MKB Bank Nyrt.

Report on the
1H 2020 results
(Flash Report)

Budapest, 27. August 2020

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1 MKB GROUP 1H 2020 RESULTS - OVERVIEW

Main components of P&L (in MHUF)	Period					YTD		
	2Q2019	1Q2020	2Q2020	P/P	Y/Y	2Q2019	2Q2020	Y/Y
TOCI (Total Other Comprensive Income)	**11,382**	**-9,829**	**7,777**	**-179.1%**	**-31.7%**	**13,660**	**-2,053**	**-115.0%**
Revaluation on non HFC financial assets (OCI)	1,750	-11,636	11,569	-199.4%	-	5,490	-67	-101.2%
Profit after tax	**9,632**	**1,807**	**-3,793**	**-**	**-139.4%**	**8,170**	**-1,986**	**-124.3%**
Adjustments total on PAT	-174	6,132	3,093	-49.6%	-	3,692	9,224	149.8%
Adjusted TOCI	**11,208**	**1,988**	**5,183**	**160.7%**	**-53.8%**	**17,352**	**7,172**	**-58.7%**
Adjusted revaluation on non HFC financial assets (OCI)	1,750	-5,950	5,883	-198.9%	236.2%	5,490	-67	-101.2%
Adjusted Profit after tax	**9,458**	**7,939**	**-700**	**-108.8%**	**-107.4%**	**11,862**	**7,239**	**-39.0%**
Adjusted Profit before tax	**8,898**	**8,570**	**-381**	**-104.4%**	**-104.3%**	**11,645**	**8,188**	**-29.7%**
Gross Operating Income	**15,452**	**17,403**	**10,084**	**-42.1%**	**-34.7%**	**26,590**	**27,486**	**3.4%**
Net Interest Income	10,822	7,755	8,391	8.2%	-22.5%	21,527	16,146	-25.0%
Net Fee Income	6,440	5,996	5,279	-11.9%	-18.0%	11,716	11,275	-3.8%
Net Other Income	-1,810	3,652	-3,587	-198.2%	98.2%	-6,654	65	-101.0%
General Administrative Expenses	-8,744	-9,902	-10,296	4.0%	17.8%	-18,335	-20,198	10.2%
Provision for losses on loans	2,182	1,042	-121	-111.6%	-105.5%	3,385	921	-72.8%
Main components of Balance sheet (in MHUF)	**Volumes at the end of period**					**YTD average**		
	2Q2019	1Q2020	2Q2020	P/P	Y/Y	2Q2019	2Q2020	Y/Y
Total Assets	**1,827,674**	**2,029,903**	**2,207,809**	**8.8%**	**20.8%**	**1,880,773**	**2,006,853**	**6.7%**
Customer Loans (net)	924,823	1,014,020	991,345	-2.2%	7.2%	914,701	987,425	8.0%
Customer Loans (gross)	967,731	1,060,867	1,038,330	-2.1%	7.3%	970,345	1,034,186	6.6%
Provision for Customer loans	-42,907	-46,847	-46,985	0.3%	9.5%	-55,643	-46,762	-16.0%
Deposits & C/A	1,330,175	1,370,420	1,458,430	6.4%	9.6%	1,380,672	1,356,450	-1.8%
Subordinated debt	37,701	43,252	42,711	-1.3%	13.3%	35,521	42,149	18.7%
Shareholders' Equity	171,285	188,633	196,409	4.1%	14.7%	164,683	193,034	17.2%
KPIs based on adjusted PAT (%)	**Period**					**YTD**		
	2Q2019	1Q2020	2Q2020	P-P	Y-Y	2Q2019	2Q2020	Y-Y
ROAE - unadjusted	22.9%	3.7%	-7.9%	-11.6%-pt	-30.8%-pt	9.9%	-2.1%	-12.0%-pt
ROAE (Return on Average Equity)	22.5%	16.4%	-1.5%	-17.9%-pt	-24.0%-pt	14.4%	7.5%	-6.9%-pt
ROMC (Return on Minimum Capital)	29.5%	22.0%*	-1.9%	-23.9%-pt	-31.4%-pt	18.7%	9.8%	-8.8%-pt
Adjusted ROAA (Return on Average Assets)	2.0%	1.7%	-0.1%	-1.8%-pt	-2.2%-pt	1.3%	0.7%	-0.5%-pt
TRM (Total Revenue Margin)	3.3%	3.7%	1.9%	-1.8%-pt	-1.4%-pt	2.8%	2.7%	-0.1%-pt
CIM (Core income margin)	4.5%	3.3%	2.9%	-0.5%-pt	-1.6%-pt	4.1%	3.1%	-1.0%-pt
NIM (Net Interest Margin)	2.3%	1.6%	1.6%	-0.1%-pt	-0.7%-pt	2.3%	1.6%	-0.7%-pt
NFM (Net Fee Margin)	1.4%	1.3%	1.0%	-0.3%-pt	-0.4%-pt	1.2%	1.1%	-0.1%-pt
C/TA (Cost to Total Assets)	1.9%	2.1%	1.9%	-0.1%-pt	0.1%-pt	1.9%	2.0%	0.1%-pt
CIR (Cost Income Ratio)	56.6%	56.9%	102.1%	45.2%-pt	45.5%-pt	69.0%	73.5%	4.5%-pt
Provision/Total Assets	2.3%	2.3%	2.1%	-0.2%-pt	-0.2%-pt	2.3%	2.1%	-0.2%-pt
Risk cost rate	-0.9%	-0.4%	0.0%	0.5%-pt	0.9%-pt	-0.7%	-0.2%	0.5%-pt
CAR (Capital Adequacy Ratio)	19.3%	17.9%*	19.8%	1.9%-pt	0.5%-pt	19.3%	19.8%	0.5%-pt
RWA/Total Assets	49.7%	50.7%	45.6%	-5.2%-pt	-4.1%-pt	49.7%	45.6%	-4.1%-pt
LTD (Loan to Deposit)	72.8%	77.4%	71.2%	-6.2%-pt	-1.6%-pt	72.8%	71.2%	-1.6%-pt
GOI/RWA (RWA efficiency)	6.8%	7.3%	4.0%	-3.4%-pt	-2.8%-pt	5.8%	5.6%	-0.2%-pt
DPD90+ rate	3.0%	2.3%	2.0%	-0.3%-pt	-1.0%-pt	3.0%	2.0%	-1.0%-pt
EPS (Earning Per Share)	378.3	317.6	-28.0	-345.6	-406.3	237.2	144.8	-92.5

MKB Group 2Q 2020 results are based on cumulated, consolidated, unaudited IFRS data of 30.06.2020. "Adjusted" figures are indicators of the underlying business performance; the list of correction factors is included in Chapter 3.1.

*) 1Q 2020 value of the KPI is restated in order to fully accommodate the NBH policy on Tier2 accrual interest

The lockdown at the end of March put the world's as well as Hungary's economy on hold. The duty of the banks was to foster the restart of the economy with both governmental and own tools whilst finding the appropriate methods of contacting with costumers. Utilising its stable capital position and strong fundamentals MKB Group successfully took on the challenges and was able to get most of the tasks needed:

- MKB Group donated HUF 1 bln to anti-pandemic Government activities as an integral part of its CSR activity;
- **Active and successful participation in government economic stimulus initiatives: rapid customer volumes growth,** improving flow market share in every segment;
- **Digital channels** further enhanced: overwhelmingly positive feedback from clients. Digital queue management in the main branches as well as distancing and spread prevention measures were implemented which allows for near-normal operation in branches while protecting customers and employees;
- **Flawless instant payment** (AFR) **operation;**
- High (>60%) home-office participation underpins strong and effective corporate culture and supports anti-spread initiatives. New hybrid working solutions are launched to maximize effectiveness.

The COVID-19 pandemic impacts the value creation capabilities of MKB Group by radically changing both the macroeconomic environment and the capital and money market trends.

The loan repayment moratorium together with MKB Group's successful participation in economic stimulus programs mitigating the negative income effects of the pandemic related economic setback. Marked-to-market asset values showed improvements in 2Q as markets settled. Strict cost management allowed for only mild cost increase despite COVID-19 induced pressure. Risk cost was also determined by the industry standard push for transparent recognition of the pandemic effects, while the underlying quality of MKB Group's portfolio remained largely unchanged.

