



MKB Bank Nyrt.

Report on the 4Q 2019 Results (Flash Report)

Budapest, 25. March 2020

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Company name: MKB Bank Nyrt.
Address: 1056 Budapest, Váci u. 38.
Sector: Other monetary activity
Reporting period: 01.01.2019-31.12.2019

Phone: +36 (1) 268-8004
Fax: +36 (1) 268-7555
E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

1 MKB GROUP 4Q 2019 RESULTS - OVERVIEW

Main components of P&L (in MHUF)	Period					YTD		
	4Q2018	3Q2019	4Q2019	P/P	Y/Y	4Q2018	4Q2019	Y/Y
TOCI (Total Other Comprehensive Income)	4,885	19,415	7,792	-59.9%	59.5%	11,878	40,867	244.1%
Revaluation on AFS financial assets (OCI)	5,009	-8,640	-131	-98.5%	-102.6%	-13,254	-3,281	-75.2%
Profit after tax	-124	28,055	7,924	-71.8%	-	25,132	44,148	75.7%
Adjustments total	857	-6,303	-4,181	-33.7%	-	10,236	-6,792	-166.4%
Adjusted Profit after tax	733	21,752	3,743	-82.8%	-	35,368	37,356	5.6%
Adjusted Profit before tax	153	21,829	3,102	-85.8%	-	34,933	36,576	4.7%
Gross Operating Income	14,043	33,846	20,229	-40.2%	44.0%	78,019	80,664	3.4%
Net Interest Income	9,399	10,478	8,798	-16.0%	-6.4%	40,503	40,803	0.7%
Net Fee Income	5,286	7,753	7,847	1.2%	48.4%	25,908	27,316	5.4%
Net Other Income	-641	15,615	3,584	-77.0%	-	11,608	12,545	8.1%
FX result	3,927	1,602	2,929	82.9%	-25.4%	13,125	10,228	-22.1%
FV result	-3,323	17,366	4,712	-72.9%	-241.8%	13,938	16,836	20.8%
Other Income	-1,244	-3,352	-4,056	21.0%	226.0%	-15,455	-14,518	-6.1%
General Administrative Expenses	-14,592	-8,231	-14,615	77.6%	0.2%	-44,917	-41,181	-8.3%
Provision for losses on loans	1,052	-4,199	-2,241	-46.6%	-	1,928	-3,055	-258.5%
Main components of Balance sheet (in MHUF)	Volume at the end of period					YTD average		
	4Q2018	3Q2019	4Q2019	P/P	Y/Y	4Q2018	4Q2019	Y/Y
Total Assets	1,857,579	1,935,007	1,759,796	-9.1%	-5.3%	2,006,662	1,872,572	-6.7%
Customer Loans (net)	895,203	942,345	930,314	-1.3%	3.9%	911,585	924,829	1.5%
Customer Loans (gross)	965,315	986,031	976,681	-0.9%	1.2%	996,396	974,732	-2.2%
Provision for Customer loans	-70,112	-43,685	-46,368	6.1%	-33.9%	-84,811	-49,902	-41.2%
Deposits & C/A	1,372,046	1,365,941	1,226,529	-10.2%	-10.6%	1,400,283	1,351,409	-3.5%
Subordinated debt	28,002	39,434	39,381	-0.1%	40.6%	27,157	37,254	37.2%
Shareholders' Equity	158,166	190,527	198,462	4.2%	25.5%	149,016	176,192	18.2%
KPIs based on adjusted PAT (%)	Period					YTD		
	4Q2018	3Q2019	4Q2019	P-P	Y-Y	4Q2018	4Q2019	Y-Y
ROAE - not adjusted	-0.3%	62.0%	16.3%	-45.7%-pt	16.6%-pt	16.9%	25.1%	8.2%-pt
ROAE (Return on Average Equity)	1.9%	48.1%	7.7%	-40.4%-pt	5.8%-pt	23.7%	21.2%	-2.5%-pt
ROMC (Return on Minimum Capital)	2.3%	67.8%	11.3%	-56.5%-pt	9.0%-pt	29.0%	29.0%	0.1%-pt
Adjusted ROAA (Return on Average Assets)	0.1%	4.6%	0.8%	-3.8%-pt	0.7%-pt	1.8%	2.0%	0.2%-pt
TRM (Total Revenue Margin)	2.9%	7.2%	4.4%	-2.8%-pt	1.5%-pt	3.9%	4.3%	0.4%-pt
CIM (Core income margin)	3.8%	4.2%	4.2%	0.0%-pt	0.4%-pt	4.0%	4.2%	0.2%-pt
NIM (Net Interest Margin)	1.9%	2.2%	1.9%	-0.3%-pt	0.0%-pt	2.0%	2.2%	0.2%-pt
NFM (Net Fee Margin)	1.1%	1.6%	1.7%	0.1%-pt	0.6%-pt	1.3%	1.5%	0.2%-pt
C/TA (Cost to Total Assets)	3.0%	1.8%	3.2%	1.4%-pt	0.2%-pt	2.2%	2.2%	0.0%-pt
CIR (Cost Income Ratio)	103.9%	24.3%	72.2%	47.9%-pt	-31.7%-pt	57.6%	51.1%	-6.5%-pt
Provision/Total Assets	3.8%	2.3%	2.6%	0.4%-pt	-1.1%-pt	3.8%	2.6%	-1.1%-pt
Risk cost rate	-0.4%	1.7%	0.9%	-0.8%-pt	1.3%-pt	-0.2%	0.3%	0.5%-pt
CAR (Capital Adequacy Ratio)	17.9%	18.2%	22.6%	4.4%-pt	4.7%-pt	17.9%	22.6%	4.7%-pt
RWA/Total Assets	49.6%	47.5%	49.4%	1.9%-pt	-0.1%-pt	49.6%	49.4%	-0.1%-pt
LTD (Loan to Deposit)	70.4%	72.2%	79.6%	7.4%-pt	9.3%-pt	70.4%	79.6%	9.3%-pt
GOI/RWA (RWA efficiency)	5.9%	14.8%	9.0%	-5.8%-pt	3.1%-pt	8.1%	8.9%	0.8%-pt
DPD90+ rate	5.1%	2.6%	2.6%	0.0%-pt	-2.5%-pt	5.1%	2.6%	-2.5%-pt
EPS (Earning Per Share)	29.3	870.1	149.7	-720.4	120.4	353.7	373.6	19.9

MKB Group 4Q 2019 results are based on cumulated, consolidated, unaudited IFRS data of 31.12.2019. "Adjusted" figures are indicators of the underlying business performance; the list of correction factors is included in Chapter 3.1.

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E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

MKB Group fulfilled its EU Commitments at the end of 4Q. Uniquely in Europe, MKB Group has closed the restructuring period with record profit and enhanced efficiency.

Stable core income supported by favourable ALM portfolio gains resulted in increasing income while successful organisational realignment allowed for decreasing costs. NPL portfolio divestment and prudent risk management elevated the profit even further. **MKB Group has a considerable capital cushion to support business growth as well as to absorb any unexpected shocks in 2020.**

Prosperous fourth quarter results also contributed to the yearly record profit. Cost attributable to ongoing IT-heavy projects, profitability-bound bonus cost and moderate provisioning put pressure on the value creation in 4Q while stability in yield environment protected the core income as well as allowed for ALM portfolio result realization. Robust balance sheet management was ongoing to ensure compliance with EU Commitments.

