MKB Bank Nyrt.

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statistic code

Consolidated Interim Financial Statements

Prepared under
International Financial Reporting Standards
as adopted by the EU

Budapest, 24 September 2020

30 June 2020

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Data in HUF million except stated otherwise

MKB Bank Nyrt.
Consolidated Statement of Financial Position as at 30 June 2020

	Note	30 June 2020	31 December 2019
Assets			
Cash and cash equivalents	**7**	128 561	55 388
Loans and advances to banks	**8**	115 124	62 392
Derivative financial assets	**9**	29 297	18 193
Securities	**10**	852 923	600 894
Loans and advances to customers	**11**	991 344	930 313
Non-current assets held for sale and discontinued operations	**36**	1 876	4 075
Other assets	**12**	18 085	15 176
Current income tax assets		1 004	539
Deferred tax assets	**23**	8 045	8 008
Investments in jointly controlled entities and associates	**13**	4 383	5 911
Intangibles, property and equipment	**14**	57 166	58 907
Total assets		**2 207 808**	**1 759 796**
Liabilities			
Amounts due to other banks	**15**	409 201	195 810
Deposits and current accounts	**16**	1 459 948	1 226 529
Derivate financial liabilities	**17**	45 232	44 263
Other liabilities and provisions	**18**	54 145	55 222
Current income tax liabilities		1	3
Deferred tax liabilities	**23**	161	126
Subordinated debt	**20**	42 711	39 381
Total liabilities		**2 011 399**	**1 561 334**
Equity			
Share capital	**21**	100 000	100 000
Treasury shares		(35)	(35)
Reserves	**22**	96 409	98 462
Total equity attributable to shareholders of the Bank		**196 374**	**198 427**
Non-controlling interests	**22**	35	35
Total equity		**196 409**	**198 462**
Total liabilities and equity		**2 207 808**	**1 759 796**

Budapest, 24 September 2020

dr Ádám Balog
Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer

MKB Bank Nyrt.
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period ended 30 June 2020

	Note	2020	2019
Statement of profit or loss			
Interest and similar income	24	25 783	30 407
Interest expense	25	11 312	8 893
Net interest income		**14 471**	**21 514**
Net income from commissions and fees	26	11 291	11 716
Other operating income / (expense), net		(4 084)	(9 937)
Impairment / (Reversal) and provision for losses	27	2 927	(4 562)
Operating expense		21 797	20 975
Share of jointly controlled and associated companies' profit	13	1 097	1 073
Profit before taxation		**(1 949)**	**7 953**
Income tax (income) / expense	28	37	(217)
PROFIT FOR THE YEAR		**(1 986)**	**8 170**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Revaluation on financial assets measured at FVTOCI	10	(67)	5 490
Other comprehensive income for the year net of tax		**(67)**	**5 490**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(2 053)**	**13 660**
Profit / (Loss) attributable to:			
Shareholders of the bank		**(1 986)**	**8 170**
Non-controlling interests		**-**	**-**
Total comprehensive income attributable to:			
Shareholders of the bank		**(2 053)**	**13 660**
Non-controlling interests		**-**	**-**
Net income available to ordinary shareholders		(1 986)	8 170
Average number of ordinary shares outstanding (thousands)		99 906	99 812
Earnings per Ordinary Share (in HUF)	30		
Basic		(20)	82
Diluted		(20)	82

Budapest, 24 September 2020

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MKB Bank Nyrt.
Consolidated Statement of Changes in Equity for the period ended 30 June 2020

	Share capital	Treasury shares	Share premium	Share-based payments	Retained earnings	Revaluation on financial assets measured at FVTOCI	Non-controlling interests	Total equity
At 1 January 2019	**100 000**	**(1 987)**	**21 729**	**194**	**39 709**	**(3 466)**	**1 987**	**158 166**
Dividend	-	-	-	-	(4 665)	-	-	**(4 665)**
Profit for the year	-	-	-	-	44 148	-	-	**44 148**
Other comprehensive income for the year	-	-	-	-	-	(3 281)	-	**(3 281)**
Equity settled share-based payments	-	-	-	(194)	194	-	-	**-**
Disposal of treasury shares	-	1 952	-	-	4 094	-	(1 952)	**4 094**
At 31 December 2019	**100 000**	**(35)**	**21 729**	**-**	**83 480**	**(6 747)**	**35**	**198 462**
Profit for the year	-	-	-	-	(1 986)	-	-	**(1 986)**
Other comprehensive income for the year	-	-	-	-	-	(67)	-	**(67)**
At 30 June 2020	**100 000**	**(35)**	**21 729**	**-**	**81 494**	**(6 814)**	**35**	**196 409**

Budapest, 24 September 2020

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Deputy Chief Executive Officer

Data in HUF million except stated otherwise

MKB Bank Nyrt.
Consolidated Statement of Cash-Flows for the period ended 30 June 2020

	Note	2020	2019
Cash flows from operating activities			
Profit before taxation		**(1 949)**	**43 368**
Adjustments for:			
Depreciation, amortisation and impairment	**14**	2 851	4 075
(Reversal of impairment) / impairment on other assets	**12**	(180)	1 180
Reversal of provisions	**18, 31**	(205)	(2 509)
Impairment /(Reversal of impairment) on loans and advances	**11**	655	(23 739)
Reversal of impairment on non-current assets held for sale	**36**	(6 824)	(194)
Impairment on securities	**10**	29	19
Impairment / (reversal of impairment) on associates	**13**	(97)	330
Change in deferred tax	**28**	(2)	(2 070)
Net interest income	**24, 25**	(18 150)	(40 512)
Dividends on securities		(149)	(167)
Revaluation of issued securities	**19**	-	(447)
Revaluation and other result on securities measured at FVTOCI	**Change in Equity**	(67)	(3 281)
Foreign Exchange movement on cash and cash equivalents		216	122
Cash flows from operating activities		(23 872)	(23 825)
Change in loans and advances to banks	**8**	(52 770)	1 213
Change in deposits and current accounts	**11, 32, 33, 35**	(61 648)	(11 366)
Change in non-current assets held for sale and discontinued operations	**36**	9 023	357
Change in derivative assets	**9**	(11 104)	(279)
Change in other assets	**12**	(2 729)	5 343
Change in amounts due to banks (short term)	**15**	32 319	(32 017)
Change in current and deposit accounts	**16**	233 419	(145 517)
Change in other liabilities	**18**	(872)	9 306
Change in derivative liabilities	**17**	969	12 655
Interest received	**24**	36 900	60 497
Interest paid	**25**	(18 750)	(19 985)
Income tax	**28**	(504)	230
		164 253	(119 563)
Net cash used in operating activities		**140 381**	**(143 388)**
Cash flow from investing activities			
Investment in Group companies	**13**	(21)	(1 657)
(Disposal of) / investment in Group companies	**13**	1 646	103
Purchase of PPEs and intangible assets	**14**	(1 110)	(10 839)
Change in securities	**10**	(251 909)	172 283
Net cash generated by investing activities		**(251 394)**	**159 890**
Cash flow from financing activities			
Change in issued securities	**19**	-	(433)
Change in subordinated liabilities	**20**	3 330	11 379
Change in amounts due to banks (Borrowings)	**15**	181 072	13 487
Dividends paid	**Change in Equity**	-	(4 665)
Net cash generated / (used in) by financing activites		**184 402**	**19 768**
Net increase / (decrease) of cash and cash equivalents		73 389	36 270
Cash reserves at 1 January		**55 388**	**19 240**
Foreign Exchange movement on cash and cash equivalents		(216)	(122)
Cash reserves at the end of period		**128 561**	**55 388**

Budapest, 24 September 2020

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Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer

Data in HUF million except stated otherwise

Notes to the Financial Statements

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1 General information

MKB Bank Nyrt. (former MKB Bank Zrt., hereinafter: "MKB" or "MKB Bank" or "the Bank") is a commercial bank registered in Hungary, and operating under the effective laws of Hungary, particularly under Act CCXXXVII of 2013 on credit institutions and financial enterprises.

The non-audited consolidated financial statements of the Bank as at and for the period ended 30 June 2020 comprise the Bank and its subsidiaries (together referred to as the "MKB Group" or "Group"). The Group provides its domestic non-financial services through domestic non-banking subsidiaries.[1]

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

The shareholder structure of MKB Bank is the following:

1.1

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

The free float ratio was: 8.48%.

OPUS GLOBAL Befektetési Alapkezelő Zártkörűen Működő Részvénytársaság has been. managing METIS Private Equity Fund shareholder since 28 June 2019.

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

The sole member of RKOFIN Befektetési és Vagyonkezelő Kft. is Metis 2 Private Equity Fund. Metis 2 Private Equity Fund is managed by Opus Global Befektetési Alapkezelő Zrt.

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

The fund manager of EIRENE Private Equity Fund is MINERVA Befektetési Alapkezelő Zrt.

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

2 Compliance with International Financial Reporting Standards

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

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

These financial statements are presented in Hungarian Forint ("HUF"), rounded to the nearest million, except if indicated otherwise. The financial statements are authorised for issue by the Board of Directors on 24 September 2020.

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

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

3 Basis of measurement

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

The Group classifies subsequent measurements into the following categories:

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

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

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 32.

4 Summary of significant accounting policies

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

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

a) Financial statement presentation

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

The presentation and functional currency of the Group was determined as Hungarian Forints (“HUF”).

b) Consolidation

Subsidiaries

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

Funds management

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

Transactions eliminated on consolidation

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

c) Investments in Associates and Joint Ventures

Jointly controlled entities

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

Associates

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

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

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

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

d) Intangible assets

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

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

Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually. An intangible asset is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

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

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

e) Property, plant and equipment

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

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

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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

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

Depreciation of property, plant and equipment are included in “Operating expense” line in Statement of Profit or Loss and Other Comprehensive Income.

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

Net gains and losses on disposal or retirement of property and equipment are recognised in “Other operating income / (expense), net”, in the year of disposal or retirement.

f) Investment property

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

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

The estimated useful lives of investment properties are as follows:

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

Depreciation of investment property is included in “Other operating income / (expense), net” line in Statement of Profit or Loss and Other Comprehensive Income.

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

g) Cash and cash equivalents

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

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

h) Initial recognition and measurement of Financial Instruments

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

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

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

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

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

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

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

- gross carrying value of the financial asset, or
- amortized cost of the financial liability.

