	(7 530)	(6 904)
AVA - additional valuation adjustments	(699)	(957)
Additional Tier 1	-	-
Tier 1: Net core capital	100 881	100 229
Considerable subordinated debt	-	-
Tier 2: Supplementary capital	-	-
Regulatory capital	100 881	100 229
Risk-weighted assets (RWA)	729 016	754 539
Large loan limit	338	212
Operational risk (OR)	126 891	126 892
Market risk positions (MR)	10 692	6 530
Total risk weighted assets	866 937	888 173
Regulatory capital / Total assets	5,20%	5,13%
Capital adequacy ratio	11,64%	11,28%
Capital adequacy ratio (including market risk)	11,64%	11,28%

The table above contains the MKB Bank's consolidated capital adequacy ratio. Unconsolidated capital adequacy ratio is 14.08% based on HAS.

At June 30, 2016, as an actual figure of tier1 capital the Group was HUF 100.9 billion based on Basel III IFRS under Supervisory Regulation. The regulatory capital has increased by HUF 0.7 billion, which derived from decrease of negative revaluation reserve and negative AVA, which was compensated by the increase of deduction of intangible assets.

Risk-weighted assets including operational and market risk decreased by 2.4% from 2015 (HUF 888.2 billion) and amounted to HUF 867 billion besides approximately 1% weakening of domestic currency.

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.

Management of future capital requirements

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

b, Encumbered assets

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

5.2 Encumbered assets

2016	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
<i>Assets of the reporting institution</i>				
Loans on demand	41 183	41 183	24 908	24 908
Equity instruments	-	-	1 008	1 008
Debt securities	346 181	345 257	611 160	610 132
Loans and advances other than loans on demand	-	-	807 768	795 239
Other assets	-	-	109 441	109 441
Total assets	387 364	386 440	1 554 285	1 540 728

2015	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
<i>Assets of the reporting institution</i>				
Loans on demand	40 622	40 622	24 386	24 386
Equity instruments	-	-	304	304
Debt securities	208 976	208 976	724 017	723 938
Loans and advances other than loans on demand	-	-	804 746	799 319
Other assets	-	-	152 016	152 016
Total assets	249 598	249 598	1 705 469	1 699 963

In the table above the total assets are equal to the total assets of the consolidated balance sheet according to CRR's requirement.

5.3 Collateral received and own debt securities issued

2016	Fair value of encumbered collateral received or own debt securities issued	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
<i>Collateral received by the reporting institution</i>			
Loans on demand	-	2 907	-
Equity instruments	-	-	-
Debt securities	-	-	-
Loans and advances other than loans on demand	-	-	-
Other collateral received	-	-	568 629
Collateral received and own debt securities issued	-	2 907	568 629

2015	Fair value of encumbered collateral received or own debt securities issued	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
<i>Collateral received by the reporting institution</i>			
Loans on demand	-	817	-
Equity instruments	-	-	-
Debt securities	-	-	-
Loans and advances other than loans on demand	-	-	-
Other collateral received	-	-	548 074
Collateral received and own debt securities issued		817	548 074

5.4 Sources of encumbrance

2016	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
<i>Carrying amount of selected financial liabilities</i>		
Derivatives	347 463	387 364
Deposits	22 440	41 631
Repurchase agreements	325 023	345 733
Collateralised deposits other than repurchase agreements	76 720	76 296
Debt securities issued	248 303	269 437
	-	-
<i>Other sources of encumbrance</i>		
Nominal of loan commitments received	-	-
Nominal of financial guarantees received	-	-
Fair value of securities borrowed with non cash-collateral	-	-
Other	-	-
Total Sources of encumbrance		387 364

2015	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
<i>Carrying amount of selected financial liabilities</i>		
Derivatives	216 152	249 597
Deposits	11 074	41 073
Repurchase agreements	205 078	208 524
Collateralised deposits other than repurchase agreements	2 364	2 362
Debt securities issued	202 714	206 162
	-	-
<i>Other sources of encumbrance</i>		
Nominal of loan commitments received	-	-
Nominal of financial guarantees received	-	-
Fair value of securities borrowed with non cash-collateral	-	-
Other	-	-
Total Sources of encumbrance		249 597

As of 30 June 2016 the total size of encumbered assets was 19.92% of the total balance sheet. The majority of MKB Group's encumbered assets belonged to MKB Bank. The main sources and types of encumbrance were arising from having secured refinancing, money market

deposits, repo transactions as well as collateralized derivative transactions. Encumbrance due to collateral requirement of used clearing systems and central counterparties was not significant. MKB did not have covered bond issues or securitization.

The most significant secured refinancing facility was acquired as a result of the participation in the „Funding for Growth Scheme” refinancing loan program of National Bank of Hungary. Secured money market deposits were provided by the National Bank of Hungary, repo transactions were concluded with the Hungarian Debt Management Agency. The purpose of these forms of secured financing is to support the active liquidity management of the bank in line with the self-financing program of the National Bank of Hungary.

The majority of collateralized derivative transactions were concluded to hedge on balance sheet fx position.

6 Loans and advances to banks

6.1 Loans and advances to banks

	2016	2015
Current and clearing accounts	51 673	49 100
Money market placements	350	-
Loans and advances	9 660	2 690
Less collective allowances for impairment	(50)	(50)
Loans and advances to banks	61 633	51 740

Collective allowances for impairment

Balance at 1 January	(50)	(35)
Impairment loss for the year:		
Charge for the year	(4)	(10)
Reversal	4	28
Reclassification	-	(33)
At the end of period	(50)	(50)

7 Financial assets measured at FVTPL

7.1 Financial assets measured at FVTPL

	Cost	2016 Unrealised result	Book value	Cost	2015 Unrealised result	Book value
<i>Debt and equity instruments</i>						
Government Treasury bills	92 396	1 861	94 257	65 330	1 187	66 517
Government bonds	4 965	(15)	4 950	6 165	42	6 207
Hungarian corporate sector bonds	237	1	238	523	5	528
Foreign corporate sector bonds	-	-	-	-	-	-
Hungarian equities	436	68	504	274	30	304
Total debt and equity instruments	98 034	1 915	99 949	72 292	1 264	73 556
<i>Derivative instruments by type</i>						
FX-based derivatives instruments	-	7 540	7 540	-	5 417	5 417
Index-based derivative instruments	-	5	5	-	1	1
Interest-based derivative instruments	-	10 467	10 467	-	13 157	13 157
Options	1 459	(379)	1 080	2 213	(775)	1 438
Total derivative instruments	1 459	17 633	19 092	2 213	17 800	20 013
Total financial assets measured at FVTPL	99 493	19 548	119 041	74 505	19 064	93 569

8 Derivative assets held for risk management

Fair value hedges of interest rate risk

The Group uses interest rate swaps designated as fair value hedges to hedge its exposure to changes in the fair value of certain Available-for-sale debt instruments.

Other derivatives held for risk management

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

8.1 Derivative assets held for risk management

	Cost	2016 Unrealised result	Book value	Cost	2015 Unrealised result	Book value
FX-based derivatives instruments	-	-	-	-	-	-
Interest-based derivative instruments	-	15	15	-	-	-
Derivatives held for risk management	-	15	15	-	-	-

9 Investments in securities

9.1 Investments in securities

	2016	2015
<i>Available-for-sale</i>		
Hungarian Government bonds	521 034	730 698
Hungarian corporate sector bonds	4 217	77 215
Hungarian equities	33	33
Foreign equities	504	-
Less specific allowances for impairment	(33)	(33)
<i>Held-to-maturity</i>		
Hungarian Government bonds	264 470	47 543
Hungarian corporate sector bonds	68 174	4 285
Less specific allowances for impairment	-	-
Investment in securities	858 399	859 741
<i>Specific allowances for impairment</i>		
Balance at 1 January	(33)	(33)
At the end of period	(33)	(33)

At 30 June 2016, HUF 514,694 million (2015: HUF 249,337 million) from the total amount of Investments in securities were pledged as collateral for stock exchange and credit card transactions in the ordinary course of business.