The unadjusted 1H After tax profit was HUF -2.0 bln (HUF -10.1 bln y/y) while other comprehensive income (OCI) was HUF -0.1 bln (HUF -5.6 bln y/y).The total comprehensive income (unadjusted) of the MKB Group in 1H was HUF -2.1 bln.

Adjusted profit after tax was HUF 7.2 bln (HUF -4.6 bln y/y) in the first half of 2020. **Total assets increased** to HUF 2,207.8 bln (+8.8%p/p; +20.8% y/y) as a result of rapid customer portfolio growth. The **shareholder's equity** increased to HUF 196.4 bln from HUF 188.6 bln in 1Q. Capital adequacy was 19.8% (+50 bps y/y). MKB Group's 1H cumulated, adjusted ROAE was 7.5%.

Second quarter highlights:

- **Sound capital (CAR 19.8%) and improving liquidity position** in 2Q 2020 amid COVID-19 pandemic turmoil;
- Risk cost effect of COVID-19 booked in 2Q: stringent loan portfolio management allows for **only HUF 4.5 bln, 60bps risk cost** charge (unadjusted);
- **HUF 7.2 bln (-39% y/y) adjusted PAT in 1H 2020** as pandemic put pressure on incomes;
- **73.5% adjusted CIR%: stringent cost management resulted in marginal y/y cost growth in 1H.**
- **NPL rate down to 3.63%**

Retail, Corporate and Leasing activities started to intensify in mid-May:

- **Retail segment: Increasing** personal loan and „babaváró" **disbursement** propels volumes after moderate setback in customer demand. Successful premium segment customer acquisition campaigns, **expanding PB clientele** and activity propels segment revenues. **Heavy sight deposit inflow** supports liquidity and demonstrates customer base potential. Increased disbursement rate and flow market share is in line with post-EU commitment strategy and vindicating the efforts taken to enhance customer relations and products. End-to-end online customer loan product is available for existing customers since June;
- **Corporate segment:** Active and successful **participation in government economic stimulus programs** to facilitate recovery. FGS Go! and Széchenyi Card loans are in the center of attention in large and micro segments respectively. Rapid corporate deposits growth reflects **strong customer relations.** Loan volumes slightly increased in 1H in line with post-EU restrictions business strategy. Customer's attention was shifting towards subsidized loans in 2Q which – in turn – allowed for a slight decrease in overdraft facility utilisation decrease. **State-of-the-art MKB Treasury** services back customers amid uncertainties and rapid market changes;
- **Leasing: Outstanding car and stock financing results in 1H 2020** despite COVID-19 effects hindering new disbursements. Low rate of participation in moratorium signals healthy portfolio and well-managed customer base. **Nissan partnership** initiated, resulting in increasing dealer financing and growth possibilities. FGS Go! Funding going strong in SME sector.

Post-closing events:

- **Base rate:** National Bank of Hungary cut the base rate by further 15 basis points to 60 bp on 22nd July 2020 in order to enhance business activity and manage yield levels.
- **CRR2**: ECB implemented preferential measures to assist economic recovery by easing capital adequacy of financial institutions. Effect of these changes on MKB Groups capital adequacy are expected to be finalized in 3Q.
- **Banking hours:** starting from 1st of July MKB Bank took gradual steps towards normal branch operation: branches located at shopping malls are to serve customers with standard banking hours with strong anti-spread measures still in place. Further changes in opening hours to follow if possible.
- **Potential second wave of COVID-19:**
    - Despite anti-spread measures increase in daily number of new COVID-19 infections is noticeable in Europe as well as in Hungary since mid-June. Rapid increase of new infections might forecast a second wave of the pandemic. MKB Group 2H 2020 results might be affected by the macroeconomic turmoil and market uncertainties caused by such events.
    - Possible moratorium extension: According to press reports the Hungarian Government is in talks with the Banking Association to explore whether it is possible, if not generally, but to provide some additional benefits or a partial moratorium for companies from next year.

The true extent of the COVID-19 pandemic started to unfold in 2Q: while the financial environment stabilized, GDP plummeted by more than 13% p/p. Huge demand for Government economic stimulus type loans were building up while savings also grew.

- **Yield environment:** 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 COVID-19 pandemic and the expected global economic downturn. The Fed has also expanded its asset purchase program (including exchange-traded mutual funds (ETFs), individual corporate bonds, government securities, and mortgage-backed securities).

  The ECB had not changed the key interest rates, but it reacted to the COVID-19 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) introduced a number of old and new monetary policy instruments in order to counterbalance the effects of the COVID-19 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 1Q 2020, interest rate conditions in the Hungarian government securities market were roughly unchanged until the beginning of the COVID-19 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).

- **Weakening HUF exchange rate:** The exchange rate of the HUF against major currencies (EUR/HUF, USD/HUF) weakened significantly in 1Q 2020, especially during March, due to the ringing of the COVID-19 pandemic. The EUR/HUF closed the first quarter of 2020 at 359. The HUF exchange rate set a negative record on April 1, when the EUR / HUF exchange rate stood at 364.57. The significant weakening of the HUF was mainly due to the increasingly gloomy international sentiment (COVID-19 pandemic and the ensuing recession), leading to increased risk awareness of international investors. In the second half of the second quarter, the easing of the pandemic and the gradual opening of economies led to the strengthening of the HUF. EUR / HUF closed the first half of the year at 356.57, although it was below 344 during the second quarter.

- **Government**: In the first half of 2020, government deficit widened to 1.5% of GDP as a result of the COVID-19 pandemic 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.
- **GDP**: In 2020, recessionary expectations came to the fore due to the negative economic effects of the COVID-19 pandemic. The Hungarian economy showed 2.2% GDP growth in the first quarter of 2020, although the economic downturn was drastic in the second quarter (13.6%, year on year), as the epidemic and economic downturns may have bottomed out in April.
- **Wages**: 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 pandemic, the number of employed people decreased by 130,000 due to the COVID-19 pandemic, 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).[1]

Inflation: In 1Q 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%).As a result of the COVID-19 pandemic and falling world oil prices, inflation slowed to 2.4% in April and then to 2.2% in May. In parallel with the economic opening, inflation also accelerated in June (2.9%). Despite the pandemic, internal price pressures remained high; core inflation stood at levels of 4% or more throughout this year.

[1] The Hungarian Central Statistical Office (HCSO) classified a significant part of the people who were laid-off at the time of the epidemic restrictions as inactive (those who were made redundant could not actively look for work), and this group of people was already registered as unemployed in May-June (they were able to actively look for job), or they could return to work. Thus, the number of inactive increased during the epidemic, were transferred to the group of both the unemployed (active job seekers) and employed.