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

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

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

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

Simplified approach for trade receivables, contract assets and lease receivables

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

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

i) Classification and subsequent measurement of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

j) Classification and subsequent measurement of financial liabilities

The Group classifies its financial liabilities into the following categories:

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

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

k) Fair Value Option (FVO)

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

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

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

l) Determination and recognition of the Expected Credit Loss

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

The Group assigns exposures at each reporting period – in this case monthly – during which the exposures are allocated to the segments and to the so-called 'stages' (stage1, stage2, stage3 and / or POCI) in accordance with the principles of IFRS 9 standard.

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

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

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

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

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

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

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

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

Factors taken into account when determining expected credit loss:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

m) Determination of fair value

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

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

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

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

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

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

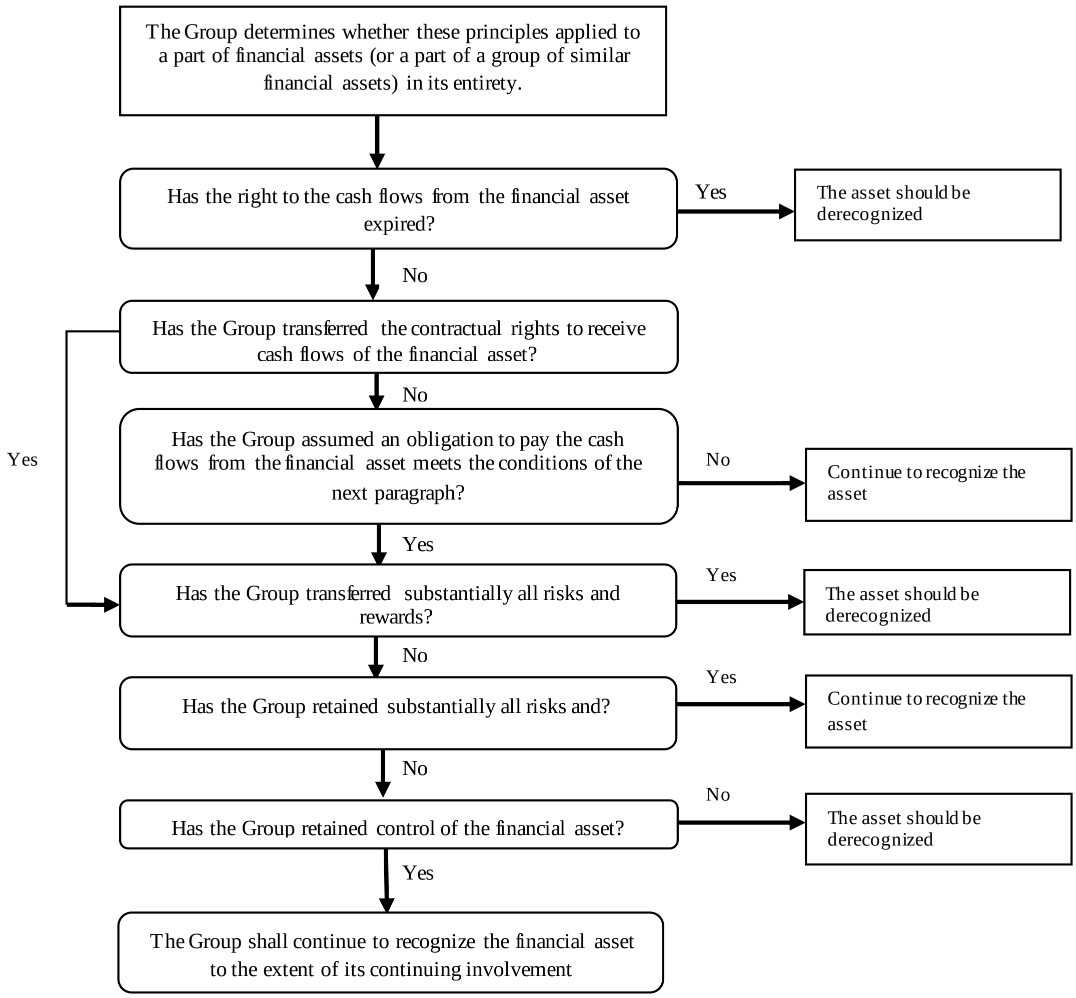
Factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about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

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

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

n) Derecognition of Financial Assets

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



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

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

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

The Group examines the following before derecognition:

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

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

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

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

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

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

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

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

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

Write-off of financial assets under legal proceeding

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

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

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

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

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

o) Derecognition of financial liabilities

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

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

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

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

p) Financial guarantees

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

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

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

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

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

q) Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by the Group which are classified as Fair Value Through Profit or Loss or Amortised cost. Loans and advances are recognised when cash is advanced to borrowers. They are derecognised when either borrower repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

If they are measured at amortised cost they are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost, otherwise they are measured at fair value. Where loans and advances are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

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

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

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

To meet the criteria for classification as held for sale:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable,
- for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated,
- the plan or decision to sell must be approved in accordance with the relevant rules of the Group in order for the sale to be considered as highly probable and it is also necessary to include it in the report,
- the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value or the Group advertise it at the appropriate forum,
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification,
- actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

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

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

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

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

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

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

Please find further details on non-current financial assets and liabilities held for sale in Note 36.

s) Financial assets and liabilities held for trading

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

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

Long-term deposit

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

Structured Bonds

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

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

t) Securities

Investments in securities are classified as asset held for liquidity purposes if there was a decision made previously about possible disposal in case of the changes in market conditions or the securities have not been classified into the other categories. By these assets the objective is to achieve both collecting contractual cash flows and selling financial assets. Financial investments are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities, and are derecognised when either the securities are sold or the borrowers repay their obligations.

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

u) Derivatives

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

Derivatives may be embedded in other financial if host contract is financial asset, then embedded derivative is not separated according to the IFRS 9 standard.

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

v) Leases

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

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

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

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

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

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

Presentation in the financial statements

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

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

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

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

w) 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 in profit or loss.

x) Provisions

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

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

y) Income tax

Income tax comprises current tax and deferred tax.

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

The Group applies the corporate income tax as income tax.

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

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

Deferred tax is provided using the financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and
- differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

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

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

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

z) Interest and similar to interest income and expense

Interest income and expense relating to use the effective interest method is recognised in ‘Interest and similar to interest income’ and ‘Interest expense’ in the Statement of Profit or Loss and Other Comprehensive Income.

aa) Net income from commissions and fees

Fee and commission income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example the arrangement for the acquisition of shares or other securities) and
- income earned from the provision of services is recognised as revenue as the services are provided (for example asset management and service fees).

bb) Other operating income / (expense), net

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

cc) Dividends

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

dd) Segment reporting

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

Segment revenue, segment expense, segment assets and segment liabilities are determined as those that are directly attributable or can be allocated to a segment on a reasonable basis, including factors such as the nature of items, the conducted activities and the relative autonomy of the unit. The Group allocates segment revenue and segment expense through an inter-segment pricing process. These allocations are conducted on arm’s length terms and conditions. Please find further details on segment reporting in Note 35.

The Group does not have any foreign segments.

ee) Foreign currencies

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

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

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

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

ff) Share capital

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

gg) Treasury shares

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

hh) 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 30.

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

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" -** Definition of Material – adopted by EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),

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

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

The adoption of these amendments to the existing standards has not led to any material changes in the Group’s financial statements.

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

At the date of authorisation of these financial statements, there are neither new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU and which are not yet effective.

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

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

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

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

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

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

5 Group of consolidation

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

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

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

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

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

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

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

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

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

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

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

Data in HUF million except stated otherwise

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

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

5.1

2020

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

2019

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

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

a) Vehicle financing:

MKB Euroleasing Group

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

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

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

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

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

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

Euroleasing Group's profit after taxation for the first half of 2020 amounted to HUF 420 million.

b) Workout activity related to lending

Danube Capital Advisory Kft.
Extercom Kft.

MKB owns 100% of Extercom Kft. and owned also 100% of Exter-Adósságkezelő Kft. until 18 May 2020, resulting that the Group was influenced by the companies' returns in the first half of 2020. Due to the 100% of ownership in Extercom Kft. the Bank is entitled to delegate chief officers, and so could control the relevant activities of this company. Financing of Extercom Kft. is provided fully by MKB Bank. Consequently the above entities are disclosed as subsidiaries in the financial statements of the Group as of 30 June 2020. On 18 May 2020 MKB Bank Nyrt. sold its investment representing 100% of the shares and voting rights in Exter-Adósságkezelő Kft. to Danube Capital R&A Zrt. Concerning Exter-Adósságkezelő Zrt., MKB has requested the National Bank of Hungary for the change in close relationship and the exemption of the company from the group of consolidation – the request has not been approved by the end of the reporting period.

c) Managing

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

MKB Üzemeltetési Kft.
Euro-Immat Üzemeltetési Kft.

Management of investment funds

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

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

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

Solus I. Venture Capital Fund is a hybrid fund co-financed by the Smart Specializations Venture Capital Scheme (GINOP-8.1.3/B-17), and by MKB Group and its strategic partners as private investors. By the end of 2023, Solus I. will invest venture capital in innovative SMEs in a volume of more than HUF 13.4 billion. Solus I. Venture Capital Fund had a portfolio of 14 companies at the end of December 2019, and investment decision was already made about HUF 3.9 billion.

Solus II. Fund, which is co-financed by the Digital Welfare Finance Program (GINOP-8.2.7-18), was registered by the NHB on 16 August 2019. By the end of 2023, Solus II. will invest venture capital amounting to almost HUF 8 billion in micro-, small- and medium sized enterprises with digital focus.

Support of health and pension funds

MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft. (Kiszolgáló Kft.)

MKB owns 100% of the shares of MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft. and has 100% of the voting rights. Accordingly MKB is entitled to appoint chief executives. The main tasks of the Company are to provide administrative and IT assistance to the voluntary and private segment of MKB Pension Fund, as well as to the MKB-Pannónia Health and Mutual Fund, and to provide technical conditions for the uninterrupted operation of the Funds. Kiszolgáló Kft is disclosed as subsidiary in the financial statements of the Group.

Information Technology services

MKB Digital Szolgáltató Zrt.