The total revaluation effect excluding deferred taxes in equity comprises HUF 1,283 million loss (2015: HUF 1,768 million loss) and HUF 1,009 million deferred tax asset and NIL deferred tax liability (2015: HUF 476 million deferred tax asset and NIL deferred tax liability).

In 2016 HUF 1,619 million gain (2015: HUF 2,922 million gain) was recognized in the profit or loss relating to AFS securities, which is a reclassification from other comprehensive income into profit or loss.

At 30 June 2016 the carrying amount of AFS securities designated as hedged items in a fair value hedge relationship was HUF 418,436 million.

Related to the Held-to-maturity investments HUF 1,231 million interest income (2015: HUF 354 million) was recognized in the Statement of profit or loss during the first six months of the year.

In the first six months of 2015 there was a remarkable reclassification between Cash reserves and Investments in securities. The reason is, that during this period there were changes in the liquidity management means provided to the credit institutions by NBH.

By the end of the reporting period, MKB Bank reclassified debt securities out of Available-for-sale into Held-to-maturity category. The carrying amount of the investments reclassified amounted to HUF 177,831 million. The reclassification was the result of the decision made by ALCO, concerning the structure of the balance sheet of the Bank.

10 Loans and advances to customers

10.1 Loans and advances to customers at amortised cost

2016	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Core business				
<i>Wholesale</i>				
Refinanced loan	48 877	(417)	(408)	48 052
Funding for Growth Scheme	94 553	(512)	(1 135)	92 906
Factoring	14 328	(299)	(151)	13 878
Overdraft	39 368	(2 082)	(323)	36 963
Széchenyi Loans	19 602	(444)	(112)	19 046
Other	173 402	(29 944)	(1 139)	142 319
Total Wholesale	390 130	(33 698)	(3 268)	353 164
<i>Retail</i>				
Residential mortgage				
<i>HUF</i>	278 886	(37 119)	(36)	241 731
<i>Foreign currency</i>	5 308	(2 067)	-	3 241
Credit card	2 607	(141)	-	2 466
Overdraft	2 223	(545)	-	1 678
Personal loan	1 395	(71)	-	1 324
Car finance	61 566	(6 805)	(223)	54 538
Other	19 688	(10 717)	(102)	8 869
Total Retail	371 673	(57 465)	(361)	313 847
Total Core business	761 803	(91 163)	(3 629)	667 011
Non-core business				
<i>SCU</i>	175 742	(44 196)	(749)	130 797
Total	937 545	(135 359)	(4 378)	797 808

2015	Gross amount	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Core business				
<i>Wholesale</i>				
Refinanced loan	45 348	(1 052)	(364)	43 932
Funding for Growth Scheme	100 366	(798)	(1 341)	98 227
Factoring	18 535	(328)	(172)	18 035
Overdraft	28 793	(2 125)	(284)	26 384
Széchenyi Loans	16 960	(435)	(75)	16 450
Other	125 906	(20 846)	(933)	104 127
Total Wholesale	335 908	(25 584)	(3 169)	307 155
<i>Retail</i>				
Residential mortgage				
<i>HUF</i>	294 068	(39 633)	(45)	254 390
<i>Foreign currency</i>	5 704	(1 687)	-	4 017
Credit card	2 911	(210)	-	2 701
Overdraft	2 176	(650)	-	1 526
Personal loan	1 504	(351)	-	1 153
Car finance	56 050	(8 597)	(175)	47 278
Other	24 171	(7 744)	(33)	16 394
Total Retail	386 584	(58 872)	(253)	327 459
Total Core business	722 492	(84 456)	(3 422)	634 614
Non-core business				
<i>SCU</i>	240 191	(71 002)	(849)	168 340
Total	962 683	(155 458)	(4 271)	802 954

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

Spin off

In 2015, the previous owner's priority was to separate and sell those bad debts due for years, which did not match into the Bank's long-term strategy in consideration the possibilities offered by relevant legislation, simultaneously complying with the rules of EU. To reach this purpose the Bank assigned necessary internal resources and used external experts as well.

The project aiming at the separation of the portfolio was approved by the resolution of the previous owner on 12 March 2015, and was completed successfully on 21 December 2015. In course of this transaction receivables in the net amount of HUF 114.9 billion were transferred to MSZVK Magyar Szanálási Vagyonkezelő Zrt., founded by the Szanálási Alap. The losses realised on this transaction amounted to HUF 26.3 billion.

In addition to the receivables, the investments held by the Bank in MKB Pénzügyi Zrt. and Resideal Zrt. were also transferred, resulting in HUF 46.5 million loss in the consolidated financial statements. This loss was however increased by the impairment losses accounted for the real estates by Resideal Zrt. in the amount of HUF 5 billion prior to the transfer.

CRE (previously SCU) remaining portfolio

The Special Credit Unit (SCU) was established in 2011 in order to separate commercial real estate financed customers requiring special treatment and to provide specific management of their deals. At the end of 2015 significant part of this portfolio has been separated from MKB's portfolio, management of the remaining portfolio is performed by the Corporate Restructuring and Debt Management Directorate.

According to the EU commitments forming part of the Restructuring Plan approved by the European Commission, the gross volume of the remaining CRE (i.e Commercial Real Estate previously SCU) portfolio has to be reduced below HUF 60 billion by the end of 2019. The main measures for dismantling the portfolio are: collection of scheduled repayment; refinancing by other financial institution; completion of legal procedures. In case of available favorable offers, asset sales can be considered as well.

Asset realization strategy

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

Effects of the Act on Consumer Loan Contracts of Financial Institutions

Settlement

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

In 2015, 120 thousand clients of the Group were effected by the settlement related to the regulations above, of which 7 thousand were transferred to a credit management company. The Group allocated HUF 43,107 million provision among other provisions as at 2014 year-end.

The repayment obligation of the Group was carried out during 2015, except for the claims assigned to credit management companies – in this case the clients could apply for the settlement by December 31st, 2015. The credit management companies may request the Group to refund the settlement made to the clients without any statutory deadline. As of December 31st, 2015 the Group maintained HUF 956 million provision for the expected future claims and litigations.

In 2015, the Group accounted for HUF 47,697 million losses in Other expenses related to the settlement made, and HUF 45,303 million of those provisions were released that were set aside for such losses in 2014. As of December 31, 2015 the balance of the provision by the Group for possible future settlement obligations amounted to HUF 1,216 million.

In the first six month of 2016, an additional amount of provision has been accounted for and the balance of the provision amounted to HUF 1.7 billion on 30 June, 2016. The addition of the provision was required – based on the related resolution of the National Bank of Hungary-, because the deadline for the settlement was extended to December 31st, 2016 in case of the receivables purchased after termination.

Conversion of foreign currency denominated mortgage and other loans

On December 31st, 2014, the net carrying amount of the mortgage and other loans denominated in foreign currency amounted to HUF 318,312 million in the statement of financial position of the Group. These loans were converted to domestic currency at a fixed rate on February 1st, 2015 based on the act of LXXVII of 2014, and later during the previous reporting year according to the act CXLV of 2015. Based on the requirements of the act CXLV of 2015 on the conversion of foreign currency consumer contracts, 6 thousand contracts of the Group were affected by the conversion of other consumer loans in 2015. The Group had not accounted for a significant exchange rate difference related to the conversion as a result of the derivative transactions entered.

In line with International Financial Reporting Standards, the Group derecognized the foreign currency denominated loans and initially recognized the loans after conversion denominated in domestic currency at fair value in the books. In case of the loans impaired prior to the conversion, the fair value of the converted loans reflected the net recovery expectation of the Group, which amounted to the net carrying amount prior to the conversion. As a result of the settlement and conversion, in 2015 the volume of the loans concerned by these transactions at the Bank decreased by HUF 107 billion, of which HUF 49 billion reduction was driven by the impairment taken into account for the initial value of the converted loans.

Conversion of foreign currency denominated mortgage and other loans – apart from few cases- was finished in 2015.