2 Management Report on the 1H 2020 Results of the MKB Group

2.1 P&L development

MKB Group								
Consolidated, IFRS P&L (in MHUF)	Period					YTD		
	2Q2019	1Q2020	2Q2020	P/P	Y/Y	2Q2019	2Q2020	Y/Y
TOCI (Total Other Comprensive Income)	**11,382**	**-9,829**	**7,777**	**-179.1%**	**-31.7%**	**13,660**	**-2,053**	**-115.0%**
Revaluation on non HFC financial assets (OCI)	*1,750*	*-11,636*	*11,569*	-199.4%	-	*5,490*	*-67*	-101.2%
Profit after tax	**9,632**	**1,807**	**-3,793**	**-**	**-139.4%**	**8,170**	**-1,986**	**-124.3%**
Adjustments total on PAT	**-174**	**6,132**	**3,093**	**-49.6%**	**-**	**3,692**	**9,224**	**149.8%**
Banking tax	*0*	*3,275*	*0*	*-100.0%*	*-*	*4,047*	*3,275*	*-19.1%*
IFRS16 effect	*-139*	*-35*	*-225*	*-*	*62.0%*	*-320*	*-260*	*-18.5%*
Dividend income	*-35*	*-8*	*-4*	*-45.8%*	*-87.9%*	*-35*	*-12*	*-65.7%*
Covid-19 effect	*0*	*2,872*	*3,309*	*15.2%*	*-*	*0*	*6,181*	*-*
Branch closure reserve	*0*	*27*	*13*	*-51.2%*	*-*	*0*	*41*	*-*
Adjusted TOCI	**11,208**	**1,988**	**5,183**	**160.7%**	**-53.8%**	**17,352**	**7,172**	**-58.7%**
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Gross Operating Income	**15,452**	**17,403**	**10,084**	**-42.1%**	**-34.7%**	**26,590**	**27,486**	**3.4%**
Net Interest Income	**10,822**	**7,755**	**8,391**	**8.2%**	**-22.5%**	**21,527**	**16,146**	**-25.0%**
Interest Income	*15,578*	*12,235*	*13,324*	*8.9%*	*-14.5%*	*30,372*	*25,559*	*-15.8%*
Interest Expense	*-4,756*	*-4,480*	*-4,933*	*10.1%*	*3.7%*	*-8,845*	*-9,413*	*6.4%*
Net Fee Income	**6,440**	**5,996**	**5,279**	**-11.9%**	**-18.0%**	**11,716**	**11,275**	**-3.8%**
Net Other Income	**-1,810**	**3,652**	**-3,587**	**-198.2%**	**98.2%**	**-6,654**	**65**	**-101.0%**
FX result	*3,881*	*2,097*	*1,534*	*-26.8%*	*-60.5%*	*5,698*	*3,631*	*-36.3%*
FV result	*-1,951*	*6,662*	*-4,232*	*-163.5%*	*116.9%*	*-5,241*	*2,430*	*-146.4%*
Other Income	*-3,740*	*-5,106*	*-889*	*-82.6%*	*-76.2%*	*-7,110*	*-5,995*	*-15.7%*
General Administrative Expenses	**-8,744**	**-9,902**	**-10,296**	**4.0%**	**17.8%**	**-18,335**	**-20,198**	**10.2%**
Personnel Expenses	*-4,473*	*-4,912*	*-5,372*	*9.4%*	*20.1%*	*-9,325*	*-10,284*	*10.3%*
Operating Expenses	*-2,983*	*-3,643*	*-3,443*	*-5.5%*	*15.4%*	*-6,463*	*-7,085*	*9.6%*
Amortisation and depreciation	*-1,287*	*-1,348*	*-1,481*	*9.9%*	*15.1%*	*-2,546*	*-2,829*	*11.1%*
Provisions	**2,189**	**1,069**	**-169**	**-115.8%**	**-107.7%**	**3,391**	**900**	**-73.4%**
Provision for losses on loans	*2,182*	*1,042*	*-121*	*-111.6%*	*-105.5%*	*3,385*	*921*	*-72.8%*
Other provisions and impairments	*7*	*27*	*-48*	*-274.8%*	*-*	*6*	*-20*	*-*
Corporate income tax	**561**	**-631**	**-319**	**-49.4%**	**-156.9%**	**217**	**-950**	**-**
KPIs based on adjusted PAT (%)	**Period**					**YTD**		
	2Q2019	**1Q2020**	**2Q2020**	**P/P**	**Y/Y**	**2Q2019**	**2Q2020**	**Y/Y**
ROAE (Return on Average Equity)	22.9%	3.7%	-7.9%	-11.6%-pt	-30.8%-pt	9.9%	-2.1%	-12.0%-pt
Adjusted ROAE	22.5%	16.4%	-1.5%	-17.9%-pt	-24.0%-pt	14.4%	7.5%	-6.9%-pt
Adjusted ROAA (Return on Average Assets)	2.0%	1.7%	-0.1%	-1.8%-pt	-2.2%-pt	1.3%	0.7%	-0.5%-pt
TRM (Total Revenue Margin)	3.3%	3.7%	1.9%	-1.8%-pt	-1.4%-pt	2.8%	2.7%	-0.1%-pt
CIM (Core income margin)	4.5%	3.3%	2.9%	-0.5%-pt	-1.6%-pt	4.1%	3.1%	-1.0%-pt
NIM (Net Interest Margin)	2.3%	1.6%	1.6%	-0.1%-pt	-0.7%-pt	2.3%	1.6%	-0.7%-pt
NFM (Net Fee Margin)	1.4%	1.3%	1.0%	-0.3%-pt	-0.4%-pt	1.2%	1.1%	-0.1%-pt
C/TA (Cost to Total Assets)	1.9%	2.1%	1.9%	-0.1%-pt	0.1%-pt	1.9%	2.0%	0.1%-pt
CIR (Cost Income Ratio)	56.6%	56.9%	102.1%	45.2%-pt	45.5%-pt	69.0%	73.5%	4.5%-pt
Provision/Total Assets	2.3%	2.3%	2.1%	-0.2%-pt	-0.2%-pt	2.3%	2.1%	-0.2%-pt
Risk cost rate	-0.9%	-0.4%	0.0%	0.5%-pt	0.9%-pt	-0.7%	-0.2%	0.5%-pt

The presentation of financials in this report is based on Total Comprehensive Income ("TOCI"), which is an IFRS category aimed at presenting the economic impact for the given period by incorporating "fair value through other comprehensive income" (FVTOCI) results. Based on the fact that MKB Bank holds a large securities portfolio, part of which is valued against capital (FVTOCI), and hedges its interest risk position with IRS transactions, TOCI figures should only be used to evaluate the results.

2.1.1 Adjusted profit after taxation

In 1H 2020, MKB Group's adjusted consolidated profit was HUF 7.2 bln (-39% y/y) despite adverse market conditions and indirect pandemic effects on core incomes.

Adjustments total increased from HUF 3.7 bln to HUF 9.2 bln (y/y cumulated): the technical and banking tax corrections were supplemented with direct effects of COVID-19.

The **ROAE** (adjusted) for 1H 2020 was 7.5% (-6.9%-pts y/y) as a result of reduced income and strong capital position.

The **total revenue margin** (TRM) was stable in 1H, 2.7% (-9bps y/y)

The **core income margin** (CIM) was 3.1%, decreased by 1.05%-pts y/y. Narrowing fee incomes due to lower business activity during the lockdown, prolonged effects of securities portfolio restructuring in 2019, and declining FX results are jointly responsible in the decrease.

The **net interest margin** (NIM) stagnated on 1.6% from in 2Q, decreased by 68 bps on y/y basis. Lower margin was stemming from decreasing market yields having effect directly on securities portfolio.

1H cost-to-income ratio (CIR) was 73.5% (+4.5%-pt y/y). The indirect revenue effects of COVID-19 deteriorated CIR while maintaining the stringent cost management measures allowed for only slight increase in costs.

Risk cost charge on loans HUF -0.12 bln in 2Q due to the sound customer base and continuously monitored portfolio. YTD HUF +0.92 bln (release). Risk cost ratio was -0.2% in 1H. The IFRS NPL ratio decreased from 3.9% to 3.6% p/p, and NPL indirect coverage rose from 113% to 124.7%.

The MKB Group's **capital adequacy** was 19.8% in 1H (+193bps p/p; +50bp y/y) as a result of increasing regulatory capital and stable RWA.

2.1.2 Comprehensive income

MKB Group reported HUF -2.05 bln (HUF -15.7 bln y/y) unadjusted total comprehensive income in 1H 2020. MKB Group recognised the huge drop in results (unadjusted PAT HUF -2.0 bln, HUF -10.1 bln y/y) mainly due to COVID-19 pandemic related effects, while OCI was only HUF 0.07 bln during 1H 2020 as changes in market conditions in 2Q offset the negative FVTOCI effect incurred in 1Q.

Adjusted Total comprehensive income was HUF 7.2 bln (-58.7% y/y).

2.1.3 Net interest income

MKB Group's net interest income was HUF 16.1 bln in 1H 2020 (-25% y/y). Most of the decrease is linked to the prolonged effects of securities portfolio restructuring in 2H 2019.

Interest income in 1H 2020 was HUF 25.6 bln (-15.8% y/y, +8.9% q/q). Customer related incomes remained stable despite the pandemic. Increasing liquidity in 2Q resulted higher average securities volume, accordingly higher interest income on securities portfolio in 2Q.

Interest expense was HUF 9.4 bln (+6.4% y/y) in 1H 2020, due to higher volume of interbank deposit and BUBOR.

2.1.4 Net fee and commission revenues

Negative impacts of COVID-19 decreased net fee income slightly by 3.8% on a year/year basis in 1H to HUF 11.3 bln, (-11.9% p/p). The setback in economic activity induced by the lockdown in 2Q affected the amount of new disbursements, and therefore disbursement fees as well as resulted in the decrease of turnover and transaction fees.

Brokerage fees and other securities business revenues have risen in the past half year, but there is a slight decrease in MÁP+ revenues in line with changes in customer focus and ÁKK priorities.

