



## **STATEMENT**

on the non consolidated annual financial statements of 2016  
and on the Report of the Management  
Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)  
and Act CXX of 2001 on the Capital Market

## STATEMENT

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

MKB Bank Zrt (hereinafter: Bank) declares concerning its non-consolidated annual financial statements – accepted by the Annual General Meeting of the Bank on March 20, 2017 and audited by an independent auditor - the following statement:

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

The Bank declares furthermore that The Report of the Management (Business Report) provides a reliable picture of the position, situation, development and performance of the Bank as an issuer of securities and describes the key risks and uncertainty factors.

Budapest, 20 March 2017.

MKB Bank Zrt.



dr. Balog Ádám  
Chief Executive Officer



Sándor Benedek  
Deputy Chief Executive Officer



**MKB Bank Zrt.**

10 011 922 641 911 401  
Reg. number

## **Annual Report**

according to  
**Hungarian Accounting Rules**

Budapest, 10 March, 2017

December 31, 2016

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MKB Bank Zrt.

### *Opinion*

We have audited the financial statements of MKB Bank Zrt. (the „Company”) for the year 2016 which comprise the balance sheet as at December 31, 2016 (which shows an equal amount of total assets and total liabilities of HUF 2,099,186 million and a profit for the year of HUF 9,123 million), as well as the related profit and loss account for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2016 and its financial performance for the year then ended in accordance with Act C of 2000 on Accounting (hereinafter: "the Accounting Act") effective in Hungary.

### *Basis for the opinion*

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Company in compliance with the Hungarian ethical requirements pertaining to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Related audit procedures
<i>Impairment of the loan receivables</i>	
<p>(See Sections 9. and 35. of the Supplementary Notes for the details)</p> <p>The net value of loans to customers in an amount of HUF 863,425 million comprise 41% of the total assets (gross book value of HUF 985,249 million), the relevant impairment charge recorded in the current year was HUF 42,509 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the followings:</p> <ul style="list-style-type: none"> <li>- historical loss data,</li> <li>- valuation of collaterals,</li> <li>- estimated time to realize the collaterals,</li> <li>- probability of default,</li> <li>- estimate that future cash-flows expected to be realized.</li> </ul> <p>Based on the significance of the above described circumstances the calculation of impairment of loans was identified as a key audit matter.</p>	<p>The relevant audit procedures performed by us included the followings:</p> <ul style="list-style-type: none"> <li>- evaluating internal controls relating to monitoring of loans and calculating and recording of impairment,</li> <li>- evaluating of specific loan impairments with random sample based on risk profiles, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows,</li> <li>- evaluating the appropriateness of collective provisioning models, and review of the assumptions and management estimates applied and parameters, including comparison with historic data, and recalculation of impairment charge with the involvement of our experts,</li> <li>- review of subsequent events (sold receivables), and analysis of the possible effect on the year audited,</li> <li>- evaluating of impairment triggers related to the non-impaired portfolio,</li> <li>- evaluating the appropriateness of related disclosures.</li> </ul>

Key audit matter	Related audit procedures
<i>Capital adequacy</i>	
<p>(See Section 12. of the Supplementary Notes for the details)</p> <p>HUF 135,774 million equity has been recorded in the statement of financial position.</p> <p>For the purpose of maintaining solvency and the ability to fulfil liabilities - must have a solvency margin complying at all times with the amount of the risk of the financial and investment activities performed thereby, and must continuously maintain at least 8 percent capital adequacy ratio. On balance sheet date the amount of regulatory capital is HUF 123,982 million, the capital adequacy ratio is 14.62%.</p> <p>Accordingly, the capital adequacy is considered to be a key audit matter.</p>	<p>We evaluated the solvency capital calculation process, the capital requirement calculation methodology, and we performed regulatory capital recalculation as well. Furthermore with random sample we verified the appropriateness of the classification of certain risk exposures and the associated weighting. Regarding credit risk and operating risk we checked the process of capital requirement calculation, and controls applied during the process.</p> <p>With the involvement of expert we also evaluated the appropriate application of the of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, and disclosures.</p>

Key audit matters	Related audit procedures
<i>EU commitment compliance</i>	
<p>(See Section General Information of the Supplementary Notes the details)</p> <p>During the reorganisation process between December 18, 2014 and June 29, 2016 ordered by National Bank of Hungary, Restructuring plan has been prepared and this has been approved by the European Commission. This plan comprises several commitments (“EU commitments”). The fulfilment of commitments is monitored periodically by a Monitoring Trustee nominated by the European Commission.</p> <p>Based on the significance of the above described circumstances the compliance with EU commitments is identified as a key audit matter.</p>	<p>Based on the review of the documents, reports prepared by the Bank we checked if the Bank complies with the reporting requirements, to the Monitoring Trustee.</p> <p>We evaluated the commitments which could have the most significant impact to the Financial Statements including consistency other information received during the audit and performing further substantive procedures.</p>

### ***Other information***

Other information comprises the information included in the “Statement of corporate governance”, “Management’s discussion and analysis” and the business report of MKB Bank Zrt. for 2016, but does not include the financial statements and our auditor’s report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of MKB Bank Zrt. for 2016 corresponds to the financial statements of MKB Bank Zrt. for 2016 and the business report was prepared in accordance with the provisions of the Accounting Act. The information referred to in Section 95/B (2) a)-d), g) and h) of the Accounting Act has been provided.



As the Company is not subject to additional requirements under any other regulation in connection with the business report, our opinion on the business report does not include an opinion under Section 156 (5) h) of the Accounting Act.

In addition to the above, based on the information obtained about the Company and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

### ***Responsibilities of management and those charged with governance for the financial statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Account Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### ***The auditor's responsibilities for the audit of the financial statements***

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the



auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

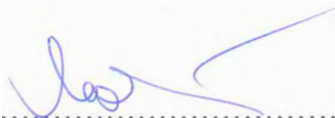
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Company's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Budapest, March 10, 2017



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Gábor Molnár  
on behalf of Deloitte Auditing and Consulting Ltd  
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.  
1068 Budapest, Dózsa György út 84/C.  
Registration number: 000083

Registration number of statutory registered auditor: 007239

10011922651911401

**MKB Bank Zrt.**

NON-CONSOLIDATED BALANCE SHEET

Data in HUF' mill.


	Nr.	Item	31.12.2015	31.12.2016
		<b>ASSETS:</b>		
1	1.	<b>Cash in hand, balances with central banks</b>	<b>29 908</b>	<b>33 592</b>
2	2.	<b>Treasury bills</b>	<b>845 015</b>	<b>897 111</b>
3		a) held for dealing	796 459	607 982
4		b) held for investment	47 523	282 538
5	2/A	Revaluation difference on treasury bills	1 033	6 591
6	3.	<b>Loans and advances to credit institutions</b>	<b>63 364</b>	<b>127 282</b>
7		a) due on demand	49 124	59 623
8		b) other receivables from financial services	14 240	67 659
9		ba) maturity up to one year	14 240	67 659
10		Of which: – to affiliated undertakings	0	0
11		– to significant undertakings	0	0
12		– to other undertakings with participating interest	0	0
13		– to the National Bank of Hungary	11 585	64 300
14		– central counterparties	101	224
15		bb) maturity over one year	0	0
16		Of which: – to affiliated undertakings	0	0
17		– to significant undertakings	0	0
18		– to other undertakings with participating interest	0	0
19		– to the National Bank of Hungary	0	0
20		– central counterparties	0	0
21		c) receivables from investment services	0	0
22		Of which: – to affiliated undertakings	0	0
23		– to significant undertakings	0	0
24		– to other undertakings with participating interest	0	0
25		– central counterparties	0	0
26	3/A	Revaluation difference on receivables due from credit institutions	0	0
27	4.	<b>Loans and advances to customers</b>	<b>848 730</b>	<b>863 425</b>
28		a) receivables from financial services	848 521	835 545
29		aa) maturity up to one year	298 991	289 054
30		Of which: – to affiliated undertakings	48 754	27 795
31		– to significant undertakings	0	324
32		– to other undertakings with participating interest	0	0
33		ab) maturity over one year	549 530	546 491
34		Of which: – to affiliated undertakings	44 468	64 337
35		– to significant undertakings	334	0
36		– to other undertakings with participating interest	0	
37		b) receivables from investment services	209	27 880
38		Of which: – to affiliated undertakings	0	0
39		– to significant undertakings	0	0
40		– to other undertakings with participating interest	0	244
41		ba) receivables from investment service activities on the stock exchange	33	244
42		bb) receivables from over-the-counter investment service activities	6	0
43		bc) receivables from investment services to customers	170	26 959
44		bd) receivables from central counterparties	0	0
45		be) other receivables from investment services	0	677
46	4/A	Revaluation difference on receivables due from customers	0	0
47	5.	<b>Debt securities including fixed-income securities</b>	<b>92 567</b>	<b>82 506</b>
48		a) securities issued by local authorities and by other public entities (excluding Treasury bills issued by Hungarian state and securities issued by the National Bank of Hungary)	0	0
49		aa) held for dealing	0	0
50		ab) held for investment	0	0
51		b) securities issued by other entities	92 570	82 429
52		ba) held for dealing	88 327	7 092
53		Of which: – to affiliated undertakings	0	0
54		– to significant undertakings	0	0
55		– to other undertakings with participating interest	0	0
56		– repurchased own debt securities	10 805	648
57		bb) held for investment	4 243	75 337
58		Of which: – to affiliated undertakings	0	0

	Nr.	Item	31.12.2015	31.12.2016
59		- to significant undertakings	0	0
60		- to other undertakings with participating interest	0	0
61	5/A	Revaluation difference on debt securities and fixed-income securities	-3	77
62	<b>6.</b>	<b>Shares and other variable-yield securities</b>	<b>304</b>	<b>783</b>
63	a)	shares and equity stakes held for dealing	274	711
64		Of which: - to affiliated undertakings	0	0
65		- to significant undertakings	0	0
66		- to other undertakings with participating interest	0	0
67	b)	other variable-yield securities	0	0
68	aa)	held for dealing	0	0
69	bb)	held for investment	0	0
70	6/A	Revaluation difference on shares and other variable-yield securities	30	72
71	<b>7.</b>	<b>Shares and participating interests held for investment purposes</b>	<b>216</b>	<b>3 984</b>
72	a)	shares and participating interests	216	3 984
73		Of which: - shares and participating interests in credit institutions	0	0
74	b)	revaluation surplus on shares and participating interests	0	0
75		Of which: - shares and participating interests in credit institutions	0	0
76	7/A	Revaluation difference on shares and participating interests held for investment purposes	0	0
77	<b>8.</b>	<b>Shares and participating interests in affiliated undertakings</b>	<b>44 226</b>	<b>44 911</b>
78	a)	shares and participating interests in affiliated undertakings	44 226	44 911
79		Of which: - shares and participating interests in credit institutions	0	3 960
80	b)	revaluation surplus on shares and participating interests in affiliated undertakings	0	0
81		Of which: - shares and participating interests in credit institutions	0	0
82	<b>9.</b>	<b>Intangible assets</b>	<b>5 927</b>	<b>7 799</b>
83	a)	intangible assets	5 927	7 799
84	b)	revaluation surplus on intangible assets	0	0
85	<b>10.</b>	<b>Tangible fixed assets</b>	<b>1 945</b>	<b>1 936</b>
86	a)	tangible fixed assets for financial and investment services	1 881	1 863
87	aa)	land and buildings	1 208	1 124
88	ab)	technical equipment, fittings and vehicles	673	729
89	ac)	fixed assets in the course of construction	0	10
90	ad)	advance payments on constructions	0	0
91	b)	tangible fixed assets servicing non-financial and non-investment activities	64	73
92	ba)	land and buildings	35	35
93	bb)	technical equipment, fittings and vehicles	27	26
94	bc)	fixed assets in the course of construction	0	0
95	bd)	advance payments on constructions	2	12
96	c)	revaluation surplus on tangible fixed assets	0	0
97	<b>11.</b>	<b>Own shares</b>	<b>0</b>	<b>0</b>
98	<b>12.</b>	<b>Other assets</b>	<b>25 846</b>	<b>19 951</b>
99	a)	stocks (inventories)	525	523
100	b)	other receivables ( from non-financial and non-investment securities)	4 174	4 548
101		Of which: - to affiliated undertakings	615	334
102		- to significant undertakings	0	0
103		- to other undertakings with participating interest	0	0
104	12/A	Revaluation difference on other receivables	0	0
105	12/B	Positive revaluation difference on derivative transactions	21 147	14 880
106	<b>13.</b>	<b>Prepayments and accrued income</b>	<b>16 363</b>	<b>15 906</b>
107	a)	accrued income	15 594	14 901
108	b)	prepayments	769	1 005
109	c)	deferred charges	0	0
110		<b>TOTAL ASSETS</b>	<b>1 974 411</b>	<b>2 099 186</b>
111		<i>From this: - CURRENT ASSETS [1 + 2.a) + 3.a) + 3.ba) + 3.c) + 4.aa) + 4.b) + 5.aa) + 5.ba) + 6.a) + 6.ba) + 11 + 12 + a 2/A, 3/A, 4/A, 5/A, 6/A, 12/A, 12/B]</i>	<i>1 304 438</i>	<i>1 120 284</i>
112		<i>- FIXED ASSETS [2.b) + 3.bb) + 4.ab) + 5.ab) + 5.bb) + 6.bb) + 7 + 8 + 9 + 10 + a 2/A, 3/A, 4/A, 5/A, 6/A, 7/A, 12/A, 12/B]</i>	<i>653 610</i>	<i>962 996</i>

Budapest, 10 March, 2017



János Jaksa  
Chairman



dr. Ádám Balog  
Chief Executive Officer

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**MKB Bank Zrt.**

NON-CONSOLIDATED BALANCE SHEET

Data in HUF' mill.

	Nr.	Item	31.12.2015	31.12.2016
113		<b>LIABILITIES</b>		
114	<b>1.</b>	<b>Liabilities to credit institutions</b>	<b>334 768</b>	<b>382 786</b>
115		a) due on demand	4 914	4 607
116		b) liabilities from financial services with agreed maturity dates or periods of notice	329 354	378 070
117		ba) maturity up to one year	148 887	169 036
118		Of which: – to affiliated undertakings	0	0
119		– to significant undertakings	0	0
120		– to other undertakings with participating interest	0	0
121		– to the National Bank of Hungary	78 286	120 000
122		– central counterparties	0	0
123		bb) maturity over one year	180 467	209 034
124		Of which: – to affiliated undertakings	0	0
125		– to significant undertakings	0	0
126		– to other undertakings with participating interest	118 456	0
127		– to the National Bank of Hungary	0	140 844
128		– central counterparties	0	0
129		c) liabilities from investment services	500	109
130		Of which: – to affiliated undertakings	0	0
131		– to significant undertakings	0	0
132		– to other undertakings with participating interest	0	0
133		– central counterparties	499	108
134	1/A	Revaluation difference on liabilities due to credit institutions	0	0
135	<b>2.</b>	<b>Liabilities to customers</b>	<b>1 375 029</b>	<b>1 518 124</b>
136		a) saving deposits	97	7
137		aa) due on demand	0	0
138		ab) maturity up to one year	90	0
139		ac) maturity over one year	7	7
140		b) other liabilities from financial services	1 366 419	1 505 921
141		ba) due on demand	646 712	758 967
142		Of which: – to affiliated undertakings	8 723	9 006
143		– to significant undertakings	29	71
144		– to other undertakings with participating interest	633	390
145		bb) maturity up to one year	642 511	696 972
146		Of which: – to affiliated undertakings	7 839	6 905
147		– to significant undertakings	0	70
148		– to other undertakings with participating interest	4 985	500
149		bc) maturity over one year	77 196	49 982
150		Of which: – to affiliated undertakings	0	8
151		– to significant undertakings	0	0
152		– to other undertakings with participating interest	0	0
153		c) liabilities from investment services	8 513	12 196
154		Of which: – to affiliated undertakings	0	0
155		– to significant undertakings	0	0
156		– to other undertakings with participating interest	0	0
157		ca) liabilities from investment service activities on the stock exchange	0	0
158		cb) liabilities from over-the-counter investment service activities	0	0
159		cc) liabilities to customers from investment services	8 513	12 196
160		cd) liabilities from central counterparties	0	0
161		ce) other liabilities from investment services	0	0
162	2/A	Revaluation difference on liabilities due to customers	0	0
163	<b>3.</b>	<b>Liabilities from issued debt securities</b>	<b>94 811</b>	<b>13 350</b>
164		a) issued bonds	94 811	13 350
165		aa) maturity up to one year	81 481	1 944
166		Of which: – to affiliated undertakings	0	0
167		– to significant undertakings	0	0
168		– to other undertakings with participating interest	0	0
169		ab) maturity over one year	13 330	11 406
170		Of which: – to affiliated undertakings	0	0
171		– to significant undertakings	0	0
172		– to other undertakings with participating interest	0	0
173		b) other debt securities	0	0
174		ba) maturity up to one year	0	0
175		Of which: – to affiliated undertakings	0	0
176		– to significant undertakings	0	0
177		– to other undertakings with participating interest	0	0
178		bb) maturity over one year	0	0
179		Of which: – to affiliated undertakings	0	0
180		– to significant undertakings	0	0
181		– to other undertakings with participating interest	0	0

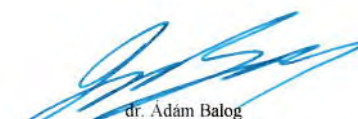


	Nr.	Item	31.12.2015	31.12.2016
182		c) Certificates ( qualified as securities according to the Act on Accounting but not defined as such by the Act on Securities)	0	0
183		ca) maturity up to one year	0	0
184		Of which: - to affiliated undertakings	0	0
185		- to significant undertakings	0	0
186		- to other undertakings with participating interest	0	0
187		cb) maturity over one year	0	0
188		Of which: - to affiliated undertakings	0	0
189		- to significant undertakings	0	0
190		- to other undertakings with participating interest	0	0
191	4.	<b>Other liabilities</b>	27 048	36 610
192		a) maturity up to one year	8 162	10 292
193		Of which: - to affiliated undertakings	12	0
194		- to significant undertakings	0	0
195		- to other undertakings with participating interest	0	0
196		- pecuniary contribution of members at credit cooperatives	0	0
197		b) maturity over one year	0	0
198		Of which: - to affiliated undertakings	0	0
199		- to significant undertakings	0	0
200		- to other undertakings with participating interest	0	0
201	4/A	Negative revaluation difference on derivative transactions	18 886	26 318
202	5.	<b>Accruals and deferred income</b>	16 243	8 982
203		a) accrued liabilities	280	275
204		b) accrued costs and expenses	15 944	8 688
205		c) deferred income	19	19
206	6.	<b>Provisions</b>	6 589	3 560
207		a) provisions for pensions and similar obligations	0	0
208		b) risk provisions for off-balance sheet items (for contingent and future liabilities)	4 973	2 243
209		c) general risk provision	0	0
210		d) other provisions	1 616	1 317
211	7.	<b>Subordinated liabilities</b>	0	0
212		a) subordinated borrowings	0	0
213		Of which: - to affiliated undertakings	0	0
214		- to significant undertakings	0	0
215		- to other undertakings with participating interest	0	0
216		b) pecuniary contribution of members at credit cooperatives	0	0
217		c) other subordinated liabilities	0	0
218		Of which: - to affiliated undertakings	0	0
219		- to significant undertakings	0	0
220		- to other undertakings with participating interest	0	0
221		- to other entities	0	0
222	8.	<b>Subscribed capital</b>	225 490	100 000
223		Of which: repurchased own shares at face value	0	0
224	9.	<b>Subscribed but unpaid capital (-)</b>	0	0
225	10.	<b>Capital reserves</b>	220 287	19 131
226		a) share premium	220 226	19 131
227		b) other	61	0
228	11.	<b>General reserve</b>	0	1 014
229	12.	<b>Retained earnings (accumulated profit reserve) (±)</b>	-262 024	0
230	13.	<b>Legal reserves</b>	0	0
231	14.	<b>Revaluation reserve</b>	793	6 506
232		Value-adjusted reserves	0	0
233		Revaluation reserves	793	6 506
234	15.	<b>Profit or loss for the financial year (±)</b>	-64 623	9 123
235		<b>TOTAL LIABILITIES</b>	1 974 411	2 099 186
236		Of which: - <b>SHORT TERM LIABILITIES</b> [1.a) + 1.ba) - 1.c) - 1.A + 2.aa) + 2.ab) + 2.ba) + 2.bb) + 2.c) - 2.A + 3.aa) + 3.ba) + 3.ca) + 4.a) + 4.A]	1 560 656	1 680 441
237		- <b>LONG TERM LIABILITIES</b> [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]	271 000	270 429
238		- <b>EQUITY (CAPITAL AND RESERVES) [8-9 + 10 + 11 + 12 + 13 + 14 + 15]</b>	119 923	135 774
		<b>OFF-BALANCE SHEET:</b>	<b>31.12.2015.</b>	<b>31.12.2016.</b>
		Contingent liabilities:	447 043	489 451
		Future receivables	751 637	604 238
		Future liabilities:	818 495	592 768

Budapest, 10 March, 2017



János Jaksa  
Chairman



dr. Ádám Balog  
Chief Executive Officer

**MKB Bank Zrt.**

## NON CONSOLIDATED INCOME STATEMENT

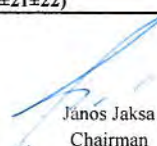
Data: in HUF' mill.