When assessing the financials of MKB Group, the following post-closure events should be considered:

- **MKB Bank's credit ratings** by Moody's Investor Service has been upgraded to Ba3 on 28 January 2020 confirming the achievements of MKB Bank
- **MKB Bank successfully launched its instant payment system („AFR")** solution on 2nd March 2020. Problem-free operation creates the foundation for further upgrades to cashless payment services. MKB Bank is committed to leverage business opportunities attached in the near future.
- While the outbreak of the **COVID-19 pandemic** puts stress on almost every aspect of MKB Bank's operation, the management is committed to do everything in its powers to keep its operation as smooth as possible. By the decision of the Government of Hungary:
 - All payment (interest, fees, principal) obligations related to loans and financial leasing contracts are suspended until 31.12.2020.
 - Unsecured retail loan rates limited to base rate + 5%points.
 - Dividend payments suspended until 30.09.2020.
 - As of March 25th, MNB launched new facilities providing significant support for liquidity of both the markets and the banking sector, and expressed its commitment to introduce more should new developments demand.

Impact on profitability is still largely unpredictable due to ongoing negotiations regarding legislation changes and fast moving market conditions. However, funds at MKB Pannónia might be affected by decreasing market liquidity.

MKB Bank donated HUF 1 bln to support the measures aimed to prevent the spread of the virus.

The **total comprehensive income** (unadjusted) of the MKB Group evolved further in 4Q by HUF 7.8 bln and reached HUF 40.9 bln (+29.0 bln y/y). After tax profit was HUF 44.1 bln (+16.0 bln y/y) while other comprehensive income (OCI) changed by HUF 10 bln y/y marking a significant change in yield environment.

Adjusted profit after tax was HUF 37.4 bln (+5.6% y/y) signalling a 3.7 bln improvement in 4Q. **Total assets decreased** to HUF 1,759.8 bln (-9.05% p/p; -5.26% y/y) to ensure EU commitments compliancy, while the **shareholder's equity** rose to HUF 198.5 bln from HUF 158.2 bln in 2018. Capital adequacy was 22.59% (+47bps y/y). Due to the record profit and the increased shareholders capital, MKB Group's yearly cumulated, adjusted ROAE was 21.2%.

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Main determining factors of the 2019 results were:

- **Stringent cost control.** Organizational realignment resulted in decreasing personnel expenses and improving organizational efficiency. Wage inflation was still high in 2019 (11.4% in average) which partially neutralised the gains. Bonus and welfare costs were strongly bound to profitability during the year.
- **Ongoing balance sheet management** to ensure the fulfilment of the EU Commitments. Customer acquisition efforts were managed to ensure that RWA is kept below the EU requirements throughout the whole year. Securities based savings products were used to manage customer liabilities and liquidity as well as to boost fee income. Balanced approach allowed for keeping the customer base largely intact
- **Investments in IT background.** Regulatory projects (e.g. AFR, Hitreg, PSD2, etc.) consumed majority of the development capacities and put pressure on related costs. In the meantime, MKB Bank also focused on developing digital solutions as a preparatory measures for post-EU commitments era.
- **Successful ALM portfolio realignment.** During 2H period, MKB Bank successfully adjusted its ALM portfolio to the new, lower than previously expected yield levels. As a result, underlying value of the portfolio partially realized, boosting capital accumulation. Although efforts were ongoing during 2H, majority of the gains were booked in 3Q.
- **Portfolio divestment.** Retail batch and corporate NPL portfolio sale deals completed in 2019 allowed for HUF ~41 bln NPL portfolio decrease and HUF ~6.5 bln risk cost release.

The 4Q performance of the MKB Group was especially assisted by the following factors:

- Balance sheet management induced low-key disbursements with focus on participation in government initiatives („Babaváró”). Due to limitation on RWA and total assets lending activity was managed to keep core income margin stable while customer base remains largely intact.
- Favourable ALM portfolio results: alignments and yield environment changes resulting in lower net interest income and better fair value in 4Q
- Expenses heavily affected by costs stemming from regulatory IT (e.g. AFR, Hitreg, PSD2, etc.) and digitalization projects as well as profitability-bound bonus costs
- NPL portfolio: completing the sales of a large corporate NPL deal resulted in risk cost release.

The market and macroeconomic changes in 4Q 2019 also had a huge impact on the income generating capacity of the MKB Group.

- **Declining yields:** FED started interest decrease in 3Q 2019 which continued in 4Q: 1.50-1.75% new interest rate in 30th October from former 1.75-2.00% rate. The central bank justified interest rate cuts due to pressured inflation rate and uncertain economic outlook (e.g. tension in trade between USA and China, moderate global economic growth). On the last yearly session FED left interest rates unchanged.

While MNB stepped into the direction to normalize monetary policy and increased the overnight deposit rate in March 2019, since that monetary conditions remained relatively constant despite increasing internal inflation. The National Bank justifies the slower tightening by the gloomy global economic outlook and the monetary policy relaxations by the FED and the

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ECB. Hungarian government bond yield curve was practically unchanged in 4Q 2019 apart from some smaller fluctuations: 10-year government bond yield reached 1.97% in September and 2.01% in December.

The yield environment is steadily declining from the first half of 2018 having diverse effects on MKB Group's earnings. While it has a positive impact on the costs of funds, it puts pressure on interest income earned on customers' assets.

- **Weakening HUF exchange rate:** EUR/HUF and USD/HUF rates showed significant volatility throughout 2019, similarly in last quarter: EUR/HUF closed at 331 at the end of 2019, while in November the rate was 336. The reason behind the decline is mainly the gloomy international mood (trade tension, Brexit, geopolitical risks), therefore increasing risk awareness of international investors.
- **GDP:** The deficit of government sector was 0.1% of GDP in the first three quarter of 2019, primarily due to the positive performance (surplus) in the first half (1Q 2019: 0.7% of GDP, 2Q 2019: 1.1% of GDP). This favourable performance was largely due to the significant increase in the budget income: revenues from VAT, personal income tax, allowances and excise duties in 2019 significantly exceeded the levels of the previous year. Furthermore, gross government debt to GDP, decreased to 66.4% from 70.2% at 2018 year-end.
- **Wage inflation:** The dynamic growth of domestic earnings is due to the still tight domestic labour market. On a y/y basis, gross average wages increased by 11.6% in October, 13.9% in November and 13.1% in December, where last two months are also highly driven by the increase of non-regular wage elements (premium, bonus).
- **Inflation:** Pressure on prices increased in 4Q 2019, reaching the upper limit of the MNB's tolerance band at 4% in December. Internal inflation remains high, with core inflation of 4% in October-November and 3.9% in December. In 2019, annual average inflation was 3.4% (2018: 2.8%), while core inflation was 3.8% on average.
- **Banking sector:** The last three months of 2019 continued to be characterized by a low yield environment narrowing down the opportunities of distinction based on pricing. The retail loan portfolio increased significantly (+3.9% p/p) in 4Q, mainly due to consumer loans and "Babaváró" loans. At the same time, deposits increased significantly: by 4.3% in retail and by 8.6% in non-financial corporations. Interest rates on retail credit products declined slightly compared to the previous quarter.