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

Due to the 100% of ownership, the Bank is entitled to appoint chief executives.

d) Employee Share Ownership Program

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

e) Non-consolidated entities

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

Subsidiaries:
- MKB Ingatlan Kft.
- Exter-Reál Kft.
- Exter-Immo Zrt.
- Euroleasing Kft.
- I.C.E. Kft.
- MKB Inkubátor Kft.
- Arete Zrt.

Associates:
- Pannonhalmi Apátsági Pincészet Kft.

Other affiliated entities:
- Danube Capital R&A Zrt.
- MKB Consulting Zrt.
- ST34DY IT SERVICES Kft.
- Magyar Bankholding Zrt.
- Solus Capital Kockázati Tőkealap-kezelő Zrt.
- Garantiqa Hitelgarancia Zrt.
- SWIFT
- Budapesti Értéktőzsde Zrt.
- CIG Pannónia Életbiztosító Nyrt.
- Elevator Lending Kft.
- Elevator Technologies Kft.
- Family Finances Kft.
- FintechX Technologies Zrt.
- Blueopes Zrt.
- Tőkeportál Zrt.
- Coinrule Ltd.
- Cégjelző Kft.
- Amon OÜ

f) Other entities sold during the reporting periods

On 13 December 2019, MKB Bank's interest in MKB Consulting Zrt. decreased by 26% from 75%, since it has been sold to MKB-Pannónia Alapkezelő Zrt. After this transaction MKB Bank's direct ownership in MKB Consulting Zrt. decreased to 49%.

On 27 February 2020, MKB Bank sold its 5% interest in Core Solutions Kft. On 1 April 2020, MKB Bank sold its 100% interest in MKB Kockázati Tőkelap-kezelő Zrt. to NUKLEUS Consulting Kft.

On 18 May 2020, MKB Bank sold its interest in Exter Adósságkezelő Kft., representing 100% of the share capital and voting rights, to Danube Capital R&A Zrt.

g) Other entities purchased during the reporting periods

On 13 December MKB Bank purchased 25% interest in Danube Capital R&A Zrt. from MKB Consulting Zrt., who was the sole proprietor. This transaction was registered by the Court of Registration on 17 December 2019.

On 03 December 2019, MKB Inkubátor Kft. acquired further 66.57% interest in Arete Zrt., by which increased previously interest of 25.01%, therefore MKB Bank's indirect ownership in Arete Zrt. increased to 66.57%.

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

Magyar Bankholding Zrt. (Crn .: 01-10-140865; registered office: 1122 Budapest, Pethényi köz 10.) was established with the participation of MKB Bank, whereby 33.33% is directly owned by MKB Bank.

6 Risk management

a) Introduction and overview

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

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

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

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

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

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

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

- participations risk:
  The participations risk is defined as the risk related to the following events:
  - potential losses from providing equity / equity instruments or subordinated loan capital. This involves potential losses realised during the sale of participation or loss occurring as a result of a participation's bankruptcy, the (partial) write-off of the participations (also including write-off settled on business or company value or goodwill value), i.e. loss suffered on the book value of the investment
  - potential losses from a possible commitment / liability extended in addition to equity investment (i.e. profit / loss transfer agreements), letters of comfort, capital contribution commitments, additional funding obligations)
  - potential losses originating from other risks associated with the participation such as reputation risk, operational risk, exchange rate risk.

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

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

- operational risk:
  Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, conduct risk, reputational risk, modelling risk respectively information

and communication technology (ICT) risk. Operational risk does not include business and strategic risks.

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

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

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

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

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

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

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

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

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

b) Credit risk

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

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

Credit risk management

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

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

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

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

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

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

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

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

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

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

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

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

Data in HUF million except stated otherwise

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

6.1

30 June 2020	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Individually impaired						
Non-default	-	-	8 834	-	-	-
Default	-	-	16 010	-	-	723
Total individually impaired gross amount	-	-	24 844	-	-	723
Total individually impaired allowance for impairment	-	-	(14 084)	-	-	(373)
Total individually impaired carrying amount	**-**	**-**	**10 760**	**-**	**-**	**350**
Collectively impaired						
Non-default	105 649	114 126	975 748	318 975	2 673	251 153
Default	-	-	21 614	-	-	253
Total collectively impaired gross amount	105 649	114 126	997 362	318 975	2 673	251 406
Total collectively impaired allowance for impairment	(13)	(58)	(32 901)	(111)	-	(1 282)
Total collectively impaired carrying amount	**105 636**	**114 068**	**964 461**	**318 864**	**2 673**	**250 124**
Past due but not impaired						
Non-default	-	-	372	-	-	-
Default	-	-	22	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**394**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	22 925	1 056	14 412	-	-	85 640
Default	-	-	20	-	-	8
Total neither past due nor impaired carrying amount	**22 925**	**1 056**	**14 432**	**-**	**-**	**85 648**
Total assets measured at fair value	**-**	**-**	**1 297**	**534 059**	**26 624**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	1 106
Provision for other contingent liablities	-	-	-	-	-	(659)
Total gross amount	**128 574**	**115 182**	**1 038 329**	**853 034**	**29 297**	**338 883**
Total allowance for impairment	**(13)**	**(58)**	**(46 985)**	**(111)**	**-**	**(2 314)**
Total carrying amount	**128 561**	**115 124**	**991 344**	**852 923**	**29 297**	**336 569**

31 December 2019	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers	Securities	Derivative financial assets	OFF B/S exposures
Individually impaired						
Non-default	-	-	9 991	-	-	-
Default	-	-	18 039	-	-	361
Total individually impaired gross amount	-	-	28 030	-	-	361
Total individually impaired allowance for impairment	-	-	(16 062)	-	-	(216)
Total individually impaired carrying amount	**-**	**-**	**11 968**	**-**	**-**	**145**
Collectively impaired						
Non-default	3 269	60 648	900 022	286 468	-	289 526
Default	-	-	23 933	-	-	335
Total collectively impaired gross amount	3 269	60 648	923 955	286 468	-	289 861
Total collectively impaired allowance for impairment	-	(20)	(30 306)	(82)	-	(1 245)
Total collectively impaired carrying amount	**3 269**	**60 628**	**893 649**	**286 386**	**-**	**288 616**
Past due but not impaired						
Non-default	-	-	416	-	-	-
Default	-	-	28	-	-	-
Total past due but not impaired carrying amount	**-**	**-**	**444**	**-**	**-**	**-**
Neither past due nor impaired						
Non-default	52 119	1 764	22 894	-	-	66 143
Default	-	-	35	-	-	60
Total neither past due nor impaired carrying amount	**52 119**	**1 764**	**22 929**	**-**	**-**	**66 203**
Total assets measured at fair value	**-**	**-**	**1 323**	**314 508**	**18 193**	**-**
Other contingent liablities						
Gross amount of other contingent liablities	-	-	-	-	-	1 228
Provision for other contingent liablities	-	-	-	-	-	(1 058)
	-	-	-	-	-	-
Total gross amount	**55 388**	**62 412**	**976 681**	**600 976**	**18 193**	**357 653**
Total allowance for impairment	**-**	**(20)**	**(46 368)**	**(82)**	**-**	**(2 519)**
Total carrying amount	**55 388**	**62 392**	**930 313**	**600 894**	**18 193**	**355 134**

Data in HUF million except stated otherwise

The effect of pandemic on the Credit risk management

With the introduction of the general payment moratorium, new delays will not be generated, thus the days past due status was frozen by the Group on March 18. Except for clients who voluntarily undertake the payment during the moratorium period, where traditional credit behaviour can be measured.

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

- For customers with primary banking relationship, the Group will monitor the changes in income credits. It can help in the estimation of the ratio of future default in the terms of customer and product group.
- The Group has a risk model based on CRM data that allows the Group to revise the client's rating on a monthly basis without credit behaviour information. To do this, databases are available monthly, and the Group can examine the evolution of customer-level ratings.

For corporate customers:

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

In addition to the above, the Group also updated the macro parameters for the whole portfolio.

In summary, the Group's current modelling methodology is capable of creating a new risk measure on the basis of the above information. It allows to create well-defined customer profiles for customer management.

c) Encumbered assets

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

6.2

	30 June 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets of the reporting institution				
Loans on demand	195	195	244	244
Debt securities	261 774	261 774	163 348	163 348
Loans and advances other than loans on demand	172 652	148 615	100 154	77 916
Total encumbered assets	**434 621**	**410 584**	**263 746**	**241 508**

Data in HUF million except stated otherwise

6.3

	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	Non-encumbered: Nominal value of collateral received or own debt securities issued non available for encumbrance
30 June 2020			
Collateral received by the reporting institution			
Loans on demand	-	5 406	-
Loans and advances other than loans on demand	-	56 151	-
Other collateral received	-	-	320 953
Collateral received and own debt securities issued	**-**	**61 557**	**320 953**
31 December 2019			
Collateral received by the reporting institution			
Loans on demand	-	648	-
Loans and advances other than loans on demand	-	31 245	-
Other collateral received	-	-	251 036
Collateral received and own debt securities issued	**-**	**31 893**	**251 036**

6.4

	30 June 2020		31 December 2019	
Carrying amount of selected financial liabilities	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Derivatives	33 671	51 807	11 442	57 515
Deposits	118 059	382 814	81 903	206 231
Repurchase agreements	27 193	-	-	-
Collateralised deposits other than repurchase agreements	90 866	382 814	81 903	206 231
Total Sources of encumbrance	**269 789**	**817 435**	**175 248**	**469 977**

At the end of June 2020 the level of encumbered assets determined in accordance with the aforementioned regulation was 19.15%. The total of Group’s encumbered assets belonged to MKB Bank. The main sources and types of encumbrance were arising from having corporate loans covered by NBH, secured refinancing, from collaterals of mortgage loans, money market deposits as well as collateralized derivative transactions and repo transactions, furthermore the Group took the opportunity to borrow unconditional fixed-rate secured loan granted by NBH. Encumbrance due to collateral requirement of used clearing systems and central counterparties was not significant. The Group did not have covered bonds issued or securitization.