	Nr.	Item	2015.	2016.
1	1.	<b>Interest receivable and similar income</b>	<b>57 666</b>	<b>57 561</b>
2		a) interest income (receivable) from fixed-income securities	18 489	28 530
3		Of which: – from affiliated undertakings	0	0
4		– to significant undertakings	0	0
5		– from other undertakings with participating interest	0	0
6		b) other interest and similar income	39 177	29 031
7		Of which: – from affiliated undertakings	2 830	1 238
8		– to significant undertakings	0	11
9		– from other undertakings with participating interest	0	0
10	2.	<b>Interest payable and similar charges</b>	<b>18 892</b>	<b>10 854</b>
11		Of which: – to affiliated undertakings	229	162
12		– to significant undertakings	0	0
13		– from other undertakings with participating interest	38	26
14		<b>NET INTEREST INCOME</b>	<b>38 774</b>	<b>46 707</b>
15	3.	<b>Income from securities</b>	<b>412</b>	<b>326</b>
16		a) income from shares held for dealing (dividend, profit-sharing)	11	12
17		b) income from shares in affiliated undertakings (dividend, profit-sharing)	401	314
18		– to significant undertakings	0	0
19		c) income from other shares and participating interests	0	0
20	4.	<b>Commission and fees income</b>	<b>34 732</b>	<b>36 409</b>
21		a) from other financial services	27 829	27 322
22		Of which: – from affiliated undertakings	207	173
23		– to significant undertakings	0	3
24		– from other undertakings with participating interest	30	33
25		b) from investment services (except for income from trading activities)	6 903	9 087
26		Of which: – from affiliated undertakings	169	31
27		– to significant undertakings	0	0
28		– from other undertakings with participating interest	10	10
29	5.	<b>Commission and fee expense</b>	<b>6 537</b>	<b>6 556</b>
30		a) from other financial services	6 140	5 609
31		Of which: – to affiliated undertakings	0	19
32		– to significant undertakings	0	0
33		– from other undertakings with participating interest	0	0
34		b) from investment services (except for charges of trading activities)	397	947
35		Of which: – to affiliated undertakings	0	0
36		– to significant undertakings	0	0
37		– from other undertakings with participating interest	0	0
38	6.	<b>Net profit or net loss on financial operations</b>	<b>2 615</b>	<b>2 409</b>
39		a) income from other financial services	15 035	14 002
40		Of which: – from affiliated undertakings	0	0
41		– to significant undertakings	0	0
42		– from other undertakings with participating interest	0	0
43		- valuation difference	0	0
44		b) expenses from other financial services	16 015	1 684
45		Of which: – to affiliated undertakings	0	0
46		– to significant undertakings	0	0
47		– from other undertakings with participating interest	0	0
48		- valuation difference	0	0
49		c) income from investment services (income from trading activities)	61 524	71 188
50		Of which: – from affiliated undertakings	0	0
51		– to significant undertakings	0	0
52		– from other undertakings with participating interest	0	0
53		– value re-adjustment (increase) of securities for trade (not more than acquisition value)	88	18
54		- valuation difference	27 743	16 086
55		d) expenses from investment services (expenses from trading activities)	57 929	81 097
56		Of which: – to affiliated undertakings	0	0
57		– to significant undertakings	0	0
58		– from other undertakings with participating interest	0	0
59		– value adjustment (decrease) of securities for trade	18	182
60		- valuation difference	28 836	29 171
61	7.	<b>Other operating income</b>	<b>244 319</b>	<b>59 388</b>

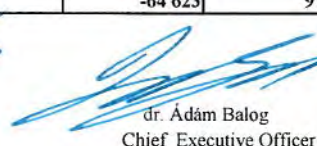
Data in HUF mill.

	Nr.	Item	2015.	2016.
62		a) incomes from non-financial and non-investment services	1 851	2 586
63		Of which: – from affiliated undertakings	131	88
64		– to significant undertakings	0	0
65		– from other undertakings with participating interest	0	0
66		b) other income	242468	56 802
67		Of which: – from affiliated undertakings	0	0
68		– to significant undertakings	0	0
69		– from other undertakings with participating interest	0	0
70		– value re-adjustment (increase) of stocks (inventories) (not more than acquisition value)	0	0
71	8.	<b>General and administrative expenses</b>	<b>44 315</b>	<b>33 624</b>
72		a) Staff costs	20 686	15 733
73		aa) wages and salaries	14 750	11 025
74		ab) other staff costs	1 364	1 299
75		Of which: – social security contributions	238	214
76		= pension costs	23	24
77		ac) contributions on wages	4 572	3 409
78		Of which: – social security contributions	4 265	3 378
79		= pension costs	0	0
80		b) Other administrative expenses (material-type expenses)	23 629	17 891
81	9.	<b>Depreciation (value adjustments in respect of assets items 9 and 10)</b>	<b>2216</b>	<b>2 030</b>
82	10.	<b>Other operating expenses</b>	<b>308 016</b>	<b>78 327</b>
83		a) expenses from non-financial and non-investment services	1 137	1 945
84		Of which: – to affiliated undertakings	0	289
85		– to significant undertakings	0	0
86		– to other undertakings with participating interest	0	0
87		b) other expenses	306 879	76 382
88		Of which: – to affiliated undertakings	0	274
89		– to significant undertakings	0	0
90		– to other undertakings with participating interest	0	0
91		– value adjustment (decrease) of stocks (inventories)	0	0
92	11.	<b>Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments</b>	<b>75 490</b>	<b>29 280</b>
93		a) value adjustments (decrease) in respect of loans and advances	70 855	27 963
94		b) provisions for contingent liabilities and commitments	4635	1 317
95	12.	<b>Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments</b>	<b>49 111</b>	<b>24 960</b>
96		a) value re-adjustments (increase) in respect of loans and advances	48 097	21 083
97		b) use of provisions for contingent liabilities and commitments	1 014	3 877
98	12/A.	<b>General risk provision and use</b>	<b>0</b>	<b>0</b>
99	13.	<b>Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests</b>	<b>5 905</b>	<b>6 520</b>
100	14.	<b>Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests</b>	<b>0</b>	<b>0</b>
101	15.	<b>Profit or loss on ordinary activities</b>	<b>-72 516</b>	<b>13 862</b>
102		Of which: -PROFIT OR LOSS OF FINANCIAL AND INVESTMENT SERVICES (1-2+3+4-5±6+7/b-8-9-10/b-11+12+12/A-13+14)	-73 230	13 221
103		- PROFIT OR LOSS OF NON-FINANCIAL AND NON-INVESTMENT SERVICES (7/a -10/a)	714	641
104	16.	<b>Extraordinary income</b>	<b>51 362</b>	<b>2 483</b>
105	17.	<b>Extraordinary expense</b>	<b>43 441</b>	<b>1 001</b>
106	18.	<b>Extraordinary profit or loss (16-17)</b>	<b>7 921</b>	<b>1 482</b>
107	19.	<b>Profit or loss before taxation (±15±18)</b>	<b>-64 595</b>	<b>15 344</b>
108	20.	<b>Tax payable</b>	<b>28</b>	<b>5 207</b>
109	21.	<b>Profit or loss after taxation (±19-20)</b>	<b>-64 623</b>	<b>10 137</b>
110	22.	<b>Addition to and use of general reserve (±)</b>	<b>0</b>	<b>1 014</b>
111	23.	<b>Profit or loss for the financial year (±21±22)</b>	<b>-64 623</b>	<b>9 123</b>

Budapest, 10 March, 2017



János Jaksa  
Chairman



dr. Ádám Balog  
Chief Executive Officer



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## **Statutory supplement**

## General informations

Company:	<b>MKB Bank Zrt.</b>
Head Office:	<b>1056 Budapest, Váci utca 38.</b>
Internet home page:	<a href="http://www.mkb.hu">www.mkb.hu</a>

## EU COMMITMENTS

The Central Bank of Hungary (CBH) as resolution authority placed MKB Bank under resolution, based on the decision of the Financial Stability Board made on 18 December 2014. As part of the resolution process CBH exercising its ownership rights applied the asset separation tool in the case of MKB Bank. In the frames of the asset separation MKB Bank received state aid in an amount of HUF 32 billion via derecognition of the non performing project financing loan stock. As a compensation of state aid and the related distortion of competition effects, MKB Group had to undertake a comprehensive commitment framework. Restructuring Plan of MKB Group and the EU commitments framework had been elaborated on the basis of the professional proposal of CBH and the Bank, and they were approved by the Financial Stability Board of the Central Bank of Hungary (CBH PST) on its meeting of 23 November 2015.

Treaty on the Functioning of the European Union (TFEU), as a general rule prohibits granting of state aid, and execution of the aid is subject to prior notification in every case. However, the aid may be considered lawful if the European Commission approves the state aid or does not raise objections against it. The European Commission conducted the procedure for declaration of legality of the state aid in the case of MKB Bank and Bank group as well, and considered it to be compatible with the relevant provisions of TFEU. Therefore the European Commission decided not to raise objections against the state aid granted to MKB Bank and Bank group. In accordance with this decision, the European Commission approved the Restructuring Plan and the framework of EU commitments of MKB Bank and the Bank Group with its decision of 16 December 2015. In this regard, the Commission stated that the commitments assumed for the period up to 2019 provide adequate assurance to both the distortion of competition stemming from the State aid, and to ensure the Bank's long-term viability.

MKB Bank and Bank Group has to regularly report to the European Commission upon its compliance with the EU commitments.

### 1. Accounting policies

MKB Bank Zrt. prepared its annual report on the basis of the related EU regulations, and the provisions of the effective

- Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises
- Act C of 2000 on Accounting
- Act CXX of 2001 on the Capital Markets
- 250/2000 (XII.24.) Government Decree on the specificities of annual reporting and bookkeeping obligations of financial enterprises

**MKB Bank Zrt. has set 6 January 2017 as the date when the financial statements for 2016 financial year are prepared.**

In accordance with applicable laws and regulations, and in order to comply with its reporting obligations, MKB Bank Zrt. keeps regular records in its books on economic events occurring in relation to its activities, and affecting its assets and liabilities, financial and income position.

During the financial year, MKB Bank Zrt. closes its assets and liabilities accounts, as well as profit and loss accounts at the end of each month, by establishing their balances, creating a trial balance and, after the closing of the period, prepares a balance sheet in order to support interim reports prepared for National Bank of Hungary, as well as interim reports submitted to the Management of MKB Bank Zrt. It also prepares a summary of off-balance sheet items, recorded in the 0 Account Class (contingency accounts).

During the period from the balance sheet date to the date of preparation of financial statements, all economic events affecting the profit and loss of the business year are recorded in the books.

MKB Bank Zrt. has prepared its internal policies required by the Act on Accounting, the Banking Act and other decrees related thereto that fall within the framework of the Accounting Policies.

A standard chart of accounts based on the guidelines included in the Act on Accounting supplies information for the compilation of MKB Bank Zrt's balance sheet, profit and loss account, supplementary notes and business report, in a breakdown specified in the Government Decree applicable to credit institutions.

On the day of its entry, the separation by the classified categories of financial instruments valued at fair value was completed on the basis of the details of analytical records.

**The annual report of MKB Bank Zrt. was audited by Deloitte Auditing and Consulting Limited chartered accountants.**

Manager responsible for bookkeeping and accounting tasks at MKB Bank Zrt.:

Mr. Rádi, János, Director of the Accounting Department  
Registration number: 168198  
Place of birth, date: Gödöllő, 1970. 03. 31.  
Address: Budapest

### **General rules applicable to the annual report**

For each item on the balance sheet and the profit and loss account, the corresponding figure of the previous financial year must be presented, and if the figures are not comparable, the reasons therefore must be described in the notes to the accounts. If the audit or self-audit has found error(s) of material value in the annual report(s) of previous year(s), then the modifications regarding such previous year(s) – resulting from final and conclusive statements not contested and not appealed against that become known by the date of the preparation of the balance sheet – are presented for each relevant item of the previous year on the balance sheet and the profit and loss account separately; these figures do not constitute part of the data of the profit and loss account for the year under review. In this case, the figures of the previous year, the modifications to the figures of the closed financial year(s) and the figures of the year under review are disclosed in separate columns on both the balance sheet and the profit and loss account.

Errors are deemed to be of material in all cases where in the year when such error is detected the combined (absolute) value of errors and consequences of errors found in respect of the same year that increases/decreases the profit/loss or the equity of the company exceeds

- 2% of the balance sheet total in the year under audit or revision, or
- if 2% of the balance sheet grand total does not exceed HUF 1 million, then HUF 1 million.

### **General Rules of Valuation**

With respect to valuation, the going concern principle must be applied, unless a different regulation hinders the implementation of the principle, or a different factor or condition exists which contradicts to the continuity of the enterprise.

The valuation principles applied for the financial statements of the previous financial year can only be changed if the factors causing the change occur for a long time, i.e. more than one year, and therefore the change is considered permanent and durable. In such a case, the factors causing the change and their quantified impacts must be described in details in the supplementary notes.

Assets and liabilities must be verified through taking inventories and reconciliation, and must be valued individually. In the prudent valuation process of balance sheet items, all impairments and value adjustments should be considered that are known by the date of the preparation of balance sheet and relate to assets outstanding at the balance sheet date.

### **Valuation of Assets and Liabilities in the Balance Sheet**

With regard to the valuation of balance sheet items, MKB Bank Zrt. applies the provisions of Articles 54-56 and 60 of the Act on Accounting and Article 9 of the relevant Government Decree.

In 2007, MKB Bank Zrt. switched over to the valuation at fair value of the determined relevant financial instruments maintaining the valuation of other financial instruments at purchase value (historical costs) according to provisions of general and specific regulations on banks.

Financial assets and financial liabilities for the purposes of fair valuation were classified to special groups in accordance with applicable laws and regulations.

Apart from any other classification methods prescribed in the Act on Accounting (invested assets, current assets, short term, long-term), the 4 groups of financial assets that are not held as part of designated hedging transactions are:

- financial assets held for trading,
- available for sale (held for resale) financial assets,
- financial assets held to maturity,
- loans and other receivables originated by the company.

Financial liabilities that are not held as part of designated hedging transactions are classified into 2 groups:

- financial liabilities held for trading,
- other financial liabilities.

Following the entry of financial instruments in the books at their historical cost (original cost or purchase price) and on their valuation on the balance sheet date

- financial instruments held for trading shall be valued at fair value prevailing at the date when entered into the books or, if valuation takes place on the balance sheet date, at the balance sheet date,
- available for sale (held for resale) financial assets may be valued at fair value prevailing at the date when entered into the books or, if valuation takes place on the balance sheet date, at the balance sheet date if their fair value can be determined by any reliable method.

In reference to available for sale (held for resale) financial assets, the applied valuation method cannot be changed in two years after its introduction.

From assets classified as available for sale (held for resale) financial assets

- all debt securities for liquidity purposes
- and from the share certificates held for liquidity purposes the not-defined-term investment notes issued by investment funds are valued at fair value.

From assets classified as available for sale (held for resale) financial assets, the purchased receivables and the share certificates held for liquidity purposes (excluding the open-ended investment notes issued by investment funds) are valued at historical cost (original cost or purchase price).

Fair valuation may not be applied to:

- financial assets held to maturity
- loans and other receivables originated by the company,
- investments that entail an ownership interest in a subsidiary, a jointly controlled company or associated company shown under invested financial assets,
- repurchased debt securities of own issue and investments that incorporate ownership interests in another company,
- financial instruments with special characteristics,
- spot delivery futures and options for commodities (non-derivative transactions),
- futures and options contingent on climatic, geological or other physical variables,
- other financial liabilities,
- any financial instrument whose fair value cannot be determined by a reliable method.

Financial instruments referred above shall be shown at their historical cost (original cost or purchase price) decreased by repayments and value adjustments (impairments) and increased by value readjustment, or at their contracted value, taking into account the general valuation regulations of the Act on Accounting (historical cost valuation).

### **Rules of reclassification**

Of the loans and other receivables originated by the company, receivables originating from financial leasing and insurance contracts as well as claims against employees and the central budget may not be classified as negotiable or held for trading.

The classification of financial instruments and their valuation shall be performed consistently.

The reclassification of financial instruments can take place only at the same time as the valuation.

Financial instruments cannot be reclassified from the category of available for sale (held for resale) financial assets to the category of financial assets held for trading, even if referring to the purpose of sale in the actual or the next financial year.