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2 MANAGEMENT REPORT ON THE 4Q 2019 RESULTS OF THE MKB GROUP

2.1 P&L development

MKB Group								
Consolidated, IFRS P&L (in MHUF)	Period					YTD		
	4Q2018	3Q2019	4Q2019	P/P	Y/Y	2018	2019	Y/Y
TOCI (Total Other Comprehensive Income)	4,885	19,415	7,792	-59.9%	59.5%	11,878	40,867	244.1%
Adjusted TOCI	5,742	13,112	3,611	-72.5%	-37.1%	22,114	34,075	54.1%
Revaluation on AFS financial assets (OCI)	5,009	-8,640	-131	-98.5%	-102.6%	-13,254	-3,281	-75.2%
Profit after tax	-124	28,055	7,924	-71.8%	-	25,132	44,148	75.7%
Adjustments total	857	-6,303	-4,181	-33.7%	-	10,236	-6,792	-166.4%
Banking tax	0	0	0	-	-100.0%	4,374	4,047	-7.5%
Dividend income	-138	-50	-4	-92.2%	-97.2%	-817	-89	-89.1%
Realignment	2,896	0	-703	-	-124.3%	2,896	-703	-124.3%
Branch closure reserve	-1,845	0	0	-	-100.0%	0	0	-
MRP	0	0	0	-	-	3,120	0	-100.0%
IFRS16 effect	0	-91	-182	100.2%	-	0	-592	-
Portfolio sales	0	-5,661	-2,308	-59.2%	-	0	-7,969	-
Corporate tax correction	0	0	0	-	-	0	0	-
Other	-57	-502	-984	96.3%	-	663	-1,486	-
Adjusted Profit after tax	733	21,752	3,743	-82.8%	-	35,368	37,356	5.6%
Adjusted Profit before tax	153	21,829	3,102	-85.8%	-	34,933	36,576	4.7%
Gross Operating Income	14,043	33,846	20,229	-40.2%	44.0%	78,019	80,664	3.4%
Net Interest Income	9,399	10,478	8,798	-16.0%	-6.4%	40,503	40,803	0.7%
Interest Income	13,090	15,020	13,736	-8.6%	4.9%	56,989	59,128	3.8%
Interest Expense	-3,691	-4,542	-4,938	8.7%	33.8%	-16,486	-18,325	11.2%
Net Fee Income	5,286	7,753	7,847	1.2%	48.4%	25,908	27,316	5.4%
Net Other Income	-641	15,615	3,584	-77.0%	-	11,608	12,545	8.1%
FX result	3,927	1,602	2,929	82.9%	-25.4%	13,125	10,228	-22.1%
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Other Income	-1,244	-3,352	-4,056	21.0%	226.0%	-15,455	-14,518	-6.1%
General Administrative Expenses	-14,592	-8,231	-14,615	77.6%	0.2%	-44,917	-41,181	-8.3%
Personnel Expenses	-7,276	-4,477	-7,517	67.9%	3.3%	-23,197	-21,320	-8.1%
Operating Expenses	-5,652	-2,438	-5,840	139.6%	3.3%	-16,936	-14,741	-13.0%
Amortisation and depreciation	-1,664	-1,316	-1,257	-4.5%	-24.5%	-4,784	-5,120	7.0%
Provisions	701	-3,786	-2,512	-33.6%	-	1,832	-2,907	-258.7%
Provision for losses on loans	1,052	-4,199	-2,241	-46.6%	-	1,928	-3,055	-258.5%
Other provisions and impairments	-350	413	-271	-165.5%	-22.8%	-96	148	-254.0%
Corporate income tax	581	-77	641	-	10.3%	435	780	79.3%
KPIs								
based on adjusted PAT (%)	4Q2018	3Q2019	4Q2019	P/P	Y/Y	2018	2019	Y/Y
ROAE (Return on Average Equity)	-0.3%	62.0%	16.3%	-45.7%-pt	16.6%-pt	16.9%	25.1%	8.2%-pt
Adjusted ROAE	1.9%	48.1%	7.7%	-40.4%-pt	5.8%-pt	23.7%	21.2%	-2.5%-pt
Adjusted ROAA (Return on Average Assets)	0.1%	4.6%	0.8%	-3.8%-pt	0.7%-pt	1.8%	2.0%	0.2%-pt
TRM (Total Revenue Margin)	2.9%	7.2%	4.4%	-2.8%-pt	1.5%-pt	3.9%	4.3%	0.4%-pt
CIM (Core income margin)	3.8%	4.2%	4.2%	0.0%-pt	0.4%-pt	4.0%	4.2%	0.2%-pt
NIM (Net Interest Margin)	1.9%	2.2%	1.9%	-0.3%-pt	0.0%-pt	2.0%	2.2%	0.2%-pt
NFM (Net Fee Margin)	1.1%	1.6%	1.7%	0.1%-pt	0.6%-pt	1.3%	1.5%	0.2%-pt
C/TA (Cost to Total Assets)	3.0%	1.8%	3.2%	1.4%-pt	0.2%-pt	2.2%	2.2%	0.0%-pt
CIR (Cost Income Ratio)	103.9%	24.3%	72.2%	47.9%-pt	-31.7%-pt	57.6%	51.1%	-6.5%-pt
Provision/Total Assets	3.8%	2.3%	2.6%	0.4%-pt	-1.1%-pt	3.8%	2.6%	-1.1%-pt
Risk cost rate	-0.4%	1.7%	0.9%	-0.8%-pt	1.3%-pt	-0.2%	0.3%	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 (FVTOC), and hedges its interest risk position with IRS transactions, TOCI figures should only be used to evaluate the results.

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2.1.1 Adjusted profit after taxation

MKB Group reported a record high adjusted, consolidated profit of HUF 36.6 bln (+5.6% y/y) for 2019, out of which HUF 3.7 bln was booked for 4Q 2019. The quarterly profit decreased by 82.8% p/p due to incomes decreasing after an extraordinary 3Q and temporarily increasing costs.

Adjustments total dropped from HUF 10.2 bln in 2018 to HUF -6.8 bln due to one-off incomes related to NPL portfolio divestments.

In addition to outstanding gross income, the after-tax profit was also positively impacted by corporate income tax: the recognition of the minimum tax specified in the local regulations and deferred tax led to an overall HUF 0.8 bln taxation.

The **ROAE** (adjusted) for 2019 was 21.2% (-2.5%-pt y/y) and in 7.7% in 4Q.

The **total revenue margin** (TRM) increased 40bps y/y and reached 4.3% for 2019. Fourth quarter rate was 4.4% (-2.8%-pt p/p), in line with lower revenues. Rate adjusted for other comprehensive income (OCI) was 4.1% with a 90bps increase in y/y comparison.

The **core income margin** (CIM) was 4.2%, increased with 20bps y/y. In 4Q the rate was unchanged compared to 3Q, due to the decreasing total asset, which offset the effect of slightly declining profit.

The **net interest margin** (NIM) was 1.9%, what is unchanged on y/y basis, while there was a 30bps decrease compared to 3Q 2019.

The **2019 cost-to-income ratio** (CIR) was decreased to 51.1% (-650bps y/y) due to significantly reduced operating costs and rising revenues. On p/p comparison, the cost-to-income ratio was 72.2% in last quarter of 2019 due to lower revenue and typically higher 4Q cost level.

The **cumulative risk cost on loans was HUF 3.1 bln** (charge), resulting a 0.3% risk cost ratio. The IFRS NPL ratio increased to 4.3% from 4.0% in 3Q, and NPL indirect coverage fallen from 110.7% to 110.3%.