2.1.5 FX results

Results from foreign exchange activities in 2Q 2020 was HUF 1.5 bln YTD, (HUF -2.3 bln y/y; HUF -0.6 bln p/p), due to COVID-19 effect:

Individually priced and fixing spot FX conversions and the exchange rate gain on forward and futures transactions of retail and corporate customers decreased compared to the previous quarter.

Revision of corporate customer relations (as disclosed in 1H 2019 flash report) have been a contributing factor in y/y decrease.

2.1.6 Revaluation result

Decreasing yield trends in 2Q resulted in higher fair value adjustments, although the net result remained moderate. The adjusted revaluation result was HUF -4.2 bln in 2Q (HUF -2.3 bln y/y; HUF -10.9 bln p/p). The negative effect on PAT is offset by HUF 5.9 bln p/p revaluation gain in OCI (adjusted).

FV corrections applied in 1Q were cancelled out in 2Q as financial market conditions have been showing signs of improvements. Fair value results for 1H 2020 presented (HUF 2.4 bln) reveal moderate but y/y improved (HUF 1.0bln) results when considering TOCI.

As a result of NBH counter pandemic measures MKB expects less vivid markets in 2H 2020.

2.1.7 Other results

The tax and/or regulatory fees and commission expenses of the MKB Group are recognized within the framework of other profit/loss: transaction levy, local business tax, innovation contribution and other revenues/expenses of ordinary business operation. Positive change on y/y basis (15.7%), also on quarterly basis: less then HUF 900 m other expense in 2Q (HUF 5 bln in 1Q). Local tax and innovation contribution expense correction were booked for 1H: lower actual figures then the accrued values based on 2019 actual data.

2.1.8 Operating expenses

MKB Group reached high level of cost effectiveness by the end of 2019. The implementation of a business orientated market strategy was initiated in early 1Q but COVID-19 required to alter the focus of the implementation in 2Q:

- digitalisation efforts were increased in order to enhance contactless channels;
- subsidized loan products development require concentrated efforts to serve customers in a highly efficient way.

Anti-spread measures related costs (HUF ~360 mln) are adjusted for due to the one-off nature of such items.

MKB Group's general administrative expenses were HUF 20.2 bln in 1H 2020, which represents a 3.8% increase in costs compared to the previous quarter. The cumulated cost/income ratio adjusted for the COVID-19 effect was 73.48% in the second quarter owing to the strict cost management to mitigate COVID-19 impacts on incomes keeping CIR% at an acceptable level.

The value of personnel expenses in 2Q 2020 was HUF 5.3 bln (half-year: HUF 10.3 bln). The +9.4% increase compared to the previous quarter was dawn to increasing business efforts and costs attributable to regulatory projects.

The closing headcount of the MKB group was 1970 FTE in 2Q 2020 (+30 FTE compared to 1Q). Headcount increase was propelled by intensified business activity to cater customer demand and push for digitalisation.

Operating expenses amounted to HUF 3.4bln in 2Q 2020, which is 5.5% lower than in the previous quarter.

The amount of depreciation is HUF 1.5 bln, which is 9.9% (+ HUF 134 million) higher than in the previous quarter, mainly due to the activation of regulatory projects in the current period.

2.1.9 Risk costs

HUF 0.92 bln adjusted total risk cost release (HUF 0.2 bln in 2Q) due to the sound customer base and continuously monitored portfolio.

The closing volume of the NPL portfolio in 1H was HUF 37.7 bln, following a decrease of HUF 5.2 bln compared to the first half of 2019. The IFRS-based NPL ratio dropped to 3.6% (-80 bps y/y), while Indirect NPL coverage rose from 99.5% to 124.7% and Direct NPL coverage rose from 69.1% to 71.5%.

2.1.10 Corporate income tax

In 1H 2020 the recorded corporate income tax expense was HUF 37.4 million as a result of HUF 15.4 million corporate income tax expense, HUF 38.3 million deferred tax expense and HUF 16.3 million deferred tax revenue. Tax revenues are resulted from the recognition of deferred tax income related to unused tax loss.

The adjustments made in the flash report had a tax effect of HUF 912.3 million therefore the adjusted P&L tax effect including the corporate income tax was HUF 949.7 million.

2.2 Balance sheet

MKB Group							
Balance sheet (in MHUF)	**2Q2019**	**4Q2019**	**1Q2020**	**2Q2020**	**P/P**	**Y/Y**	**YTD**
Financial assets	**147,400**	**117,780**	**132,776**	**243,684**	83.53%	65.3%	106.90%
Trading portfolios	**40,582**	**20,734**	**60,179**	**55,398**	**-7.9%**	**36.5%**	**167.2%**
Securities	**618,942**	**594,677**	**729,038**	**826,823**	**13.4%**	**33.6%**	**39.0%**
Loans and advances to customers/Customer Loans (net)	**924,823**	**930,314**	**1,014,020**	**991,344**	**-2.2%**	**7.2%**	**6.6%**
Loans and advances to customers/Customer Loans (gross)	967,731	976,681	1,060,867	1,038,330	-2.1%	7.3%	6.3%
Retail	*221,733*	*239,236*	*240,159*	*244,682*	*1.9%*	*10.4%*	*2.3%*
Corporate	*582,161*	*569,018*	*648,465*	*618,030*	*-4.7%*	*6.2%*	*8.6%*
Leasing	*163,837*	*168,427*	*172,243*	*175,619*	*2.0%*	*7.2%*	*4.3%*
Provision for Customer loans	-42,907	-46,368	-46,847	-46,985	0.3%	9.5%	1.3%
Retail	*-10,433*	*-9,697*	*-9,398*	*-9,426*	*0.3%*	*-9.7%*	*-2.8%*
Corporate	*-26,459*	*-30,730*	*-31,816*	*-31,246*	*-1.8%*	*18.1%*	*1.7%*
Leasing	*-6,016*	*-5,941*	*-5,633*	*-6,313*	*12.1%*	*4.9%*	*6.3%*
Total Other assets	**95,927**	**96,293**	**93,890**	**90,559**	**-3.5%**	**-5.6%**	**-6.0%**
Investments in jointly controlled entities and associates	*5,355*	*7,312*	*6,392*	*4,383*	*-31.4%*	*-18.2%*	*-40.1%*
Intangibles, property and equipment	*54,350*	*58,907*	*58,336*	*57,166*	*-2.0%*	*5.2%*	*-3.0%*
Other assets	*36,223*	*30,073*	*29,162*	*29,010*	*-0.5%*	*-19.9%*	*-3.5%*
Total Assets	**1,827,674**	**1,759,796**	**2,029,903**	**2,207,808**	8.8%	20.8%	25.5%
Interbank liabilities	**206,182**	**195,810**	**313,323**	**410,719**	**31.1%**	**99.2%**	**109.8%**
Deposits & C/A	**1,330,175**	**1,226,529**	**1,370,420**	**1,458,430**	**6.4%**	**9.6%**	**18.9%**
Retail	*340,484*	*334,660*	*352,031*	*376,756*	*7.0%*	*10.7%*	*12.6%*
Corporate	*989,691*	*891,869*	*1,018,389*	*1,081,674*	*6.2%*	*9.3%*	*21.3%*
Issued debt securities	**2,123**	**0**	**0**	**0**	**0.0%**	**-100.0%**	**0.0%**
Other liabilities	**80,208**	**99,614**	**114,276**	**99,538**	**-12.9%**	**24.1%**	**-0.1%**
Subordinated debt	**37,701**	**39,381**	**43,252**	**42,711**	**-1.3%**	**13.3%**	**8.5%**
Shareholders' Equity	**171,285**	**198,462**	**188,633**	**196,409**	**4.1%**	**14.7%**	**-1.0%**
Total Liabilities & Equity	**1,827,674**	**1,759,796**	**2,029,903**	**2,207,808**	8.8%	20.8%	25.5%
Guarantees	151,035	98,357	99,160	102,842	3.7%	-31.9%	4.6%
Undrawn commitments to extend credit	231,723	235,494	207,432	221,441	6.8%	-4.4%	-6.0%
Obligations from letters of credit and	8,834	14,570	15,843	15,286	-3.5%	73.0%	4.9%
Other contingent liablities (including litigation)	9,064	9,232	8,977	8,234	-8.3%	-9.2%	-10.8%
Customer off Balance items	**400,656**	**357,653**	**331,412**	**347,803**	4.9%	-13.2%	-2.8%

The balance sheet of the MKB group is presented on the basis of consolidated financial statements prepared according to IFRS. The leasing segment presented in the flash report follows the customer portfolios of the Euroleasing Group.