The sum of repayments of financial assets held to maturity due in the year following the actual financial year not allowed to be reclassified into the category of financial assets held for trading, or the category of available for sale (held for resale) financial assets from point of valuation. Financial assets can be reclassified only once a financial year.

If a substantial part of financial assets designated as held to maturity is sold or reclassified - and it has a substantial impact on the assets' market value and on MKB's solvency - the remaining financial assets with the same rights shall also be reclassified as available for sale (held for resale) financial assets or financial assets held for trading unless the sale or reclassification took place on account of exceptional circumstances. Such financial assets, including those remaining and those to be purchased in the future, may not be classified as held to maturity for two years following the date of reclassification.



With respect to reclassification or selling, over 10 percent of the relevant portfolio is regarded as a substantial part of financial assets in the books of MKB Bank Zrt.

The financial assets held for trading cannot be reclassified unless the purpose (intent) of holding such assets has been changed because of exceptional circumstances.

Accounts pertaining to financial assets shall be restored to the situation existing at the date of acquisition (purchase) when the financial assets in question are reclassified. At the same time, the valuation differences, adjustments and accruals as well as deferrals shall be recorded for financial assets that have already been reclassified.

The valuation of financial instruments valued at fair value takes place on a monthly basis in the books of MKB Bank Zrt. Detailed data needed for fair valuation come from the central Data Warehouse

With regard to the monthly valuation of balance sheet items, the same valuation method should be applied as at the balance sheet date with the following differences.

The amendment of the valuation differences (counter-movement) have to be deducted in the actual financial year the same profit or loss account or the fair value reserve, against which the valuation differences have been accounted for during the financial year.

The fair value on the day of the valuation had to be taken as basis of the valuation during the actual financial year with respect to accounting write offs (impairments) or its reversal to available for sale (held for resale) financial assets valued at fair value, irrespective to the permanency of development in value.

With respect to financial assets held for trading, the valuation difference indicates when the asset's fair value exceeds its historical cost (original cost or purchase price) or drops below the historical cost (original cost or purchase price). The valuation difference (positive or negative) together with the asset's (less repayments) historical cost (original cost or purchase price) comprises the asset's book value, which is the same as the fair value.

With respect to available for sale (held for resale) financial assets, the valuation difference indicates when the fair value exceeds the asset's historical cost (original cost or purchase price); it is always positive and it is not part of the asset's book value.

On balance sheet date, the value of the invested assets and current assets valued at purchase or production value, known at the time of balance sheet preparation on the basis of cautious valuation,

- was reduced with scheduled and unscheduled depreciation, as well as any write-offs accounted for, and
- was increased by unscheduled depreciation and write-offs accounted for earlier and reversed, up to the original purchase or production value (in the case of intangible assets and tangible fixed assets up to the net value calculated with scheduled depreciation).

Assets can only be recorded at historic cost or lower than that in the balance sheet.

### **Scheduled and unscheduled depreciation**

Depreciation is established when intangible or tangible fixed assets are put into use, based on the purchase or production value reduced with the residual value and the estimated useful life of the asset.

With regard to intangible assets and tangible fixed assets, MKB Bank Zrt. has established zero residual value in general. Different cases are included in the Valuation Regulations. Value Added Tax (VAT) charged in advance is also included in the purchase or production price.

Scheduled depreciation methods applied by MKB Bank Zrt.:

- straight-line method, in which case the same amount of depreciation is accounted for each year over the useful life of the asset,
- in the case of assets below a purchase price of HUF 50,000 MKB immediately accounts for them as an expense.

No scheduled depreciation is accounted for when the value of the underlying asset does not decrease over the asset's life or the value increases from year to year, moreover, when the carrying value of the asset has reached the previously established residual value.

MKB Bank Zrt. accounts for unscheduled depreciation when

- the book value is higher than the market value for a long time, and the difference is more than 20% or by HUF 100 million,
- the asset cannot be used for its purpose, it has been destroyed or is missing.

The unscheduled depreciation based on market value is reversed (excluded the accounted unscheduled depreciation on goodwill) when the reasons for accounting for it do not exist anymore, and the respective asset is re-valued to the lower of market value and carrying amount calculated with the scheduled depreciation.

In the cases, when the accounting for or reversal of unscheduled depreciation results in the establishment of a new scheduled depreciation, the reasons are disclosed in the supplementary appendix (notes).

### **Impairments and reversal of impairments**

In accordance with the principle of prudence, predictable risks and expected losses in connection with receivables, securities and participations, and inventories are accounted for as impairments.

In accordance with the principle of reality, impairments accounted for in a preceding period are reversed if the recoverable amount or market value of the asset significantly and permanently exceeds the purchase or production value, reduced earlier through an impairment loss.

Impairments and their reversals are also recorded in foreign exchange in the case of assets denominated in foreign exchange and assets denominated in HUF, but performing as foreign exchange in substance.

### **Provisions**

The valuation rules for provisions are established on the basis of the Government Decree of the Ministry of Finance No. 250/2000, MKB Bank Zrt's internal policy on transaction rating and provisions,.

In the case of items denominated in foreign exchange and items denominated in HUF, but performing as foreign exchange, provisions are also recorded in foreign exchange.

At year-end, MKB Bank Zrt. charges provisions against profit before taxation for those contingent liabilities that are certain or highly probable but their exact amounts or date of crystallization can not be established reliably and their coverage is not provided otherwise. Furthermore, such provisions are set aside for expected costs and future liabilities that become known between the balance sheet date and the date of the preparation of the balance sheet.

### Value adjustments (revaluations)

MKB Bank Zrt. currently does not apply any value adjustments.

### **Valuation of foreign exchange assets and liabilities**

MKB Bank Zrt. enters its books assets and liabilities denominated in foreign exchanges (including foreign exchange and currency stocks, receivables and liabilities in foreign currencies, government securities in foreign currencies, debt securities, shares and participations, prepayments and accruals, and securities issued by MKB Bank Zrt. in foreign currencies), depending on the nature of transaction, at an exchange rate quoted, or announced and applied by itself at the time of purchase or origination of the items.

In accordance with the statutory regulations, MKB Bank Zrt. values its foreign exchange, accruals in foreign currencies and currency stocks, as follows:

- The assets denominated in foreign currencies shall be converted into HUF at the medium exchange rate applied by MKB Bank Zrt, and revaluated at the official exchange rate quoted by the National Bank of Hungary on a daily basis.
- MKB Bank Zrt used the average of the official daily exchange rates quoted by the National Bank of Hungary between 16<sup>th</sup> July 2014 and 7<sup>th</sup> November 2014 for conversion of repayment of due instalments of foreign currency (or foreign currency-denominated) retail mortgage loans and any related foreign currency based charges, commissions and fees from the 1st of January 2015 till the first fulfillment of instalment due on the basis of the contract modification as required by the LXXVII law of 2014.
- MKB Bank Zrt. values its receivables and liabilities in foreign currencies, and its foreign exchange and currency stocks, not listed by NBH at the exchange rates of the currencies of the world published in national daily papers applying the medium exchange rate applicable on the last day of the year or, if this information is not available, at the average medium exchange rate applied by MKB Bank Zrt. in the previous month.

Foreign exchange difference on assets and liabilities denominated in foreign currencies should be accounted for as income or expense of other financial services.

At each month-end and at the balance sheet date, the foreign exchange difference resulting from the translation of the book value (denominated in a foreign currency) of investments in affiliated foreign companies that are held as part of hedging transactions and for purposes other than trading as well as long-term debts and receivables payable to or due from such companies should be accounted for as fair value reserve, and it is not a part of the total of revaluation differences.

### **Stocks**

Purchased stocks and securities are recorded and accounted for in accordance with the FIFO method.

### **Prepayments and accruals**

MKB Bank Zrt. records among prepayments all revenue items, the financial settlement of which will only take place in the following year, but they are related to the current business year, and expenses, which have been incurred in the current business year, but relate to the following years only.

### **Accruals**

MKB Bank Zrt. records among accruals revenues which have originated in the current business year, but are related to the following year(s) and expenses which have been incurred in relation to the current year, but will actually be paid in the following business year(s).

### **Expenses**

MKB Bank Zrt. books its expenses primarily in the 5th Accounting Class, with the invoiced amount, including also value added tax (VAT) which cannot be deducted.

### **Contingency accounts**

On the basis of individual decisions related to specific activities, MKB Bank Zrt. uses 0. Account Class to record assets, receivables and liabilities not included in the balance sheet, as well as receivables and liabilities, the reporting of which is mandatory in the 0. Account Class (e.g. contingencies, commitments, nominal value of purchased receivables, nominal values of securities, rented assets, etc.).

### **Rules for taking inventories**

MKB Bank Zrt. takes a true, verifiable and properly documented inventory of its assets and liabilities existing at the balance sheet date for the year-end closing of its books and the preparation of the annual report. The Inventory Rules and Regulations ensure the implementation of inventory taking activities according to uniform guidelines. The analytical records corresponding to the class characteristics of assets and liabilities are kept continuously throughout the year and at year-end MKB Bank Zrt. takes a full-scale inventory following an inventory schedule.

### **Consolidated financial statements**

MKB Bank Zrt. prepares the consolidated financial report for those companies which are regarded as subsidiaries and which are members of the MKB Group.

Consolidated financial report is available for review: at MKB Bank Zrt's Head Office (Budapest, V. Váci utca 38).

## 2. Non-consolidated balance sheet (Hungarian Accounting Rules)

Nr.	Item	31.12.2015	31.12.2016
	<b>A S S E T S</b>		
1.	Cash in hand, balances with central banks	29 908	33 592
2.	Treasury bills	845 015	897 111
3.	Loans and advances to credit institutions	63 364	127 282
4.	Loans and advances to customers	848 730	863 425
5.	Debt securities including fixed-income securities	92 567	82 506
6.	Shares and other variable-yield securities	304	783
7.	Shares and participating interests held for investment purposes	216	3 984
8.	Shares and participating interests in affiliated undertaking	44 226	44 911
9.	Intangible assets	5 927	7 799
10.	Tangible fixed assets	1 945	1 936
11.	Own shares	0	0
12.	Other assets	25 846	19 951
13.	Prepayments and accrued income	16 363	15 906
	<b>TOTAL ASSETS:</b>	<b>1 974 411</b>	<b>2 099 186</b>
	<b>L I A B I L I T I E S</b>		
1.	Liabilities to credit institutions	334 768	382 786
2.	Liabilities to customers	1 375 029	1 518 124
3.	Liabilities from issued debt securities	94 811	13 350
4.	Other liabilities	27 048	36 610
5.	Accruals and deferred income	16 243	8 982
6.	Provisions	6 589	3 560
7.	Subordinated liabilities	0	0
8.	Registered capital	225 490	100 000
9.	Reserves	-40 944	26 651
10.	Result for the year	-64 623	9 123
	<b>TOTAL LIABILITIES:</b>	<b>1 974 411</b>	<b>2 099 186</b>
	Of which: - SHAREHOLDERS' EQUITY	119 923	135 774

### 3. Non-consolidated income statement (Hungarian Accounting Rules)

Nr.	Item	2015	2016
1.	Interest receivable and similar income	57 666	57 561
2.	Interest payable and similar charges	18 892	10 854
	NET INTEREST INCOME	38 774	46 707
3.	Income from securities	412	326
4.	Commission and fees income	34 732	36 409
5.	Commission and fee expense	6 537	6 556
6.	Net profit or net loss on financial operations	2 615	2 409
7.	Other operating income	244 319	59 388
8.	General and administrative expenses	44 315	33 624
9.	Depreciation	2 216	2 030
10.	Other operating expenses	308 016	78 327
11.	Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	75 490	29 280
12.	Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments	49 111	24 960
12/A	General risk provision and use	0	0
13.	Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests	5 905	6 520
14.	Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests	0	0
15.	Profit or loss on ordinary activities	-72 516	13 862
16.	Extraordinary income	51 362	2 483
17.	Extraordinary expense	43 441	1 001
18.	Extraordinary profit or loss	7 921	1 482
19.	Profit or loss before taxation	-64 595	15 344
20.	Tax payable	28	5 207
21.	Profit or loss after taxation	-64 623	10 137
22.	Addition to and use of general reserve	0	1 014
23.	Profit or loss for the financial year	-64 623	9 123

#### 4. Non-consolidated cash flow statement

Nr.	Item	2015	2016
1	Interest income	57 666	57 561
2 +	Income from other financial activities	42 863	41 311
3 +	Other income (excluding utilized and released provisions)	241 810	56 551
4 +	Income from investment services	40 596	64 171
5 +	Incomes from non-financial activities	1 851	2 586
6 +	Dividend received	412	326
7 +	Extraordinary revenues	2 066	2 280
8 -	Interest paid	18 892	10 854
9 -	Other expenditure of financial activities	19 286	7 463
10 -	Other expenditure (excluding provisions)	306 480	76 213
11 -	Expenditures on investment services	29 472	52 691
12 -	Expenditures on non-fin. inst. activities	1 137	1 945
13 -	General and administrative expenses	44 315	33 624
14 -	Extraordinary expenditure (excluding current year's corporation tax)	4 344	1 001
15 -	Current year's corporation tax	28	5 207
16 -	Dividend paid	0	0
<b>17</b>	<b>Operating Cash Flow (Nr. 01-16)</b>	<b>-36 690</b>	<b>35 788</b>
18 ±	Liability position	149 024	112 429
19 ±	Receivables position	483 829	-85 867
20 ±	Inventory position	-317	2
21 ±	Changes in stock of securities disclosed as current assets	-570 211	269 111
22 ±	Financial investment position	-53 696	-317 082
23 ±	Investment position (including advance payment)	0	-10
24 ±	Intangible asset position	-1 906	-3 635
25 ±	Net change in stock of tangible fixed assets (excl. investment and advance payment for investment)	494	-248
26 ±	Changes of prepayments and accrued income	-6 020	457
27 ±	Changes of accruals	5 567	-7 261
28 +	Issuing shares at selling prices	0	0
29 +	Liquid assets received	0	0
30 -	Liquid assets transferred	0	0
31 -	Face value of repurchased shares, property notes	0	0
	<b>Net Cash Flow (Nr. 17-31)</b>	<b>-29 926</b>	<b>3 684</b>
	<i>of which: - changes in cash balance (HUF and FX)</i>	<i>-4 596</i>	<i>-783</i>
	<i>- changes (in money in transit deposits at NBH and deposits at foreign banks)</i>	<i>-25 330</i>	<i>4 467</i>



## 5. Balance sheet structure

### Assets and liabilities

Description	31.12.2015		31.12.2016	
	HUF million	Balance sheet As a percentage of total assets	HUF million	Balance sheet As a percentage of total assets
Receivables due from customers	848 730	43,0	863 425	41,1
Liabilities due to customers	1 375 029	69,6	1 518 124	72,3
Receivables due from banks	63 364	3,2	127 282	6,1
Liabilities due to banks	334 768	17,0	382 786	18,2
Securities and cash	968 010	49,0	1 017 976	48,5
Liabilities due to issued securities	94 811	4,8	13 350	0,6
Other liabilities and prepayments	42 209	2,1	35 857	1,7
Other liabilities and accruals	43 291	2,2	45 592	2,2
Own assets and long-term investments	52 098	2,7	54 646	2,6
Shareholders' equity and provisions	126 512	6,4	139 334	6,7
<b>Total assets</b>	<b>1 974 411</b>	<b>100,0</b>	<b>2 099 186</b>	<b>100,0</b>

By the end of the reporting year, total assets of MKB Bank increased to HUF 2 099.2 million, which represents a 6.3% increase compared to the end of 2015. Within the balance almost all assets and liabilities of the group has expanded in volume. Contrary to the decline experienced in previous years the receivables due from customers have been increased during the year 2016, and by the end of the period it increased by approximately HUF 14.7 million, which was the result of the developing business activity, while the portfolio cleaning in strategy also continued. In line with the expansion in receivables due from customers, the liabilities due to customers also increased, and the closing value exceeded by HUF 143.1 billion that of the previous year's, so the share in liabilities also increased. Within the growth the increase of current account deposit and short-term deposit was significant.

There was a significant growth both in receivables due from banks both in liabilities due to banks. The upswing of HUF 63.9 billion in such kind of receivables was generated by the increase of inter-bank transactions, while the expansion of HUF 48.0 billion in liabilities was primarily caused by the increase in refinancing related to the loan programs launched by the National Bank of Hungary (NBH)

The nearly HUF 50,0 billion increase in securities and cash was generated by the government bond purchases and increased balance of accounts led by NBH, while the rate of this asset group practically remained unchanged. At the end of the reporting year the volume of issued bonds decreased by HUF 81.5 billion compared to the data of the previous year. The Bank has not issued new bonds during the period while several series of bonds issued previously were repaid on maturity.

## 6. Maturity structure

Item	31.12.2015	%	31.12.2016	%	Change
<b>A S S E T S</b>					
Cash	29 908	1,5%	33 592	1,6%	3 684
Short-term receivables	387 885	19,7%	463 644	22,1%	75 759
Securities held for trade	937 886	47,5%	622 525	29,7%	-315 361
Stocks	525	0,0%	523	0,0%	-2
Prepayments	16 363	0,8%	15 906	0,8%	-457
<b>Total short-term assets</b>	<b>1 372 567</b>	<b>69,5%</b>	<b>1 136 190</b>	<b>54,2%</b>	<b>-236 377</b>
Long-term receivables	549 530	27,8%	546 491	26,0%	-3 039
Securities held for investment		0,0%	357 875	17,0%	357 875
Equity investments	44 442	2,3%	48 895	2,3%	4 453
Intangible assets	5 927	0,3%	7 799	0,4%	1 872
Tangible assets	1 945	0,1%	1 936	0,1%	-9
<b>Total long-term assets</b>	<b>601 844</b>	<b>30,5%</b>	<b>962 996</b>	<b>45,8%</b>	<b>361 152</b>
<b>TOTAL ASSETS:</b>	<b>1 974 411</b>	<b>100,0%</b>	<b>2 099 186</b>	<b>100,0%</b>	<b>124 775</b>
<b>L I A B I L I T I E S</b>					
Short-term liabilities	1 479 175	74,9%	1 678 497	80,0%	199 322
Securities issued (short-term)	81 481	4,1%	1 944	0,1%	-79 537
Provisions	6 589	0,3%	3 560	0,2%	-3 029
Accruals	16 243	0,9%	8 982	0,4%	-7 261
<b>Total short-term liabilities</b>	<b>1 583 488</b>	<b>80,2%</b>	<b>1 692 983</b>	<b>80,7%</b>	<b>109 495</b>
Long-term liabilities	257 670	13,0%	259 023	12,3%	1 353
Securities issued (long-term)	13 330	0,7%	11 406	0,5%	-1 924
Shareholders' equity	119 923	6,1%	135 774	6,5%	15 851
<b>Total long-term liabilities</b>	<b>390 923</b>	<b>19,8%</b>	<b>406 203</b>	<b>19,3%</b>	<b>15 280</b>
<b>TOTAL LIABILITIES:</b>	<b>1 974 411</b>	<b>100,0%</b>	<b>2 099 186</b>	<b>100,0%</b>	<b>124 775</b>

During the year 2016 the Bank's open maturity position increased considerably, because the value of long-term assets exceeded the sum of long-term liabilities and shareholders' equity by HUF 556.8 billion at the end of the year, while the surplus of long-term assets was HUF 210.9 billion at the end of 2015. The specific ratio of the open maturity position to total assets increased to 26.5%. (2015: 10.7%).