The most significant secured refinancing facilities were participating in the “Funding for Growth Scheme” refinancing loan program of the NBH. The majority of collateralized derivative transactions were concluded to hedge on balance sheet FX position and interest rate.

d) Capital management

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

Capital allocation

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

Basel III

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

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

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

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

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

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

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

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

Data in HUF million except stated otherwise

6.5

	30 June 2020 Basel III IFRS	31 December 2019 Basel III IFRS
Share capital	100 000	100 000
Outstanding share capital	*100 000*	*100 000*
Reserves	91 792	93 184
Deferred tax	(8 045)	(8 008)
Intangible assets	(23 622)	(24 466)
AVA - additional valuation adjustments	(609)	(378)
Additional Tier 1	**-**	**-**
Tier 1: Net core capital	**159 516**	**160 332**
Subordinated debt	39 752	36 222
Tier 2: Supplementary capital	**39 752**	**36 222**
Regulatory capital	**199 268**	**196 554**
Risk-weighted assets (RWA)	819 464	686 142
Operational risk (OR)	175 047	175 470
Market risk positions (MR)	11 185	8 590
Total risk weighted assets	**1 005 696**	**870 202**
Regulatory capital / Total assets	9,02%	11,18%
Tier1 ratio	15,86%	18,42%
Capital adequacy ratio	**19,81%**	**22,59%**

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

As at 30 June 2020, as an actual figure of the Group regulatory capital was HUF 199.3 billion based on Basel III IFRS under Supervisory Regulation. The increase of regulatory capital – by HUF 2.7 billion – is derived from the increase of subordinated debt and decrease of deduction of intangible assets, which was compensated by the increase of deduction of ESOP program, decrease of negative AVA and interim loss.

Risk-weighted assets including operational and market risk decreased by 15.6 % from HUF 870.2 billion in 2019 to HUF 1 055.7 billion besides approximately 7.2 % weakening of domestic currency.

The main part of the increase derived from the increase of market risk and increasing of business volumes in MKB Bank and Euroleasing Group.

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

Planning and limitation of capital requirements

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

e) Forborne assets

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

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

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

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

The Group generally applies the following types of forbearance measures:

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

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

Data in HUF million except stated otherwise

To revert to normal treatment regarding corporate customers, additional criteria is that the customer performs its amended contractual obligations duly through a specified period (180 days or 360 days) and its risk position shows significant improvement.

Forborne assets are recorded separately, and the amended terms and conditions of the contract are also indicated in the accounting records. Recognition, derecognition and subsequent valuation of these assets are carried out according to the general rules of accounting as specified by the relevant IFRSs.

The detailed requirements of risk classification and impairment valuation of forborne exposures are included in the accounting policies, and other internal regulations on the valuation of assets and liabilities, as well as in impairment and provisioning policies. Based on these internal guidelines, forbearance measures are always regarded as impairment triggers and, as a consequence, individual impairment assessment should be performed for such exposures where the general methodologies and principles of assessment are to be applied. On the results of such risk assessments, impairment losses and the reversals of previously charged impairments are accounted for according to the common rules defined by IFRS 9.

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

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

6.6

	30 June 2020	31 December 2019
Corporate Banking		
Forborn financial assets	2 785	2 640
Allowances for impairment	(2 120)	(1 893)
Carrying amount	665	747
Retail and Private Banking		
Forborn financial assets	10 981	9 838
Allowances for impairment	(3 485)	(3 623)
Carrying amount	7 496	6 215
Total carrying amount	**8 161**	**6 962**

Data in HUF million except stated otherwise

7 Cash and cash equivalents

7.1

	30 June 2020	31 December 2019
Cash and balances with Central Banks	128 561	55 388
Cash and cash equivalents	**128 561**	**55 388**

The Group is required to maintain a minimum reserve with the NBH equivalent to 1 % (2019: 1%) of certain deposits. The balance of the minimum reserve, in line with the prescription of NBH, is based on the balance at the end of April of these deposit accounts and amounted to HUF 13,838 million as at 30 June 2020 (2019: HUF 13,832 million). As at 30 June 2020, cash on hand amounted to HUF 24,065 million (2019: HUF 13,397 million).

8 Loans and advances to banks

8.1

	30 June 2020	31 December 2019
Current and clearing accounts	13 044	6 844
Money market placements	59 508	50 361
Loans and advances	42 630	5 207
Gross amount	***115 182***	***62 412***
Allowance for impairment at the end of period	***(58)***	***(20)***
Carrying amount	**115 124**	**62 392**

9 Derivative financial assets

9.1

	30 June 2020			31 December 2019		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	13 109	13 109	-	4 248	4 248
Index-based derivative instruments	-	8	8	-	-	-
Interest-based derivative instruments	-	14 953	14 953	-	13 446	13 446
Options	99	1 128	1 227	104	395	499
Derivative financial assets	**99**	**29 198**	**29 297**	**104**	**18 089**	**18 193**

Data in HUF million except stated otherwise

10 Securities

10.1

	30 June 2020	31 December 2019
Securities measured at FVTOCI		
Hungarian Government bonds	478 911	295 511
Hungarian corporate sector bonds	26 456	6 827
Foreign Government bonds	-	5 953
Foreign equities	-	1 317
Less allowance for impairment	(261)	(70)
Securities measured at AC		
Hungarian Government bonds	270 295	235 990
Hungarian corporate sector bonds	48 680	50 478
Less allowance for impairment	(111)	(82)
Securities measured at FVTPL		
Government Treasury bills	358	24
Government bonds	25 498	4 189
Hungarian corporate sector bonds	245	603
Hungarian equities	287	84
Foreign equities	1 460	-
Investment fund shares	844	-
Securities	**852 923**	**600 894**

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

The amount of debt securities measured at FVTOCI was HUF 505,367 million at the end of the reporting period. The Group did not have equity instruments measured at FVTOCI on 30 June 2020.

The revaluation on financial assets measured at FVTOCI has changed to HUF (67) million from HUF 5,490 million.

At 30 June 2020, HUF 261,774 million (2019: HUF 163,348 million) from the total amount of Securities were pledged as collateral for stock exchange, for NBH related to Funding for Growth Scheme and credit card transactions in the ordinary course of business.

As at 30 June 2020, the total amount of revaluation reserve comprises HUF (6,814) million (2019: HUF (6,747) million).

In 2020 HUF 2,168 million gain (2019: HUF 1,475 million gain) was recognized in the profit or loss relating to securities measured at FVTOCI, which is a reclassification from other comprehensive income into profit or loss.

Data in HUF million except stated otherwise

Related to Debt securities measured at amortised cost HUF 2,965 million interest income (2019: HUF 6,981 million) was recognized in the Statement of Profit or Loss and Other Comprehensive Income during the year.

11 Loans and advances to customers

The net amount of Loans and advances to customers was HUF 991,344 million, of which HUF 990,047 million was measured at amortised cost and HUF 1,297 million at fair value. The amount of fair value customer loans belonging to the wholesale portfolio was HUF 581 million, while the amount of retail loans was HUF 716 million on 30 June 2020.

11.1

	30 June 2020	31 December 2019
Loans and advances to customers		
measured at AC	990 047	928 990
measured at FVTPL	1 297	1 323
Loans and advances to customers	**991 344**	**930 313**

Loans and advances to customers measured at amortised cost:

11.2

30 June 2020	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Carrying amount
Carrying amount					
Wholesale					
Refinanced loan	56 681	(228)	(695)	(251)	55 507
Funding for Growth Scheme	68 128	(294)	(2 089)	(625)	65 120
Factoring	17 404	(148)	(17)	(16)	17 223
Overdraft	76 373	(344)	(271)	(1 430)	74 328
Széchenyi Loans	32 161	(306)	(68)	(717)	31 070
Car finance	83 576	(1 450)	(875)	(588)	80 663
Other	365 388	(2 511)	(7 742)	(12 486)	342 649
Total Wholesale	***699 711***	***(5 281)***	***(11 757)***	***(16 113)***	***666 560***
Retail					
Residential mortgage	196 951	(506)	(330)	(7 215)	188 900
HUF	*195 580*	*(503)*	*(324)*	*(6 882)*	*187 871*
Foreign currency	*1 371*	*(3)*	*(6)*	*(333)*	*1 029*
Credit card	2 067	(18)	(34)	(75)	1 940
Overdraft	1 087	(11)	(40)	(144)	892
Personal loan	7 564	(107)	(12)	(328)	7 117
Car finance	92 044	(68)	(4)	(3 328)	88 644
Other	36 251	(25)	(4)	(577)	35 645
Total Retail	***335 964***	***(735)***	***(424)***	***(11 667)***	***323 138***
Total Core business	**1 035 675**	**(6 016)**	**(12 181)**	**(27 780)**	**989 698**
Non-core business					
CRE	***1 357***	***(4)***	***-***	***(1 004)***	***349***
Total	**1 037 032**	**(6 020)**	**(12 181)**	**(28 784)**	**990 047**

Data in HUF million except stated otherwise

31 December 2019	Gross amount	Allowance for impairment Stage 1	Allowance for impairment Stage 2	Allowance for impairment Stage 3/POCI	Carrying amount
Carrying amount					
Wholesale					
Refinanced loan	55 856	(136)	(649)	(239)	54 832
Funding for Growth Scheme	60 532	(158)	(1 797)	(591)	57 986
Factoring	20 349	(145)	(11)	(63)	20 130
Overdraft	67 459	(383)	(234)	(1 493)	65 349
Széchenyi Loans	31 715	(204)	(101)	(784)	30 626
Car finance	80 332	(957)	(1 022)	(307)	78 046
Other	320 731	(1 666)	(6 154)	(14 876)	298 035
Total Wholesale	***636 974***	***(3 649)***	***(9 968)***	***(18 353)***	***605 004***
Retail					
Residential mortgage	200 838	(528)	(293)	(7 627)	192 390
HUF	*199 503*	*(524)*	*(290)*	*(7 303)*	*191 386*
Foreign currency	*1 335*	*(4)*	*(3)*	*(324)*	*1 004*
Credit card	2 336	(21)	*(41)*	(81)	2 193
Overdraft	1 147	(11)	*(27)*	(155)	954
Personal loan	6 749	(90)	*(11)*	(325)	6 323
Car finance	88 095	(113)	*(9)*	(3 533)	84 440
Other	27 390	(33)	*(3)*	(453)	26 901
Total Retail	***326 555***	***(796)***	***(384)***	***(12 174)***	***313 201***
Total Core business	**963 529**	**(4 445)**	**(10 352)**	**(30 527)**	**918 205**
Non-core business					
CRE	***11 829***	***(41)***	-	***(1 003)***	***10 785***
Total	**975 358**	**(4 486)**	**(10 352)**	**(31 530)**	**928 990**

In 2020, other items included HUF 240,511 million working capital loans, HUF 40,386 million investment loans, HUF 79,499 million syndicated loans, HUF 38,546 million loans relating to purchased loans.