Allowances for impairment

10.2 Allowances for impairment

	2016	2015
<i>Specific allowances for impairment on loans and advances to customers</i>		
Balance at 1 January	155 458	288 604
Impairment loss for the year:		
Charge for the year	20 142	48 911
Reversal	(18 768)	(8 299)
First consolidation as subsidiary	-	1 816
Disposal from deconsolidation	-	(411)
Utilisation	(21 487)	(160 245)
Effect of foreign currency movements	413	(1 605)
Unwinding of discount	(399)	(3 562)
Reclassification	-	(123)
Disposal of Non-current assets held for sale and discontinued operation	-	(9 628)
At the end of period	135 359	155 458
<i>Collective allowances for impairment on loans and advances to customers</i>		
Balance at 1 January	4 271	5 785
Impairment loss for the year:		
Charge for the year	1 998	2 219
Reversal	(1 333)	(2 487)
First consolidation as subsidiary	-	18
Utilisation	-	(1 194)
Effect of foreign currency movements	(2)	(37)
Unwinding of discount	(556)	-
Reclassification	-	(33)
At the end of period	4 378	4 271

At 30 June 2016 there were no loans designated as hedged item in a fair value hedge relationship.

11 Other assets

11.1 Other assets

	2016	2015
Prepayments and other debtors	23 449	19 855
Inventory	503	658
Corporate income tax refundable	2	24
Other taxes refundable	499	533
Specific allowances for impairment	(232)	(213)
Other assets	24 221	20 857

Specific allowances for impairment

Balance at 1 January	(213)	(867)
Impairment loss for the year:		
Charge for the year	(40)	(1 012)
Reversal	19	2
Utilization	2	107
Effect of foreign currency movements	-	(4)
Disposal due to deconsolidation	-	1 684
Reclassification	-	(123)
At the end of period	(232)	(213)

12 Investments in jointly controlled entities and associates

12.1 Investments in jointly controlled entities and associates

	2016	2015
Cost	3 581	1 529
Investments in jointly controlled entities and associates	3 581	1 529

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

In 2016, no general and financial data are disclosed, as the investments held in MKB-Euroleasing Autópark Zrt. and MKB Autopark OOD were sold by the Bank on 30, June 2016. In addition to that MKB's participation in MKB-Euroleasing Zrt. increased to 100% during 2015.

13 Intangibles, property and equipment

13.1 Intangibles, property and equipment

2016	Intangible assets	Freehold property	Investment property	Equipment	Total
<i>Cost</i>					
Balance at 1 January	47 326	47 261	-	25 279	119 866
First consolidation as subsidiary	-	-	-	-	-
Additions – including internally developed	1 689	148	-	476	2 313
Other additions	-	-	-	-	-
Disposals	(9)	(1 958)	-	(1 314)	(3 281)
Disposal due to deconsolidation	-	-	-	-	-
Balance at 30 June	49 006	45 451	-	24 441	118 898
<i>Depreciation and impairment losses</i>					
Balance at 1 January	40 423	13 095	-	19 336	72 854
First consolidation as subsidiary	-	-	-	-	-
Depreciation for the year	1 056	653	-	742	2 451
Impairment loss	5	1	-	15	21
Disposals	(8)	(647)	-	(1 255)	(1 910)
Disposal due to deconsolidation	-	-	-	-	-
Other additions	-	-	-	-	-
Balance at 30 June	41 476	13 102	-	18 838	73 416
<i>Carrying amounts</i>					
At 1 January	6 903	34 166	-	5 943	47 012
Balance at 30 June	7 530	32 349	-	5 603	45 482

2015	Intangible assets	Freehold property	Investment property	Equipment	Total
<i>Cost</i>					
Balance at 1 January	44 522	49 432	15 850	28 019	137 823
First consolidation as subsidiary	48	96	-	103	247
Additions – including internally developed	2 448	1 040	118	941	4 547
Other additions	951	26	-	115	1 092
Disposals	(639)	(787)	(3 237)	(3 881)	(8 544)
Disposal due to deconsolidation	(4)	(2 546)	(12 731)	(18)	(15 299)
Balance at 31 December	47 326	47 261	-	25 279	119 866
<i>Depreciation and impairment losses</i>					
Balance at 1 January	34 405	12 122	2 107	20 659	69 293
First consolidation as subsidiary	48	5	-	54	107
Depreciation for the year	2 162	1 558	314	1 775	5 809
Impairment loss	3 496	463	3 862	378	8 199
Disposals	(639)	(568)	(174)	(3 637)	(5 018)
Disposal due to deconsolidation	-	(492)	(6 109)	(8)	(6 609)
Other additions	951	7	-	115	1 073
Balance at 31 December	40 423	13 095	-	19 336	72 854
<i>Carrying amounts</i>					
At 1 January	10 117	37 310	13 743	7 360	68 530
Balance at 31 December	6 903	34 166	-	5 943	47 012

Depreciation and amortization is presented among the Operating expenses.

Investment properties of the Group were disposed in course of the spin off by the end of 2015. Prior to the transfer impairment loss was recognised on them in the amount of HUF 3,862 million.

In 2016, as a part of cost cutting program the Bank sold its educational and leisure center in Balatonfüred.

14 Amounts due to other banks

14.1 Amounts due to other banks

	2016	2015
Due on demand	10 085	4 915
Money market deposits	128 591	97 156
Borrowings	185 544	222 580
Amounts due to other banks	324 220	324 651

15 Deposits and current accounts

15.1 Deposits and current accounts

	2016	2015
From corporate clients	898 515	834 800
From retail clients	503 111	544 368
Current and deposit accounts	1 401 626	1 379 168

As at 30 June 2016, from the amount of current and deposit accounts, HUF 16,669 million (2015: HUF 21,388 million) has been measured as a fair value through profit or loss.

16 Negative fair values of derivative financial instruments

16.1 Negative fair values of derivative financial instruments

	2016			2015		
	Cost	Unrealised result	Book value	Cost	Unrealised result	Book value
<i>Derivative instruments by type</i>						
FX-based derivatives instruments	-	2 691	2 691	-	7 816	7 816
Index-based derivative instruments	-	10	10	-	2	2
Interest-based derivative instruments	-	12 156	12 156	-	12 530	12 530
Options	330	208	538	245	158	403
Total derivative instruments	330	15 065	15 395	245	20 506	20 751
Negative fair values of derivative financial instruments	330	15 065	15 395	245	20 506	20 751

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

17 Derivative liabilities held for risk management

17.1 Derivative liabilities held for risk management

	2016			2015		
	Cost	Unrealised result	Book value	Cost	Unrealised result	Book value
FX-based derivatives instruments	-	-	-	-	-	-
Interest-based derivative instruments	-	11 225	11 225	-	-	-
Derivatives held for risk management	-	11 225	11 225	-	-	-

18 Other liabilities and provision

18.1 Other liabilities and provision

	2016	2015
Accruals and other creditors	34 666	26 681
Corporate income tax payable	56	-
Other taxes payable	1 797	2 017
Provision for contingencies and commitments	4 474	5 104
Provision for settlement of FX consumer loans	1 700	1 216
Other liabilities and provisions	42 693	35 018

General description of provision for settlement of FX consumer loans is defined in Note 10.

Provision for contingencies and commitments

18.2 Provision for contingencies and commitments

	2016	2015
Balance at 1 January	6 320	46 999
Provisions made during the year	1 098	3 528
Provisions used during the year	(3)	(45 310)
Provisions reversed during the year	(1 244)	(1 745)
Effect of foreign currency movements	3	2 848
At the end of period	6 174	6 320

Provisions recognized for different type of products are disclosed in Note 26, except for provision on settlement of FX consumer loans.