The MKB Group's **capital adequacy** increased to 22.6% by 470bps y/y aided by the record profit (HUF 44.1 bln, unadjusted) in 2019.

2.1.2 Comprehensive income

MKB Group reported HUF 40.9 bln (HUF +29.0 bln y/y) unadjusted total comprehensive income in 2019, which is a significant increase compared to 2018. In 4Q total comprehensive income was HUF 7.8 bln, which is a 59.9% decrease compared to 3Q.

Adjusted Total comprehensive income was HUF 34.1 bln (+54.1% y/y).

Decreasing profit was partially mitigated by the increase of FVTOCI revaluation reserves of securities.

The cost-income ratio, amended with the impact of the other comprehensive income, improved to 53.2% from the 69.4% recorded in the previous year.

2.1.3 Net interest income

MKB Group's net interest income was HUF 40.8 bln in 2019 (+0.7% y/y). Decreasing yield trends throughout 2019 combined with restricted asset growth limited the income growth potential. Excess liquidity on the market kept customer liabilities related expenditures steady.

Interest income in 2019 was HUF 59.1 bln (+3.8% y/y). Customer related incomes remained stable, while income from ALM portfolio was higher due to higher portfolio average interest rate. In 4Q interest income was HUF 13.7bln (-8.6% p/p). Further ALM portfolio realignment in 4Q is accountable

for the slight decrease. Customer interest income was robust despite the submerging yields and RWA limited lending.

Interest expenses was HUF 18.3bln (+11.2% y/y) in 2019. Increasing IRS expenditures stemming from higher volumes were attributable for the additional expenditure. The quarterly interest expense was HUF 4.9 bln (+8.7% p/p) in line with ongoing ALM portfolio adjustment.

2.1.4 Net fee and commission revenues

The net fee result in 2019 was HUF 27.3 bln (+5.4% y/y). In general, results from government securities sales contributed to the profit by HUF 1.3 bln, but in the meantime, RWA limited lending activity had a negative effect on fee income.

The quarterly net commission income was HUF 7.8 bln (+48.4% y/y; 1.2% p/p)

Transaction related income, which represent the largest portion of commission income, continued to grow over the past quarter due to money transfer fees and higher quarterly performance in transaction fees. The income from SZÉP Cards declined during the quarter, but the full year result significantly boosted the commission income.

Lending-related commissions increased in the last quarter due to higher commissions on syndicated loans and higher net guarantee fees. The lending revenues from loans decreased slightly in 2019 compared to 2018 as a result of the supporting the fulfilment of EU commitments.

Bank card fees significantly increased in 2019 compared to 2018.

Brokerage fees and other securities business revenues have risen in the past year, but there is a decrease in the last quarter of the year in MÁP+ revenues.

2.1.5 FX results

Results from own account foreign exchange activities in 2019Y was HUF 10.2 bln YTD, (HUF +1.3 bln p/p), which fell short by HUF 2.9 bln of the previous year. MKB Bank ceased its relationship with money exchange providers for compliance reasons, which had a negative effect on FX conversion results.

Quarterly results increased by HUF 1.3 bln and reached HUF 2.9 bln in 4Q. Increased FX volatility elevated the trading related results. The individually priced and fixing spot FX conversions and the exchange rate gain on forward and futures transactions of retail and corporate customers were steady compared to the base period.

2.1.6 Revaluation result

The revaluation result was HUF 16.8 bln YTD (HUF +2.9 bln y/y; HUF -12.7 bln p/p). The positive effect on PAT is offset by the revaluation loss of HUF -3.2 bln in OCI. The value creation of ALM portfolio for the year is as expected.

In 3Q 2019 ALM portfolio was adapted to the stabilizing yield environment. Concentrated and partial realization of the underlying value of the portfolio propelled the income in 3Q, offsetting the unrealised losses incurred in 1H.

ALM portfolio results in 4Q were affected by the less volatile yield environment and the fair value gains from securities divestment activity. The ALM portfolio was further adjusted in 4Q to make room for balance sheet management and to support 2020 liquidity needs.

Bond and swap benchmark yields decreased with different amounts at the end of 4Q resulting in widening bond-swap spreads. ALM portfolio readjustment led to partial realization of fair value gains

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Fax: +36 (1) 268-7555
E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

stemming from bond yields decrease (registered through profit) which counterweighted the unrealised IRS fair value losses and in the meantime resulted in near zero OCI result in 4Q.

2.1.7 Other results

The tax and/or regulatory fees and commission expenses of the MKB Group are recognised within the framework of other profit/loss: transaction levy, local business tax, innovation contribution and other revenues/expenses of ordinary business operation. One of the factors in the positive full year change (y/y -6.1%) was the lower local tax and innovation contribution expense, as well as the lower transaction levy paid into the budget on the basis of the moderate turnover.

2.1.8 Operating expenses

MKB Group's general administration expenses were HUF 41.2 bln in 2019. Stringent cost management and successful organizational realignment led to 8.3% y/y decrease in costs. Cost-income ratio was 51.1% in 2019 (-6.5%-pt y/y) ensuring the fulfilment of the related EU Commitment.

The true extent of cost cutting can be measured by comparing the valorised present value of the 2015 administration expenses to the 2019 actuals. Almost HUF 18bln decrease have been achieved by the successful initiatives of the MKB management.

Fourth quarter was marked by sharp, but temporary upturn in cost: HUF 14.6 bln was booked. Profitability bound bonus costs and IT OPEX attributable to regulatory and digitalisation projects resulting in non pro-rata cost distribution between quarters.

Personnel expenses were HUF 21.3 bln in 2019 (-8.1%; HUF -1.9 bln y/y). Savings stemming from headcount reduction in 2019 was mostly neutralized by constantly high (>10%) wage inflation. Profitability-bound bonus costs were booked in 4Q resulting in a temporary, HUF 3.0 bln p/p increase.

The closing headcount of the MKB Group was 1,892 FTE in 2019 (-66FTE y/y).

Operating expenses reached HUF 14.7bln in 2019. Increased operational efficiency and strong focus on cost management resulted in 13% y/y savings (HUF -2.2bln).

Fourth quarter OPEX was HUF 5.8bln (HUF +3.4bln p/p). IT OPEX was not pro-rata booked during the year. Regulatory (e.g. AFR, Hitreg, PSD2, etc.) and digitalization projects related cost were responsible for temporarily increase in 4Q.

Depreciation (HUF 5.2bln, +7.1% y/y) slightly increased in 2019, primarily as a result of the year-end capitalisation of IT investments.

2.1.9 Risk costs

In the fourth quarter, customer rating reviews resulted in recognition of provision at a level of HUF 2.2 bln. The cumulated HUF 3.1 bln risk cost – aided by the outstanding portfolio quality - recognised in the year exceeds management's expectations.

Figures for 2H were adjusted for the significant but one-off risk cost release. The closing balance of the NPL portfolio for the year 2019 was HUF 42.0 bln, following a decrease of HUF 38.6 bln compared to end of 2018. The IFRS-based NPL ratio dropped to 4.3% (-405 bps y/y), while NPL coverage rose from 87.0% to 110.3%.