Within the asset maturity structure, short-term assets decreased (by HUF -236.4 billion). The main factor in the decline of up to one year assets was the drop in trading securities portfolio by HUF 315.4 billion. By contrast the volume of short-term receivables increased by HUF 75.8 billion, which was mostly generated by the increase in Loans and advances to banks.

By the end of 2016, short-term liabilities increased by HUF 109.5 billion in which the liabilities from up to one year securities decreased by HUF 79.5 billion. At the same time, the

main factor of the slight growth of HUF 15.3 in long-term assets was the rise of Shareholders' equity (by HUF 15.9 billion)

The ratio of liquid assets in 2015 was 49.0% that was decreased to 31.3%, mainly due to the fall of volumes of government securities, but even it remained an outstanding degree.

## 7. Fair value valuation, derivative financial instruments

On January 1st, 2007, MKB Bank Zrt. changed its accounting policy and implemented fair value revaluation for certain financial instruments whereas other instruments are still accounted for under the general rules of historical cost convention.

The exact methods, applied models, the sources of input data used during the fair value accounting are set out in Internal Regulation of No. 47/2014. on Trading Book Management. The Appendix discloses the Valuation Principles (chosen valuation methods, compulsory internal models, applied yield curves and volatility curves).

The short description of the valuation techniques of respective transactions is as follows:

The fair values of securities are defined on the basis of quoted market prices, if such market values are available. When quoted market prices are not reliably available, fair values are established by using quoted market values of similar securities or using internal models based on yield curves and (credit) spreads.

Bonds are valued to fair value primarily by using listed market prices. Market prices are set according to quotations on stock exchanges or prices available on OTC markets, based on data provided by Reuters or Bloomberg. In the case of bonds whose quotations are not reliable or such quoted prices are not available, fair values are established by using internal models. Internal models are based on using present value calculations of discounted future cash flows of the respective instrument. The yield curves that are applied to define the discount factors are chosen according to both the types of the underlying securities and actual issuers of the bonds. For those Hungarian government bonds and debt securities and bonds issued by National Bank of Hungary who have no market prices as secondary markets do not exist, fair values are calculated by yield curves of Hungarian Forint (HUF), to be built up from other central government bonds. Corporate bonds with no available market prices are valued to fair value by using swap curves of the currency of the respective bonds as well as by considering the credit spread applied to the issuer. Credit spreads are reviewed and updated regularly.

The fair values of derivative financial instruments that are traded on stock exchanges are established as quoted market prices. Derivatives that are traded on OTC markets are valued to fair value by using valuation techniques, including discounted cash flow models and option pricing models.

The fair values of interest rate swaps (IRSs) are calculated as the sum of the present values of opposite cash flows for the remaining period of the transaction. The net present value (NPV) is defined by using swap curves. The discount factor for each future cash flow date is derived through exponential interpolation from the yield curve valid on the balance sheet date.

In the case of cross currency swap transactions (CCSs), market conventions define that the application of swap curve in discounting future cash flows generated by swap or deterministic curves is not suitable. The reason for this judgment is that in the case of transactions swapping different currencies markets price higher risk premium for one leg than the other. This fact is reflected by credit basis swap (CBS) spreads. On these grounds, yield curves modified by CBS spreads should be used in calculating fair values of such transactions.

Net present values of FX forward transactions with maturity of less than one year are based on market quotations whereas yield curves based on quotations of interest rate swaps are used to determine fair values of transactions over one year maturity.

FX swap transactions are separated as spot and forward transactions. Thus, FX swaps are valued to fair value similarly as FX forward transactions.

The result of FX options is the net balance of market values and past cash flows (i.e. premium paid or received). Market values are defined by using different option pricing models (e.g. the Garman & Kohlhagen model for plain vanilla call/put options).

The results of stock options and indices options are defined analogous to FX options.

A cap/floor transaction is regarded as a series of OTC interest rate options, and its theoretical price is defined as the sum of the theoretical price of its components (caplets/floorlets). The valuation of interest related options are carried out by Black & Scholes model.

In the case of stock futures and indices futures transactions, fair values are defined as market prices quoted by the stock exchange. Market prices of domestic futures transactions are closing prices whereas other futures are valued at listed market prices provided by Reuters or Bloomberg prevailing at the time of downloading.

## Groups of financial instruments and their fair value

### a) Securities held for trading purposes

Balance sheet row	Item	Revaluation difference 31.12.2015	Revaluation difference 31.12.2016
5	State bonds	242	204
5	Zero-coupon securities	0	0
53	Debt securities	-5	-7
61	Shares	30	38
<b>Total:</b>		<b>267</b>	<b>235</b>

### b) Available-for-sale securities

(valuation directly against fair value reserve /equity/)

Balance sheet row	Item	Revaluation difference 31.12.2015	Revaluation difference 31.12.2016
5	State bonds	791	6 388
5	Zero-coupon securities	0	0
61	Debt securities	2	84
61	Close-ended investment funds	0	0
70	Shares	0	34
70	Open-ended investment funds	0	0
<b>Total:</b>		<b>793</b>	<b>6 506</b>

**c) Derivative financial instruments held for trading purposes**

	<b>2015 Fair value (gain) M:95</b>	<b>2015 Fair value (loss) M:177</b>	<b>2016 Fair value (gain) M:95</b>	<b>2016 Fair value (loss) M:177</b>	<b>Fair value change (2016-2015)</b>
IRS	14 262	-10 423	10 582	-22 948	-16 205
CIRS	3 713	-6 293	116	-9	2 687
CAP/RAC	286	-28	58	-4	-204
FX FORWARD	1 338	-834	715	-1 437	-1 226
FX FUTURES	120	-191	454	-720	-195
FX SWAP	274	-739	2 016	-712	1 769
FX OPTION	125	-71	437	-244	139
BUX/SHARES FUTURES	1	-2	8	-10	-1
SHARES INDEX OPTION	1 028	-305	494	-234	-463
<b>Total:</b>	<b>21 147</b>	<b>-18 886</b>	<b>14 880</b>	<b>-26 318</b>	<b>-13 699</b>

**d) Option premiums: Deals stated before 2016**

	<b>Fair value (gain)</b>	<b>Fair value (loss)</b>	<b>Net gain/loss</b>	<b>Matured in 2016</b>
FX OPTION	65	-66	-1	11
CAP/RAC	484	-27	457	407
INDEX OPTION	850	-41	809	167
<b>Total:</b>	<b>1 399</b>	<b>-134</b>	<b>1 265</b>	<b>585</b>

**e) Option premiums: Deals stated in 2016**

	Fair value (gain)	Fair value (loss)	Net gain/loss	Transfers between P&L 2016
FX OPTION	73	-121	-48	-59
CAP/RAC	0	0	0	-407
INDEX OPTION	0	-11	-11	-178
<b>Total:</b>	<b>73</b>	<b>-132</b>	<b>-59</b>	<b>-644</b>

Option premiums should be accounted for as fair value revaluation difference when the transaction is financially settled. On closing the transaction, the premium should be reclassified into P&L.

**The effect of fair value revaluation on P&L and Equity**

**f) The effect of fair value revaluation on P&L**

	Revaluation difference 2015	Revaluation difference 2016
Securities held-for-trading	308	-32
Derivatives held-for-trading	-1 402	-13 055
Fair value hedges (not effective parts)	0	0
<b>Total:</b>	<b>-1 094</b>	<b>-13 087</b>

**g) The effect of fair value revaluation on Equity**

	Revaluation difference 2015	Revaluation difference 2016
Equity	793	6 506

## Derivative financial instruments – by main types

### h) FX forwards

Products	Partner	Remaining maturity	Amounts bought	Amounts sold	Fair value
CHF/HUF	CUSTOMER	3H	4 282	4 296	-6
CHF/HUF	CUSTOMER	3H-1E	984	996	0
EUR/CHF	CUSTOMER	3H	13 315	13 382	-58
EUR/HUF	BANK	3H	798	804	-6
EUR/HUF	CUSTOMER	1-5E	2 448	2 431	19
EUR/HUF	CUSTOMER	3H	66 900	66 743	103
EUR/HUF	CUSTOMER	3H-1E	46 069	46 202	-107
EUR/JPY	CUSTOMER	3H	386	389	-3
EUR/RON	CUSTOMER	3H	42	42	0
EUR/TRY	CUSTOMER	3H-1E	62	64	1
EUR/USD	CUSTOMER	3H	292	293	0
EUR/USD	CUSTOMER	3H-1E	447	446	0
GBP/HUF	CUSTOMER	3H	1 979	1 960	19
GBP/HUF	CUSTOMER	3H-1E	298	308	-10
NOK/HUF	CUSTOMER	3H	106	106	0
PLN/HUF	CUSTOMER	3H	49	49	0
PLN/HUF	CUSTOMER	3H-1E	14	14	0
RUB/HUF	CUSTOMER	3H	574	517	52
RUB/HUF	CUSTOMER	3H-1E	143	134	4
TRY/HUF	CUSTOMER	3H	107	100	8
USD/HUF	CUSTOMER	1-5E	461	470	-2
USD/HUF	CUSTOMER	3H	41 706	42 283	-594
USD/HUF	CUSTOMER	3H-1E	21 771	21 885	-132
USD/JPY	CUSTOMER	3H	882	894	-9
<b>FX forward deals total:</b>			<b>204 115</b>	<b>204 808</b>	<b>-721</b>

\* Remaining maturity

3H	Within 3 months
3H-1E	Between 3 months and 1 year
1-5E	Between 1-5 years
5E	Over 5 years



**i) FX futures**

Products	Partner*	Remaining maturity	Amounts bought	Amounts sold	Fair value
CHF/HUF	BÉT	3H	587	579	10
EUR/CHF	BÉT	3H	19	19	0
EUR/GBP	BÉT	3H	77	78	0
EUR/HUF	BÉT	3H	22 721	22 800	-56
EUR/HUF	BÉT	3H-1E	1 411	1 413	-3
EUR/TRY	BÉT	3H	31	30	0
EUR/USD	BÉT	3H	16 744	16 805	-58
EUR/USD	BÉT	3H-1E	116	117	0
GBP/HUF	BÉT	3H	9 890	9 918	-28
GBP/HUF	BÉT	3H-1E	18	18	0
GBP/USD	BÉT	3H	2 894	2 889	4
TRY/HUF	BÉT	3H	67	65	3
USD/HUF	BÉT	3H	24 125	24 245	-130
USD/HUF	BÉT	3H-1E	917	920	-9
USD/JPY	BÉT	3H	101	101	1
<b>FX futures deals total:</b>			<b>79 718</b>	<b>79 997</b>	<b>-266</b>

\*BÉT stands for Budapest Stock Exchange

**j) FX swap deals**

Products	Partner	Remaining maturity	Amounts bought	Amounts sold	Fair value
AUD/USD	BANK	3H	1 061	1 094	-34
CAD/CHF	BANK	3H	1 307	1 317	-13
EUR/CAD	BANK	3H	466	467	0
EUR/CHF	BANK	3H	5 507	5 499	5
EUR/CZK	BANK	3H	265	265	0
EUR/DKK	BANK	3H	84	84	0
EUR/GBP	BANK	3H	4 345	4 394	-50
EUR/HRK	BANK	3H	206	206	0
EUR/HUF	BANK	3H	83 792	83 777	48
EUR/HUF	BANK	3H-1E	1 454	1 472	-19
EUR/HUF	CUSTOMER	3H	2 168	2 162	4
EUR/HUF	CUSTOMER	3H-1E	16 091	16 192	-38
EUR/JPY	BANK	3H	254	251	2
EUR/NOK	BANK	3H	582	588	-6
EUR/RUB	BANK	3H	191	194	-4
EUR/SEK	BANK	3H	96	97	-1
EUR/TRY	BANK	3H	192	194	-4
GBP/CHF	BANK	3H	4 918	4 958	-40
GBP/USD	BANK	3H	3 255	3 273	-18
USD/CAD	BANK	3H	333	327	7
USD/CHF	BANK	3H	29 354	29 520	-213
USD/CZK	BANK	3H	114	115	-1
USD/HUF	BANK	3H	27 708	26 526	1 163
USD/HUF	CUSTOMER	3H	30 144	29 649	445
USD/HUF	CUSTOMER	3H-1E	1 361	1 374	-4
USD/JPY	BANK	3H	1 993	1 935	54
USD/PLN	BANK	3H	425	422	3
USD/RON	BANK	3H	272	273	-1
USD/RUB	BANK	3H	564	566	-3
USD/SEK	BANK	3H	649	628	22
<b>FX swap deals total:</b>			<b>219 151</b>	<b>217 819</b>	<b>1 304</b>

**k) CIRS (Cross-currency interest rate swaps)**

Hedge	Partner	Bought product	Sold product	Remaining maturity	Bought principal	Sold principal	Fair value
NO HEDGE	BANK	HUF	EUR	5E	6 723	6 715	108
NO HEDGE	CUSTOMER	EUR	HUF	3H-1E	100	100	0
<b>CIRS deals total:</b>					<b>6 823</b>	<b>6 815</b>	<b>108</b>

**l) IRS**

Hedge	Partner	Bought/Sold	Remaining maturity	Principal	Fair value
NO HEDGE	BANK	EUR	3H	6 220	15
NO HEDGE	BANK	EUR	3H-1E	10 884	-206
NO HEDGE	BANK	EUR	5E	24 171	-7 846
NO HEDGE	BANK	HUF	1-5E	507 300	-7 835
NO HEDGE	BANK	HUF	3H	9 270	-17
NO HEDGE	BANK	HUF	3H-1E	3 450	41
NO HEDGE	BANK	HUF	5E	178 070	-4 177
NO HEDGE	BANK	USD	1-5E	6 461	110
NO HEDGE	BANK	USD	5E	8 517	66
NO HEDGE	CUSTOMER	EUR	3H-1E	10 884	215
NO HEDGE	CUSTOMER	EUR	5E	24 171	8 180
NO HEDGE	CUSTOMER	HUF	1-5E	25 376	-972
NO HEDGE	CUSTOMER	HUF	5E	6 420	126
NO HEDGE	CUSTOMER	USD	1-5E	2 056	-68
<b>IRS Total:</b>				<b>823 250</b>	<b>-12 368</b>

**m) FX options**

Products	Partner	Remaining maturity	Nominal amount in HUF	Fair value
EUR/CHF	BANK	3H	404	-3
EUR/CHF	CUSTOMER	3H	404	3
EUR/HUF	BANK	1-5E	1 190	-5
EUR/HUF	BANK	3H	16 544	59
EUR/HUF	BANK	3H-1E	10 321	9
EUR/HUF	CUSTOMER	1-5E	2 547	32
EUR/HUF	CUSTOMER	3H	17 391	-56
EUR/HUF	CUSTOMER	3H-1E	20 291	15
EUR/USD	BANK	3H	2 875	-9
EUR/USD	CUSTOMER	3H	5 040	39
EUR/USD	CUSTOMER	3H-1E	734	23
GBP/USD	BANK	3H	37	0
GBP/USD	CUSTOMER	3H	37	0
USD/CAD	BANK	3H	291	0
USD/CAD	CUSTOMER	3H	291	0
USD/HUF	CUSTOMER	3H	2 182	84
USD/HUF	CUSTOMER	3H-1E	50	1
<b>FX option deals total:</b>			<b>80 629</b>	<b>192</b>

## Other derivative financial instruments

### n) Other shares

Products	Partner	Bought/Sold	Remaining maturity	Notional	Fair value
CAP	BANK	EUR	1-5E	12 369	4
CAP	CUSTOMER	EUR	1-5E	12 369	-4
*Rac	BANK	HUF	1-5E	1 416	54
<b>RAC deals total:</b>				<b>26 154</b>	<b>54</b>
Share index option	BANK	EUR	1-5E	3 296	33
Share index option	BANK	HUF	1-5E	5 044	74
Share index option	BANK	HUF	3H-1E	1 833	153
<b>Share index option total:</b>				<b>10 173</b>	<b>260</b>
Sharefutures	BÉT	HUF	3H	167	-2
Sharefutures	BÉT	HUF	3H-1E	173	0
<b>Share futures total:</b>				<b>340</b>	<b>-2</b>

## 8. Securities

### a) Securities on own account

31.12.2016

Item	Stock exchange listed		Unlisted securities		Total	
	Nominal value	Book value	Nominal value	Book value	Nominal value	Book value
Government securities for dealing (M:3)	349 432	386 824	217 181	221 158	566 613	607 982
Government securities for investment purposes (M:4)	229 164	225 925	56 619	56 613	285 783	282 538
Debt securities for dealing (M:46)	6 238	6 437	664	655	6 902	7 092
Debt securities for investment purposes (M:50)	0	0	88 813	75 337	88 813	75 337
Shares and participation for dealing (M:55)	9	168	0	543	9	711
Non-fixed securities for dealing (M:59)	0	0	33	0	33	0
<b>Dealing securities total:</b>	<b>584 843</b>	<b>619 354</b>	<b>363 310</b>	<b>354 306</b>	<b>948 153</b>	<b>973 660</b>

31.12.2015

Item	Stock exchange listed		Unlisted securities		Total	
	Nominal value	Book value	Nominal value	Book value	Nominal value	Book value
Government securities for dealing (M:3)	632 794	671 065	121 779	125 394	754 573	796 459
Government securities for investment purposes (M:4)	47 523	47 523	0	0	47 523	47 523
Debt securities for dealing (M:46)	14 048	14 163	77 447	74 164	91 495	88 327
Debt securities for investment purposes (M:50)	0	0	4 299	4 243	4 299	4 243
Shares and participation for dealing (M:55)	24	274	0	0	24	274
Non-fixed securities for dealing (M:59)	0	0	33	0	33	0
<b>Dealing securities total:</b>	<b>694 389</b>	<b>733 025</b>	<b>203 558</b>	<b>203 801</b>	<b>897 947</b>	<b>936 826</b>

In the year 2016, the volume of investments in securities increased by 3.9%, i.e. HUF 36.8 billion compared to the end of last year within which also a rearrangement between the portfolios was experienced from the category of securities for dealing to that of for investment purposes. The changes were mainly determined by the growth of the volume of treasury bills by HUF 101.1 billion and the fall in the volume of investments, dealing type of bills by HUF 54.9 billion, and the decrease of HUF 10.2 billion in the repurchased own bonds.

Provisions are settled according to the Provision regulation:

Impairment and reversal by the securities is calculated in the same manner regardless of whether the securities are booked for investments or for trading securities with over one year maturity.