19 Issued debt securities

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

19.1 Issued debt securities

Interest	Original currency	Carrying amount 31.12.2015	Issued debt securities	Repurchased debt securities volume change	Repaid debt securities	Revaluation result	Carrying amount 30.06.2016
Fixed rate		42 767	-	5 649	(41 109)	118	7 425
	EUR	19 971	-	(23)	(14 386)	195	5 757
	HUF	14 125	-	5 195	(19 151)	-	169
	USD	8 671	-	477	(7 572)	(77)	1 499
Structured		23 045	-	(42)	(6 825)	123	16 301
	EUR	4 008	-	(28)	-	36	4 016
	HUF	18 586	-	(14)	(6 825)	99	11 846
	USD	451	-	-	-	(12)	439
Floating rate		18 195	-	2 811	(10 000)	-	11 006
	HUF	18 195	-	2 811	(10 000)	-	11 006
Accrued interest		1 618					284
Total		85 625	-	8 418	(57 934)	241	35 016

Interest	Original currency	Carrying amount 31.12.2014	Issued debt securities	Repurchased debt securities volume change	Repaid debt securities	Revaluation result	Carrying amount 31.12.2015
Fixed rate		57 684	1 745	(2 635)	(14 688)	661	42 767
	EUR	33 445	-	202	(13 487)	(189)	19 971
	HUF	16 275	-	(2 152)	-	2	14 125
	USD	7 964	1 745	(685)	(1 201)	848	8 671
Structured		23 248	9 640	128	(9 208)	(763)	23 045
	EUR	5 268	3 233	153	(3 978)	(668)	4 008
	HUF	16 627	6 407	(10)	(4 307)	(131)	18 586
	USD	1 353	-	(15)	(923)	36	451
Floating rate		72 713	-	(2 430)	(52 082)	(6)	18 195
	HUF	72 713	-	(2 430)	(52 082)	(6)	18 195
Accrued interest		1 493	-	-	-	-	1 618
Total		155 138	11 385	(4 937)	(75 978)	(108)	85 625

The Group uses fair value option revaluation through profit or loss for structured bonds, as they are related to assets, which share the same risk that give rise to opposite changes in fair value. At 30 June 2016 the carrying amount of FVTPL own issued bonds amounted to HUF 16,337 million (2015: HUF 23,141 million).

20 Share capital

The Bank's authorised, issued, called up and fully paid share capital comprises 225,489,994 (2015: 225,489,994) ordinary shares of HUF 1,000 (2015: HUF 1,000) each. All issued shares rank pari passu in the event of a winding up.

21 Reserves

Currency translation reserve

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

Share premium

Share premium comprises of premiums on share capital issuances.

Retained Earnings

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

Based on the contract signed on 12 June 2015 by MKB Bank Zrt. and the former co-owners of Euroleasing Group, the Bank obtained 100% direct ownership in MKB-Euroleasing Zrt. - controlled previously 50%-, and through this company indirectly also in the car financing entities of the Group (MKB-Euroleasing Autóhítel Zrt. and MKB-Euroleasing Autólízing Zrt.). At the same time MKB-Euroleasing Zrt. sold the investments held in car dealer companies. The transactions were closed on 8 September 2015.

According to IFRS 3 International Financial Reporting Standard, this transaction was not considered as an acquisition, therefore it was disclosed as buyout of the non-controlling interest in the Financial Statements of the Group for 2015: the payments made in addition to this buyout decreased Retained earnings in the amount of HUF 2,876 million, while the balance of non-controlling interest of HUF – 1,932 million was disposed. In 2015, the transaction resulted in HUF 944 million reduction in the consolidated Equity of the Group.

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 2016 MKB did not recognize any general reserve (2015: NIL).

Revaluation reserves

AFS financial assets' revaluation reserve includes the cumulative net change in the fair value of available - for - sale investments until the investment is derecognized or impaired.

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

22 Non-controlling interest

In September 2015, the Group acquired 100% ownership in MKB-Euroleasing Autóhítel Zrt. and MKB-Euroleasing Autólízing Zrt., resulting in NIL Non-controlling interest at the end of 2015. The Non-controlling interest was also NIL for the reporting period

23 Impairments and provisions for losses

23.1 Impairments and provisions for losses

	Note	30.06.2016	30.06.2015
<i>Impairment loss, net of reversals on</i>			
Loans and advances to banks	6	-	(14)
Loans and advances to customers	10	2 039	(255)
Other assets	11	21	8
Losses arising from derecognition		673	8 903
Non-current assets held for sale and discontinued operations		-	(229)
<i>Provision on</i>			
Guarantees and contingencies	18	(146)	(294)
Impairments and provisions for losses		2 587	8 119

In 2015, the utilisation of provision for settlement of consumer loans in the amount of HUF 39,841 million was disclosed in Other operating income / (expense), net, where the related losses were realised. (see Note 10)

24 Income tax

Income tax expense recognized in the Statement of Comprehensive Income

24.1 Income tax

	2016	2015
Current tax expense	99	73
Levies on financial organisations and credit institutions	1 528	-
Deferred tax expense/(income)	552	(64)
Income tax (credit) / expenses	2 179	9

In the reporting period 10% current income tax rate applied under HUF 500 million taxable profit and 19% tax rate above this amount in Hungary. Due to this calculation method 10% current income tax rate applied in the Hungarian market as current income tax rate and 18.59% deferred tax rate was applied based on the available future plans.

25 Earnings per share

The calculation of basic earnings per share at 30 June 2016 was based on the profit attributable to ordinary shareholders of HUF 1,549 million (2015: HUF -3,471 million) and a weighted average number of ordinary shares outstanding of 225,490 million (2015: 225,490 million).

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 2016 and 2015 there were no dilution factor that might cause an adjustment in the weighted average number of ordinary shares, therefore basic and diluted EPS were equivalent.

26 Contingencies and commitments

26.1 Contingencies and commitments

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

2015	Gross	Provision	Net
<i>Contingencies</i>			
Guarantees and similar obligations	114 804	1 883	112 921
Obligations from letters of credit and other short term trade related items	12 005	94	11 911
Other contingent liabilities (including litigation)	82 835	1 696	81 139
Total contingencies	209 644	3 673	205 971
<i>Commitments</i>			
Undrawn commitments to extend credit	227 085	1 431	225 654
Total commitments	227 085	1 431	225 654

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

27 Use of estimates and judgements

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

These disclosures supplement the commentary on financial risk management (see Note 5).

Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

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

Determining fair values

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

Critical accounting judgements in applying the Group's accounting policies

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

Valuation of financial instruments

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

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

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

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

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

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

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

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

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

27.1 Valuation type classification of financial instruments

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Total
30 June 2016				
Financial assets measured at FVTPL	7	2 730	116 311	119 041
Derivative assets held for risk management	8	-	15	15
Investments in securities	9	423 684	102 071	525 755
Deposit and current accounts	15	-	16 669	16 669
Negative fair values of derivative financial instruments	16	-	15 395	15 395
Derivative liabilities held for risk management	17	-	11 225	11 225
Issued debt securities	19	-	16 337	16 337
Total		426 414	278 023	704 437
31 December 2015				
Financial assets measured at FVTPL	7	4 564	89 005	93 569
Derivative assets held for risk management	8	-	-	-
Investments in securities	9	672 297	135 617	807 914
Deposit and current accounts	15	-	21 388	21 388
Negative fair values of derivative financial instruments	16	-	20 751	20 751
Issued debt securities	19	-	23 141	23 141
Total		676 861	289 902	966 763

The determination of fair value level and the transfers between levels are in line with accounting policy (see Note 3 g). There were no transfers between fair value levels in the reporting period ended on June 30, 2016.