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

CRE (previously SCU) remaining portfolio

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

According to the EU commitments forming part of the Restructuring Plan approved by the European Commission, the gross volume of the remaining CRE (i.e. Commercial Real Estate previously SCU) portfolio had to be reduced below HUF 60 billion by the end of 2019. The Group fulfilled the commitment by the end of 2017. Even so, the portfolio has been reduced significantly in 2018-2019. The total amount of CRE portfolio was HUF 22.8 billion on 31 December 2019. Fulfilled the EU commitments successfully, the Group has the intention to continue the CRE-financing. Thus, the actual performing CRE portfolio (HUF 10.7 billion) in Q1 2020 transferred to Business Unit. One CRE customer's claim (HUF 1 billion; under liquidation) remained in the portfolio of Restructuring and Debt Management Directorate.

Data in HUF million except stated otherwise

Asset realization strategy

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

Allowances for impairment

11.3

	30 June 2020	31 December 2019
Allowances for impairment on loans and advances to customers		
Balance at 1 January	46 368	70 112
Impairment loss for the year:		
Increases due to origination and acquisition	1 355	5 186
Decreases due to derecognition	(4 236)	(33 726)
Changes due to change in credit risk (net)	3 741	5 295
Changes due to modifications without derecognition (net)	41	23
Decrease in allowance account due to write-offs	(180)	(637)
Other adjustments	(104)	115
Allowance for impairment at the end of period	**46 985**	**46 368**

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

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

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

Data in HUF million except stated otherwise

11.3.1

30 June 2020	Gross amount			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	79 049	-	-	-
Medium risk	214 141	6 178	-	2 241
High risk	10 072	5 808	-	1 196
Default	-	-	13 228	4 051
Total Retail	***303 262***	***11 986***	***13 228***	***7 488***
Wholesale				
Low risk	134 281	-	-	-
Medium risk	470 909	2 135	-	-
High risk	13 887	57 156	398	-
Default	-	-	20 945	-
Total Wholesale	***619 077***	***59 291***	***21 343***	-
CRE				
Medium risk	353	-	-	-
Default	-	-	1 004	-
Total CRE	***353***	-	***1 004***	-
Total gross amount	**922 692**	**71 277**	**35 575**	**7 488**

30 June 2020	Allowance for impairment			
	Stage 1	Stage 2	Stage 3	POCI
Retail				
Low risk	103	-	-	-
Medium risk	583	258	-	291
High risk	49	166	-	178
Default	-	-	9 044	2 154
Total Retail	***735***	***424***	***9 044***	***2 623***
Wholesale				
Low risk	359	-	-	-
Medium risk	3 842	80	-	-
High risk	1 080	11 677	239	-
Default	-	-	15 874	-
Total Wholesale	***5 281***	***11 757***	***16 113***	-
CRE				
Medium risk	4	-	-	-
Default	-	-	1 004	-
Total CRE	***4***	-	***1 004***	-
Total allowance for impairment	**6 020**	**12 181**	**26 161**	**2 623**

Data in HUF million except stated otherwise

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

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

Data in HUF million except stated otherwise

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

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

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

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

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

At 30 June 2020 there were no loans designated as hedged item in a fair value hedge relationship.

12 Other assets

12.1

	30 June 2020	31 December 2019
Prepayments and other debtors	13 142	13 355
Inventory	763	594
Collaterals held in possession	33	220
Other taxes refundable	5 547	2 587
Impairment	(1 400)	(1 580)
Other assets	**18 085**	**15 176**

13 Investments in jointly controlled entities and associates

13.1

	30 June 2020	31 December 2019
Cost	4 383	5 911
Investments in associates	**4 383**	**5 911**

In the first half of 2020 the Group realised HUF 1,097 million gain related to MKB-Pannónia Alapkezelő Zrt., associate consolidated using the equity method. This transaction increased the value of the investment, while at the same time HUF 2,634 million dividend payment of this associate within the Group caused a decrease in the investment value. On 1 April 2020 the Group sold its investment in MKB Kockázati Tőkealapkezelő Zrt., therefore other investments decreased by HUF 13 million.

Data in HUF million except stated otherwise

14 Intangibles, property and equipment

14.1

30 June 2020	Intangible assets	Freehold property	Equipment	Total
Cost or deemed cost				
Balance at 1 January	76 341	40 723	21 257	138 321
Additions – including internally developed	4 962	196	529	5 687
Other modification	(2)	(112)	2	(112)
Disposals	(4 134)	109	(440)	(4 465)
Balance at 31 December	**77 167**	**40 916**	**21 348**	**139 431**
Depreciation and impairment loss				
Balance at 1 January	51 875	12 384	15 155	79 414
Amortization and depreciation for the year	1 670	742	844	3 256
Impairment loss	-	-	37	37
Disposals	-	(187)	(386)	(573)
Other modification	-	131	-	131
Balance at 31 December	**53 545**	**13 070**	**15 650**	**82 265**
Carrying amounts				
At 1 January	24 466	28 339	6 102	58 907
Balance at 31 December	**23 622**	**27 846**	**5 698**	**57 166**

Data in HUF million except stated otherwise

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

Depreciation and amortization is presented among the “Operating expense”.

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

In accordance with requirements of IFRS 16, the Group, as lessee recognises the right-of-use assets in ‘Intangibles, property and equipment’ line. On 30 June 2020 the carrying amount of the right-of-use assets was HUF 5,211 million. Changes in the value of right-of-use assets during the reporting period are disclosed in Note 29.

Data in HUF million except stated otherwise

15 Amounts due to other banks

15.1

	30 June 2020	31 December 2019
Due on demand	3 649	3 279
Money market deposits	5 406	648
Borrowings	372 955	191 883
Repurchase agreement owed to bank	27 191	-
Amounts due to other banks	**409 201**	**195 810**

The largest balance of the Amount due to other banks is HUF 84,648 million, which is the re-financing loans relating to Funding for Growth Scheme at NBH.

16 Deposits and current accounts

16.1

	30 June 2020	31 December 2019
Corporate clients related	1 083 192	891 949
Retail clients related	376 756	334 580
Deposits and current accounts	**1 459 948**	**1 226 529**

As at 30 June 2020 and 31 December 2019 the Group had no deposit and current accounts measured at fair value from the total amount.

17 Derivative financial liabilities

17.1

	30 June 2020			31 December 2019		
	Cost	Fair value adjustment	Book value	Cost	Fair value adjustment	Book value
Derivative instruments by type						
FX-based derivative instruments	-	6 681	6 681	-	2 634	2 634
Index-based derivative instruments	-	5	5	-	2	2
Interest-based derivative instruments	-	37 985	37 985	-	41 009	41 009
Credit default swaps	-	-	-	-	36	36
Options	-	561	561	668	(86)	582
Derivative financial liabilities	**-**	**45 232**	**45 232**	**668**	**43 595**	**44 263**

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

Data in HUF million except stated otherwise

18 Other liabilities and provision

18.1

	30 June 2020	31 December 2019
Accruals and other creditors	34 648	38 633
Lease liabilities	12 733	12 262
Other taxes payable	4 450	1 808
Provisions for contingencies and commitments	2 314	2 519
Other liabilities and provisions	**54 145**	**55 222**

Provision for contingencies and commitments

18.2

	30 June 2020	31 December 2019
Provision for contingencies and commitments		
Balance at 1 January	2 519	4 383
Provisions made during the year	1 238	1 310
Provisions used/reversed during the year	(1 448)	(3 180)
Other movements	5	6
Balance at the end of the reporting period	**2 314**	**2 519**

Provisions recognized for different type of products are disclosed in Note 31.

19 Issued debt securities

As at 30 June 2020 the Group had no own issued bonds (2019: HUF Null million).

19.1

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

The Group used fair value option revaluation through profit or loss for structured bonds, as they were related to assets, which shared the same risk that gave rise to opposite changes in fair value. The last transactions recognized at fair value through profit or loss as option at initial recognition expired on 2 July 2019.

20 Subordinated debt

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

20.1

30 June 2020	Interest	Date of issue	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	36 900 000	EUR	13 222
Subordinated debt	Fixed rate	28.03.2019	31 000 000	EUR	11 108
Subordinated debt	Fixed rate	26.05.2020	51 300 000	EUR	18 381
Total			**119 200 000**	**EUR**	**42 711**

31 December 2019	Interest	Date of issue	Amount in original currency	Original currency	Carrying amount in million HUF
Subordinated debt	Fixed rate	26.05.2017	85 000 000	EUR	28 857
Subordinated debt	Fixed rate	28.03.2019	31 000 000	EUR	10 524
Total			**116 000 000**	**EUR**	**39 381**

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

21 Share capital

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

22 Reserves

Share premium

Share premium comprises of premiums on share capital issuances.

Retained Earnings

Retained earnings comprise the accumulated profit after taxes earned in the course of the operating life of an entity of the Group less any dividend payment.

General reserve

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

The Group discloses general reserve as part of retained earnings. In 2020, MKB recognized general reserve of HUF 10,740 million (2018: HUF 10,825 million).

Revaluation reserves

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

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

Non-controlling interest

The Bank discloses also a Non-controlling interest of HUF 35 million (2019: HUF 35 million) related to the special purpose entity for the Employee Share Ownership Program (ESOP). This amount represents the contribution of the participating members.

23 Deferred tax assets and liabilities

In 2019, deferred tax assets amounted to HUF 8,008 million (of which HUF 671 million was disclosed in other comprehensive income), deferred tax liabilities amounted to HUF 126 million. In the reporting period, deferred tax assets amount to HUF 8,045 million (of which HUF 697 million is disclosed in other comprehensive income), and deferred tax liabilities amount to HUF 160 million.

Data in HUF million except stated otherwise

24 Interest and similar to interest income

24.1

	2020	2019
Cash and cash equivalents	340	98
Loans and advances to banks	108	145
Loans and advances to customers	16 141	15 130
Derivatives	3 036	8 774
Securities	6 158	6 260
Interest and similar income	**25 783**	**30 407**

Included within various captions under interest income for the period ended 30 June 2020 is a total of HUF 495 million (2019: HUF 1,010 million) accrued on credit impaired financial assets.