In case of significant decreasing of fair market value of government securities for dealing valued by fair valuation, provision must have settled in an amount of

- in case of government securities transactions the difference of maximum of bought price, face value and market price and the amount of negative fair value
- in case of other bonds' transactions the difference of bought price and market price and the amount of negative fair value.

In case of settlement HAR provision for debt securities for dealing bank uses the main rule, which meant a 10% significance threshold and permanence.

In case of

- no need to settle provision by unique testing of bought prices
- however in balance sheet date the negative amount of difference of market price and bought price greater than the 5% of portfolio value or HUF 1 billion

considering the prudent convention, supplementary rules have to use in settlement of provision.

In case of securities represent permanent market price decline, difference of maximum of bought price/face value/ and the market price is negative, provisions must have settled by using methods hereinafter:

- in case of securities matured in the consecutive year after balance sheet date, 100% of the above-mentioned difference have to settle as provision
- in case of securities matured in the consecutive 2nd year after balance sheet date, 75% of the above-mentioned difference have to settle as provision
- in case of securities matured in the consecutive 3rd year after balance sheet date, 50% of the above-mentioned difference have to settle as provision
- in case of securities matured in the consecutive 4rd year after balance sheet date, 25% of the above-mentioned difference have to settle as provision
- in case of securities matured later than the consecutive 4rd year after balance sheet date, no need to settle provision.

Above-mentioned decreasing provision measurement is argued by the possibility of large market price volatility on long-term aspect and the large exposure of the securities portfolio.

b) **Securities placed as collateral**

**31.12.2016**

<b>Title of Securities</b>	<b>Nominal value</b>	<b>Book value</b>
Zero coupon bonds	0	0
Government bonds*	303 171	314 063
BEVA bonds	21 650	20 207
DK bonds	2 700	2 704
OBA fonds	49 850	39 168
<b>Total</b>	<b>377 371</b>	<b>376 142</b>
Other	0	592
<b>Total</b>	<b>377 371</b>	<b>376 734</b>

\* of which Repo securities for dealing 2 000 2 414

**31.12.2015**

<b>Title of Securities</b>	<b>Nominal value</b>	<b>Book value</b>
Zero coupon bonds	0	0
Government bonds*	192 623	204 167
OBA fonds	49 850	49 850
<b>Total</b>	<b>242 473</b>	<b>254 017</b>
Other	0	0
<b>Total</b>	<b>242 473</b>	<b>254 017</b>

\* of which Repo securities for dealing 2 393 2 353



c) **Securities held in custody by MKB Group own account and on behalf of third parties**

**31.12.2016**

<b>Custodian</b>	<b>Total book value of securities on own account</b>	<b>Total nominal value of securities on own account</b>	<b>Total nominal value of securities held on behalf of third parties</b>	<b>Total nominal value</b>
<b>Keler Zrt.</b>	<b>926 407</b>	<b>904 209</b>	<b>1 070 191</b>	<b>1 974 400</b>
-securities with no physical appearance	926 407	904 209	1 054 627	1 958 836
- printed	0	0	15 564	15 564
<b>MKB Zrt.</b>	<b>0</b>	<b>0</b>	<b>152 101</b>	<b>152 101</b>
-securities with no physical appearance	0	0	0	0
- printed	0	0	152 101	152 101
<b>Other</b>	<b>47 253</b>	<b>43 944</b>	<b>77 050</b>	<b>120 994</b>
-securities with no physical appearance	38 847	34 427	69 470	103 897
- printed	8 406	9 517	7 580	17 097
<b>Total</b>	<b>973 660</b>	<b>948 153</b>	<b>1 299 342</b>	<b>2 247 495</b>

**31.12.2015**

<b>Custodian</b>	<b>Total book value of securities on own account</b>	<b>Total nominal value of securities on own account</b>	<b>Total nominal value of securities held on behalf of third parties</b>	<b>Total nominal value</b>
<b>Keler Zrt.</b>	<b>903 990</b>	<b>868 702</b>	<b>1 106 201</b>	<b>1 974 903</b>
-securities with no physical appearance	903 990	868 702	875 435	1 744 137
- printed	0	0	230 766	230 766
<b>MKB Zrt.</b>	<b>0</b>	<b>0</b>	<b>138 885</b>	<b>138 885</b>
-securities with no physical appearance	0	0	0	0
- printed	0	0	138 885	138 885
<b>Other</b>	<b>32 836</b>	<b>29 245</b>	<b>64 372</b>	<b>93 617</b>
-securities with no physical appearance	32 836	29 245	60 819	90 064
- printed	0	0	3 553	3 553
<b>Total</b>	<b>936 826</b>	<b>897 947</b>	<b>1 309 458</b>	<b>2 207 405</b>

The above data do not contain the investments in other and affiliated companies which are shown in sections 15.

**d) Encumbered assets**

Assets of the reporting institution	31.12.2015		31.12.2016	
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets
Loans on demand	40 622	40 622	49 192	49 192
Equity instruments	0	0	0	0
Debt securities	208 976	208 976	281 316	281 316
Loans and advances other than loans on demand	0	0	0	0
Other assets	0	0	0	0
<b>Total assets:</b>	<b>249 598</b>	<b>249 598</b>	<b>330 508</b>	<b>330 508</b>

At the end of 2016 the total size of encumbered assets was 15.73% of the total balance sheet. The main sources and types of encumbrance were arising from having secured refinancing and money market deposits as well as collateralized derivative transactions. Encumbrance due to repo transactions, collateral requirement of used clearing systems and central counterparties was not significant. MKB did not have covered bond issues or securitization.

One of the two significant secured refinancing facilities was participating in the „Funding for Growth Scheme” refinancing loan program of National Bank of Hungary. The other significant secured liability item is connected to the refinancing loan facility of the European Investment Bank. Secured money market deposits were provided by the National Bank of Hungary which supported to active liquidity management of the bank in line with the new self-financing program of the National Bank of Hungary.

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

e) **Collateral received**

Collateral received by the reporting institution	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Non-encumbered Nominal value of collateral received or own debt securities issued non available for encumbrance
<b>31.12.2016</b>			
Loans on demand	0	2 336	0
Equity instruments	0	0	0
Debt securities	0	0	0
Loans and advances other than loans on demand	0	0	0
Other collateral received	0	0	419 969
<b>Collateral received and own debt securities issued</b>	<b>0</b>	<b>2 336</b>	<b>419 969</b>
<b>31.12.2015</b>			
Loans on demand	0	817	0
Equity instruments	0	0	0
Debt securities	0	0	0
Loans and advances other than loans on demand	0	0	0
Other collateral received	0	0	548 074
<b>Collateral received and own debt securities issued</b>	<b>0</b>	<b>817</b>	<b>548 074</b>

f) Sources of encumbrance

Sources of encumbrance	31.12.2015		31.12.2016	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and
<b>Carrying amount of selected financial</b>	<b>216 152</b>	<b>249 597</b>	<b>301 077</b>	<b>330 508</b>
Derivatives	11 074	41 073	22 185	49 907
Deposits	205 078	208 524	278 892	280 601
Repurchase agreements	2 364	2 362	2 471	2 416
Collateralised deposits other than repurchase	202 714	206 162	276 421	278 185
Debt securities issued	0	0	0	0
<b>Other sources of encumbrance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Nominal of loan commitments received	0	0	0	0
Nominal of financial guarantees received	0	0	0	0
Fair value of securities borrowed with non cash-	0	0	0	0
Other	0	0	0	0
<b>Total Sources of encumbrance</b>	<b>216 152</b>	<b>249 597</b>	<b>301 077</b>	<b>330 508</b>

## 9. Receivables

### a) Maturity structure of receivables

#### Maturity structure of short-term receivables

31.12.2016

Item	Up to 3 months	Between 3 and 12 months	Impairment	Long-term receivables due within 1 year	Total
Receivables from financial institutions	67 272	387	0	0	67 659
Receivables from customers	152 697	75 202	-54 419	115 574	289 054
<b>Total</b>	<b>219 969</b>	<b>75 589</b>	<b>-54 419</b>	<b>115 574</b>	<b>356 713</b>

#### Maturity structure of long-term receivables

31.12.2016

Item	Between 1-5 years	Over 5 years	Impairment	Long-term receivables due within 1 year	Total
Receivables from financial institutions	0	0	0	0	0
Receivables from customers	163 069	566 359	-67 363	-115 574	546 491
<b>Total</b>	<b>163 069</b>	<b>566 359</b>	<b>-67 363</b>	<b>-115 574</b>	<b>546 491</b>

## Loan portfolio structure

### b) Structure of the customer loan portfolio based on the size of loans – as a percentage of shareholders' equity

31.12.2016					
	Number of customers	Gross exposure		Impairment	
		HUF million	percentage	HUF million	as a percentage of loans
Above 10%	3	111 531	11,32%	1 109	0,91%
1 to 10%	73	338 477	34,35%	32 706	26,85%
0.1 to 1%	386	143 037	14,52%	13 961	11,46%
Below 0.1%	56 973	392 204	39,81%	74 048	60,78%
<b>Total:</b>	<b>57 435</b>	<b>985 249</b>	<b>100%</b>	<b>121 824</b>	<b>100%</b>

31.12.2015					
	Number of customers	Gross exposure		Impairment	
		HUF million	percentage	HUF million	as a percentage of loans
Above 10%	9	200 796	19,53%	33 885	18,87%
1 to 10%	83	314 867	30,62%	59 316	33,04%
0.1 to 1%	342	108 421	10,54%	15 329	8,53%
Below 0.1%	59 212	404 199	39,31%	71 023	39,56%
<b>Total:</b>	<b>59 646</b>	<b>1 028 283</b>	<b>100%</b>	<b>179 553</b>	<b>100%</b>

In 2016 the customer loan portfolio decreased by 4.2%, the number of customers decreased by 3.7%. The main reason of the decrease was the ongoing separation of bad debts, by which further receivables have been sold, in line with the strategy of intentional decrease of the real estate project financing, and portfolio cleanup. An increase in portfolio quality is indicated by the significant, 32% decrease of impaired loans. Paralelly the growing business activity also induced a significant increase in loan portfolio quality.

The Ratio of loans that are between equity's 1% and 10% increased from 30.62% to 34.35%, loans that are between equity's 0.1% and 1% increased from 10.54% to 14.52%, meanwhile loans, that are above equity's 10% decreased from 19.53% to 11.32%.

**c) Structure of the customer loan portfolio based on customer segment**

**31.12.2016**

Segment	Number of customers	Gross exposure		Impairment	
		HUF million	percentage	HUF million	as a percentage of loans
Retail	52 762	337 041	34,21%	66 135	54,29%
Micro SME	3 002	27 886	2,83%	2 766	2,27%
Wholesale	93	120 149	12,19%	1 849	1,52%
Other	1	1 356	0,14%	297	0,24%
Project	37	104 959	10,65%	17 600	14,45%
SME	1 540	393 858	39,98%	33 177	27,23%
<b>Total:</b>	<b>57 435</b>	<b>985 249</b>	<b>100,00%</b>	<b>121 824</b>	<b>100,00%</b>

**31.12.2015**

Segment	Number of customers	Gross exposure		Impairment	
		HUF million	percentage	HUF million	as a percentage of loans
Retail	54 891	340 387	33,10%	67 216	37,44%
Micro SME	3 075	26 024	2,53%	4 177	2,33%
Wholesale	96	119 463	11,62%	1 174	0,65%
Other	2	1 217	0,12%	271	0,15%
Project	77	241 188	23,46%	73 390	40,87%
SME	1 505	300 004	29,17%	33 325	18,56%
<b>Total:</b>	<b>59 646</b>	<b>1 028 283</b>	<b>100%</b>	<b>179 553</b>	<b>100%</b>

The volume of loan portfolio reduced by HUF 43.0 billion. The fundamental change in the composition of segments was determined by derecognition of project consumer related loans, in accordance with the strategic directions. In 2015, this segment represented a share of 23.46%, which is equivalent to HUF 241.2 billion within the receivables from customers, which decreased to 10.65% i.e. HUF 105.0 billion at the end of the year.

As of 1st February, 2015 the Group has converted the foreign currency denominated loans and those which qualified as foreign currency denominated consumer loan contracts which commenced after May 1st, 2004 and have not been terminated before July 26th, 2009 to domestic currency based on the act of LXXIV of 2014, from the issues of currency change of individual consumer loan contracts and regulations related to interest application. After fulfillment of the statutory obligations, during the year 2016 there was no significant change in the retail sector, the volume of the customer group practically remained unchanged, while its ratio slightly increased within the portfolio (2015: 33,10%, 2016: 34,21%).

The portfolio divestiture (spin-off) was somewhat dampened by the volume growth due to NBH Funding for Growth Scheme.

On 1st June, 2013 National Bank of Hungary (NBH) announced the Funding for Growth Scheme (FGS), which aimed to provide SME clients with favorable loans. In the framework of Pillars I, II. the NBH provided for 0 percent interest for up to a 10 years loan refinancing for the participating credit institutions, which was further credited with limited interest margin from top to SMEs by credit institutions.

In the framework of Pillar I investment and current asset lending, pre-financing of EU grants and loans denominated in Forint refinancing been realized. The aim of Pillar II was to reduce the proportion of loans in foreign currency of SMEs, allowing the switch of foreign currency loans into HUF loans.

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

On 16 March 2015, the NBH launched the FGS Plus Program, in order to make this loan available for small and medium sized-enterprises who have not participated previously in the Funding for Growth Scheme.

At the beginning of the year 2016 NBH decided to launch the Growth Support Program which aim is to phase out FGS and encourage the market lending process. One element of the program is the Market Loan Program in the frame of which the participating banks became eligible to enter into an interest rate swap connected to lending activity, and also a preferential deposit facility (as a complementary tool) opened for them. As part of the program the termination of FGS is started. MKB Bank took part in all phases of the program and since the start of the program HUF 232.7 billion loans was provided for 2.5% rates of interest to small and medium sized-enterprises.



d) **FX receivables**

Data in FX thousand and HUF million

**31.12.2016**

Currency	FX receivables within a year				FX receivables beyond a year			
	FX Hungary		FX abroad		FX Hungary		FX abroad	
	FX	Forint	FX	Forint	FX	Forint	FX	Forint
USD	982	288	8 598	2 525	20 770	5 040	858	252
CHF	16 160	4 677	2 626	760	79 265	22 940	0	0
CAD	73	16	2 260	492	0	0	0	0
GBP	403	146	1 134	410	106	38	0	0
DKK	454	19	3 299	138	0	0	0	0
SEK	3 234	105	1 263	41	0	0	0	0
NOK	3 244	111	847	29	0	0	0	0
AUD	28	6	1 494	317	0	0	0	0
JPY	321 079	807	130 102	327	0	0	0	0
EUR	132 057	41 072	75 434	23 461	723 209	224 933	57 799	17 977
CZK	1 825	21	21 633	249	0	0	0	0
PLN	526	37	9 205	647	0	0	0	0
HRK	559	23	3 258	134	0	0	0	0
ISK	0	0	0	0	0	0	0	0
KRW	0	0	0	0	0	0	0	0
MXN	0	0	0	0	0	0	0	0
NZD	0	0	0	0	0	0	0	0
RON	350	24	1 401	96	0	0	0	0
TRY	0	0	516	43	0	0	0	0
BGN	13	2	138	22	0	0	0	0
RSD	0	0	0	0	0	0	0	0
RUB	0	0	52 092	249	0	0	0	0
UAH	0	0	0	0	0	0	0	0
EGY	0	0	0	0	0	0	0	0
<b>Total</b>		<b>47 354</b>		<b>29 940</b>		<b>252 951</b>		<b>18 229</b>

Data prepared on original maturity.

Of which securities:

Title of securities	Currency	Nominal value in original currency	Nominal value	Book value in original currency	Book value
HUNGARY EUR 3.875 % 2020/02/24	EUR	17 000	5	18 914	6
HUNGARY EUR 5.75% 2018/06/11	EUR	77 000	24	84 762	26
HUNGARY EUR 6% 2019/01/11	EUR	94 811 000	29 488	107 792 828	33 526
HUNGARY GBP 5 % 2017/05/09	GBP	102 000	37	106 074	38
HUNGARY USD 5.375% 2024/03/25	USD	20 000	6	21 835	6
HUNGARY USD 5.75 % 2023/11/22	USD	30 000	9	34 113	10
HUNGARY USD 6.25 % 2020/01/29	USD	500 000	147	565 525	166
MKB EURÓPAI RÉSZVÉNY IND. EUR 20181108	EUR	275 000	86	258 745	80
MKB USD FIX 20180223	USD	1 046 600	307	1 040 143	305
NITROGENM 2020/05/21	USD	15 000 000	4 405	14 802 205	4 347
SWIFT	EUR	4 125	1	82 070	26
HUNGARY USD 5.375 % 2023/02/21	USD	16 000	5	18 024	5
VISA CC	USD	0	0	1 847 091	542
REP.HUN USD 4,125 2018/02/19	USD	10 000	3	10 354	3
MOL-2019/09/26 6.25% USD	USD	988 000	290	1 076 055	316
HSSDF-G1	EUR	15 600 000	4 852	13 937 339	4 335
HSSDF-G2	EUR	5 400 000	1 680	4 750 365	1 477
HSSDF-G3	EUR	3 300 000	1 026	2 880 959	896
HSSDF-G4	EUR	6 300 000	1 959	5 458 389	1 698
MFB EUR 2,375% 2021/12/08	EUR	24 000	7	24 720	8
<b>Total:</b>			<b>44 337</b>		<b>47 816</b>

**e) Subordinated assets**

MKB Bank Zrt. had not subordinated assets in the end of 2015 and 2016.

**f) MKB's receivables from affiliated companies**

**31.12.2016**

	<b>M:30</b>	<b>M:34</b>	<b>M:101</b>
Euro-Immat Üzemeltetési Kft.	0	0	300
Exter Adósságkezelő Kft.	0	0	0
Extercom Kft.	0	0	0
Exter-Estate Kft.	0	0	0
Exter-Immo Zrt.	0	0	0
Exter-Reál Kft.	194	275	0
Füred Service Kft. VA	0	0	0
I.C.E Kft.	0	0	0
Medister Kft.	97	0	0
MKB Bank MRP Szervezet	0	0	0
MKB Befektetési Alapkezelő Zrt.	0	0	15
MKB Consulting Kft.	116	0	0
MKB Inkubátor Kft.	0	0	0
MKB-Euroleasing Autóhitel Zrt.	3 241	3 692	0
MKB-Euroleasing Autólízing Zrt.	23 570	58 839	2
MKB-Euroleasing Kft.	37	0	0
MKB-Euroleasing Zrt.	4	0	0
MKB Jelzálogbank Zrt.	0	0	4
MKB Nypénzt. Kiszolgáló Kft.	0	0	8
MKB Üzemeltetési Kft.	0	0	5
Retail Prod Zrt.	536	1 531	0
<b>Subsidiaries total:</b>	<b>27 795</b>	<b>64 337</b>	<b>334</b>

**Receivables from significant undertaking of MKB Bank**

**31.12.2016**

	<b>M:31</b>	<b>M:35</b>	<b>M:102</b>
Erzsébet-utalvány Plusz Kft.	0	0	0
Pannonhalmi Apátság Pincészet Kft.	324	0	0
<b>Total:</b>	<b>324</b>	<b>0</b>	<b>0</b>

Codes in the header of the columns refer to the breakdown of balance sheet.