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Fax: +36 (1) 268-7555
E-mail address: investorrelations@mbk.hu
Investors' contact person: Dóra Sebestyén-Bertalan

2.1.10 Corporate income tax

In 4Q 2019 the recorded corporate income tax expense was HUF 0.64 bln (income). However, for the cumulative period 4Q 2019, the reported corporate income tax was HUF 0.78 bln (tax revenue), which is the balance of HUF 1.87 bln tax revenue and HUF 1.09 bln tax expense.

This considerable amount of tax revenue resulted from the recognition of deferred tax income related to an unused tax loss. For prudential reasons, the MKB Group recognised only HUF 1.33 bln deferred tax asset for unused tax losses in 2019. However, as at the moment the MKB Group operates profitably and, according to its future tax plans, will be able to generate taxable profit in future, too, from the financial year following the loss-making tax years the MKB Group has presented a deferred tax income for the unused tax losses in its financial statements (2018 - HUF 1.284 bln, 2019 - HUF 1.33 bln).

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Investors' contact person: Dóra Sebestyén-Bertalan

2.2 Balance sheet

MKB Group						
Balance sheet (in MHUF)	4Q2017	4Q2018	3Q2019	4Q2019	P/P	Y/Y
Financial assets	109,617	82,850	95,493	117,780	23.3%	42.2%
Trading portfolios	72,319	79,333	44,381	20,734	-53.3%	-73.9%
Securities	902,712	710,669	757,343	594,677	-21.5%	-16.3%
Loans and advances to customers/Customer Loans (net)	858,592	895,203	942,345	930,314	-1.3%	3.9%
Loans and advances to customers/Customer Loans (gross)	938,351	965,315	986,031	976,681	-0.9%	1.2%
Retail	275,555	240,241	235,128	239,236	1.7%	-0.4%
Corporate	535,736	574,006	582,802	569,018	-2.4%	-0.9%
Leasing	127,060	151,069	168,101	168,427	0.2%	11.5%
Provision for Customer loans	-79,760	-70,112	-43,685	-46,368	6.1%	-33.9%
Retail	-22,208	-23,784	-9,181	-9,697	5.6%	-59.2%
Corporate	-50,779	-40,301	-28,471	-30,730	7.9%	-23.7%
Leasing	-6,773	-6,028	-6,033	-5,941	-1.5%	-1.4%
Total Other assets	101,747	89,523	95,444	96,293	0.9%	7.6%
Investments in jointly controlled entities and associates	2,643	5,627	5,735	7,312	27.5%	29.9%
Intangibles, property and equipment	46,676	52,143	55,159	58,907	6.8%	13.0%
Other assets	52,429	31,753	34,550	30,073	-13.0%	-5.3%
Total Assets	2,044,987	1,857,579	1,935,007	1,759,796	-9.1%	-5.3%
Interbank liabilities	239,312	214,340	235,390	195,810	-16.8%	-8.6%
Deposits & C/A	1,539,140	1,372,046	1,365,941	1,226,529	-10.2%	-10.6%
Retail	303,898	328,649	333,685	334,660	0.3%	1.8%
Corporate	1,235,242	1,043,397	1,032,256	891,869	-13.6%	-14.5%
Issued debt securities	10,624	4,974	0	0	0.0%	-100.0%
Other liabilities	93,225	80,053	103,715	99,614	-4.0%	24.4%
Subordinated debt	22,307	28,002	39,434	39,381	-0.1%	40.6%
Shareholders' Equity	140,379	158,166	190,527	198,462	4.2%	25.5%
Total Liabilities & Equity	2,044,987	1,857,579	1,935,007	1,759,796	-9.1%	-5.3%
Guarantees	145,388	147,627	154,876	98,357	-36.5%	-33.4%
Undrawn commitments to extend credit	300,005	251,299	226,379	235,494	4.0%	-6.3%
Obligations from letters of credit and	13,881	4,625	15,051	14,570	-3.2%	215.0%
Other contingent liabilities (including litigation)	98,598	24,075	9,191	9,232	0.4%	-61.7%
Customer off Balance items	557,872	427,626	405,497	357,653	-11.8%	-16.4%

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.

The closing balance sheet total of the MKB Group for 4Q 2019 was HUF 1,759.8 bln, which represents 9.1% decrease over the base period and 5.3% decline from the balance sheet total of 4Q 2018.

The y/y and also the p/p decrease is driven by the active and conscious balance sheet management supporting the fulfilment of EU commitments of the MKB Group.

The balance sheet decrease was driven by customer deposit outflow. Securities portfolio adopted to the shrinking liquidity, while customer loans were basically unaffected.

The MKB Group's loan-to-deposit ratio was 79.6%, which is significant increase compared to the previous quarter's 72.2% as well as to the end of the last year's 70.4%.

2.2.1 Loans

Customer loans only slightly affected by balance sheet management. With its HUF 976.7 bln total, the gross loan portfolio shows an increase of 1.2% y/y, while on p/p basis it shrank by 0.9%. The leasing portfolio expanded significantly over the past year, by 11.5% increase. In the last quarter the retail loan portfolio growth (+1.7% p/p) was fuelled by the high demand for "Babaváró" loans (HUF 6.2 bln

disbursement in 4Q). Corporate loans volume stagnated in the last year, and there is a slightly decrease 2.4% in the last quarter.

The impairment losses on loans fell by 33.9% (HUF 23.75 bln) during the last year due to the sale of the retail NPL portfolio, completed in 3Q 2019, and the improving quality of both corporate and retail portfolios. In the last quarter there is a slight increase of 6.1% (HUF 2.7 bln) in provision volume.

The impairment losses related to the leasing business showed a slight decrease in 4Q / FY 2019 both on p/p (-1.5%) and y/y (-1.4%) basis.

2.2.2 Securities

Securities volumes at the end of 2019 reached HUF 594.7 bln (HUF -116.0 bln y/y; HUF -162.7 bln p/p).

Significant decrease was initiated by shrinking liquidity in 4Q resulting in further realignment of the ALM portfolio. In the meantime MKB Bank's historically high securities to total assets ratio decreased from 41.6% in 2018 to 34.1% (-7.5%-pt y/y).

2.2.3 Financial assets

Financial assets was HUF 117.8 bln at the end of 4Q 2019, representing a significant 23.3% increase over the previous quarter. The majority of the portfolio, which varies parallel with the liquidity position and total assets of the MKB Group, is made up of interbank and MNB related instruments used mainly for short term liquidity management purposes.

2.2.4 Deposits

The Customer deposits volumes was heavily effected by ongoing balance sheet management in 4Q. Customer deposits amounted to HUF 1,226.5 bln, showing a 10.2% decrease on a p/p basis and similar, 10.6% decline on y/y basis.

The decrease was almost entirely on the corporate side (p/p: -13.6%, y/y: -14.5%), while the retail portfolio was close to the same level (p/p: +0.3%, y/y: +1.8%). Corporate customer deposits were largely redirected to securities-based products (e.g. MKB Pannónia funds) in order to support balance sheet management as well as to keep customer relations intact.

2.2.5 Interbank liabilities

The interbank liabilities fell by 8.6% on a y/y basis and was HUF 195.8 bln at the end of 4Q.

Volume of the refinancing liabilities are linked to changes of the corresponding asset side portfolio.

The volume of other interbank liabilities are matching the operative liquidity position of the Group. Given the currently high customer resources and limited total assets, this portfolio component reduced significantly compared to the preceding periods.