25 Interest expense

25.1

	2020	2019
Amounts due to other banks	774	489
Deposits from customers	1 385	1 128
Issued debt securities	49	(65)
Subordinated liabilities	901	724
Other fee and commision similar to interest expense	145	165
Derivatives	8 058	6 452
Interest expense	**11 312**	**8 893**

Data in HUF million except stated otherwise

26 Net income from commissions and fees

26.1

	2020	2019
Commission and fee income	**14 799**	**16 140**
Payment and account services	8 746	9 900
Credit related fees	1 013	1 061
Card services	1 320	1 602
Brokerage fees and other securities business	2 158	1 509
Other commission and fee income	1 562	2 068
Commission and fee expense	**3 508**	**4 424**
Payment and account services	222	1 119
Credit related fees	757	1 015
Card services	898	942
Brokerage fees and other securities business	368	225
Other commission and fee expense	1 263	1 123
Net income from commissions and fees	**11 291**	**11 716**

27 Net impairment / (reversal) and provision for losses

27.1

	Note	2020	2019
Net impairment loss / (reversal)			
Loans and advances to banks	**8**	(21)	18
Loans and advances to customers	**11**	2 980	(2 859)
Securities	**10**	217	25
Other assets	**12**	(13)	6
Realised loss on sale of loans		(2)	(215)
Non-current assets held for sale and discontinued operations	**36**	(25)	121
Provision on			
Guarantees and contingencies	**31**	(209)	(1 658)
Of which: on restructuring	***31***	*(75)*	*(782)*
Impairment and provision for losses		**2 927**	**(4 562)**

Data in HUF million except stated otherwise

28 Income tax

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

28.1

	2020	2019
Current tax expense		
Corporate tax charge – on current year profit	15	1 456
Deferred tax (income) / expense		
Origination (reversal) of temporary differences	22	(1 673)
Income tax (income) / expense	**37**	**(217)**

Both in the previous period and in 2020 9% income tax rate was applied on taxable profit in Hungary. Due to this, 9% current income tax rate and 9% deferred tax rate was applied based on the available future plans.

Compared to the previous year, corporation tax charge is lower, because no corporate tax liability is generated for the Bank within the Group due to the negative corporate tax base.

The amount of deferred tax expense recognized in profit or loss (originated from temporary differences) in the reporting period is 22 m HUF.

29 Leases

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

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

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

Data in HUF million except stated otherwise

29.1

2020	Other assets	Properties	IT equipments	Total
Cost or deemed cost				
Balance at 1 January	17	8 259	412	8 688
Revaluation	-	(111)	-	(111)
Disposals	-	108	-	108
Balance at 30 June	**17**	**8 256**	**412**	**8 685**
Depreciation and impairment losses				
Balance at 1 January	4	2 921	138	3 063
Depreciation for the year	2	424	41	467
Revaluation	-	(56)	-	(56)
Balance at 30 June	**6**	**3 289**	**179**	**3 474**
Carrying amounts				
Balance at 1 January	13	5 338	274	5 625
Balance at 30 June	**11**	**4 967**	**233**	**5 211**

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

Data in HUF million except stated otherwise

29.2

30 June 2020	Within 3 months	Within 3 months and 1 year	Within 1 year and 3 years	Within 3 years and 5 years	Over 5 years	Total
Contractual value of lease liabilities	204	1 888	5 257	3 568	11 407	22 324
31 December 2019	**Within 3 months**	**Within 3 months and 1 year**	**Within 1 year and 3 years**	**Within 3 years and 5 years**	**Over 5 years**	**Total**
Contractual value of lease liabilities	253	1 603	5 065	3 345	11 532	21 798

29.3

30 June 2020	Long-term	Short-term	Total
Carrying amount of lease liabilities	11 734	999	12 733
31 December 2019	**Long-term**	**Short-term**	**Total**
Carrying amount of lease liabilities	11 358	904	12 262

The amount of future cash outflows due to variable leasing payments is not significant.

29.4

	2020
Interest expense recognized on lease liabilities	539
Depreciation charged for the year	(467)
Cash outflow for leases	336

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

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

The Group elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets (e.g including printers, IT equipment). The amount of low-value and short-term assets was HUF 46 million at the end of the reporting period.

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

30 Earnings per share

The calculation of basic earnings per share on 30 June 2020 was based on the net income attributable to ordinary shareholders of HUF (1,986) million (31 December 2019: HUF 44,148 million and 30 June 2019: HUF 8,170 million) and a weighted average number of ordinary shares outstanding of 99,906 thousands (31 December 2019: 99,906 thousands and 30 June 2019: 99,812 thousands).

Basic value

30 June 2020

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF (1,986) million}}{\text{99,906 thousands}} = \text{HUF (20)}$$

31 December 2019

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

30 June 2019

$$\text{Earnings per Ordinary Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding (thousands)}} = \frac{\text{HUF 8,170 million}}{\text{99,812 thousands}} = \text{HUF 82}$$

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

Diluted value

30 June 2020

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF (1,986) million}}{\text{99,906 thousands}} = \text{HUF (20)}$$

31 December 2019

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

30 June 2019

$$\text{Diluted Earnings per Share (in HUF)} = \frac{\text{Net income available to ordinary shareholders (in HUF million)}}{\text{Average number of ordinary shares outstanding taking into account the dilution factors}} = \frac{\text{HUF 8,170 million}}{\text{99,812 thousands}} = \text{HUF 82}$$

31 Contingencies and commitments

31.1

30 June 2020	Gross amount	Provision				Net amount
		Stage 1	Stage 2	Stage 3	IAS 37	
Contingencies						
Guarantees and similar obligations	102 275	(219)	(428)	(111)	-	101 517
Obligations from letters of credit and other short term trade related items	15 366	(12)	-	-	-	15 354
Other contingent liablities (including litigation)	8 598	(6)	(2)	-	(659)	7 931
Total contingencies	**126 239**	**(237)**	**(430)**	**(111)**	**(659)**	**124 802**
Commitments						
Undrawn commitments to extend credit	212 644	(413)	(62)	(402)	-	211 767
Total commitments	**212 644**	**(413)**	**(62)**	**(402)**	**-**	**211 767**

Data in HUF million except stated otherwise

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

32 Use of estimates and judgements

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

These disclosures supplement the commentary on financial risk management (see Note 6).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy (see Note 4).

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

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

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

Determining fair values

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

Critical accounting judgements in applying the Group’s accounting policies

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

Valuation of financial instruments

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

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

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

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

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

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

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

Data in HUF million except stated otherwise

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 measured at fair value, by valuation method:

32.1

	Note	Quoted market prices in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	Total
30 June 2020					
Derivative financial assets	**9**	-	29 297	-	29 297
Securities	**10**	439 575	94 484	-	534 059
Loans and advances to customers	**11**	-	-	1 297	1 297
Derivate financial liabilities	**17**	-	45 232	-	45 232
Total		**439 575**	**169 013**	**1 297**	**609 885**
31 December 2019					
Derivative financial assets	**9**	-	18 193	-	18 193
Securities	**10**	293 234	21 274	-	314 508
Loans and advances to customers	**11**	-	-	1 323	1 323
Derivate financial liabilities	**17**	-	44 263	-	44 263
Total		**293 234**	**83 730**	**1 323**	**378 287**

The determination of fair value level and the transfers between levels are in line with accounting policy (see Note 4). There were no transfers between fair value levels in the reporting period ended on 30 June 2020.

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

Data in HUF million except stated otherwise

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.

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

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

32.2

	Note	Interest	Foreign exchange rate	Other
30 June 2020				
Derivative financial assets	**9**	14 336	16 959	-
Securities	**10**	531 467	45 724	-
Loans and advances to customers	**11**	1 297	194	-
Derivative financial liabilities	**17**	37 984	6 681	567
Total		**585 084**	**69 558**	**567**
31 December 2019				
Derivative financial assets	**9**	4 748	15 340	-
Securities	**10**	310 248	8 416	-
Loans and advances to customers	**11**	1 323	196	-
Derivative financial liabilities	**17**	41 009	2 634	620
Total		**357 328**	**26 586**	**620**

Data in HUF million except stated otherwise

33 Accounting classifications and fair values

The estimated fair values disclosed below are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques (see Note 4, and Note 32), 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:

33.1

30 June 2020	Note	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	7	-	128 561	-	128 561	128 561
Loans and advances to banks	8	-	115 124	-	115 124	107 950
Derivative financial assets	9	29 297	-	-	29 297	29 297
Securities	10	28 692	318 864	505 367	852 923	841 393
Loans and advances to customers	11	1 297	990 047	-	991 344	1 002 703
Total		**59 286**	**1 552 596**	**505 367**	**2 117 249**	**2 109 904**
Financial liabilities						
Amounts due to other banks	15	-	409 201	-	409 201	409 201
Deposits and current accounts	16	-	1 459 948	-	1 459 948	1 459 948
Derivate financial liabilities	17	45 232	-	-	45 232	45 232
Subordinated debt	21	-	42 711	-	42 711	42 711
Total		**45 232**	**1 911 860**	**-**	**1 957 092**	**1 957 092**

31 December 2019	Note	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
Financial assets						
Cash and cash equivalents	7	-	55 388	-	55 388	55 388
Loans and advances to banks	8	-	62 392	-	62 392	61 709
Derivative financial assets	9	18 193	-	-	18 193	18 193
Securities	10	4 900	286 386	309 608	600 894	590 162
Loans and advances to customers	11	1 323	928 990	-	930 313	929 004
Total		**24 416**	**1 333 156**	**309 608**	**1 667 180**	**1 654 456**
Financial liabilities						
Amounts due to other banks	15	-	195 810	-	195 810	195 810
Deposits and current accounts	16	-	1 226 529	-	1 226 529	1 226 529
Derivate financial liabilities	17	44 263	-	-	44 263	44 263
Subordinated debt	21	-	39 381	-	39 381	39 381
Total		**44 263**	**1 461 720**	**-**	**1 505 983**	**1 505 983**

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

Cash and cash equivalents

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

Derivative instruments

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

Securities

The fair values of instruments grouped into Securities are based on quoted market prices, when available. If quoted market prices are not available, fair value is estimated using quoted market prices of similar securities. For further information, please refer to Note 10.