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

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

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

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

27.2 Risk type classification of financial instruments

	Note	Interest	Foreign exchange rate	Other
30 June 2016				
Financial assets measured at FVTPL	7	110 193	10 652	967
Derivative assets held for risk management	8	15	-	-
Investments in securities	9	525 241	23 298	-
Deposit and current accounts	15	16 669	-	16 669
Negative fair values of derivative financial instruments	16	12 162	3 099	134
Derivative liabilities held for risk management	17	11 225	-	-
Issued debt securities	19	8 415	4 445	16 337
Total		683 920	41 494	34 107
31 December 2015				
Financial assets measured at FVTPL	7	90 389	8 001	1 332
Derivative assets held for risk management	8	-	-	-
Investments in securities	9	807 914	32 929	-
Deposit and current accounts	15	21 388	1 753	21 388
Negative fair values of derivative financial instruments	16	18 611	7 887	307
Derivative liabilities held for risk management	17	-	-	-
Issued debt securities	19	15 337	4 448	23 141
Total		953 639	55 018	46 168

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

28 Accounting classifications and fair values

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

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

28.1 Accounting classifications and fair values

2016	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Held to maturity	Other amortised cost	Total carrying amount	Fair value
<i>Financial assets</i>								
Cash reserves		-	-	-	-	28 708	28 708	28 708
Loans and advances to banks	6	-	61 633	-	-	-	61 633	61 671
<i>Measured at fair value</i>		-	-	-	-	-	-	-
<i>Measured at amortised cost</i>		-	61 633	-	-	-	61 633	61 671
Financial assets measured at FVTPL	7	119 041	-	-	-	-	119 041	119 041
Derivative assets held for risk management	8	15	-	-	-	-	15	15
Investments in securities	9	-	-	525 756	332 643	-	858 399	856 447
Loans and advances to customers	10	-	797 808	-	-	-	797 808	785 227
<i>Measured at fair value</i>		-	-	-	-	-	-	-
<i>Measured at amortised cost</i>		-	797 808	-	-	-	797 808	785 228
Total		119 056	859 441	525 756	332 643	28 708	1 865 604	1 851 109
<i>Financial liabilities</i>								
Amounts due to other banks	14	-	-	-	-	324 220	324 220	335 419
Deposits and current accounts	15	16 669	-	-	-	1 384 958	1 401 627	1 403 343
<i>Measured at fair value</i>		16 669	-	-	-	-	16 669	16 669
<i>Measured at amortised cost</i>		-	-	-	-	1 384 958	1 384 958	1 386 674
Negative fair values of derivative financial instruments	16	15 395	-	-	-	-	15 395	15 395
Derivative liabilities held for risk management	17	11 225	-	-	-	-	11 225	11 225
Issued debt securities	19	16 337	-	-	-	18 679	35 016	35 299
<i>Measured at fair value</i>		16 337	-	-	-	-	16 337	16 337
<i>Measured at amortised cost</i>		-	-	-	-	18 679	18 679	18 962
Total		59 626	-	-	-	1 727 857	1 787 483	1 800 681

2015	Note	Fair value through profit or loss	Loans and receivables	Available for sale	Held to maturity	Other amortised cost	Total carrying amount	Fair value
<i>Financial assets</i>								
Cash reserves		-	-	-	-	41 494	41 494	41 494
Loans and advances to banks	6	-	51 741	-	-	-	51 741	51 789
<i>Measured at fair value</i>		-	-	-	-	-	-	-
<i>Measured at amortised cost</i>		-	51 741	-	-	-	51 741	51 789
Financial assets measured at FVTPL	7	93 569	-	-	-	-	93 569	93 569
Derivative assets held for risk management	8	-	-	-	-	-	-	-
Investments in securities	9	-	-	807 914	51 827	-	859 741	859 662
Loans and advances to customers	10	-	802 954	-	-	-	802 954	796 251
<i>Measured at fair value</i>		-	-	-	-	-	-	-
<i>Measured at amortised cost</i>		-	802 954	-	-	-	802 954	796 252
Total		93 569	854 695	807 914	51 827	41 494	1 849 499	1 842 765
<i>Financial liabilities</i>								
Amounts due to other banks	14	-	-	-	-	324 650	324 650	335 957
Deposits and current accounts	15	21 388	-	-	-	1 357 780	1 379 168	1 365 364
<i>Measured at fair value</i>		21 388	-	-	-	-	21 388	21 388
<i>Measured at amortised cost</i>		-	-	-	-	1 357 780	1 357 780	1 343 976
Negative fair values of derivative financial instruments	16	20 751	-	-	-	-	20 751	20 751
Derivative liabilities held for risk management	17	-	-	-	-	-	-	-
Issued debt securities	19	23 141	-	-	-	62 484	85 625	87 241
<i>Measured at fair value</i>		23 141	-	-	-	-	23 141	23 141
<i>Measured at amortised cost</i>		-	-	-	-	62 484	62 484	64 100
Total		65 280	-	-	-	1 744 914	1 810 194	1 809 313

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

Cash reserves

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

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

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

Investments in securities

The fair values of instruments grouped into Investments in securities are based on quoted market prices, when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar securities. For further information, please refer to Note 9.

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 margin. The used interest rates are available in published Terms and Conditions as of 30 June, 2016 and the counterparty margin is available in the Bank's systems. The rediscounted cash flows are decreased using by the same impairment percentage as it was used for impairment purpose, and it is considered as fair value of the loan portfolio. Non-performing loans which are assessed for impairment individually are discounted with discount factors which are calculated as in case of performing loans, but that estimated cash flows of these loans are used for calculation, which was also used for impairment purpose. In the case of work-out loans where the bank expects cash flows only from sale of collaterals and therefore they are impaired to the net present value of this amount, the fair value is equal with the carrying amount.

The fair value of Loans and advances to banks and to customers on demand is not different from the amounts receivable at the end of the reporting period.

Amounts due to other banks and Current and deposit accounts

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

Issued debt securities and Subordinated debt

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

29 Related parties

During 2014, all of the MKB's shares were acquired by State of Hungary from Bayern LB. At the end of 2015, the new ultimate controlling party of the Group was the MSZKV Magyar Szanalási Vagyonkezelő ZRt.

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

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

Transactions with related parties

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

29.1 Transactions with related parties

	Parent company and its group		Non-consolidated subsidiaries		Jointly controlled entities		Associates		Key Management Personnel		Other related parties	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<i>Assets</i>												
Loans and advances to customers	-	-	1 758	1 518	-	25 062	324	335	36	42	19	44
Derivative financial assets	-	-	-	-	-	-	-	-	-	-	123	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	329	-
<i>Liabilities</i>												
Current and deposit accounts	-	-	491	497	-	23	27	29	246	173	-	-
Other liabilities	-	-	-	-	-	12	-	-	-	-	-	-
<i>Income statement</i>												
Interest income	-	-	294	9	-	406	5	10	1	2	7	-
Interest expense	-	-	2	8	-	-	-	-	-	-	-	236
Other net income / (expense)	-	-	5	2	-	15	1	2	(170)	(547)	30	33
<i>Contingencies and commitments</i>												
Undrawn commitments to extend credit	-	-	354	494	-	1 743	56	56	-	-	203	13 877
Provision	-	-	1 214	1 221	-	209	3	3	-	-	-	108

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

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

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

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

29.2 Compensation of key management personnel

	2016	2015
Short-term employee benefits	170	154
Termination benefits	-	393
Total	170	547

22 December, 2014 four Reorganizational Commissioners took over control of the Bank, the former members of Board of Directors and Supervisory Board were recalled. Chairman and Chief Executive was András Sebők till 31 January, 2015.

Mr. Ádám Balog was appointed to take over the Chairman and Chief – Executive role of MKB Bank Zrt. from 23 July 2015. At this time – continuing the reorganization procedure – the reorganizational commissioners were recalled, and further the Board of Directors has been exercising the control of the Bank.

29.3 Exposure to State of Hungary and local governments

	Government related entities		Local government	
	2016	2015	2016	2015
Loans and advances to customers	-	891	-	-
Bonds of public sector issuers	-	851 003	-	-
Current and deposit accounts	-	1 268	-	14 063
Undrawn commitments to extend credit	-	396	-	13 243
Guarantees	-	-	-	46 633

The exposures to State of Hungary and local governments have been purchased and issued by market terms. For 2016 no disclosure is required as exposures to related parties.