According to 89. § (6) of Act on Accounting the Bank did not conclude significant deals with affiliates on non-market conditions.

**g) MKB's receivables from other companies**

**31.12.2016**

<b>Megnevezés:</b>	<b>M:32</b>	<b>M:36</b>	<b>M:40</b>	<b>M:103</b>
Budapesti Értéktőzsde Zrt.	0	0	244	0
Core Solutions Kft.	0	0	0	0
GARANTIQA Zrt.	0	0	0	0
Kisvállalkozás-fejlesztő Pénzügyi Zrt.	0	0	0	0
MKB Általános Biztosító Zrt.	0	0	0	0
MKB Életbiztosító Zrt.	0	0	0	0
SWIFT SCRL	0	0	0	0
Trend Zrt.	0	0	0	0
<b>Total:</b>	<b>0</b>	<b>0</b>	<b>244</b>	<b>0</b>

## 10. Spot FX transactions outstanding at balance sheet date

Data in HUF million and in foreign currency thousand  
**31.12.2016**

Currency	Amounts bought		Amounts sold	
	in FX	in HUF	in FX	in HUF
DKK	62 720	3	0	0
EUR	7 346 757	2 285	14 519 973	4 516
GBP	0	0	7 237	3
NOK	1 912	0	0	0
PLN	30 571	2	0	0
USD	2 846 856	836	9 775 584	2 871
SEK	1 458 535	47	0	0
<b>Total:</b>		<b>3 173</b>		<b>7 390</b>

## 11. Key figures of the Bank for 2015 and 2016

Item	2015	2016
Shareholders' equity *	119 923	135 774
Total assets	1 974 411	2 099 186
Gross operating income	77 710	80 146
Profit before taxation	-64 595	15 344
Profit after taxation	-64 623	10 137
Capital adequacy ratio	13,63%	14,62%
Pre-tax return on average shareholders' equity **	-42,33%	12,00%

\* including net profit for the period

\*\* average shareholders' equity: HUF 152 588 million (2015), HUF 127 849 million (2016)

The Bank's Shareholders' equity including net profit increased from HUF 119.9 billion at the end of 2015 to HUF 135.8 billion, which reflects a 13.2% growth. During 2016 the subscribed capital was decreased by HUF 125.49 billion to a level of HUF 100.0 billion. Due to capital restructuring the Capital reserves were reduced by HUF 201.2 billion, and the Retained earnings were increased by HUF 262.0 billion. The Valuation Reserve increased by HUF 5.7 billion and the Profit for the year increased by HUF 73.7 billion at the end of 2016.

Total assets of MKB Bank amount to HUF 2099.2 billion at the end of 2016, which reflects a 6.3% increase from HUF 1974.4 billion at the end of 2015.

Gross operating income has risen to HUF 80.1 billion in 2016 from HUF 77.7 million.

The proportion of interest income margin increased from 49.9% to 58.3%, the proportion of net commission and fee income rose from 36.3% to 37.3% while the other non-interest income decreased from 13.3% to 4.1%.

The return on average shareholders' equity ratio (ROAE) was 12.00% (2015: -42.3%) and the return on average assets ratio (ROAA) was 0.75% (2015:-3.3%) in the reporting year. The gross operating margin (the gross operating income divided by the average balance sheet total) equals 3.9% in 2016 which is nearly the same as it was in 2015 (4%). At the same time the operating expenses decreased from 2.4% to 1.8%, which clearly indicates the effectiveness of last year's cost-cutting measures. Due to the improving loan portfolio, the relative indicator of net provisioning reduced from 3.8% in 2015 to 0.7% in 2016.

## **12. Regulatory capital and capital adequacy ratio**

The Capital situation of MKB was sufficient at the end of 2016.

As a result of the 2016YE profit (an therefore core capital accumulation) the available core capital increased significantly. The owner of the MKB Bank is committed to maintain the bank's capital adequacy and implement all the necessary measures.

Domestic and international guidelines require the Bank to maintain certain minimum capital-to-asset ratios. These risk-based ratios are determined by allocating assets and specified off-balance sheet instruments into 4 weighted categories, with higher levels of capital being required for categories perceived as representing greater risk. Regulatory capital is divided into Tier 1 Capital and Tier 2 Capital. In addition to retained earnings, the Bank may raise regulatory capital by issuing several types of financial instruments to the public. These financial instruments are then classified as either Tier 1 or Tier 2, depending on the types of conditions or covenants they place upon the issuer.



The table below contains the MKB Bank's unconsolidated capital adequacy ratio.

Item	2015 Basel III	2016 Basel III
Subscribed capital	225 490	100 000
Subscribed but unpaid shares (-)	0	0
Repurchased own shares (-)	0	3 330
Capital reserve	220 288	19 131
Retained earnings	-262 024	0
Profit for the year	-64 623	9 123
Intangible assets (-)	5 927	7 799
General reserve	0	1 014
General risk provision, net of corporate profit tax	0	0
Revaluation reserve	793	6 506
AVA	-909	-663
<b>Basic capital /CORE Tier1 elements</b>	<b>113 088</b>	<b>123 982</b>
Additional Tier1 elements	0	0
Tier1 capital	113 088	123 982
Supplementary capital /Tier2 elements	0	0
<b>Regulatory capital</b>	<b>113 088</b>	<b>123 982</b>
Total assets	1 974 411	2 099 186
Risk-weighted assets	689 990	690 562
Capital requirements for credit risks	55 199	55 245
<b>Large loan limit</b>	<b>5</b>	<b>0</b>
<b>Capital requirements for open position- and foreign exchange rate risks</b>	<b>522</b>	<b>1 069</b>
<b>Capital requirements for operational risks</b>	<b>10 664</b>	<b>11 548</b>
Regulatory capital / Total assets	5,73%	5,91%
Capital Adequacy Ratio	13,63%	14,62%

Tier 1 Capital includes securities with no fixed maturity date, such as ordinary shares. At December 31, 2016, as an actual figure of tier1 capital the Bank had HUF 124 billion based on Basel III HAS under Supervisory Regulation. The regulatory capital has increased by HUF 10.9 billion, which mainly derived from increase of interim profit and revaluation reserve, which was compensated partly by the increase of deduction related to intangible assets and the core capital deduction (by HUF 3.33 billion) related to contribution to ESOP program.

On July 25, 2016, the Bank's Extraordinary General Meeting decided on the subscribed capital's reduction by HUF 125.49 billion, which resulted in an amount of HUF 100.0 billion from HUF 225.49 billion. The capital restructuring was realised by a transfer between the elements within the total equity. Risk-weighted assets including operational and market risk increased by 2.2% from HUF 829.8 billion in 2015 to HUF 848.3 besides approximately 0.7% strengthening of domestic currency. The main part of the decrease derived from the increasing operational risk capital requirement and market risk requirement and increasing business volumes.

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

Legal limits defined by the

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Banking Act),  
Regulation (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT on prudential requirements for  
credit institutions and investment firms and amending Regulation (CRR):

- CRR 395-400.§, Banking Act 302.§ large loan limit -> no excess
- Banking Act 100.§ investment limit -> no excess
- Banking Act 101-102.§ total investment limit -> no excess

### 13. Capital requirements

31.12.2016

Exposure class	Exposure net of value adjustments and provisions	Unfunded credit protection: adjusted values (Ga)		Substitution of the exposure due to CRM		Volatility adjustment to the exposure	Financial collateral		Fully adjusted exposure value (E*)	Risk weighted exposure amount	Capital requirements
		Guarantees	Credit derivatives	(-) Total outflows	Total inflows (+)		(-) Financial collateral: adjusted value	(-) Volatility and maturity adjustments			
Central governments or central banks	998 378	0	0	0	241 356	1 239 735	-213	0	1 212 996	1 730	138
Regional governments or local authorities	60 441	-60 000	0	0	56	496	0	0	153	31	2
Public sector entities	0	0	0	0	0	0	0	0	0	0	0
Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0	0	0
Institutions	47 742	-904	0	0	3 761	50 599	0	0	47 530	22 910	1 833
Corporates	879 984	-163 793	0	0	0	716 192	-29 573	-159	476 252	364 026	29 122
Retail	108 939	-19 955	0	0	0	88 984	-622	0	80 170	58 411	4 673
Secured by mortgages on immovable property	202 407	0	0	0	0	202 407	0	0	199 019	80 852	6 468
Exposures in default	69 506	-1 391	0	0	870	68 985	-228	0	67 348	69 793	5 583
Items associated with particular high risk	6 802	0	0	0	0	6 802	-18	0	6 784	10 176	814
Covered bonds	0	0	0	0	0	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0
Collective investments undertakings (CIU)	0	0	0	0	0	0	0	0	0	0	0
Equity	17 317	0	0	0	0	17 317	0	0	17 317	34 969	2 798
Other items	68 492	0	0	0	0	68 491	-1 901	0	66 590	38 237	3 060
<b>Total</b>	<b>2 460 008</b>	<b>-246 043</b>	<b>0</b>	<b>0</b>	<b>246 043</b>	<b>2 460 008</b>	<b>-32 555</b>	<b>-159</b>	<b>2 174 159</b>	<b>681 135</b>	<b>54 491</b>

31.12.2015

Exposure class	Exposure net of value adjustments and provisions	Unfunded credit protection: adjusted values (Ga)		Substitution of the exposure due to CRM		Volatility adjustment to the exposure	Financial collateral		Fully adjusted exposure value (E*)	Risk weighted exposure amount	Capital requirements
		Guarantees	Credit derivatives	(-) Total outflows	Total inflows (+)		(-) Financial collateral: adjusted value	(-) Volatility and maturity adjustments			
Central Governments	90 974	0	0	0	162 114	253 087	-155	-8	233 196	3 480	278
Central government and local authorities	60 441	-60 000	0	0	67	508	0	0	161	32	3
Public Sector Entities	0	0	0	0	0	0	0	0	0	0	0
Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0	0
International Organizations	0	0	0	0	0	0	0	0	0	0	0
Institutions	38 399	-36	0	0	4 047	42 411	0	0	37 526	14 575	1 166
Corporates	748 226	-82 014	0	0	0	666 210	-31 009	-1 108	441 270	344 072	27 526
Retail Portfolio	88 170	-23 346	0	0	0	64 824	-535	-3	56 312	40 666	3 253
Collateralised by Real Estate	215 711	0	0	0	0	215 711	0	0	213 164	90 619	7 250
Past Due Items	118 399	-1 691	0	0	859	117 567	-244	-2	116 412	124 727	9 978
High Risk Items	6 049	0	0	0	0	6 049	-26	-2	6 024	9 036	723
Covered Bonds	0	0	0	0	0	0	0	0	0	0	0
Claims of short-term credit rating institutions and corporates	0	0	0	0	0	0	0	0	0	0	0
Collective investments undertakings (CIU)	0	0	0	0	0	0	0	0	0	0	0
Exposures of share behaving items	5 226	0	0	0	0	5 226	0	0	5 226	13 064	1 045
Other Items	74 590	0	0	0	0	74 592	0	0	74 591	40 759	3 261
<b>Total</b>	<b>1 446 185</b>	<b>-167 087</b>	<b>0</b>	<b>0</b>	<b>167 087</b>	<b>1 446 185</b>	<b>-31 969</b>	<b>-1 123</b>	<b>1 183 882</b>	<b>681 030</b>	<b>54 483</b>

#### 14. Legal limits defined by the Banking Act and NBH decrees

##### Before the allocation of earnings

Limit definition	31.12.2016
1/ Hit. 106. § (Total related party loans)	no excess
2/ CRR. 392. § , Hit. 302. § (total large exposure > Core capital*10%)	8db
3/ CRR. 395. § , Hit. 302. § (single large exposure < Core capital*25 %)	no excess
4/ Hit. 102. § (total investment < Core capital* 100 %)	51 490
5/ Hit 101. § (non-banking premises < Core capital* 5 %)	0
6/ CRR. 392. § (basic capital elements 100% > additional capital elements)	123982>0
7/ Capital adequacy (Core capital*8% < capital adequacy)	14,62%

##### After the allocation of earnings

Limit definition	31.12.2016
1/ Hit. 106. § (Total related party loans)	no excess
2/ CRR. 392. § , Hit. 302. § (total large exposure > Core capital*10%)	8db
3/ CRR. 395. § , Hit. 302. § (single large exposure < Core capital*25 %)	no excess
4/ Hit. 102. § (total investment < Core capital* 100 %)	51 490
5/ Hit 101. § (non-banking premises < Core capital* 5 %)	0
6/ CRR. 392. § (basic capital elements 100% > additional capital elements)	123982>0
7/ Capital adequacy (Core capital*8% < capital adequacy)	14,62%

## 15. Shares and participations for investment purposes

### a) Shares and participations for investment purposes (numeric data)

31.12.2016

Investment	Gross value	Impairment	Net value
Budapesti Értéktőzsde Zrt.	23	0	23
Core Solutions Kft.	0	0	0
Garantiqa Hitelgarancia Zrt.	90	0	90
Kisvállalkozás-fejlesztő Pénzügyi Zrt.	100	0	100
MKB Általános Biztosító Zrt.	189	189	0
MKB Életbiztosító Zrt.	106	106	0
MKB MRP Szervezet	3 330	0	3 330
Pannonhalmi Apátság Pincészet Kft.	460	44	416
S.W.I.F.T . SCRL	25	0	25
Trend Zrt.	3	3	0
<b>Total:</b>	<b>4 326</b>	<b>342</b>	<b>3 984</b>

**b) Shares and participation in affiliated companies (domicile of companies)**

**Budapesti Értéktőzsde Zrt.**

1082 Bp. Kisfaludy u. 32.

**Core Solutions Kft.**

1139 Budapest, Váci út 95.

**Garantiqa Hitelgarancia Zrt.**

1082 Bp. Kisfaludy u. 32.

**MKB Általános Biztosító Zrt.**

1133 Bp. Váci út 76.

**MKB Életbiztosító Zrt.**

1133 Bp. Váci út 76.

**MKB Bank MRP Szervezet**

1054 Budapest Széchenyi rkp. 8.

**Pannonhalmi Apátság Pincészet Kft.**

9090 Pannonhalma, Vár 1.

**Kisvállalkozás-fejlesztő Pénzügyi Zrt.**

1053 Bp. Szép u. 2.

**S.W.I.F.T SCRL**

Avenue Adele 1 B - 1310 La Hulpe, Belgium

**Trend Zrt.**

1113 Bp. Diószegi Sámuel u. 53.

c) **Shares and participations in affiliated companies**  
**2016.12.31**

<b>Company</b>	<b>Gross value</b>	<b>Impairment</b>	<b>Net value</b>
<b>Participation in subsidiaries:</b>			
<u>Domestic credit institution</u>			
MKB Jelzálogbank Zrt.	3 960	0	3 960
<b>Total:</b>	<b>3 960</b>	<b>0</b>	<b>3 960</b>
<u>Domestic company</u>			
Euro-Immat Üzemeltetési Kft.	18 564	17 130	1 434
Exter Adósságkezelő Kft.	890	890	0
Extercom Vagyonkezelő Kft.	1 640	1 640	0
Exter-Estate Kft.	50	0	50
Exter-Immo Zrt.	2 100	1 821	279
Exter-Reál Kft.	122	122	0
MEDISTER Kft.	0	0	0
MKB Befektetési Alapkezelő Zrt.	100	0	100
MKB Consulting Kft.	9	0	9
MKB Inkubátor Kft.	40	0	40
MKB Nyugdíjpénztárt Kiszolgáló Kft.	50	0	50
MKB Üzemeltetési Kft.	38 849	4 717	34 132
MKB Euroleasing Autóhitel Zrt.	7 502	7 456	46
MKB-Euroleasing Zrt.	7 944	3 133	4 811
<b>Total:</b>	<b>77 860</b>	<b>36 909</b>	<b>40 951</b>
<b>Total:</b>	<b>81 820</b>	<b>36 909</b>	<b>44 911</b>

Changes concerning affiliated companies in 2016 are detail below:

**Capital increasing:**

MKB Euroleasing Autóhitel Zrt.

**Capital decreasing:**

Euro-Immat Üzemeltetési Kft.

**Sold:**

MKB Euroleasing Autópark Zrt.

**Liquidation:**

Euro Ingatlan Kft. va

**Establishment:**

MKB Jelzálogbank Zrt.

**Authorization/establishment in progress:**

MKB Kockázati Tőkealap-Kezelő Zrt.