2.2.6 Capital

Outstanding profitability boosted the equity by HUF +40.3 bln y/y. The MKB Group had HUF 198.5 bln capital at the end of the reporting period. There was a major increment compared to both previous periods: 25.5% increase on y/y and 4.2% increase on p/p basis. The quarterly increase of HUF 7.9 bln is mainly due to the HUF 7.9 bln after-tax profit of the reporting period.

2.2.7 Off-balance sheet exposures to customers

The Group's off-balance sheet exposures was HUF 357.7 bln at the end of 2019, which is 16.4% decrease on y/y basis, while it represents slightly smaller decline of 11.8% compared the previous quarter. The decline is for the purpose of fulfilment RWA commitment of the Group. Significant (more than 30%) drop caused by the decrease of guaranties (-33.4% y/y; -36.5% p/p).

2.3 Capital adequacy

Capital adequacy ratio was 22.59% in 4Q 2019, reflecting 469 bps increase on a y/y basis. MKB Group has a considerable capital cushion to support business growth as well as to absorb any unexpected shocks in 2020.

Profit considered at the end of the year increased CAR by 5.1%-pt; deferred tax and intangible assets resulted in HUF 12.1 bln p/p decrease of regulatory capital.

Capital adequacy was also supported by RWA decrease at the end of 2019. Balance sheet management measures resulted in HUF 50.6 bln y/y decrease in total RWA, boosting the RWA efficiency to 8.85% (+80bps y/y).

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Phone: +36 (1) 268-8004
Fax: +36 (1) 268-7555
E-mail address: investorrelations@mbk.hu
Investors' contact person: Dóra Sebestyén-Bertalan

2.4 Presentation of the results of the business segments

This chapter presents the loan portfolio of the MKB Group by segment and positions it in the banking market according to market share. The segments are formed according to the requirements to be used in the reports prepared for the Magyar Nemzeti Bank (MNB) and the portfolios are also analysed accordingly for the exact presentation of the market shares.

2.4.1 Corporate business

Non-financial companies' loans amounted to HUF 424.5 bln, reflecting 6.6%, HUF 30.2 bln decrease compared to the previous year. Stock market share shrank by 122 bps to 4.88%. Loan disbursements during the year reached HUF 131.1 bln (HUF +2.5bln y/y) resulting in 3.97% flow market share.

Investment loans volume was HUF 109.6 bln, making up 25.8% of non-financial corporate loans. The decrease was HUF 1.2 bln compared to last year figure. Total of HUF 37.2 bln new disbursements were registered during 2019 (-7.0% y/y).

Working capital loans' closing volume was HUF 103.8 bln (+2.2 bln y/y). New disbursement increased by HUF 14.2 bln and reached HUF 85.6 bln in 2019. Share of working capital loans within MKB's corporate loan portfolio was 24.5%.

Considering customer segment breakdown, non-financial large corporate gross loan portfolio shrank to HUF 100.1 bln, SME loan portfolio decreased to HUF 296.3 bln, while micro enterprises loans lowered to HUF 28.1 bln at the end of the year.

MKB Bank has emerged as one of the market's major investor in the MNB Bond Funding For Growth Scheme (BGS) launched in the summer of 2019, and purchased several billion HUF of bonds issued by seven companies in the fall of 2019.

Corporate deposits were strongly affected by the balance sheet management initiatives aimed at reducing the total assets below the level set by the EU requirements.

Non-financial corporate deposits' volume was HUF 545.8 bln, 12.7% (-79.7bln y/y) lower than last year, while market share plummeted to 5.8% (-146 bps y/y).

Corporate customer count at the end of 4Q 2019 was 36,800. Regulatory compliance driven cleansing of the customer portfolio (terminating business relationship with certain customer segments – as described in previous quarters) was still ongoing in 4Q. Closing of accounts with overdue charges also contributed to the decrease. The number of customers adjusted with these effects decreased by 3.1ths y/y.

2.4.2 Leasing business¹

MKB Group's leasing portfolio was HUF 168.4 bln at the end of 2019. The portfolio increased significantly, by 11.5% (HUF +17.4 bln y/y). In the last quarter of the year, the portfolio stagnated due to the high seasonal repayments of the agricultural financing sub-portfolio. The vehicle financing sector's leasing volume was HUF 102.9 bln (+18.2%, HUF 15.8 bln increase y/y), while the volume of equipment financing was HUF 49.1 bln, slightly decreasing over the year (-2.3% y/y). The stock

¹ 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.

financing portfolio expanded by HUF 3.4 bln, while other receivables decreased by HUF 0.7 bln over the year.

In terms of new disbursements, MKB Group has a stable position among the three largest actors in the Hungarian leasing market according to the data of the Hungarian Leasing Association.

In line with MKB Group's strategy, RWA effective segments (vehicle financing, SME customers) were prioritised during the year at new lending decisions. These business decisions are reflected in the evolution of the sub-portfolios, as the dynamic growth of vehicle financing sub-portfolio, and stagnation of equipment financing sub-portfolio. The increase in stock financing sub-portfolio in 2019 was defined by the stockpiling policy of importers and car dealers, which in the second half of 2019 was significantly influenced by the new, stricter environmental regulations for new car registration (entering into force from 1st Jan 2020).

Throughout the whole year new disbursements exceeded expectations, thanks to vehicle financing business line expansion, which has exceeded the market growth rate. In the equipment financing business line focus -due to its RWA demand- was on the diversified, SME clientele targeting agricultural machinery financing segment.

An important strategic aspect is the expansion of the SME customer base, which was greatly facilitated by the fact that MKB Group participated in the distribution of the available "NHP" resources according to its market share. Nearly 40% of the total loan disbursement in 2019 took place under the "NHP Fix" program. In addition - besides transferring available "NHP Fix" program funds to clients - MKB Group is also involved in other state launched programs, including: large family car purchase program for individuals, or interest rate subsidy program for agricultural, forestry or food industry related investment loans, aiming to support farmers, agricultural companies.

In addition to the growing volumes, the non-performing portfolio continued to decline during the year (-17%, y/y), 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.

2.4.3 Retail business

The retail loan closing volume in 4Q 2019 was HUF 236.9 bln, representing HUF 9.5 bln increase compared to 3Q 2019 and a +1bp change in market share. Steady retail interest rates and continuous demand for Babaváró loans (introduced by the Government's Family Protection Action Plan) were the main growth factors in 2019.

"Babaváró" and secured loan disbursements in 4Q were almost the same level as in 3Q 2019 (HUF 6.2 bln and HUF 4.8 bln in 4Q 2019), unsecured and other loan disbursements decreased compared to 3Q 2019 by HUF 0.5 bln, the market share of new disbursement increased by 35 bps.

Secured loans closing volumes was HUF 200.9 bln in 4Q 2019, compared to HUF 204.4 bln in 3Q 2019, while the market share decreased from 4.57% to 4.43%. The decrease in secured loan volume (HUF - 3.5 bln q/q) is mostly due to terminations of non-performing deals. The volume of new loans (HUF 4.8 bln) was slightly lower in 4Q than in 3Q, due to the crowding-out effect of "Babaváró" loans.

Consumer loan volume increased by HUF 5.5 bln compared to the end of 3Q 2019 - while the market share increased by 17bps to 1.18% - mainly due to the same level of demand for "Babaváró" loans as in 3Q 2019 (HUF 6.2 bln disbursement took place in 4Q). Personal loan disbursements decreased by HUF 0.4 bln in 4Q 2019 compared to 3Q 2019, which equals to a 16bps decrease in market share.