Loans and advances to banks and to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by coupon rates. In general, contractual cash flows are discounted using a rate which is sum of the available interest rate which would have been offered if the customer applied for loan at the end of the reporting period plus the counterparty marge. The used interest rates are available in published Terms and Conditions as of 30 June, 2020 and the counterparty marge is available in the Group's systems. The rediscounted cash flows are decreased using by the same impairment percentage as it was used for impairment purpose, and it is considered as fair value of the loan portfolio. Non-performing loans which are assessed for impairment individually are discounted with discount factors which are calculated as in case of performing loans, but that estimated cash flows of these loans are used for calculation, which was also used for impairment purpose. In the case of work-out loans where the Group expects cash flows only from sale of collaterals and therefore they are impaired to the net present value of this amount, the fair value is equal with the carrying amount.

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

Amounts due to other banks and Current and deposit accounts

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

Data in HUF million except stated otherwise

Issued debt securities and Subordinated debt

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

34 Related parties

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

Transactions with related parties

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

34.1

	Parent company and its group		Non-consolidated subsidiaries		Associates		Key Management Personnel		Other related parties	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets										
Loans and advances to customers	12 831	15 744	1 178	1 078	247	237	391	370	60	-
Derivative finacial assets	-	57	-	-	-	-	-	-	346	66
Equity instruments	6 553	-	675	686	610	610	-	-	147	147
Liabilities										
Current and deposit accounts	30 259	11 342	503	192	132	149	464	386	3 038	2 143
Derivative finacial liabilities	-	-	-	-	-	-	-	-	414	149
Income statement										
Interest and similar income	152	702	(2)	24	3	5	5	7	217	1
Interest expense	(16)	(10)	-	-	-	-	-	-	(4)	(1)
Net income from commissions and fees	83	610	7	8	38	51	3	3	72	14
Other net income / (expense)	(33)	(560)	(4)	(6)	(2)	(3)	(312)	(1 190)	(42)	(8)
Contingencies and commitments	*5 849*	*3 779*	*1 989*	*1 791*	*-*	*40*	*516*	*13*	*498*	*490*
Allowances for impairment	*6 956*	*5 636*	*2 372*	*2 462*	*3*	*3*	*1*	*-*	*1*	*1*

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

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.

Data in HUF million except stated otherwise

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

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

Key management personnel compensation for the period comprised:

34.2

	2020	2019
Short-term employee benefits	238	455
Termination benefits	72	-
Total	**310**	**455**

35 Segment information

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

Business segments

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

As of 30 June 2020, the Group's business segments and their main products were:

Corporate Banking

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

Institutional Banking

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

Data in HUF million except stated otherwise

Retail and Private Banking

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

Leasing

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

Other

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

35.1

30 June 2020	Note	Corporate Banking	Euroleasing Group / Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Assets							
Cash and cash equivalents	**7**	-	-	-	128 561	-	128 561
Loans and advances to banks	**8**	-	-	-	115 124	-	115 124
Derivative financial assets	**9**	-	-	-	29 297	-	29 297
Securities	**10**	51 352	-	-	801 571	-	852 923
Loans and advances to customers	**11**	586 782	169 307	235 255	-	-	991 344
Non-current assets held for sale and discontinued operations	**36**	1 736	-	140	-	-	1 876
Other assets	**12**	-	-	-	-	18 085	18 085
Current income tax assets		-	-	-	-	1 004	1 004
Deferred tax assets	**23**	-	-	-	-	8 045	8 045
Investments in jointly controlled entities and associates	**13**	-	-	-	-	4 383	4 383
Intangibles, property and equipment	**14**	-	-	-	-	57 166	57 166
Total assets		**639 870**	**169 307**	**235 395**	**1 074 553**	**88 683**	**2 207 808**
Liabilities							
Amounts due to other banks	**15**	-	-	-	409 201	-	409 201
Deposits and current accounts	**16**	1 083 192	-	376 756	-	-	1 459 948
Derivate financial liabilities	**17**	-	-	-	45 232	-	45 232
Other liabilities and provisions	**18**	1 564	-	-	-	52 581	54 145
Current income tax liabilities		-	-	-	-	1	1
Deferred tax liabilities	**23**	-	-	-	-	161	161
Subordinated debt	**20**	-	-	-	42 711	-	42 711
Shareholders' equity	**21, 22**	-	-	-	-	196 409	196 409
Total liabilities		**1 084 756**	**-**	**376 756**	**497 144**	**249 152**	**2 207 808**
Income statement							
Interest and similar income	**24**	4 515	2 856	4 960	11 011	2 441	25 783
Interest expense	**25**	(169)	-	(28)	(10 754)	(361)	(11 312)
Net income from commissions and fees	**26**	6 379	(60)	3 106	1 866	-	11 291
Other Income		(3 875)	(95)	1 010	9 272	(7 499)	(1 187)
(Impairment) / Reversal and provision for losses	**27**	(3 005)	(568)	532	(41)	155	(2 927)
Operating costs		(9 391)	(1 672)	(8 578)	(2 689)	533	(21 797)
Expense related to bank levies	**28**	-	-	-	-	(1 800)	(1 800)
Segment result		**(5 546)**	**461**	**1 002**	**8 665**	**(6 531)**	**(1 949)**
Other information							
Capital expenditure		-	-	3 863	-	1 824	5 687
Depreciation and amortisation	**14**	-	-	-	-	3 256	3 256
Other non-cash expense		645	115	589	186	(37)	1 498

Data in HUF million except stated otherwise

31 December 2019	Note	Corporate Banking	Euroleasing Group / Leasing	Retail and Private Banking	Institutional Banking	Other	Total
Assets							
Cash and cash equivalents	7	-	-	-	55 388	-	55 388
Loans and advances to banks	8	-	-	-	62 392	-	62 392
Derivative financial assets	9	-	-	-	18 193	-	18 193
Securities	10	34 080	-	-	566 814	-	600 894
Loans and advances to customers	11	538 288	162 486	229 539	-	-	930 313
Non-current assets held for sale and discontinued operations	36	3 930	-	145	-	-	4 075
Other assets	12	-	-	-	-	15 176	15 176
Current income tax assets		-	-	-	-	539	539
Deferred tax assets	23	-	-	-	-	8 008	8 008
Investments in jointly controlled entities and associates	13	-	-	-	-	5 911	5 911
Intangibles, property and equipment	14	-	-	-	-	58 907	58 907
Total assets		**576 298**	**162 486**	**229 684**	**702 787**	**88 541**	**1 759 796**
Liabilities							
Amounts due to other banks	15	-	-	-	195 810	-	195 810
Deposits and current accounts	16	891 949	-	334 580	-	-	1 226 529
Derivate financial liabilities	17	-	-	-	44 263	-	44 263
Other liabilities and provisions	18	848	-	-	-	54 374	55 222
Current income tax liabilities		-	-	-	-	3	3
Deferred tax liabilities	23	-	-	-	-	126	126
Subordinated debt	20	-	-	-	39 381	-	39 381
Shareholders' equity	21, 22	-	-	-	-	198 462	198 462
Total liabilities		**892 797**	**-**	**334 580**	**279 454**	**252 965**	**1 759 796**
Income statement							
Interest and similar income	24	12 740	6 411	9 697	30 043	326	59 217
Interest expense	25	(938)	-	(72)	(17 410)	-	(18 420)
Net income from commissions and fees	26	17 500	(99)	7 594	2 321	-	27 316
Other Income		6 037	244	1 417	17 840	(10 370)	15 168
(Impairment) / Reversal and provision for losses	27	(2 920)	(262)	8 331	(6)	207	5 350
Operating costs		(18 266)	(3 339)	(16 537)	(3 075)	(2 023)	(43 240)
Expense related to bank levies	28	-	-	-	-	(2 023)	(2 023)
Segment result		**14 153**	**2 955**	**10 430**	**29 713**	**(13 883)**	**43 368**
Other information							
Capital expenditure		-	-	3 754	-	12 642	16 396
Depreciation and amortisation	14	-	-	-	-	6 020	6 020
Other non-cash expense		801	272	732	55	(62)	1 798

In order to provide a more accurate picture of the Group's segments, the structure of the note has been changed.

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.

Data in HUF million except stated otherwise

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

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

36 Non-current assets held for sale and discontinued operations

In the first half of 2019, the key management of the Group decided to sale a loan portfolio of HUF 43,213 million (related loss allowances of HUF 32,878 million), which resulted in a reclassification of HUF 10,335 million of loans to held for sale. The Agreement of receivables assignment was signed in the third quarter of 2019. The buyer paid up the total price of HUF 9,022 million. In the first half of 2020, the Group decided to sell three more loan portfolios, which mainly include corporate loans. The planned date of sale is 3 August 2020. At the end of the reporting period the net amount of non-current assets held for sale and discontinued operations was HUF 1,876 million (gross value of HUF 2,562 million, relating loss allowances of HUF 2,019 million).

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

36.1

	2020	2019
Assets		
Loans and advances to customers	1 876	4 075
Total assets	**1 876**	**4 075**

37 Government grants

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

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

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

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

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

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

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

The Group participated in all phases of the Scheme, and lent HUF 324,966 million loan to SME's since the beginning of the program, with an interest rate of 2.5% and EUR 56 million in course of the third phase. Until 30 June 2020, HUF 7,099 million was disbursed under the FGS Go construction. In the fourth quarter of 2019 the Group has finished the acquisition of HUF 7,000 million Hungarian Development Bank's loan portfolio related to FGS at NBH.

The loans lent as part of FGS are measured at amortised cost at Group, however at initial recognition the difference between the carrying amount and the fair value of the loans and parallel of the NBH funds denominated in HUF was deferred to Other assets (HUF 11,362 million) and to Other liabilities (HUF 21,507 million), which is amortised to Profit and loss during the term of the loans. This difference was driven by the gap between the market interest rate and the subsidized rate.

The fair value of the loans denominated in HUF amounted to HUF 99,456 million as of 30 June 2020 (2019: HUF 86,541 million).