**d) Shares and participations**

<b>31.12.2016</b>				
<b>Item</b>	<b>Domestic credit institution</b>	<b>Domestic company</b>	<b>Foreign company</b>	<b>Total</b>
In parent company and subsidiary:				
unit	1	14	0	15
million HUF	3 960	40 951	0	44 911
Participation in jointly controlled companies:				
unit	0	0	0	0
million HUF	0	0	0	0
<i>Total:</i>				
<i>unit</i>	<i>1</i>	<i>14</i>	<i>0</i>	<i>15</i>
<i>million HUF</i>	<i>3 960</i>	<i>40 951</i>	<i>0</i>	<i>44 911</i>
Other participations:				
unit	0	9	1	10
million HUF	0	3 959	25	3 984
<b>Total unit:</b>	<b>1</b>	<b>23</b>	<b>1</b>	<b>25</b>
<b>Total Booked value:</b>	<b>3 960</b>	<b>44 910</b>	<b>25</b>	<b>48 895</b>

**e) MKB's investment (Shares and participations in affiliated companies)**

**31.12.2016**

Name and domicile of the company	Shares in %	Registered capital	Reserves	Profit/loss for the period	Shareholders' equity
<i>Subsidiaries</i>					
<b>Euro-Immat Üzemeltetési Kft.</b> 1134 Bp. Kassák L. u. 18.	100	4 758	-3 397	131	1 492
<b>Exter Adósságkezelő Kft.</b> 1134 Bp. Kassák L. u. 18.	100	13	-4	-6	3
<b>Extercom Vagyonkezelő Kft.</b> 1134 Bp. Kassák L. u. 18.	100	25	390	-42	373
<b>Exter-Estate Kft.</b> 1134 Bp. Kassák L. u. 18.	100	3	43	-2	46
<b>Exter-Immo Zrt.</b> 1134 Bp. Kassák L. u. 18.	100	102	185	-11	276
<b>Exter-Reál Kft.</b> 1134 Bp. Kassák L. u. 18.	100	4	9	25	38
<b>MEDISTER Kft.*</b> 1134 Bp. Kassák L. u. 18.	100	3	-1 644	-479	-2 120
<b>MKB Befektetési Alapkezelő Zrt.</b> 1056 Bp. Váci u. 38.	100	100	174	436	710
<b>MKB Consulting Kft.*</b> 1056 Bp. Váci u. 38.	75	12	0	7	19
<b>MKB Inkubátor Kft.</b> 1132 Bp. Nyugati tér 5.	100	5	35	0	40
<b>MKB Jelzálogbank Zrt.</b> 1134 Bp. Kassák L. u. 18.	99	2 000	2 000	-10	3 990
<b>MKB Nyugdíjpénztárt Kiszolgáló Kft.</b> 1134 Bp. Dévai u. 23.	100	50	530	36	616
<b>MKB Üzemeltetési Kft.</b> 1134 Bp. Kassák L. u. 18.	100	37 526	-694	-2 218	34 614
<b>MKB-Euroleasing Autóhitel Zrt.</b> 1134 Bp. Lőportár u. 24.	74+(26)	50	-1 261	528	-683
<b>MKB-Euroleasing Zrt.</b> 1134 Bp. Lőportár u. 24.	100	50	2 116	77	2 243

\* 31.12.2015. data

Data in () means indirect participation

## 16. Intangible assets

31.12.2016

Gross value	Rights and titles	Goodwill	Software	Other	Total
Opening balance	4 090	270	16 458	1 361	22 179
Acquisition	0	0	0	3 635	3 635
Activation	551		524		1 075
Other increase	0	0	0		0
Disposal	0	0	0	0	0
Other decrease	0	-270		-1 076	-1 346
<b>Closing balance</b>	<b>4 641</b>	<b>0</b>	<b>16 982</b>	<b>3 920</b>	<b>25 543</b>
<b>Depreciation</b>					
Opening balance	3 239	270	12 742		16 251
Scheduled depreciation	480		1 283		1 763
Extraordinary depreciation	0	0	0	0	0
Other increase	0	0	0	0	0
Disposal	0	0	0	0	0
Other decrease	0	-270	0	0	-270
<b>Closing balance</b>	<b>3 719</b>	<b>0</b>	<b>14 025</b>	<b>0</b>	<b>17 744</b>
<b>Total:</b>	<b>922</b>	<b>0</b>	<b>2 957</b>	<b>3 920</b>	<b>7 799</b>

31.12.2015

Gross value	Rights and titles	Goodwill	Software	Other	Total
Opening balance	4 018	270	15 019	582	19 889
Acquisition	0	0	0	2 019	2 019
Activation	537	0	685	0	1 222
Other increase	115	0	951	0	1 066
Disposal	-580	0	-198	0	-778
Other decrease	0	0	0	-1 240	-1 240
<b>Closing balance</b>	<b>4 090</b>	<b>270</b>	<b>16 457</b>	<b>1 361</b>	<b>22 178</b>
<b>Depreciation</b>					
Opening balance	3 073	270	10 645	0	13 988
Scheduled depreciation	537	0	1 343	0	1 880
Extraordinary depreciation	94	0	0	0	94
Other increase	115	0	952	0	1 067
Disposal	-580	0	-198	0	-778
Other decrease	0	0	0	0	0
<b>Closing balance</b>	<b>3 239</b>	<b>270</b>	<b>12 742</b>	<b>0</b>	<b>16 251</b>
<b>Total:</b>	<b>851</b>	<b>0</b>	<b>3 715</b>	<b>1 361</b>	<b>5 927</b>

The Bank accounts for depreciation using the straight-line method.

On 31 December 2016 the non-activated items of intangible assets are included in the other categories. The HUF 1.0 billion appearing in the other decrease column is the activation of development related to the core system to property rights and software products.

## 17. Fixed assets

### Fixed assets of financial services

#### a) Movements in premises

Gross value	31.12.2015	31.12.2016	Change
Opening balance	2 033	2 039	6
Additions	6	6	0
Reclassification	0	0	0
Other increase	0	0	0
Write-offs	0	0	0
Disposals	0	0	0
Other decrease	0	0	0
<b>Closing balance</b>	<b>2 039</b>	<b>2 045</b>	<b>6</b>
<b>Depreciation</b>			
Opening balance	711	831	120
Scheduled depreciation	120	90	-30
Extraordinary depreciation	0	0	0
- of which: devaluation reverse	0	0	0
Decrease due to disposal	0	0	0
Write-offs (special depreciation)	0	0	0
Other increase and decrease	0	0	0
<b>Closing balance</b>	<b>831</b>	<b>921</b>	<b>90</b>
<b>Total:</b>	<b>1 208</b>	<b>1 124</b>	<b>-84</b>

The Bank accounts for depreciation using the straight-line method.

**b) Movements in stock of equipment, machinery, tools and vehicles**

<b>Gross value</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>Change</b>
Opening balance	2 571	2 086	-485
Activation	58	245	187
Other increase	0	0	0
Disposals	-509	-43	466
Transferred without consideration	0	0	0
Write-offs (special depreciation)	-34	0	34
Other decrease	0	-57	-57
Reclassification	0	0	0
<b>Closing balance</b>	<b>2 086</b>	<b>2 231</b>	<b>145</b>
<b>Depreciation</b>			
Opening balance	1 575	1 413	-162
Small value depreciation	0	0	0
Scheduled depreciation	216	177	-39
Extraordinary depreciation	4	2	-2
Devaluation reverse of Extraordinary depreciation	0	0	0
Transferred without consideration	0	0	0
Write-offs (special depreciation)	-34	0	34
Decrease due to disposal	-348	-33	315
Other increase and decrease	0	-57	-57
Move +/-	0	0	0
<b>Closing balance</b>	<b>1 413</b>	<b>1 502</b>	<b>89</b>
<b>Total of equipment, machinery, tools and vehicles:</b>	<b>673</b>	<b>729</b>	<b>56</b>

The Bank accounts for depreciation using the straight-line method.

**c) Movements of investments in tangible assets used for financial services**

<b>Gross value</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>Change</b>
Opening balance	0	0	0
Purchase	80	262	182
Purchase of small value equipment	0	0	0
Capitalisation (Additions to fixed assets)	-80	-252	-172
Depreciation of small value equipment	0	0	0
Disposals	0	0	0
Extraordinary depreciation	0	0	0
Inventory shortage	0	0	0
Other increase and decrease	0	0	0
<b>Closing balance</b>	<b>0</b>	<b>0</b>	<b>10</b>
<b>Total:</b>	<b>0</b>	<b>10</b>	<b>10</b>

## Fixed assets of non-financial services

### d) Premises for non-financial services

<b>Gross value</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>Change</b>
Opening balance	37	38	1
Capitalisation	1	0	-1
Disposals	0	0	0
Other decrease	0	0	0
<b>Closing balance</b>	<b>38</b>	<b>38</b>	<b>0</b>
<b>Depreciation</b>			
Opening balance	3	3	0
Scheduled depreciation	0	0	0
Extraordinary depreciation	0	0	0
- of which: devaluation reverse	0	0	0
Decrease due to disposal	0	0	0
Other increase and decrease	0	0	0
<b>Closing balance</b>	<b>3</b>	<b>3</b>	<b>0</b>
<b>Total of premises:</b>	<b>35</b>	<b>35</b>	<b>0</b>

The Bank accounts for depreciation using the straight-line method.

**e) Movements in stock of equipment, machinery, tools and vehicles for non-financial services**

<b>Gross value</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>Change</b>
Opening balance	424	29	-395
Activation	0	0	0
Other increase	1	0	-1
Disposals	0	0	0
Other decrease	-396	0	396
<b>Closing balance</b>	<b>29</b>	<b>29</b>	<b>0</b>
<b>Depreciation</b>			
Opening balance	2	2	0
Scheduled depreciation	0	1	1
Extraordinary depreciation	0	0	0
- of which: devaluation reverse	0	0	0
Transferred without consideration	0	0	0
Decrease due to disposal	0	0	0
Other increase and decrease	0	0	0
<b>Closing balance</b>	<b>2</b>	<b>3</b>	<b>1</b>
<b>Total of equipment, machinery, tools and vehicles:</b>	<b>27</b>	<b>26</b>	<b>-1</b>

The Bank accounts for depreciation using the straight-line method.



## 18. Inventories

	31.12.2015	31.12.2016	Change
<b>Purchased goods</b>	<b>525</b>	<b>523</b>	<b>-2</b>
- materials	124	122	-2
- manufactured goods	0	0	0
- commercial goods	5	401	396
- disposal for stocks	0	0	0
- others	395	0	-395
<b>Stocks received for settlement of a claim</b>	<b>0</b>	<b>0</b>	<b>0</b>
- property	0	0	0
- equipment, machinery, tools and vehicles	0	0	0
- others	0	0	0
<b>Subcontractor's fulfillment</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Impairment</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total of inventories:</b>	<b>525</b>	<b>523</b>	<b>-2</b>

## 19. Accrued income and deferred expenses

	31.12.2015	31.12.2016	Change
<b>Accrued income M:97</b>	<b>15 594</b>	<b>14 901</b>	<b>-693</b>
Interest	14 447	13 680	-767
Others	1 147	1 221	74
<b>Accrued costs M:98</b>	<b>769</b>	<b>1 005</b>	<b>236</b>
Bond issue	5	2	-3
Others	764	1 003	239
<b>Total</b>	<b>16 363</b>	<b>15 906</b>	<b>-457</b>

## 20. Liabilities

### a) Maturity structure of liabilities

#### Maturity Structure of short term liabilities

31.12.2016

Item	Within 3 months	Over 3 months within 1 year	Long-term liabilities due within 1 year	Total
Liabilities to financial institutions	156 496	4 727	7 813	169 036
Savings deposit	0	0	0	0
Liabilities to customers	543 943	144 556	8 473	696 972
<b>Total</b>	<b>700 439</b>	<b>149 283</b>	<b>16 286</b>	<b>866 008</b>

#### Maturity Structure of long term liabilities

31.12.2016

Item	Within 3 months	Over 3 months within 1 year	Long-term liabilities due within 1 year	Total
Liabilities to financial institutions	35 506	181 341	-7 813	209 034
Savings deposit	7	0	0	7
Liabilities to customers	16 652	41 803	-8 473	49 982
<b>Total</b>	<b>52 165</b>	<b>223 144</b>	<b>-16 286</b>	<b>259 023</b>

**b) Liabilities denominated in FX with original maturities over 5 years**

**To Financial Institutions**

**31.12.2016**

<b>Currency</b>	<b>FX</b>	<b>HUF</b>
CHF	0	0
EUR	161 587 308	50 258
USD	1 635 900	480
<b>Total</b>		<b>50 738</b>

**To Customers**

**31.12.2016**

<b>Currency</b>	<b>FX</b>	<b>HUF</b>
CHF	291 555	84
EUR	6 257 136	1 947
GBP	118 856	43
USD	3 208 775	942
<b>Total</b>		<b>3 016</b>

MKB Bank Zrt. has no liabilities ensured by mortgage or similar rights.

**c) Liabilities denominated in HUF with original maturities over 5 years**

**31.12.2016**

<b>Type of liability</b>	<b>HUF</b>
To Financial institutions	130 603
To Customers	38 787
<b>Total</b>	<b>169 390</b>

**d) Liabilities with remaining maturities over 5 years**

**To Financial institutions**

**31.12.2016**

<b>Type of liability</b>	<b>HUF</b>
FX liabilities	5 534
HUF liabilities	77 232
<b>Total</b>	<b>82 766</b>

**To Customers**

**31.12.2016**

<b>Type of liability</b>	<b>HUF</b>
FX liabilities	215
HUF liabilities	450
<b>Total</b>	<b>665</b>

e) **FX liabilities**

Data in thousand FX or million HUF

**31.12.2016**

Currency	FX liabilities within a year				FX liabilities over a year			
	FX Hungary		FX abroad		FX Hungary		FX abroad	
	FX	Forint	FX	Forint	FX	Forint	FX	Forint
USD	207 069	60 814	189 898	55 771	8 151	2 394	0	0
CHF	29 228	8 459	2 152	623	138	40	0	0
CAD	7 164	1 560	1 727	376	0	0	0	0
GBP	10 918	3 948	15 992	5 783	11	4	0	0
DKK	1 028	43	48	2	0	0	0	0
SEK	18 602	604	1 941	63	0	0	0	0
NOK	17 914	613	409	14	0	0	0	0
AUD	6 155	1 306	123	26	0	0	0	0
JPY	60 078	151	3 979	10	0	0	0	0
EUR	789 737	245 624	148 624	46 225	147 968	46 021	50 035	15 562
CZK	4 952	57	19 288	222	0	0	0	0
PLN	3 116	219	114	8	0	0	0	0
HRK	146	6	0	0	0	0	0	0
RON	1 999	137	73	5	0	0	0	0
TRY	12	1	0	0	0	0	0	0
BGN	0	0	101	16	0	0	0	0
RUB	272 176	1 301	0	0	0	0	0	0
<b>Total</b>		<b>324 843</b>		<b>109 144</b>		<b>48 459</b>		<b>15 562</b>

Data prepared on original maturity.

**f) MKB Bank Zrt.'s liabilities to affiliated companies**

**31.12.2016**

	<b>M:142</b>	<b>M:146</b>	<b>M:150</b>	<b>M:193</b>
Euro-Immat Üzemeltetési Kft.	129	0	0	0
Exter Adósságkezelő Kft.	6	0	0	0
Extercom Kft.	366	0	0	0
Exter-Estate Kft.	44	0	0	0
Exter-Immo Zrt.	277	0	0	0
Exter-Reál Kft.	30	0	0	0
Füred Service Kft. VA	53	0	0	0
I.C.E Kft.	8	0	0	0
Medister Kft.	92	0	0	0
MKB Bank MRP Szervezet	0	0	0	0
MKB Befektetési Alapkezelő Zrt.	296	0	0	0
MKB Consulting Kft.	0	0	0	0
MKB Inkubátor Kft.	40	0	0	0
MKB-Euroleasing Autóhitel Zrt.	32	170	0	0
MKB-Euroleasing Autólízing Zrt.	103	0	8	0
MKB-Euroleasing Kft.	1	0	0	0
MKB-Euroleasing Zrt.	44	0	0	0
MKB Jelzálogbank Zrt.	0	0	0	0
MKB Nypénzt. Kiszolgáló Kft.	214	6 090	0	0
MKB Üzemeltetési Kft.	7 220	545	0	0
Retail Prod Zrt.	51	100	0	0
<b>Affiliated companies total:</b>	<b>9 006</b>	<b>6 905</b>	<b>8</b>	<b>0</b>

**Liabilities from significant participations of MKB Bank**

**31.12.2016**

	<b>M:142</b>	<b>M:146</b>	<b>M:150</b>	<b>M:193</b>
Erzsébet-utalvány Plusz Kft.	0	0	0	0
Pannonhalmi Apátság Pincészet Kft.	71	70	0	0
<b>Total:</b>	<b>71</b>	<b>70</b>	<b>0</b>	<b>0</b>

Codes in the header of columns refer to the breakdown of balance sheet.

**g) MKB Bank Zrt.'s liabilities to other companies**

**31.12.2016**

	<b>M:144</b>	<b>M:148</b>	<b>M:152</b>	<b>M:195</b>
Budapesti Értéktőzsde Zrt.	0	0	0	0
Core Solutions Kft.	0	0	0	0
GARANTIQA Zrt.	17	0	0	0
Kisvállalkozás-fejlesztő Pénzügyi Zrt.	0	500	0	0
MKB Általános Biztosító Zrt.	201	0	0	0
MKB Életbiztosító Zrt.	172	0	0	0
SWIFT SCRL	0	0	0	0
Trend Zrt.	0	0	0	0
<b>Total:</b>	<b>390</b>	<b>500</b>	<b>0</b>	<b>0</b>

Codes in the header of columns refer to the breakdown of balance sheet.



#### **h) Investment services performed on an assignment**

Portfolio of securities, owned by the clients and accepted during services performed on an assignment, at nominal value

	<b>31.12.2015</b>	<b>31.12.2016</b>
<b>Securities:</b>	<b>1 293 697</b>	<b>1 282 405</b>
Money instruments owned by customers:	18 498	252
- other bank keeps the account	9 984	105
- MKB keeps the account	8 514	147

**i) Subordinated debt capital**

MKB Bank Zrt. had not subordinated debts in the end of 2015 and 2016.

## 21. Accruals and deferred income

Denomination	31.12.2015	31.12.2016	Change
<b>Deferred income M:179</b>	<b>280</b>	<b>275</b>	<b>-5</b>
Safe fees	1	1	0
Other	279	274	-5
<b>Accrual of costs and expenditures M:180</b>	<b>15 944</b>	<b>8 688</b>	<b>-7 256</b>
Interests payable	7 971	5 497	-2 474
Wage and associated costs	3 087	0	-3 087
Expert fees	2 808	211	-2 597
Others	2 078	2 980	902
<b>Deferred income M:181</b>	<b>19</b>	<b>19</b>	<b>0</b>
Deferred income	19	19	0
<b>Total:</b>	<b>16 243</b>	<b>8 982</b>	<b>-7 261</b>

## 22. Issued bonds

31.12.2016

Reference	Maturity	Original currency	Par value amount in original	Par value amount in HUF million
MKB Fix 2017/A Kötvény	2017.09.22	HUF	239 520 000	239
MKB USD Fix 20180223 Kötvény	2018.02.23	USD	6 087 200	1 788
MKB Európai Részvény Indexált HUF 201704	2017.04.13	HUF	753 500 000	754
MKB Hazai Részvény Indexált HUF 20171229	2017.12.29	HUF	951 390 000	951
MKB Árfolyamsáv 20180223 Kötvény	2018.02.23	HUF	674 800 000	675
MKB Árfolyamsáv 20180323 Kötvény	2018.03.23	HUF	741 600 000	742
MKB Európai Részvény Indexált Euró 201811	2018.11.08	EUR	10 323 600	3 211
MKB Svájci Részvény Indexált 20190207 Köt	2019.02.07	HUF	1 615 380 000	1 615
MKB Európai Részvény Indexált HUF 201905	2019.05.09	HUF	1 219 960 000	1 220
MKB Német Részvény Indexált 20190702 Köt	2019.07.02	HUF	2 155 370 000	2 155
<b>Total:</b>				<b>13 350</b>

### 23. Movements of provisions

31.12.2016								
Line	Title	Opening balance	Increase in 2016	Release at rating, utilization of provision			Effect of FX rates' change	Closing balance
				Utilization in 2016	Utilization in 2015	Release in 2015		
M 207	Provisions for pension and payoff	0	0	0	0	0	0	0
M 208	Provisions for contingent liabilities	4 973	1 147	3 877	0	0	0	2 243
M 209	General risk reserve	0	0	0	0	0	0	0
M 210	Other reserve	1 616	170		203	253	-13	1 317
<b>Total:</b>		<b>6 589</b>	<b>1 317</b>	<b>3 877</b>	<b>203</b>	<b>253</b>	<b>-13</b>	<b>3 560</b>

The Bank allocated HUF 6 million provision for affiliated companies.