Deposit's closing volume was HUF 286.5 bln, increased by HUF 3.4 bln compared to the end of 3Q 2019. Sight deposits volume increase (HUF +5.8 bln q/q) was the main driver of growth, while term

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Fax: +36 (1) 268-7555
E-mail address: investorrelations@mbk.hu
Investors' contact person: Dóra Sebestyén-Bertalan

deposit slightly decreased (HUF -2.3 bln q/q). Deposit market share was 3.01% at the end of the period, representing 9bps decrease.

The number of active retail customers showed a downward trend in 4Q, with 170.6 thousand customers as closing figure. Further to this, retail client portfolio cleansing aimed at closing-off accounts with negative profitability and lack of activity is also ongoing. Retail strategy focused on premium customers which is the most profitable retail segment. Premium customer acquisition campaigns resulted in a y/y increase of 47.5% (~5100 customers) by the end of 2019.

2.4.4 Investments, Private Banking and Treasury

2.4.4.1 Private Banking Business

Private banking managed assets registered a healthy growth in 4Q 2019: closing volume was HUF 689.6 bln (+4.0% p/p; +26.5% y/y). Main growth factor was the increase of third party securities (investment funds) and government securities in the portfolio. MÁP+ retail government securities introduced on 3 June 2019 also made a huge contribution.

2.4.4.2 Treasury

The investment services market was heavily affected by the introduction of MÁP+ retail government securities. In line with market trends, the volume of funds decreased due to the crowding-out effect of MÁP+. Accordingly, the revenues from funds were also lower than last year.

ÁKK amended the calculation method of government bond commissions, which resulted in decreasing trading commission revenues. MKB Bank successfully participated in MÁP+ sales in 2019. Revenues from such transactions mitigated the losses incurred from pricing changes.

The foreign exchange transaction volume and results were increased compared to last year

In 4Q trading sales revenue rose due to increased income realised on proprietary trading.

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Fax: +36 (1) 268-7555
E-mail address: investorrelations@mbk.hu
Investors' contact person: Dóra Sebestyén-Bertalan

Declaration

MKB Bank Nyrt. (hereinafter Bank) issues the following declaration in relation to its report on the 4Q 2019 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, 25. March 2020

MKB Bank Nyrt.

dr. Ádám Balog
Chairman Chief Executive

Csaba Gábor Fenyvesi
Deputy CEO

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Fax: +36 (1) 268-7555
E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

3 FINANCIAL FIGURES

3.1 Correction factors

3.1.1 2018

	2018 Yearly Report	Dividend income	Structure correction	Realignmen t reserve	Banking tax and other taxes	ESOP	Branch closure reserve	Other	Adjusted PAT
Interest income	57,806	-817	0	0	0	0	0	0	56,989
Interest expense	-16,486	0	0	0	0	0	0	0	-16,486
Net interest income	41,320	-817	0	0	0	0	0	0	40,503
Net income from commissions and fees	25,908	0	0	0	0	0	0	0	25,908
Other operating income / (expense), net	7,222	0	2,324	0	2,062	0	0	0	11,608
Impairments and provisions for losses	800	0	0	683	0	0	349	0	1,832
Operating expenses	-52,864	0	-13	0	2,313	3,120	1,608	919	-44,917
Share of jointly controlled and associated companies' profit / (loss)	2,311	0	-2,311	0	0	0	0	0	0
Profit / (Loss) before taxation	24,697	-817	0	683	4,374	3,120	1,957	919	34,933
Income tax expense / (income)	435	0	0	0	0	0	0	0	435
PROFIT/ (LOSS) FOR THE YEAR	25,132	-817	0	683	4,374	3,120	1,957	919	35,368
Other comprehensive income:		0	0	0	0	0	0	0	0
Revaluation on financial assets measured at FVTOCI	-13,255	0	0	0	0	0	0	0	-13,255
Other comprehensive income for the year net of tax	-13,255	0	0	0	0	0	0	0	-13,255
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	11,877	-817	0	683	4,374	3,120	1,957	919	22,113

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Phone: +36 (1) 268-8004
Fax: +36 (1) 268-7555
E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

3.1.2 2019

	2019 Yearly Report	Structure correction	Banking tax and other taxes	IFRS16 effect	Dividend income	Managed portfolio downsizings	Distressed portfolio downsizing	Branch closure reserve	Adjusted PAT
Interest income	59,217	0	0	0	-89	0	0	0	59,128
Interest expense	-18,420	0	0	95	0	0	0	0	-18,325
Net interest income	40,797	0	0	95	-89	0	0	0	40,803
Net income from commissions and fees	27,316	0	0	0	0	0	0	0	27,316
Other operating income / (expense), net	10,108	3,335	2,024	92	0	-2,886	-127	0	12,545
Impairments and provisions for losses	5,350	-232	0	0	0	0	-6,505	-1,520	-2,907
Operating expenses	-43,240	-66	2,023	-779	0	0	63	817	-41,181
Share of jointly controlled and associated companies' profit / (loss)	3,037	-3,037	0	0	0	0	0	0	0
Profit / (Loss) before taxation	43,368	0	4,047	-592	-89	-2,886	-6,569	-703	36,576
Income tax expense / (income)	780	0	0	0	0	0	0	0	780
Profit/ (Loss) for the year from continuing operation	44,148	0	4,047	-592	-89	-2,886	-6,569	-703	37,356
PROFIT/ (LOSS) FOR THE YEAR	44,148	0	4,047	-592	-89	-2,886	-6,569	-703	37,356
Other comprehensive income:		0	0	0	0	0	0	0	0
Revaluation on financial assets measured at FVTOCI	-3,281	0	0	0	0	0	0	0	-3,281
Other comprehensive income for the year net of tax	-3,281	0	0	0	0	0	0	0	-3,281
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	40,867	0	4,047	-592	-89	-2,886	-6,569	-703	34,075

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E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

3.2 Consolidated financial statements of the MKB Group according to IFRS

3.2.1 Income statement

	4Q(Y) 2018	4Q(Y) 2019
Interest income	57,806	59,217
Interest expense	16,486	18,420
Net interest income	41,320	40,797
Net income from commissions and fees	25,908	27,316
Other operating income / (expense), net	7,222	10,108
Impairments and provisions for losses	(800)	(5,350)
Operating expenses	52,864	43,240
Share of jointly controlled and associated companies' profit / (loss)	2,311	3,037
Profit / (Loss) before taxation	24,697	43,368
Income tax expense / (income)	(435)	(780)
Profit/ (Loss) for the year from continuing operation	25,132	44,148
Profit/ (Loss) for the year from discontinued operation	-	-
PROFIT/ (LOSS) FOR THE YEAR	25,132	44,148
<i>Other comprehensive income:</i>	-	-
<i>Items that may be reclassified subsequently to profit or loss:</i>	-	-
Revaluation on financial assets measured at FVTOCI	(13,255)	(3,281)
Other comprehensive income for the year net of tax	(13,255)	(3,281)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	11,877	40,867

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Fax: +36 (1) 268-7555
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Investors' contact person: Dóra Sebestyén-Bertalan