Strong business potential of MKB Group allowed for rapid increase of customer volumes, boosting the balance sheet significantly (+8.8% p/p).

The closing balance sheet total of MKB Group for 1H 2020 was HUF 2,207.8 bln, which represents more than 20% increase over the balance sheet total of 1H 2019.

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 loans slightly decreased (-2.24% p/p) as overdraft facility utilisation decrease offsets rapidly growing new disbursements. Securities portfolio increased (+13.41% p/p) in order to soak up the liquidity surplus stemming from the NBH liquidity programmes and funds.

MKB Group's loan-to-deposit ratio was 71.2%, which is decrease compared to the previous quarter's 77.4%.

2.2.1 Loans

Year-on-year customer loans increase (+7.3% y/y) was driven by increasing asset volumes in every business segments (corporate loans: +6.2%; retail loans: +10.4%; leasing portfolio: +7.2%). End of 2Q 2020 closing volumes were marginally influenced by COVID-19 moratorium effects. On quarterly basis the corporate loan portfolio decreased by -4.7% due to overdraft facility utilisation decrease; while the retail loan volume and the leasing portfolio expanded by 1.9% and 2.0% respectively by the higher disbursement of FGS Go!, Széchenyi-, Unsecured personal- and Babaváró loans.

The impairment losses on loans increased by 9.5% (HUF 4.1 bln) due to the prudent provisioning of the Group. In the last quarter there is a slight increase of 0.3% (HUF 0.14 bln) in provision stock.

2.2.2 Securities

Securities portfolio absorbed the liquidity surplus stemming from the quickly growing customer deposit and interbank liability volumes. Securities volumes at the end of 2Q reached HUF 826.8 bln (HUF 207.9 bln y/y; HUF +97.8 bln p/p). Changing market circumstances put pressure on average interest rate of the securities portfolio.

2.2.3 Financial assets

Financial assets were HUF 243.6 bln at the end of 2Q, representing a significant increase over the previous quarter. Increasing volume of NBH's "preferential plus" is the main contributing factor.

Changes in financial assets are determined by the liquidity position and balance sheet size of the MKB Group, used as an ALM tool.

2.2.4 Deposits

Continuous increase in customer deposits (+9.8% y/y and +6.5% p/p) reflects the potential and loyalty of the MKB customer base. Customer acquisitions and the increasing domestic savings allowed for increasing volumes mainly in corporate and to a lesser extent in the retail segment.

Customer deposits amounted to HUF 1,458 bln at the end of 1H 2020.

2.2.5 Interbank liabilities

MKB Group's active participation in NHB liquidity boosting facilities results in a rapid increase of interbank liabilities (+31.1% p/p). Moderate growth of the refinancing liabilities was recorded in 2Q, in connection with the increase of corresponding loan volumes.

2.2.6 Capital

MKB Group had HUF 196.4 bln capital at the end of 1H what shows a major increment compared to previous year (+14.7% y/y) and last quarter as well (+4.1% on p/p basis) as a result of the favourable changes in AFS securities revaluation reserves. The sharp decrease of revaluation reserves in 1Q was neutralised by the market rebound in 2Q.

2.2.7 Off-balance sheet exposures to customers

The Group's off-balance sheet exposures was HUF 347.8 bln at the end of 1H, which is 13.2% decrease on y/y basis attributable mainly to the negative change of guarantees (-31.9% y/y).

In parallel with credit line payback assets with higher portfolio (guarantees and credit lines) represented increasing by 4.9% on quarterly basis.

2.3 Capital adequacy

Capital adequacy ratio was 19.8% at the end of 1H 2020.

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Investors' contact person: Dóra Sebestyén-Bertalan

To support rapid business growth and to strengthen its capital position MKB Bank issued EUR 51.3 mln senior, subordinated bond (maturity 8 years). In the meantime, EUR 48.1 mln (remaining maturity: 4 years) senior, subordinated bonds were redeemed. As a result CAR increased by 0.4%-pts

The market rebound in 2Q neutralized the COVID-19 related impacts in 1Q on comprehensive income (OCI) resulting in year-end level Tier1 capital

2.4 Presentation business segment results

This chapter presents the loan portfolio of MKB Group by segments and positions them in the banking sector according to market share. The segments are formed according to the requirements used in the reports prepared for the National Bank of Hungary (MNB) and the portfolios are also analysed accordingly for a comparable presentation of market shares.

2.4.1 Corporate business

After successfully closing the restructuring period, MKB Bank shifted its strategic focus to rapid portfolio growth and customer acquisition in the beginning of 1Q 2020. At the end of March, as the pandemic related restrictions set in, MKB Bank reacted quickly and adequately. Loan portfolio review and customer protection measures were put in place in order to mitigate the negative effect to the pandemic.

Measures to protect colleagues and customers were also put in place: instead of personal contacts, alternative, digital channels are the preferred way of doing business and supporting customers during the hard times.

Loan repayment moratorium was quickly implemented to ease off pressure on customers' liquidity and profitability. Opt-out rate was around 30% at the end of 2Q.

MKB Bank was amongst the first banks to launch subsidized loan products during 2Q. The subsidised Agricultural Széchenyi Card overdraft loan became available at MKB bank on 28th of April, while the new Széchenyi Card products (Overdraft Plus, Job retention loan, Liquidity loan, Investment loan Plus) became available on 18th of May, on the same day KAVOSZ launched these constructions for banks. MKB Bank is the market leader in terms of accepted loan application volume in the Hungarian Development Bank (MFB) funded new working capital loan.

MKB Group's corporate loan volume was HUF 618.0 bln at the end of 2Q 2020, -4.69% (-30.4bln p/p) and +6.16% y/y.

Non-financial companies' loans amounted to HUF 441.7 bln, reflecting -6.4%, HUF 30.1 bln decrease compared to the previous quarter, y/y change was -3.6%. Credit line utilization levels slightly decreased during 2Q as newly introduced subsidized loan products gained attention. Loan disbursements during the 2Q period reached HUF 25.8 bln resulting in 4.23% flow market share. Increased disbursement rate and flow market share in 2Q are in line with post-EU strategy and vindicating the efforts taken to enhance customer relations and products.

Non-financial large corporate gross loan volumes were affected by customer reclassification between segments: during the regular portfolio review clients with growing scale were reclassified as large corporate moving the related volumes along. Total volume increased to HUF 196.1 bln, SME loan portfolio decreased to HUF 218.3 bln showing the effect of the aforementioned credit line utilisation changes and customer reclassification.

Micro enterprises loan stock was HUF 27.3 bln at the end of the period.

Strong customer base of MKB Group allowed for rapid customer deposit increase. Non-financial corporate deposit volume increased 6.1% p/p, to HUF 683.6 bln (HUF +39.2bln p/p), / while market share increased 32 bps p/p to 6.87%.

Corporate customer count at the end of 2Q 2020 was 35.0 thousand.

2.4.2 Retail business

Retail business was also affected by the outbreak of COVID-19 crisis, but during the second half of 2Q 2020 signs of increasing business activity were visible. Social distancing and anti-spread measures introduced in 1Q 2020 remain in focus in the branches in order to protect customers and colleagues. Customer relations were largely redirected to digital channels: Contact Center upgraded to cope with the increased demand and the services available on the phone have been expanded in 2Q 2020. VideoBank was used as one of the main digital tools, for customers to keep in touch with the bank.

Multiple modifications were applied to the product portfolio in order to cope with the special pandemic related demands:

- APR cap of NBH base rate+5% pt was introduced on consumer loans by the government. MKB was the third market participant to restart the sales of its consumer loan product only a few weeks after the decision, thanks to rapid parameterization, system developments, and the bank's quick decision making processes,
- End-to-end online customer loan to existing customers was launched on June 8. Existing pre-approved clients can apply for their personal loan online or from their phones and if the necessary data is available the loan can be disbursed on the same day,
- Redesign of credit card and overdraft loans have been initiated,
- Moratorium declaration can be filed digitally.
- To react to the challenges rose from the pandemic MKB Bank is developing new customer friendly unsecured loan products

The retail loan closing volume in 2Q 2020 was HUF 242.8 bln, representing HUF 5.3 bln increase compared to 1Q 2020 and -3 bps change in market share.