30 Group entities

The subsidiaries and jointly controlled entities of MKB and their activities are as follows:

30.1 Group entities

2016				
Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
MKB-Euroleasing Autolizng Szolgáltató Zrt.	100%	100%	Hungary	Car finance activity
MKB-Euroleasing Autóhitel Zrt.	100%	100%	Hungary	Car and consumer finance activities
MKB-Euroleasing Zrt.	100%	100%	Hungary	Holding of Euroleasing group
MKB Üzemeltetési Kft.	100%	100%	Hungary	Property operation and maintenance
MKB Befektetési Alapkezelő Zrt.	100%	100%	Hungary	Investment fund management activity
Exter-Adósságkezelő Kft.	100%	100%	Hungary	Wholesale trade
Euro-Immat Üzemeltetési Kft.	100%	100%	Hungary	Intangible assets, license maintenance
Extercom Vagyonkezelő Kft.	100%	100%	Hungary	Property investments
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	100%	100%	Hungary	Other financial services
Retail-Prod Zrt.	100%	100%	Hungary	Car and consumer finance activities

2015				
Company	Percentage of equity owned	Percentage of voting rights	Country of incorporation	Brief description of activities
MKB-Euroleasing Autolizng Szolgáltató Zrt.	100%	100%	Hungary	Car finance activity
MKB-Euroleasing Autóhitel Zrt.	100%	100%	Hungary	Car and consumer finance activities
MKB-Euroleasing Autópark Zrt.	50%	50%	Hungary	Car fleet management
MKB Autopark OOD	50%	50%	Bulgaria	Car fleet management
MKB-Euroleasing Zrt.	100%	100%	Hungary	Holding of Euroleasing group
MKB Üzemeltetési Kft.	100%	100%	Hungary	Property operation and maintenance
MKB Befektetési Alapkezelő Zrt.	100%	100%	Hungary	Investment fund management activity
Exter-Adósságkezelő Kft.	100%	100%	Hungary	Wholesale trade
Euro-Immat Üzemeltetési Kft.	100%	100%	Hungary	Intangible assets, license maintenance
Extercom Vagyonkezelő Kft.	100%	100%	Hungary	Property investments
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	100%	100%	Hungary	Other financial services
Retail-Prod Zrt.	100%	100%	Hungary	Car and consumer finance activities

31 Segment information

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

Business segments

The business segments identified by the Group represent the organizational structure as reflected in its internal management reporting systems. The Group is organized into four business lines, each with its own distinct market and products. Each business line has its own set of objectives and targets broken down by operating units, which are consistent with the Group's overall strategic direction. As of 30 June 2016, the Group's business segments and their main products were:

Corporate Banking

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

Institutional Banking

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

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 74 full-service branches and sub-branches (2015: 79 branches), ATMs, telephone and electronic channels.

Other

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

31.1 Segment information

2016	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Other	Total
Assets						
Cash reserves		-	14 419	-	14 289	28 708
Loans and advances to banks	6	-	61 633	-	-	61 633
Financial assets measured at FVTPL	7	-	119 041	-	-	119 041
Derivative assets held for risk management	8	-	15	-	-	15
Investments in securities	9	857 425	974	-	-	858 399
Loans and advances to customers	10	444 321	-	353 487	-	797 808
Non-current assets held for sale and discontinued operations	32	-	-	-	190	190
Other assets	11	-	-	-	24 221	24 221
Deferred tax assets		-	-	-	2 571	2 571
Investments in jointly controlled entities and associates	12	1 601	1 980	-	-	3 581
Intangibles, property and equipment	13	-	-	-	45 482	45 482
Total		1 303 347	198 062	353 487	86 753	1 941 649
Liabilities						
Amounts due to other banks	14	-	324 220	-	-	324 220
Deposits and current accounts	15	898 515	-	503 111	-	1 401 626
Negative fair values of derivative financial instruments	16	-	15 395	-	-	15 395
Derivative liabilities held for risk management	17	-	11 225	-	-	11 225
Liabilities of Discontinued operation as held for sale	32	-	-	-	-	-
Other liabilities and provisions	18	4 467	-	77	38 149	42 693
Deferred tax liabilities		-	-	-	924	924
Issued debt securities	19	3 109	1 963	29 944	-	35 016
Subordinated debt		-	-	-	-	-
Shareholders' equity	20, 21	-	-	-	110 550	110 550
Total		906 091	352 803	533 132	149 623	1 941 649
Income statement						
Gross revenue - external customers		14 583	6 258	25 861	96	46 798
Gross revenue - inter-segment		2 412	(2 214)	(198)	-	-
Interest and commission expenditure		(5 467)	(7 010)	(4 839)	-	(17 316)
Impairment and provisions for losses	23	458	(9)	(3 036)	-	(2 587)
Restructuring expenses		-	-	-	-	-
Operating costs		(5 986)	(1 471)	(9 857)	(1 318)	(18 632)
Expenses related to bank levies		-	-	-	(4 785)	(4 785)
Share of jointly controlled and associated companies' profit / (loss)		250	-	-	-	250
Profit / (Loss) before taxation		6 250	(4 446)	7 931	(6 007)	3 728
Result from discontinued operation	32	-	-	-	-	-
Segment result		6 250	(4 446)	7 931	(6 007)	3 728
Other information						
Capital expenditure		-	-	-	2 313	2 313
Depreciation and amortisation	13	1 571	-	880	-	2 451
Other non-cash expenses		112	52	349	147	660

2015	Note	Corporate Banking	Institutional Banking	Retail and Private Banking	Other	Total
Assets						
Cash reserves		-	27 494	-	14 000	41 494
Loans and advances to banks	6	-	51 740	-	-	51 740
Financial assets measured at FVTPL	7	-	93 569	-	-	93 569
Derivative assets held for risk management	8	-	-	-	-	-
Investments in securities	9	856 090	3 651	-	-	859 741
Loans and advances to customers	10	404 810	-	398 144	-	802 954
Non-current assets held for sale and discontinued operations	32	26 936	-	-	5 699	32 635
Other assets	11	-	-	-	20 857	20 857
Deferred tax assets		-	-	-	2 567	2 567
Investments in jointly controlled entities and associates	12	1 529	-	-	-	1 529
Intangibles, property and equipment	13	-	-	-	47 012	47 012
Total		1 289 365	176 454	398 144	90 135	1 954 098
Liabilities						
Amounts due to other banks	14	-	324 651	-	-	324 651
Deposits and current accounts	15	834 799	-	544 369	-	1 379 168
Negative fair values of derivative financial instruments	16	-	20 751	-	-	20 751
Derivative liabilities held for risk management	17	-	-	-	-	-
Liabilities of Discontinued operation as held for sale	32	-	-	-	-	-
Other liabilities and provisions	18	13	667	1 365	32 973	35 018
Deferred tax liabilities		-	-	-	900	900
Issued debt securities	19	4 255	1 990	79 380	-	85 625
Subordinated debt		-	-	-	-	-
Shareholders' equity	20, 21	-	-	-	107 985	107 985
Total		839 067	348 059	625 114	141 858	1 954 098
Income statement						
Gross revenue - external customers		19 740	20 758	25 551	(142)	65 907
Gross revenue - inter-segment		1 433	(632)	(801)	-	-
Interest and commission expenditure		(6 739)	(8 642)	(5 749)	-	(21 130)
Impairment and provisions for losses	23	(13 758)	677	(2 395)	-	(15 476)
Restructuring expenses		(3)	-	-	(3)	(6)
Operating costs		(5 205)	(1 288)	(8 843)	(4 734)	(20 070)
Expenses related to bank levies		-	-	-	(13 626)	(13 626)
Share of jointly controlled and associated companies' profit / (loss)		360	-	-	-	360
Profit / (Loss) before taxation		(4 172)	10 873	7 763	(18 505)	(4 041)
Result from discontinued operation	32	-	-	-	-	-
Segment result		(4 172)	10 873	7 763	(18 505)	(4 041)
Other information						
Capital expenditure		-	-	-	1 528	1 528
Depreciation and amortisation	13	1 586	-	1 237	-	2 823
Other non-cash expenses		41	55	553	206	855

During 2014 MKB Group ceased its foreign operations, in the first six months of 2015 and in 2016 conducted financial services only in Hungary. The Group had indirect interests in the Bulgarian car financing market, besides its domestic subsidiaries, however the shares were disposed on 30 June, 2016. Consequently both revenues and non-current assets can be connected to domestic activities based on geographical location.