3.2.2 Balance sheet

	4Q 2018	4Q 2019
Assets		
Cash reserves	19,240	55,388
Loans and advances to banks	63,610	62,392
Derivative financial assets	17,914	18,193
Securities	773,029	600,894
Loans and advances to customers	895,203	930,313
Non-current assets held for sale and discontinued operations	4,238	4,075
Other assets	21,699	15,176
Current income tax assets	2	539
Deferred tax assets	5,814	8,008
Investments in jointly controlled entities and associates	4,687	5,911
Intangibles, property and equipment	52,143	58,907
Total assets	1,857,579	1,759,796
Liabilities		
	0	0
Amounts due to other banks	214,340	195,810
Deposits and current accounts	1,372,046	1,226,529
Derivate financial liabilities	31,608	44,263
Liabilities held for sale and discontinued operations	0	0
Other liabilities and provisions	48,425	55,222
Current income tax liabilities	16	3
Deferred tax liabilities	2	126
Issued debt securities	4,974	0
Subordinated debt	28,002	39,381
Total liabilities	1,699,413	1,561,334
Equity		
	0	0
Share capital	100,000	100,000
Treasury Shares	-1,987	-35
Reserves	58,166	98,462
Total equity attributable to equity holders of the Bank	156,179	198,427
Non-controlling interests	1,987	35
Total equity	158,166	198,462
Total liabilities and equity	1,857,579	1,759,796

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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 2018	100,000	(5,550)	21,729	54	15,135	9,789	5,549	146,706
Dividend for the year 2017	-	-	-	-	-	-	-	-
Profit/ (loss) for the year	-	-	-	-	25,132	-	-	25,132
Other comprehensive income for the year	-	-	-	-	-	(13,255)	-	(13,255)
First / (final) consolidation of subsidiaries	-	-	-	-	(558)	-	-	(558)
Decrease of share capital	-	-	-	-	-	-	-	-
Acquisition of treasury Shares (ESOP)	-	-	-	-	-	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	1	1
Equity settled share-based payments	-	-	-	140	-	-	-	140
Disposal of treasury shares	-	3,563	-	-	-	-	(3,563)	-
At 31 December 2018	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)
First / (final) consolidation of subsidiaries	-	-	-	-	-	-	-	-
Decrease of share capital	-	-	-	-	-	-	-	-
Acquisition of treasury Shares (ESOP)	-	-	-	-	-	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	-	-
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

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

3.3.1 Income statement

	4Q(Y) 2018	4Q(Y) 2019
Interest income	52,858	56,927
Interest expense	16,578	19,008
Net interest income	36,280	37,919
Net income from commissions and fees	25,830	27,371
Other operating income / (expense), net	5,395	11,612
Impairments and provisions for losses	(1,506)	(4,027)
Operating expenses	44,294	39,590
Share of jointly controlled and associated companies' profit / (loss)	-	-
Profit / (Loss) before taxation	24,717	41,339
Income tax expense / (income)	(557)	(673)
Profit/ (Loss) for the year from continuing operation	25,274	42,012
Profit/ (Loss) for the year from discontinued operation	-	-
PROFIT/ (LOSS) FOR THE YEAR	25,274	42,012
<i>Other comprehensive income:</i>	-	-
<i>Items that may be reclassified subsequently to profit or loss:</i>	-	-
Revaluation on financial assets measured at FVTOCI	(13,255)	(3,281)
Other comprehensive income for the year net of tax	(13,255)	(3,281)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	12,019	38,731

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Fax: +36 (1) 268-7555
E-mail address: investorrelations@mkb.hu
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3.3.2 Balance sheet

	4Q 2018	4Q 2019
Assets		
Cash reserves	19,240	55,388
Loans and advances to banks	63,610	62,392
Derivative financial assets	17,914	18,193
Securities	773,029	600,894
Loans and advances to customers	893,144	923,938
Non-current assets held for sale and discontinued operations	4,238	4,075
Other assets	16,518	14,256
Current income tax assets	0	455
Deferred tax assets	5,771	7,718
Investments in jointly controlled entities and associates	42,972	46,708
Intangibles, property and equipment	22,193	38,439
Total assets	1,858,629	1,772,456
Liabilities		
	0	0
Amounts due to other banks	214,153	195,683
Deposits and current accounts	1,380,838	1,237,260
Derivate financial liabilities	31,608	44,263
Other liabilities and provisions	38,708	60,983
Issued debt securities	5,696	1,331
Subordinated debt	28,002	39,381
Total liabilities	1,699,005	1,578,901
Equity		
	0	0
Share capital	100,000	100,000
Reserves	59,624	93,555
Total equity attributable to equity holders of the Bank	159,624	193,555
Non-controlling interests	0	0
Total equity	159,624	193,555
Total liabilities and equity	1,858,629	1,772,456

3.3.3 Shareholders' assets

	Share capital	Share premium	Retained earnings	Revaluation on financial assets measured at FVTOCI	Total equity
At 1 January 2018	100,000	21,729	16,087	9,789	147,605
Profit/ (loss) for the year	-	-	25,274	-	25,274
Other comprehensive income for the year	-	-	-	(13,255)	(13,255)
At 31 December 2018	100,000	21,729	41,361	(3,466)	159,624
Dividend 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

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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 Kiszolgáltató 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

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	35.0%	35.0%
Blue Robin Investments S.C.A.	32,900,000	32.9%	32.9%
RKOFIN RKOFIN Investment and Asset Management Ltd.	13,620,597	13.6%	13.6%
EIRENE Private Equity Fund	9,999,999	10.0%	10.0%

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Full-time employees

FTE, end of period	31.12.2018	30.06.2019	30.09.2019	31.12.2019
MKB Bank Nyrt.	1,763.15	1,497.78	1,488.20	1,509.70
MKB Digital Zrt.	0.00	190.70	192.45	185.83
MKB Üzemeltetési Kft	43.50	37.11	40.11	40.11
Euroleasing Zrt.	0.10	0.00	0.00	0.00
MKB Euroleasing Autólízing Zrt.	119.35	133.18	137.70	146.73
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 Befektetési Alapkezelő Zrt.	0.00	0.00	0.00	0.00
MKB Nypénzt. és Eü.Pénzt.Kiszolgáló Kft.	10.22	6.00	6.42	6.25
Exter Adósságkezelő Kft.	1.00	1.00	1.00	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 Jelzálogbank Zrt.	0.00	0.00	0.00	0.00
MKB Group	1,957.70	1,871.19	1,869.68	1,892.41

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	Márk Hetényi	member	2019.04.16	2024.04.15	0
IT	Imre Kardos	member	2016.07.25	2021.07.24	0
IT	Balázs Nyitrai	member	2018.06.27	2023.06.26	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
SP, VB	Csaba Gábor Fenyvesi	Deputy CEO	2019.06.25*		0

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

* Member of the Executive Committee since 01.08.2017

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4 ANNEXES

4.1 Financial indicators

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$$\text{Extended direct NPL coverage} = \frac{\text{Impairment recognised on NPL + loans held for sale}}{\text{NPL + loans held for sale (closing)}}$$

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

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

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

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E-mail address: investorrelations@mkb.hu
Investors' contact person: Dóra Sebestyén-Bertalan

4.2 Abbreviations

MKB, MKB Bank, MKB Group	MKB Group
MKB Group	
EU kötelezettségvállalások	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.
MNB	Magyar Nemzeti Bank (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 comprehensive income
TOCI	Total other comprehensive 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
Hítreg	Loan registry requirements of NBH
PSD2	Payment service directive 2

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