Total retail loan disbursements in 2Q 2020 were lower than in 1Q 2020 by HUF -1.1 bln (10.4 bln in 2Q 2020). Unsecured and other loan disbursements decreased by HUF 1.0 bln, secured loan disbursement by HUF 0.1 bln compared to 1Q 2020. The market share of total new loan increased by 32 bps.

Secured loans closing volumes increased to HUF 195.9 bln in 2Q 2020, compared to HUF 195.5 bln in 1Q 2020 due to the moratorium: the disbursement and repayment of secured loans were almost on the same level. In spite of COVID-19 the volume of new loans (HUF 4.4 bln) were only slightly lower in 2Q 2020 than in 2H 2019 (HUF 4.8-4.9 bln).

Unsecured loan volume increased by HUF 4.0 bln compared to the end of 1Q 2020 - while the market share increased by 9 bps to 1.42% - mainly due to the increasing demand for personal loans and slightly decreasing demand for "Babaváró" loans in 2Q 2020. The increasing demand for Personal loans is related to the favourable interest rates introduced in April. An end-to-end online personal loan was introduced to enhance digital customer relations. Market share of personal loans increased by 111 bps to 1.88%.

Deposit closing volume was HUF 326.7 bln, after an increase of HUF 23.5 bln from the end of 1Q 2020. Sight deposits volume increase (HUF +24.2 bln p/p) was the main driver of growth, while term deposits slightly decreased (HUF -0.7 bln p/p). Retail deposit market share was 3.19% at the end of the period, representing 9bps increase.

The total retail client number remained nearly on same level as in 1Q 2020 (366.8 thousand customers). Premium customers are still in strategic focus in 2020. Customers become more cautious when deciding on investment opportunities, increasing the demand for investment advisory services from affluent as well as premium customers. Premium customer acquisition campaigns resulted in a p/p increase in customer count of 7.2% (~6,290 customers) by the end of 2Q 2020.

2.4.3 Leasing business[2]

MKB Group's leasing portfolio volume was HUF 175.6 bln at the end of 1H 2020. The portfolio increased significantly, by 7.2% (HUF +11.8 bln y/y) compared to 2019.

The vehicle financing sector's leasing volume was HUF 106.3 bln (+12.9%, HUF 12.2 bln increase y/y), while the volume of equipment financing was HUF 49.2 bln, meaning a decrease of 8.7% (y/y) over the year. The stock financing portfolio expanded by HUF 3.9 bln (y/y) compared to June 2019, while other receivables increased by HUF 0.4 bln over the year.

The emergency declaration on 11th March 2020 and the payment moratorium imposed on 18th March 2020 also affected the operation of the leasing business. The emergency situation and the movement restrictions that came into force after that, affect the new disbursements of the business line, while the payment moratorium affects the development and characteristics of the existing portfolio. In managing the payment moratorium the business line is acting in accordance with the relevant legislation. The assessment and management of (fact based) impacts is ongoing. The operation of the business line was stable and trouble-free even in the changed circumstances.

In terms of new disbursements during 1Q 2020, MKB Group had a stable position among the three largest actors in the Hungarian leasing market according to the data of the Hungarian Leasing Association. Figures for 1H 2020 are not yet available, but we do not expect any significant change in the rankings.

In the first quarter of the year, the new disbursements in vehicle financing exceeded expectations. New financing volume in April and May - because of measures taken in response to the pandemic -has dropped significantly. At the end of the first half-year, in June - after easing the restrictions - the volume of new disbursements increased significantly, approaching the data of last year’s same period.

The stability of vehicle financing was also further enhanced during this period by vehicle manufacturer collaborations (in terms of financing), of which the latest was established in the first quarter of 2020. The increase in inventory financing stocks in the first half of the year was due to a new vehicle manufacturer collaboration and the deepening of previous cooperation - by financing additional inventory types -, as well as lower sales data in April and May due to the pandemic. However, the aging and turnover rate of diversified stocks remain adequate.

Agricultural machinery and agricultural vehicle financing remained stable throughout the period - taking into account seasonality - and reached the planed volume. At the same time, the financing market for equipment and heavy duty utility vehicles was significantly affected by the pandemic, which was reflected in the decreased new disbursement figures.

The expansion of SME customer base is still an important strategic aspect, which is greatly facilitated by the fact that MKB Group participates in the distribution of the available FGS Go! resources according to its market share, and is involved in other state launched programs too.

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[2] The leasing portfolio of the MKB Group is managed by the MKB-Euroleasing Group, in which MKB Bank Nyrt. 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.

In addition to the growing portfolio, the non - performing portfolio is continuously decreasing, -14% during the last year, while its provision coverage remained stable over 80%. The bulk of the declining non-performing portfolio still comes from the lending activities in 2007 – 2008.

The (non-payment) option provided by the payment moratorium for customers - imposed on 18 March 2020 - was used by less than 30% of the contracts with a due payment in the current period, which means a favourable risk position. At the same time- based on uniform MKB Group risk principles- we are preparing for significant impairments for the post-payment moratorium period.

2.4.4 Investments and Treasury

The volatility of the stock market were higher in 2Q therefore the turnover of securities and the resulting revenue were higher than in the previous quarter. Due to the COVID-19, the Bank’s turnover of foreign exchange product of customers were lower compared to the previous quarter and profitability declined. Clients’ government bond quotes have fallen temporarily but ever since growing slowly. Therefore, there was a modest increase in stocks.

In terms of trading portfolio, the stabilization of the exchange rate and yields had a positive effect on the revaluation result.

Declaration

MKB Bank Nyrt. (hereinafter Bank) issues the following declaration in relation to its report on the 1H 2020 results (Flash Report):

The Bank declares that the Flash Report has been prepared in compliance with the applicable accounting regulations. The Flash Report, prepared according to the best knowledge and information of the experts and decision-making managers of the Bank concerned reflects a true and fair view of the assets and liabilities, financial position and profit and loss of the Bank as securities issuer and the consolidated companies.

No independent audit report has been prepared for the Flash Report.

Budapest, 27. August 2020

MKB Bank Nyrt.

Mr Ádám Balog, dr.	Mr János Nyemcsok
Chairman Chief Executive	Deputy CEO

3 FINANCIAL FIGURES

3.1 Correction factors 1H 2020

	1H 2020 Half Yearly Report	Structure correction	Banking tax and other taxes	IFRS16 effect	Dividend income	Covid-19 effect	Branch closure reserve	Adjusted PAT
Interest income	25,783	-211	0	0	-13	0	0	25,559
Interest expense	-11,312	1,855	0	45	0	0	0	-9,413
Net interest income	**14,471**	**1,644**	**0**	**45**	**-13**	**0**	**0**	**16,146**
Net income from commissions and fees	11,291	-16	0	0	0	0	0	11,275
Other operating income / (expense), net	-4,084	1,121	1,800	229	0	1,000	0	65
Impairments and provisions for losses	-2,927	-1,603	0	0	0	5,430	0	900
Operating expenses	-21,797	-49	1,800	-559	0	362	45	-20,198
Share of jointly controlled and associated companies' profit / (loss)	1,097	-1,097	0	0	0	0	0	0
Profit / (Loss) before taxation	**-1,949**	**0**	**3,599**	**-285**	**-13**	**6,792**	**45**	**8,188**
Income tax expense / (income)	-37	0	-324	26	1	-611	-4	-949
Profit/ (Loss) for the year from continuing operation	**-1,986**	**0**	**3,275**	**-259**	**-12**	**6,181**	**41**	**7,239**
PROFIT/ (LOSS) FOR THE YEAR	**-1,986**	**0**	**3,275**	**-259**	**-12**	**6,181**	**41**	**7,239**
Other comprehensive income:		0	0	0	0	0	0	0
Revaluation on financial assets measured at FVTOCI	-67	0	0	0	0	0	0	-67
Other comprehensive income for the year net of tax	**-67**	**0**	**0**	**0**	**0**	**0**	**0**	**-67**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-2,053**	**0**	**3,275**	**-259**	**-12**	**6,181**	**41**	**7,172**

Majority of the structure corrections are COVID-19 related losses and/or the reallocation of the profit from jointly controlled companies – they are used in order to foster understanding of the underlying financial performance.