Measurement of segment profit or loss

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

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.

32 Non-current assets held for sale and discontinued operations

For the year ended in December 2015, the table of non-current assets held for sale and discontinued operations, represents the Group's non-current assets held for sale in the amount of HUF 32,635 million, which consisted of more components:

On the one hand, the Group disclosed participations in MKB-Euroleasing Autópark Zrt. and MKB Autopark OOD as Non-current assets held for sale in the consolidated financial statements ended 31 December, 2015.

On the other hand the whole exposure of one of the Bank's customers was disclosed as loans and receivables held for sale in the amount of HUF 26,936 million as of December 31, 2015.

In addition one of the branches of the Bank (street Andrásy, Budapest) was closed in line with the cost cutting plans of the Group. For the year ended 31 December 2015, the own property was disclosed as non-current assets held for sale in the amount of HUF 133 million.

For June 2016, the own property and other assets were disclosed as non-current assets held for sale in the amount of HUF 190 million related to MKB Üzemeltetési Kft. as the Board of Directors is committed to sale those assets.

32.1 Non-current assets held for sale

	2016	2015
Assets		
Cash reserves	-	-
Loans and advances to banks	-	-
Financial assets measured at FVTPL	-	-
Derivative assets held for risk management	-	-
Investments in securities	-	-
Loans and advances to customers		26 936
Other assets	-	-
Deferred tax assets	-	-
Investments in jointly controlled entities and associates	-	5 566
Intangibles, property and equipment	190	133
Total assets	190	32 635
Liabilities		
Amounts due to other banks	-	-
Current and deposit accounts	-	-
Negative fair values of derivative financial instruments	-	-
Derivative liabilities held for risk management	-	-
Other liabilities and provisions	-	-
Deferred tax liability	-	-
Issued debt securities	-	-
Subordinated debt	-	-
Total liabilities	-	-
Income statement:		
Interest income	-	-
Interest expense	-	-
Net interest income	-	-
Net income from commissions and fees	-	-
Other operating income / (expense)	-	-
Impairments and provisions for losses	-	-
Operating expenses	-	-
Profit / Loss before taxation	-	-
Income tax expense	-	-
PROFIT / LOSS FOR THE YEAR	-	-
Other comprehensive income:		
Revaluation on AFS financial assets	-	-
Exchange differences on translating foreign operations	-	-
Other comprehensive income for the year net of tax	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-

33 Forborn assets

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

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

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

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

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

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

Such exposures and associated credit risks are managed, monitored and reported distinctly by specific restructuring and debt management units of the Group on the basis of guidelines and procedure rules set by internal regulations incorporating also both legal and supervisory requirements. When the conditions of forbearance cease to exist and the following cure period expires, respective assets are returned to normal treatments both from business and risk management perspectives.

To revert to normal treatment regarding Corporate customers, additional criteria is that the customer performs its amended contractual obligations duly through a specified period (180 days or 360 days) and its risk position shows significant improvement. Forborn assets are recorded separately, and the amended terms and conditions of the contract are also indicated

in the accounting records. Recognition, derecognition and subsequent valuation of these assets are carried out according to the general rules of accounting as specified by the relevant IFRSs. The detailed requirements of risk classification and impairment valuation of forborn exposures are included in the accounting policies, and other internal regulations on the valuation of assets and liabilities, as well as in impairment and provisioning policies. Based on these internal guidelines, forbearance measures are always regarded as impairment triggers and, as a consequence, individual impairment assessment should be performed for such exposures where the general methodologies and principles of assessment are to be applied. On the results of such risk assessments, impairment losses and the reversals of previously charged impairments are accounted for according to the common rules defined by IAS 39.

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

33.1 Forborn assets

	2016	2015
Corporate Banking		
Forbearance loans and advances based on actual restructured status	33 027	33 383
Provision	(20 595)	(20 314)
Carrying amount	12 432	13 069
Retail and Private Banking*		
Forbearance loans and advances based on actual restructured status	53 966	58 340
Provision	(9 967)	(5 851)
Carrying amount	43 999	52 489
Total carrying amount	56 431	65 558

*The exposure affected by the HUF conversion of retail mortgage loans: HUF 155 bln

34 Government grants

The National Bank of Hungary (NBH) launched its three-pillar Funding for Growth Scheme (FGS) on 1 June 2013, primarily to stimulate lending to small and medium-sized enterprises. Under Pillar I and II of the FGS the NBH provided refinancing loans to credit institutions participating in the Scheme, at 0 per cent interest rate and with a maximum maturity of 10 years, which were lent further by the credit institutions to the SMEs with a capped interest margin.

Under Pillar I of the Scheme investment and current asset loans, EU subsidy financing, and loan refinancing denominated in Hungarian Forint could be carried out. Pillar II of the Scheme aimed to reduce the ratio of SME's foreign currency loans, allowing conversion of foreign currency loans to forint loans.

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

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

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

MKB Bank participated in all phases of the Scheme, and lent HUF 214,668 million loan to SME's since the beginning of the program, with an interest rate of 2,5%.

The loans lent as part of FGS are measured at amortised cost at MKB Bank, however at initial recognition the difference between the carrying amount and the fair value of the loans and parallel of the NBH funds was deferred to Other assets (HUF 18,890 million) and to Other liabilities (HUF 15,230 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 amounted to HUF 100,224 million as of 30 June 2016 (2015: HUF 101,266 million).

35 Events after the end of the reporting period

- 1.) On 19 July, 2016 one of the owners of MKB Bank, Blue Robin Investments sold 15% stake to the newly established Employee Share Ownership Programme (ESOP) organisation of the Bank. Further the new owners of the Bank are as follows: METIS Magántőkealap 45%, Blue Robin Investments S.C.A. 30%, MRP Szervezet 15%, Pannónia Nyugdíjpénztár 10%.
- 1.) On 25 July, 2016 the extraordinary General Meeting made a decision to reduce the Share capital of the Bank from HUF 225.49 billion to HUF 100 billion. This action was the result of the commitment required by the authorities and assigned to the new owners in course of the resolution process. The capital reduction is a reclassification between the elements of the Equity and does not change the total Equity of the Bank.
- 2.) Starting from 25 July, 2016 Mr. János Jaksa, Mr. Imre Kardos, Mr. Balázs Benczédi and Mr. Rakesh Kumar Aggarwal are new members of the Board of Directors, and Mr. János Jaksa is the new Chairman of the Board.
- 3.) There have been changes in the Supervisory Board also starting from 25 July 2016: dr. Mihály Barcza, dr. Lovászi-Tóth Ádám, Mr. Tibor Lados and Mr. Albert Godena are new members of the Supervisory Board, and dr. Mihály Barcza is the new Chairman. Dr. Edit Juhász and dr. László Parragh resigned as members of the SB.
- 4.) There have been changes also in the Committees set up compulsory. Further the following committees exist at the Bank: Executive Committee, Credit Committee, Restructuring and Debt Management Committee, ALCO, Bank Development Committee, Product Committee.