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

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

Data in HUF million except stated otherwise

38 Share based compensation

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

Details of the share based compensation:

38.1

30 June 2020	Number of shares	Weighted average exercise price (HUF/share)
outstanding at the beginning of the period	5 379 403	370
forfeited at the beginning of the period*	13 947	370
reallocated at the period	(13 947)	370
saled during the period	(5 285 157)	370
outstanding at the end of the period	94 246	370

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

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

The cash-based payment has been completed until March 2019 except the outstanding shares at the end of the previous period. The stock of the shares was sold to one of the Shareholders of the Bank at market price. The related costs that amounted to HUF 3,289 million were accounted of which HUF 168 million in 2019, HUF 2,980 million in 2018 through profit or loss and HUF 140 million through the equity. Treasury share transactions related to the disposal improved the shareholder's equity of the Group by HUF 4.3 billion in the previous period.

39 Events after the end of the reporting period

The General Meeting of MKB Consulting Zrt. (registered office: 1117 Budapest, Irinyi József utca 4-20. 3rd floor; company registration number: Cg.01-10-140834, hereinafter: "Company"), which is directly owned by MKB Bank Nyrt. in 49%, decided to increase the share capital of the Company by HUF 128,300,000 by issuing new dividend preference shares. Thus the share capital of the company will increase from HUF 130,000,000 to HUF 258,300,000. The Company has appointed and authorized MKB Bank Nyrt. for the capital increase, based on which MKB Bank Nyrt. has made the amount of the capital increase available to the Company. During the capital increase MKB Bank Nyrt. will acquire dividend preference shares to be issued by the Company.

By the resolution dated on 29 July 2020, the National Bank of Hungary approved the election of Mr. Marcell Tamás Takács as an external member of the Board of Directors. In line with the resolution of the Annual General Meeting of 17 April 2020, the election of Mr. Marcell Tamás Takács as a member of the Board of Directors entered into effect on 30 July 2020.

On 12 August 2020, MKB Consulting Zrt. as 75% owner of Danube Capital Zrt., sold 100% of its shares in Danube Capital Zrt. to DCRAA Zártkörűen Működő Részvénytársaság. As a result of this transaction, the ownership of MKB Bank Nyrt. in MKB Consulting Zrt. decreased to 25%.

On 27 August 2020, Consulting Vagyonkezelő Kft. was registered by the Court of Registration as a 100% owned subsidiary of MKB Consulting Zrt. The main activity of the new company is 6420 '08 asset management (holding).

CONSOLIDATED MANAGEMENT REPORT

OPEARTING ENVIRONMENT

Macroeconomic environment

Economic effects of the coronavirus pandemic and in close connection with it, capital and money market developments and changes in macroeconomic environment in H1 2020 had a huge impact on the income generating capacity of the MKB Group.

The measures in Hungary were in line with international trends and steps, of which the decisions of the Fed and the European Central Bank were as follows.

In March 2020, the Fed cut its target range to 0-0.25% in two steps, from the range of 1.50-1.75% at the end of 2019 (March 3: 0.5 percentage point, March 15: 1,0 percentage point interest rate cut). Due to the extraordinary conditions, the target rate cuts took place at two unscheduled meetings. The central bank's target rate cuts were mainly intended to mitigate the impact of the coronavirus pandemic and the expected global economic downturn.

The ECB did not change the key interest rates, but it reacted to the coronavirus pandemic and its expected negative economic effects by several tools. Thus, an additional targeted longer-term refinancing operation (TLTRO) was launched on a temporary basis to provide immediate liquidity support to the euro area financial system. The ECB has also expanded its asset purchase program (APP), which was launched in 2014. An additional € 20 billion monthly net purchase was announced to the purchases that the ECB will realize until the end of the year. (The temporary additional budget is € 120 billion). Furthermore, a new tool, the so-called pandemic emergency purchase programme (PEPP) has also been launched, with a budget of € 1,350 billion.

The National Bank of Hungary (NBH) applied a number of old and new monetary policy instruments in order to counterbalance the effects of the coronavirus pandemic, including the introduction of a new monetary policy instrument (long-term collateralised loan instrument at fixed interest rates) and the relaunch of the one-week deposit instrument. The central bank has launched a government securities and mortgage bond purchase program, expanded the Funding for Growth Scheme (FGS) program, and introduced easings in the Bond Funding for Growth Scheme program. From 8 April 2020, the interest rate on overnight and 1-week secured loans increased from 0.9% to 1.85%.

At its interest rate decision meeting in June, the NBH moved even further towards a looser monetary policy, lowering the central bank interest rate from 0.90% to 0.75% for the first time in four years (after which the central bank cut interest rates further to 0.60% in July). The interest rate on one-week central bank deposit tenders has also been cut (but the conditions for this may vary from week to week).

In 2020, recessionary expectations came to the fore due to the negative economic effects of the coronavirus epidemic. Although the Hungarian economy still showed 2.2% GDP growth in the first quarter of 2020, the economic downturn was already drastic in the second quarter (13.6%, year on year), as the epidemic and economic downturns may have bottomed out in April.

The expansion of domestic earnings remained above 9% in January-May this year, i.e. during the epidemic period (double-digit growth in 2019 as a whole, 11.4% year-on-year). The growth rate of average gross earnings only slowed in April, to 7.8%. During March-April, in the months most affected by the epidemic, the number of employed people decreased by 130,000 due to the coronavirus epidemic, then increased by 31,000 in May compared to April and by almost 60,000 in June compared to May. Furthermore, the number of unemployed people increased in both May (+28 thousand persons, month / month) and June (+25 thousand persons, month / month).

In Q1 2020, inflation figures came above the upper 4% band of the NBH's tolerance band in Hungary (January: 4.7%, February: 4.4% year-on-year), and then the price pressure eased in March (3.9%). Then, as a result of the coronavirus epidemic and falling world oil prices, inflation slowed to 2.4% in April and then further to 2.2% in May. In parallel with the economic opening, inflation also accelerated in June (2.9%). However, internal price pressures remained high; core inflation stood at levels of 4% or more throughout this year.

In the first half of 2020, the general government deficit widened to 1.5% of GDP as a result of the coronavirus epidemic and measures taken against it, as well as the government rescue packages (while revenues increased by 2.4% year-on-year, expenditures rose by 9.3%). Government debt as a share of GDP rose slightly to 66.6% in the first half of the year.

In Q1 2020, interest rate conditions in the Hungarian government securities market were roughly unchanged until the beginning of the coronavirus pandemic (the government declared a state of emergency on 11 March 2020). The announcement of the emergency was followed by a larger increase in yields, followed by a decline in the second quarter (due to NBH programs and improved global sentiment): the 10-year domestic government bond yield stood at 2.01% at the end of December 2019, at 2.65% at the end of March and at 2.15% on June 30.

Banking sector[2]

The liquidity and capital reserves of the financial system have increased significantly in the past decade: the consolidated capital adequacy ratio of the banking sector increased from 12.9% (2008) to 17.2% in 2019. In addition, the loan-to-deposit ratio decreased from 152% to 75%, while the share of retail foreign currency loans decreased from 67% to less than 1% during the period.

To avoid temporary repayment issues, the government declared a moratorium on loan repayments, affecting the loan contracts of both non-financial enterprises and households. Banks were granted a temporary exemption from the requirements for the capital conservation buffer, the systemic risk buffer (SyRB) and the capital buffer of other systemically important institutions (O-SIIs), and the Pillar 2 capital guidance (P2G) also does not need to be met.

Both corporate (+6.9%) and retail (+6.5%) loans increased in the first half of the year, while deposits increased on a similar scale. Stable financing of the banking system is also supported by the high share of client deposits. As in the previous year, the increase in retail loans was mainly due to the disbursement of consumer loans and “Babaváró loans” (which has been available since July 2019). As a result of the deteriorating economic prospects linked to the coronavirus, banks tightened both corporate and household credit conditions during the first half of 2020.

[2] Source: National Bank of Hungary

Several new products and feature were introduced during the first half of the year: since March 2, 2020, the instant payment system has been operating smoothly. Several new state-subsidized corporate loan products introduced to mitigate the economic downturn caused by the COVID-19 epidemic: FGS Go!, New Széchenyi Card Programmes, MFB Crisis Loan, MFB Competitiveness Loan Programme, SME Technology Loan Programme

OVERVIEW OF MKB GROUP PERFORMACE IN H1 2020

In the first half of 2020, the Group reached HUF -1.99 billion pre-tax profit. Interest income was HUF 14.5 billion and commission income reached HUF 11.3 billion. Most of the decrease of net interest income is linked to the prolonged effects of securities portfolio restructuring in 2H 2019. The Group's stable loan portfolio is confirmed by the fact that despite the COVID-19 crisis, only HUF 2.9 billion of provisions were charged in the first half of 2020 (risk costs include the modification gain&loss effect of the moratorium and the revision of risk model parameters due to deteriorating external environment). The year-on-year change of other income is affected by declining FX and FV results due to negative market effects. Banking expenses decreased slightly (-3.9%) compared to the same period of the previous year, and amounted to HUF 21.8 billion at the end of the reporting period.

The Group reported HUF 2,207.8 billion total assets at the end of the first half of 2020 which is a significant, 25% increase on a year-on-year basis. Besides customer deposit inflow the balance sheet rapid increase was also driven by strong participation in liquidity boosting programs of Hungarian National Bank, resulting in growing interbank liabilities. Customer deposits were HUF 1,459.9 billion, net customer loan volume reached HUF 991.3 billion.

The consolidated Basel III. capital adequacy ratio was 19.8% at the end of June, 2020.

The subsidiaries – MKB Euroleasing, MKB Consulting, MKB-Pannónia Fund Manager,– and the Bank's strategic partners – MKB Pension Fund and MKB Pannónia Health and Mutual Fund – also contributed to the stable, predictable results of the MKB Group.

Budapest, 24 September 2020

dr Ádám Balog
Chairman and Chief Executive Officer

János Nyemcsok
Deputy Chief Executive Officer

STATEMENT

on the consolidated semi-annual financial statements of 2020
and on the Report of the Management
Pursuant to Ministry of Finance Decree no. 24/2008. (VIII.15.)

MKB Bank Nyrt (hereinafter: Bank) declares concerning its consolidated 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, 25 September 2020

MKB Bank Nyrt.

dr Ádám Balog	János Nyemcsok
Chairman and Chief Executive Officer	Deputy Chief Executive Officer