	1H 2020 Half Yearly Report	Structure corrections						Adjusted BS structure
		Liabilities				Assets		
		Equity realignment	Rename	Repo reallocation	Other liabilities summation	Trading securities separation	Other assets summation	
Total Assets	**2,207,808**	**0**	**0**		**0**	**0**	**0**	**2,207,808**
Financial assets	243,685	0	0		0	0	0	243,684
Loans and advances to banks (net)	115,124							115,124
Cash and cash equivalents	128,561							128,561
Trading portfolios	29,297	0	0		0	26,101	0	55,398
Trading securities	0					26,101		26,101
Derivative financial assets	29,297							29,297
Securities	852,923					-26,101		826,823
Loans and advances to customers/Customer Loans (net)	991,344							991,344
Total Other assets	90,559	0	0		0	0	0	90,559
Investments in jointly controlled entities and associates	4,383							4,383
Non-current assets held for sale and discontinued operations	1,876							1,876
Deferred tax assets	8,045							8,045
Current income tax assets	1,004						-1,004	0
Intangibles, property and equipment	57,166							57,166
Other assets	18,085						1,004	19,089
Total liabilities and equity	**2,207,808**	**0**	**0**	**0**	**0**	**0**	**0**	**2,207,808**
Interbank liabilities (Amounts due to other banks)	409,201			1,518				410,719
Deposits and current accounts	1,459,948			-1,518				1,458,430
Other Liabilities	99,539	0	0		0	0	0	99,538
Negative fair values of derivative financial instruments	0		45,232					45,232
Other liabilities and provisions	54,145				162			54,306
Derivate financial liabilities	45,232		-45,232					0
Deferred tax liabilities	161				-161			0
Current income tax liabilities	1				-1			0
Subordinated debt	42,711							42,711
Shareholders' Equity	196,409	0	0	0	0	0	0	196,409
Subscribed capital	100,000	-35						99,965
Reserves	96,409	35						96,444
Treasury shares	-35	35						0
Non-controlling interests	35	-35						0

3.2 Consolidated financial statements of the MKB Group according to IFRS

3.2.1 Income statement

	2Q(Y) 2019	2Q(Y) 2020
Interest income	30,407	25,783
Interest expense	8,893	11,312
Net interest income	**21,514**	**14,471**
Net income from commissions and fees	11,716	11,291
Other operating income / (expense), net	(9,937)	(4,084)
Impairments and provisions for losses	(4,562)	2,927
Operating expenses	20,975	21,797
Share of jointly controlled and associated companies' profit / (loss)	1,073	1,097
Profit / (Loss) before taxation	**7,953**	**(1,949)**
Income tax expense / (income)	(217)	37
Profit/ (Loss) for the year from continuing operation	**8,170**	**(1,986)**
Profit/ (Loss) for the year from discontinued operation	-	-
PROFIT/ (LOSS) FOR THE YEAR	**8,170**	**(1,986)**
Other comprehensive income:	-	-
Items that may be reclassified subsequently to profit or loss:	-	-
Revaluation on financial assets measured at FVTOCI	5,490	(67)
Other comprehensive income for the year net of tax	**5,490**	**(67)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**13,660**	**(2,053)**

Company name: MKB Bank Nyrt.
Address: 1056 Budapest, Váci u. 38.
Sector: Other monetary activity
Reporting period: 01.04.2020-30.06.2020
Phone: +36 (1) 268-8004
Fax: +36 (1) 268-7555
E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

3.2.2 Balance sheet

	2Q 2019	2Q 2020
Assets		
Cash reserves	79,652	128,561
Loans and advances to banks	67,747	115,124
Derivative financial assets	17,846	29,297
Securities	643,121	852,923
Loans and advances to customers	924,823	991,344
Non-current assets held for sale and discontinued operations	10,335	1,876
Other assets	18,648	18,085
Current income tax assets	50	1,004
Deferred tax assets	7,190	8,045
Investments in jointly controlled entities and associates	3,912	4,383
Intangibles, property and equipment	54,350	57,166
Total assets	**1,827,674**	**2,207,808**
Liabilities	0	0
Amounts due to other banks	196,182	409,201
Deposits and current accounts	1,340,175	1,459,948
Derivate financial liabilities	34,857	45,232
Liabilities held for sale and discontinued operations	206	0
Other liabilities and provisions	44,174	54,145
Current income tax liabilities	722	1
Deferred tax liabilities	249	161
Issued debt securities	2,123	0
Subordinated debt	37,701	42,711
Total liabilities	**1,656,389**	**2,011,399**
Equity	0	0
Share capital	100,000	100,000
Treasury Shares	-70	-35
Reserves	71,285	96,409
Total equity attributable to equity holders of the Bank	**171,215**	**196,374**
Non-controlling interests	70	35
Total equity	**171,285**	**196,409**
Total liabilities and equity	**1,827,674**	**2,207,808**

3.2.3 Shareholders' assets

	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 for the year 2018	-	-	-	-	(4,665)	-	-	**(4,665)**
Profit/ (loss) 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/ (loss) 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**

3.3 Individual financial statements of MKB Bank Nyrt. according to IFRS

3.3.1 Income statement

	2Q(Y) 2019	2Q(Y) 2020
Interest income	30,784	25,695
Interest expense	9,215	11,554
Net interest income	**21,569**	**14,141**
Net income from commissions and fees	11,772	11,366
Other operating income / (expense), net	(9,845)	(2,803)
Impairments and provisions for losses	(3,947)	2,435
Operating expenses	18,822	21,094
Share of jointly controlled and associated companies' profit / (loss)	-	-
Profit / (Loss) before taxation	**8,621**	**(825)**
Income tax expense / (income)	(212)	27
Profit/ (Loss) for the year from continuing operation	**8,833**	**(852)**
Profit/ (Loss) for the year from discontinued operation	-	-
PROFIT/ (LOSS) FOR THE YEAR	**8,833**	**(852)**
Other comprehensive income:	-	-
Items that may be reclassified subsequently to profit or loss:	-	-
Revaluation on financial assets measured at FVTOCI	5,490	(67)
Other comprehensive income for the year net of tax	**5,490**	**(67)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**14,323**	**(919)**

3.3.2 Balance sheet

	2Q 2019	2Q 2020
Assets		
Cash reserves	79,652	128,561
Loans and advances to banks	67,747	115,124
Derivative financial assets	17,846	29,297
Securities	643,121	852,923
Loans and advances to customers	921,709	983,746
Non-current assets held for sale and discontinued operations	10,335	1,876
Other assets	17,235	17,553
Current income tax assets	0	879
Deferred tax assets	7,086	7,743
Investments in jointly controlled entities and associates	43,260	47,676
Intangibles, property and equipment	37,445	36,472
Total assets	**1,845,436**	**2,221,850**
Liabilities	0	0
Amounts due to other banks	196,031	409,088
Deposits and current accounts	1,361,750	1,468,792
Derivate financial liabilities	34,857	45,232
Liabilities held for sale and discontinued operations	0	0
Other liabilities and provisions	41,602	60,963
Current income tax liabilities	720	0
Deferred tax liabilities	195	26
Issued debt securities	3,433	2,402
Subordinated debt	37,701	42,711
Total liabilities	**1,676,289**	**2,029,214**
Equity	0	0
Share capital	100,000	100,000
Reserves	69,147	92,636
Total equity attributable to equity holders of the Bank	**169,147**	**192,636**
Non-controlling interests	0	0
Total equity	**169,147**	**192,636**
Total liabilities and equity	**1,845,436**	**2,221,850**

3.3.3 Shareholders' assets

	Share capital	Share premium	Retained earnings	Revaluation on financial assets measured at FVTOCI	Total equity
At 1 January 2019	**100,000**	**21,729**	**41,361**	**(3,466)**	**159,624**
Dividend for the year 2018	-	-	(4,800)	-	**(4,800)**
Profit/ (loss) for the year	-	-	42,012	-	**42,012**
Other comprehensive income for the year	-	-	-	(3,281)	**(3,281)**
At 31 December 2019	**100,000**	**21,729**	**78,573**	**(6,747)**	**193,555**
Profit/ (loss) for the year	-	-	(852)	-	**(852)**
Other comprehensive income for the year	-	-	-	(67)	**(67)**
At 30 June 2020	**100,000**	**21,729**	**77,721**	**(6,814)**	**192,636**

3.4 Other information

Consolidated companies

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
Magyar Bankholding Zrt.	33.33%	33.33%	Hungary	Holding activity