Information about the extraordinary General Meeting is available at the following webpage:

https://www.mkb.hu/about_us/announcements/index.html?useLang=en

The Governing Bodies of Bank Zrt. starting from 25 July, 2016:

Name	Appointment period
<i>Board of Directors</i>	
Jaksa János, Chairman	25 July 2016 - 24 July 2021
Kardos Imre	25 July 2016 - 24 July 2021
Rakesh Kumar Aggarwal	25 July 2016 - 24 July 2021
Benczédi Balázs	25 July 2016 - 24 July 2021
dr. Balog Ádám	23 July 2015 - 22 July 2020
Katona Ildikó	23 July 2015 - 22 July 2020
Hetényi Márk	23 July 2015 - 22 July 2020
<i>Supervisory Board</i>	
dr. Barcza Mihály, Chairman	25 July 2016 - 24 July 2021
dr. Lovászi-Tóth Ádám	25 July 2016 - 24 July 2021
Smohay Ferenc	29 September 2014 - 29 September 2017
Lados Tibor	25 July 2016 - 24 July 2021
Nyemcsok János	1 April 2016 - 31 March 2021
Müller Ferenc	1 April 2016 - 31 March 2021
Godena Albert	25 July 2016 - 24 July 2021

Enclosure 1

STATEMENT

on the consolidated semi-annual financial statements of 2016
and on the Report of the Management
Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)

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


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

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

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

Budapest, 29 August, 2016

MKB Bank Zrt.



dr. Adam Balog
Chief Executive Officer



Benedek Sándor
Deputy Chief Executive Officer

CONSOLIDATED MANAGEMENT REPORT

After the market turmoil of global financial markets at the beginning of the year, improving risk taking has been backed by measures of central banks of developed economies (BoJ, ECB). Positive macroeconomic data have diminished recession fears and in the spring we could see forward-looking sentiment indicators beating expectations, as well. Two main factors characterised the second quarter: Fed rate hike expectations have decreased and uncertainty has risen in connection with the British referendum. After the June 23rd Brexit vote the US dollar has appreciated as safe haven currency and stock markets lost momentum.

The gross domestic product of Hungary grew by 2.6% in the 2nd quarter of 2016 compared to the corresponding period of the previous year. Hungarian growth will be lower this year than in 2015 due to the lower inflow from EU funds. While in production side if the GDP industrial production and construction decreased at the beginning of the year, it was more than balanced by consumption growth in the expenditure side; latter was the engine of the Hungarian economy. In the first 6 months of the year, consumer prices grew by 0.2% annually. Fuel prices got cheaper than a year ago, while alcohol and tobacco prices have risen the most. Employment grew in the first months of the year and unemployment rate decreased to 5.1% in April–June, the lowest in 10 years.

The National Bank of Hungary lowered the base rate 3 times by 15 basis points between March and May, to 0.90%. Another important event of the Hungarian monetary policy was the termination of the two-week central bank deposit facility for liquidity management purposes by the end of April 2016. In the first quarter Hungarian yield curve flattened, in the second quarter short-term yields decreased, while yields on domestic long-term government securities didn't change notably. Fitch Ratings has upgraded Hungary back to investment grade in May. Sentiment in Hungarian financial market has moved together with global sentiment, forint had greater volatility only in January and in the second half of April. Improving risk appetite was broken by lower than expected GDP growth for the first quarter, in June HUF exchange rate was weakened again.

During the first half of the year the National Bank of Hungary introduced a number of measures determining the development of financial markets, such as changing the three-month policy instrument, additional obligation paid by commercial banks after extra reserves, BUBOR-subscription of one and three-month maturities and the termination of preferential IRS tenders.

In the first half of 2016, the profitability of the banking sector has improved significantly compared to the base period, primarily due to the lower provisioning needs and the impact of passing of the FX-settlement. In a long-lasting low interest rates environment in a competing banking market banks are constantly looking for solutions to increase and change the structure of income. However, in a tightening regulatory (capital, liquidity, consumer protection) regime the amount of available income are partly determined. The expansion of lending activity has started (according to the latest available statistics, net corporate loans of the financial institutions grew by 2.2%, households' volumes declined by 1.2%, as the amortisation of the portfolio was even higher than the substantial growth of the new disbursements), supported by various state incentives. Among other things, the extensive credit outflow improves portfolio quality, and in such of a positive macroeconomic environment favourable risk cost trend remains. Despite banks have taken large steps to improve cost efficiency, in international comparison cost to assets ratio is still quite high. The overall picture will continue to improve, as the sector's burden will be reduced significantly through banking tax moderation.

The most significant event of the first half of 2016 was the completion of the sales process of MKB Bank, closely monitored by the European Commission, and the termination of the reorganization process. MKB Bank, as a result of the reorganization process launched in December 2014 is now on a competitive and sustainable growth path and became a profitable institution with adequate growth potential, bearing high quality of assets and loan portfolio. During the reorganisation process several measures was taken, such as the separation of toxic commercial real estate loan portfolio, the

commercial banking subsidiaries not closely linked to the commercial banking activity were sold, significant cost-reduction and efficiency-improving measures were taken. The Restructuring Plan set during the reorganization process (approved by the European Commission) and the commitments included - supervised by the EU trustee - ensure the realization of the bank's business plan, which Moody's international rating agency acclaimed in July 2016, by upgrading MKB Bank's long-term domestic and foreign currency deposit ratings from "Caa2" to "B3", with stable outlook. The agency stated that such a favourable operating environment strongly supports the successful implementation of MKB Bank's strategy for the next one and a half years.

In this market environment 2016's half yearly pre-tax profit of MKB Group significantly improved to HUF 3.7 bn (2015.I. HUF 4.0 bn negative profit (loss)), by which the Group closed the period with the best midterm profit figures of the last 7 years. Gross operating income improved by 3.8% and reached HUF 24.7 bn (2015.I.: HUF 23.8 bn). As a result of the continued strict restructuring program, operating expenses reached HUF 18.6 bn at the end of the period, representing another 7.2% decrease in nominal terms compared to the end of the first half of 2015 (2015.I.: HUF 20.1 bn). The net impairment loss and provisioning amounted HUF 2.6 bn (2015.I.: HUF 8.1 bn).

MKB Group's consolidated total assets according to IFRS decreased by 0.6% to HUF 1,941.6 billion as compared to the end of 2015. Net customer loans were stagnating. The non-core commercial real estate portfolio is continuously built off, the carrying amount of these loans decreased by over 20% compared to the end-2015. The volume of the core loan portfolio was successfully increased by 5.1% in the reporting period. Deposits and current accounts increased by 1.6% to HUF 1,401.6 bn in the first half of 2016.

MKB-Euroleasing Group

The Hungarian leasing market in the first half of 2016 grew by 13% compared to the same period in 2015. The automotive and fleet financing market grew by nearly 20%, while the equipment and machinery market achieved a moderate 7 % growth. FGS (the central bank's Funding for Growth Scheme) remained a very important component of the leasing market, these loans represent 24% of total leasing market during the reported period (HUF 55 bn).

The leasing portfolio of the MKB-Euroleasing Group in the first half of the year increased by 67% compared to the same period in 2015. The car financing business growth was 30%, while asset leasing business launched in January 2016 contributed by higher month to month portion of additional portfolio growth. Agriculture equipment financing showed a rapid development. The growth was realised in the low-risk segments, similarly to the previous years; the share of new car loans continued to increase in the portfolio. After the crisis the risk parameters of the new portfolio are positive, and after the settlement and forint re-nomination took place in 2015 even the former portfolio has favourable risk characteristics.

MKB Euroleasing Group is the second largest market participant in the car financing market, and owing to launching the asset financing business line, the total market share also significantly increased in 2016h1: in terms of gross asset value financed the Group become the second largest player of the market.

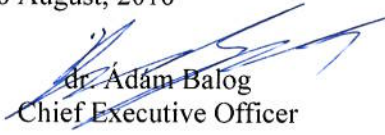
MKB Euroleasing Group in accordance with its current strategy - in close collaboration with MKB Bank - is aiming to maintain its market determining role now as a universal leasing company in key segments of the leasing market. Strategic target is to provide a full range of services to MKB Group's clients, by taking appropriately controlled risks.

MKB-Investment Funds

At the end of June-2016 MKB Investment Funds offered 46 funds (25 open-end funds and 21 closed-end funds). The net asset value of the funds managed grew to HUF 234 bn, reflecting a 10.4% increase during the 6 months of the year, by which asset managed reached a historically maximum level, representing 4.3% market share. The major drivers of growth were the bond funds:

net asset value of the class increased by near 180% compared year-end 2015. During the first half of the year, MKB Investment Funds launched 3 new closed-end investment funds, by which great variety of investment opportunities was provided.

Budapest, 26 August, 2016



Dr. Adam Balog
Chief Executive Officer



Benedek Sandor
Deputy Chief Executive Officer