List and presentation of owners with more than 5% participation

Név	Number of shares	Ownership share (%)	Voting rights (%)
METIS Private Equity Fund	35,000,001	35.00%	35.00%
Blue Robin Investments S.C.A.	32,900,000	32.90%	32.90%
RKOFIN RKOFIN Investment and Asset Management Ltd.	13,620,597	13.62%	13.62%
EIRENE Private Equity Fund	9,999,999	9.99%	9.99%

Full-time employees

FTE, end of period	31.12.2018	30.06.2019	31.12.2019	30.06.2020
MKB Bank Nyrt.	1,763.15	1,497.78	1,509.70	1,573.98
MKB Digital Zrt.	0.00	190.70	185.83	186.33
MKB Üzemeltetési Kft	43.50	37.11	40.11	41.61
Euroleasing Zrt.	0.10	0.00	0.00	0.00
MKB Euroleasing Autólízing Zrt.	119.35	133.18	146.73	159.43
MKB-Euroleasing Autóhitel Ker és Szolg Zrt.	15.90	0.00	0.00	0.00
Retail Prod Zrt.	0.33	0.23	0.18	0.18
MKB Nypénzt. és Eü.Pénzt.Kiszolgáló Kft.	10.22	6.00	6.25	5.00
Exter Adósságkezelő Kft.	1.00	1.00	0.00	0.00
Extercom Kft.	2.15	3.20	1.63	1.63
MKB Bank MRP Szervezet	2.00	2.00	2.00	2.00
MKB Group	**1,957.70**	**1,871.19**	**1,892.41**	**1,970.14**

Managers and strategic employees

Type[1]	Name	Position	Beginning of mandate	End/termination of mandate	Number of shares held
IT, VB	Dr. Ádám Balog*	Chairman and CEO	2015.07.23	2020.07.22	0
IT, VB	Dr. András Csapó*	member, Deputy CEO	2017.09.07	2020.07.22	0
IT	Imre Kardos	member	2016.07.25	2021.07.24	0
IT	Mihály Valkó	member	2020.05.22	2025.05.21	0
IT	Dr. Gabriella Gombai	member	2020.06.11	2025.06.10	0
IT	Balázs Benczédi	member	2020.06.12	2025.06.11	0
FB, VB	János Nyemcsok	member, Deputy CEO	2016.04.15	2021.03.31	0
FB	Ferenc Müller	member, Chief Strategic Consultant	2016.04.15	2021.03.31	0
FB	Albert Godena	member, Director	2016.07.25	2021.07.24	0
FB	Rita Feodor	member	2018.09.19	2023.09.18	0
FB	Dr. Ágnes Hornung	Chair Lady	2019.02.28	2024.02.27	0
FB	Törtel András Oszlányi	member	2019.02.25	2024.02.24	0
FB	Dr. László Ipacs	member	2019.02.25	2024.02.24	0
SP, VB	András Bakonyi	Deputy CEO	2017.09.22		0
SP, VB	Ildikó Ginzer	Deputy CEO	2016.12.21		0

[1] Employee in strategic positions (SP), Board of Directors member (IT), Supervisory Board member (FB), Executive Committee member (VB)

* Dr. Ádám Balog was re-elected by the General Meeting as member and Chairman of the Board of Directors, and Dr. András Csapó as member of the Board of Directors for further five years from July 23, 2020 until July 22, 2025.

** 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 July 30, 2020.

4 ANNEXES

4.1 Financial indicators

$$\textbf{ROAE}\text{ (Return on Average Equity)} = \frac{\text{Profit after taxation of the period}}{\text{Average equity}}$$

$$\textbf{ROAA}\text{ (return on average assets)} = \frac{\text{Profit after taxation of the period}}{\text{Average total assets}}$$

$$\textbf{ROMC}\text{ (return on minimum capital requirement)} = \frac{\text{Profit after taxation of the period}}{\text{Minimum capital requirement}}$$

$$\textbf{TRM}\text{ (total revenue margin)} = \frac{\text{Gross revenues}}{\text{Average total assets}}$$

$$\textbf{NIM}\text{ (net interest margin)} = \frac{\text{Net interest income}}{\text{Average total assets}}$$

$$\textbf{NFM}\text{ (net fee margin)} = \frac{\text{Net fee/commission income}}{\text{Average total assets}}$$

$$\text{Business margin} = \frac{\text{Net interest income} + \text{Net fee/commission income} + \text{Exchange rate result}}{\text{Average total assets}}$$

$$\textbf{C/TA}\text{ (operating expenses /total assets)} = \frac{\text{Total operating expenses}}{\text{Average total assets}}$$

$$\textbf{CIR}\text{ (cost} - \text{income ratio)} = \frac{\text{Total operating expenses}}{\text{Gross revenues}}$$

$$\text{Impairment / Total assets} = \frac{\text{Impairment recognised on loans}}{\text{Total assets (closing)}}$$

$$\text{Risk costs ratio} = \frac{\text{Risk cost recognised on loans}}{\text{Average gross loan portfolio}}$$

$$\textbf{CAR}\text{ (capital adequacy ratio)} = \frac{\text{Regulatory capital}}{\text{Risk weighted assets (RWA)(closing)}}$$

$$\text{RWA ratio } = \frac{\text{RWA (closing)}}{\text{Total assets (closing)}}$$

$$\textbf{LTD}\text{ (loan to deposit ratio) } = \frac{\text{Gross customer loans (closing)}}{\text{Customer deposits (closing)}}$$

$$\text{RWA efficiency} = \frac{\text{Gross revenues}}{\text{RWA (average)}}$$

$$\textbf{EPS}\text{ (earnings per share)} = \frac{\text{Profit after taxation of the period}}{\text{Number of shares}}$$

$$\text{NPL coverage } = \frac{\text{Impairment recognised on loans}}{\text{Non} - \text{performing loans (NPL)(closing)}}$$

$$\text{Direct NPL coverage } = \frac{\text{Impairment recognised on NPL}}{\text{Non} - \text{performing loans (NPL)(closing)}}$$

$$\text{NPL ratio } = \frac{\text{NPL portfolio (closing)}}{\text{Gross customer loans (closing)}}$$

$$\text{DPD90} + \text{coverage} = \frac{\text{Impairment recognised on loans}}{\text{Loans past due for more than 90 days (DPD90+) (closing)}}$$

$$\text{DPD90} + \text{ratio} = \frac{\text{DPD90} + \text{portfolio (closing)}}{\text{Gross customer loans (closing)}}$$

4.2 Abbreviations

MKB, MKB Bank, MKB Group	MKB Group
EU kötelezettség-vállalások	Required range of certain EU Commitments marked in brackets, as defined in the following public document: https://ec.europa.eu/competition/state_aid/cases/261437/261437_1721348_166_2.pdf Please note that specific targets were set within the displayed ranges.
NBH	National Bank of Hungary (the central bank of Hungary)
MNB	Magyar Nemzeti Bank (the Hungarian name of the central bank of Hungary)
y/y	Year on year
p/p	Period on period
bp	Basis point
CAGR	Compounded Annual Growth Rate
(Y), YTD	Year to date data
PAT	Profit after tax
PBT	Profit before tax
GOI	Gross Operating Income
GAE	General Administrative Expenses
OCI	Other comprenesive income
TOCI	Total other comprenesive income
FX	FX result
FV	Revaluation result
IRS	Interest rate swap
TA	Total assets
RWA	Risk weighted assets
Fedezett hitelek	Home Loans + Free-to-Use Mortgages
FVTOCI	Fair value through OCI
FVTPL	Fair value through P&L
FTE	Full time equivalent
NPL	Non performing loans
NPE	Non performing exposures
DPD90+	Days past due over 90 days
POCI	Purchased or Originated Credit Impaired Asset
ROE, ROAE	Return on average equity
ROMC	Return on minimum capital
ROA, ROAA	Return on average assets
CIR	Cost-to-income ratio
TRM	Total revenue margin
NIM	Net interest margin
NFM	Net fee margin
CIM	Core Income Margin
CAR	Capital adequacy ratio
LTD	Loans to deposits
EPS	Earning per share
AVA	Asset value adjustment – CRR specification
MÁP+	Hungarian Governmental Securities+
ÁKK	Price of government bond reference yields determined daily by the National Debt Management Center (ÁKK)
NHP	FGS, Funding for Growth Scheme
KSH	Hungarian Central Statistical Office
AFR	Instant payment system implementation project to comply with NBH requirements
Hitreg	Loan registry requirements of NBH
PSD2	Payment service directive 2