In other reserve HUF 147 million Hungarian Competition Authority penalty, HUF 1000 million due to consumer loans related repayments and additionally HUF 170 million impairment concerning closing of branches were displayed.

## 24. Equity

### a) Nominal value and number of shares

<b>31.12.2016</b>			
<b>Share</b>	<b>Number of shares issued</b>	<b>Nominal value HUF/piece</b>	<b>Registered share capital</b>
Class „A” share	225 489 994	1000	225 490
Decrease of Share capital	-125 489 994	1000	-125 490
<b>Closing total:</b>	<b>100 000 000</b>	<b>1 000</b>	<b>100 000</b>

On 25 July, 2016 the bank's extraordinary General Assembly decided to decrease the Share capital by HUF 125.49 billion, on the basis of which the former share capital was changed from HUF 225.49 billion to HUF 100.0 billion.

**b) Ownership structure of MKB**

Key shareholders	Proportion as percentage of registered capital
<b>2016</b>	
Metis Magántőkealap	45,00%
Blue Robin Investments S.C.A.	30,00%
Pannónia Nyugdíjpénztár	10,00%
MKB Bank MRP Szervezet	15,00%
<b>Total:</b>	<b>100,00%</b>

The Hungarian Resolution Trustee cPlc. (MSZVK) as a shareholder was cancelled from the share register on 30 June 2016.

<b>2015</b>	
Hungarian Resolution Trustee cPlc. (MSZVK)	100.00%
Entitled to practice owner rights: National Bank of Hungary	
<b>Total:</b>	<b>100.00%</b>

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

On 30 June, 2016, the National Bank of Hungary terminated the resolution process of MKB Bank, after the fulfilment of all objectives of the resolution.

On 19 July, 2016 one of the owners of MKB Bank, Blue Robin Investments sold 15% stake to the newly established Employee Share Ownership Programme (ESOP, MRP) organisation of the Bank. Further the new owners of the Bank are as follows: METIS Magántőkealap 45%, Blue Robin Investments S.C.A. 30%, MKB Bank MRP Szervezet 15%, Pannónia Pension Fund 10%.

c) **MKB Zrt shareholders' equity**

**31.12.2016**

Item	Total
<b>Issued capital</b>	<b>100 000</b>
- Opening balance	225 490
- Capital decreasing	-125 490
<b>Total capital reserves</b>	<b>19 131</b>
- Share premium	19 131
Opening balance	220 226
Capital decreasing	-201 095
- Other	0
Opening balance	61
Capital decreasing	-61
<b>Profit reserves</b>	<b>0</b>
- Opening balance	-262 024
- Profit on the previous year	-64 623
- Settlement due to Capital decreasing	326 647
<b>Locked-up reserves</b>	<b>0</b>
Opening balance of Capitalized value of foundation and restructuring expenses	0
- Depreciation on capitalized value of foundation and restructuring expenses	0
<b>General reserves</b>	<b>1 014</b>
- Opening balance	0
- Addition in 2016	1 014
<b>Revaluation reserves</b>	<b>6 506</b>
- Adjustment to opening balance	793
- Movement in 2016	5 713
<b>Profit on the period</b>	<b>9 123</b>
Profit after taxation	10 137
Utilization of General reserves	1 014
<b>Total Shareholders' Equity:</b>	<b>135 774</b>

Based on MKB Bank's stand-alone balance sheet and income statement prepared according to the Hungarian Accounting Standards, at the end of 2016, as a result of the significant losses suffered in the previous years, the total equity of the Bank decreased by HUF 105.6 billion and became lower than the share capital amounting to HUF 225.5 billion, i.e. the amount of total equity declined below the two-thirds of the subscribed capital.

On 25 July extraordinary General Meetings of the Bank decided to decrease of share capital by HUF 125.49 billion, and as a result of this decision the earlier displayed HUF 225,5 billion share capital changed to HUF 100 billion. Capital arrangement was realized by reclassification between the elements of total equity. Change was registered in September by the Court of registration. Due to this decision and activity the legal expectation was completed.



## 25. Off-Balance-Sheet Items

31.12.2016

### Contingent liabilities

Guarantees (HUF and FX)	121 879
Import and certified export letter of credit	15 159
Undrawn credit line	251 704
Liabilities subject to legal proceedings	86 059
Liabilities arising from option transactions	234
Repurchase agreements	0
Other	14 416
<b>Total</b>	<b>489 451</b>

### Future receivables

Interest swap	101 253
Receivables from other futures transactions	502 985
<b>Total</b>	<b>604 238</b>

### Future liabilities

Interest swap	
- single-currency	6 816
- double-currency	83 329
Other liabilities arising from futures transactions	502 623
<b>Total</b>	<b>592 768</b>

### Guarantees granted

<b>Bank guarantee in HUF</b>	<b>106 281</b>
- granted with maturity within the year	7 089
- granted with maturity beyond the year	99 192
<b>Bank guarantee in FX</b>	<b>15 598</b>
- granted with maturity within the year	4 108
- granted with maturity beyond the year	11 490
<b>Total</b>	<b>121 879</b>

Expected effects of off-balance sheet items for result and cash flow:

Undrawn credit lines:	HUF 25 170 million
Granted guarantees:	HUF 6 094 million

**31.12.2015**

**Contingent liabilities**

Guarantees (HUF and FX)	115 247
Import and certified export letter of credit	12 005
Undrawn credit line	233 201
Liabilities subject to legal proceedings	69 865
Liabilities arising from option transactions	55
Repurchase agreements	0
Other	16 670
<b>Total</b>	<b>447 043</b>

**Future receivables**

Interest swap	445 425
Receivables from other futures transactions	306 212
<b>Total</b>	<b>751 637</b>

**Future liabilities**

Interest swap	
- single-currency	75 249
- double-currency	436 848
Other liabilities arising from futures transactions	306 398
<b>Total</b>	<b>818 495</b>

**Guarantees granted**

<b>Bank guarantee in HUF</b>	<b>102 636</b>
- granted with maturity within the year	9 426
- granted with maturity beyond the year	93 210
<b>Bank guarantee in FX</b>	<b>12 611</b>
- granted with maturity within the year	2 334
- granted with maturity beyond the year	10 277
<b>Total</b>	<b>115 247</b>

Expected effects of off-balance sheet items for result and cash flow:

Undrawn credit lines:	HUF 23 320 million
Granted guarantees:	HUF 5 762 million

## 26. Secured assets and commitments (Financial services)

Type of secured assets and commitments	31.12.2015	31.12.2016
Cash deposit	19 760	22 196
Debt securities issued by	7 540	34 791
- Central governments	2 216	27 016
- Companies	5 324	7 775
- Others	0	0
Shares	0	0
Mortgage	450 833	368 498
- Building	430 775	340 626
- Others	20 058	27 872
Guarantees from	231 479	249 648
- Central governments	228 238	246 845
- Other banks	2 412	1 962
- Companies	829	841
Others*	91 611	78 268
<b>Total:</b>	<b>801 223</b>	<b>753 401</b>

\* Other assets contain revenue assignment, mortgages for stocks, and invoices for financial services.

## 27. Secured assets and commitments (Investment services)

Type of secured assets and commitments	31.12.2015	31.12.2016
Shares	0	0
Other	0	0
<b>Total:</b>	<b>0</b>	<b>0</b>

## 28. Income structure

Item	2015	2016	Change
Interest margin	38 774	46 707	20,5%
Dividends received	412	326	-20,9%
Net income from commissions and fees	28 195	29 853	5,9%
Other non-interest income	10 329	3 260	-68,4%
<b>Gross operating income</b>	<b>77 710</b>	<b>80 146</b>	<b>3,1%</b>
Tax expenses	-28 921	-17 735	-38,7%
Other income and expenses	145	344	137,2%
Operating costs (including depreciation)	-46 531	-35 654	-23,4%
Impairment, provision charge and amounts written-off	-74 919	-13 239	-82,3%
of which: - specific and industry-risk	-31 953	-10 750	-66,4%
General risk provision	0	0	0,0%
Extraordinary profit and loss	7 921	1 482	-81,3%
<b>Profit before taxation</b>	<b>-64 595</b>	<b>15 344</b>	<b>123,8%</b>

During 2016, gross operating incomes increased to HUF 80.1 billion, which represented 3.1% increase compared to the previous year. Increase of Net interest income by HUF 7,9 billion, and increase of net commissions and fees income by HUF 1,6 billion were decreased by lower amount of other non-interest income by 68.4 % (HUF 7.1 billion). The decrease was caused by losses concerning shrinking of valuation difference 3 billion losses due to IRS transactions and 0,4 billion losses concerning CAP and CAP/Floor deals, which were not fully compensated by HUF 7.5 billion FX-result and HUF 1 billion profit related to securities.

In accordance with the legal regulations first the Bank's profit before tax calculated excluding bank levy MKB has committed to pay 30% special tax of credit institution, which amount was decreased from the banking tax, that together with the changes of legislation had an influence of HUF 12 billion decrease concerning Tax expenses. The amount of trade tax increased by HUF 0.7 billion due to net income of sales as a part of tax base.

In 2016 Operating costs decreased by HUF 10.9 billion (23,4 %) due to decrease of salaries and wages by 3.7 billion and shrinking of contributions by HUF 1.2 billion, additionally decrease of expert fees displayed in other administrative expenses by HUF 3.6 billion and less regulatory fees by HUF 1 billion.

In 2016 Provision, impairment and direct write off were shrinking by HUF 61.7 billion, which was due to a better loan portfolio thanked to a huge portfolio-cleaning process started a few years ago.

### Main items affect to extraordinary profit and loss

Extraordinary profit and loss was increased by the sale of VISA shares by HUF 2.1 billion, against HUF 0.6 billion losses related to Cancelled receivables.

## 29. Bank income indicators

### Components as a percentage of gross operating income

Item	2015(%)	2016(%)
Interest margin	49,90%	58,28%
Dividends received	0,53%	0,41%
Net Income from commissions and fees	36,28%	37,25%
Other non-interest income	13,29%	4,06%
<b>Gross operating income</b>	<b>100,00%</b>	<b>100,00%</b>
Tax expenses	-37,22%	-22,13%
Other income and expenses	0,19%	0,43%
Operating costs (including depreciation)	-59,88%	-44,48%
Impairment, provision charge and amounts written-off	-96,41%	-16,52%
<i>of which: - specific and industry-risk</i>	<i>-41,12%</i>	<i>-13,41%</i>
General risk provision	0,00%	0,00%
Extraordinary profit and loss	10,19%	1,85%
<b>Profit before taxation</b>	<b>-83,12%</b>	<b>19,15%</b>

### Components as a percentage of average total assets

Item	2015 (%)	2016 (%)
Interest margin	1,99%	2,29%
Dividends received	0,02%	0,02%
Net Income from commissions and fees	1,44%	1,46%
Other non-interest income	0,53%	0,16%
<b>Gross operating income</b>	<b>3,98%</b>	<b>3,93%</b>
Tax expenses	-1,48%	-0,87%
Other income and expenses	0,01%	0,02%
Operating costs (including depreciation)	-2,38%	-1,75%
Impairment, provision charge and amounts written-off	-3,84%	-0,65%
<i>of which: - specific and industry-risk</i>	<i>-1,64%</i>	<i>-0,53%</i>
General risk provision	0,00%	0,00%
Extraordinary profit and loss	0,40%	0,07%
<b>Profit before taxation</b>	<b>-3,31%</b>	<b>0,75%</b>

Average total assets: HUF : 1 953 763 million (2015), and HUF 2 036 799 million (2016).

### 30. Operating costs

Cost items	2015	2016
Salaries, wages and other staff-related expenses	20 686	15 733
Other administrative expenses (material-type expenses)	23 629	17 891
<b>Total general costs</b>	<b>44 315</b>	<b>33 624</b>
Depreciation	2 216	2 030
<b>Total operating costs:</b>	<b>46 531</b>	<b>35 654</b>

### 31. Changes in active headcount numbers

Date	Number of active staff	Branches in the Countryside		Branches in Budapest		Headquarter
		Number of branches	Staff	Number of branches	Staff	Staff
31.12.2015	1 736	55	431	21	204	1 101
31.12.2016	1 770	54	417	19	202	1 151

## 32. Revenues from and expenditures

### a) Revenues from and expenditures on affiliated and associated companies

2016

Affiliated companies	E:7	E:11	E:22	E:26	E:31	E:63	E:84	E:88
Euro-Immat Üzemeltetési Kft.	0	2	3	0	0	0	0	0
Exter Adósságkezelő Kft.	0	0	0	0	19	1	0	0
Extercom Kft.	0	4	0	0	0	1	0	0
Exter-Estate Kft.	0	0	0	0	0	0	0	0
Exter-Immo Zrt.	0	3	0	0	0	0	0	0
Exter-Reál Kft.	8	0	1	0	0	0	0	0
Füred Service Kft. VA	0	0	0	0	0	0	0	0
I.C.E Kft.	0	0	0	0	0	0	0	0
Medister Kft.	346	0	0	0	0	0	0	0
MKB Bank MRP Szervezet	0	0	0	0	0	0	0	274
MKB Befektetési Alapkezelő Zrt.	0	3	4	31	0	11	0	0
MKB Consulting Kft.	0	0	0	0	0	0	0	0
MKB-Euroleasing Autóhitel Zrt.	148	1	16	0	0	5	0	0
MKB-Euroleasing Autólízing Zrt.	695	6	59	0	0	16	0	0
MKB-Euroleasing Kft.	0	0	0	0	0	0	0	0
MKB-Euroleasing Zrt.	0	4	0	0	0	0	0	0
MKB Jelzálogbank Zrt.	0	0	0	0	0	3	0	0
MKB Nypénzt. Kiszolgáló Kft.	0	68	69	0	0	22	0	0
MKB Üzemeltetési Kft.	0	71	20	0	0	29	289	0
Retail Prod Zrt.	41	0	1	0	0	0	0	0
<b>Subsidiaries total:</b>	<b>1 238</b>	<b>162</b>	<b>173</b>	<b>31</b>	<b>19</b>	<b>88</b>	<b>289</b>	<b>274</b>
<b>Total:</b>	<b>1 238</b>	<b>162</b>	<b>173</b>	<b>31</b>	<b>19</b>	<b>88</b>	<b>289</b>	<b>274</b>

2016

Significant participations	E:8	E:12	E:23	E:27	E:32	E:64	E:85	E:89
Erzsébet-utalvány Plusz Kft.	0	0	0	0		0	0	0
Pannonhalmi Apátság Pincészet Kft.	11	0	3	0		0	0	0
<b>Total:</b>	<b>11</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Codes in the header of columns refer to the breakdown of P/L.



**b) Revenues from and expenditures on other companies**

**2016**

<b>Name of the company</b>	<b>E:13</b>	<b>E:24</b>	<b>E:28</b>	<b>E:65</b>
Budapesti Értéktőzsde Zrt.	0	0	0	0
Core Solutions Kft.	0	0	0	0
GARANTIQA Zrt.	7	1	1	0
Kisvállalkozás-fejlesztő Pénzügyi Zrt.	19	0	0	0
MKB Általános Biztosító Zrt.	0	24	0	0
MKB Életbiztosító Zrt.	0	8	9	0
SWIFT SCRL	0	0	0	0
Trend Zrt.	0	0	0	0
<b>Total:</b>	<b>26</b>	<b>33</b>	<b>10</b>	<b>0</b>

Codes in the header of columns refer to the breakdown of P/L.

**c) Interest not accrued as at**

**31.12.2016**

	<b>Interest</b>	<b>Penalty interest</b>	<b>Fee</b>	<b>Total</b>
HUF	16 163	28 314	163	<b>44 639</b>
FX	1 374	4 975	0	<b>6 349</b>
<b>Total:</b>	<b>17 536</b>	<b>33 288</b>	<b>163</b>	<b>50 988</b>

**31.12.2015**

	<b>Interest</b>	<b>Penalty interest</b>	<b>Fee</b>	<b>Total</b>
HUF	15 541	33 938	153	<b>49 632</b>
FX	1 329	5 972	0	<b>7 302</b>
<b>Total:</b>	<b>16 870</b>	<b>39 910</b>	<b>153</b>	<b>56 934</b>

**d) Income and Expenses from investment services**

**2016**

Item	Income	Expenses
	Line E: 25. and 49.	Line E: 34. and 55.
from activities of securities issue	5 644	3
from trust activities	2 385	498
from trade activities	71 188	81 097
- of which: devaluation	18	182
- of which: valuation difference	16 086	29 171
from deposit fee	67	258
from other activities	991	188
<b>Total:</b>	<b>80 275</b>	<b>82 044</b>

**2015**

Item	Income	Expenses
	Line E: 25. and 49.	Line E: 34. and 55.
from activities of securities issue	3 432	9
from trust activities	2 573	74
from trade activities	61 524	57 929
- of which: devaluation	88	18
- of which: valuation difference	27 743	28 836
from deposit fee	61	245
from other activities	837	69
<b>Total:</b>	<b>68 427</b>	<b>58 326</b>

Codes in the header of columns refer to the breakdown of P/L.

The net result of investment services in 2016 decreased from HUF 10.1 billion to HUF -1.8 billion, which determined by a HUF 9.9 billion net loss of commercial activity.

The valuation difference was HUF -13.1 billion, counterbalanced by HUF 4.9 billion exchange rate gain and the HUF 1.8 billion IRS derivatives results.

The result from activities of securities issue was HUF 5.6 billion, which is HUF 2.2 billion increase compared to the previous year.

**e) Effect of other derivatives for cash flow:**

Type of derivatives	2015	2016
CPO	0	0
CRS	-2 047	-73
FRA	5	-2
FWD	3 624	-380
FXFUT	-302	-710
FXSW	35 697	4 256
IRS	1 802	-833
<b>Total:</b>	<b>38 779</b>	<b>2 258</b>

### 33. Human resources

#### a) Wages and other personal costs and other supplementary information

<b>2016</b>			
<b>Categories</b>	<b>Average number of employees</b>	<b>Wage</b>	<b>Personal payments</b>
<b>Total full time</b>	<b>1 706</b>	<b>10 820</b>	<b>1 290</b>
- Professional	1 691	10 745	1 284
- Other	15	75	6
<b>Total part time</b>	<b>49</b>	<b>189</b>	<b>8</b>
- Professional	49	189	8
- Other	0	0	0
<b>Retired employees</b>	<b>5</b>	<b>16</b>	<b>1</b>
<b>Total:</b>	<b>1 760</b>	<b>11 025</b>	<b>1 299</b>

#### b) Remuneration of members of Board of directors and Supervisory Board

<b>2016</b>	
<b>Remuneration</b>	
Members of Supervisory board	126
Members of Board of directors	678
<b>Total:</b>	<b>804</b>

**c) Loans to members of Board of directors and Supervisory Board**

<b>Loans</b>	<b>Amount lent</b>	<b>Repayment of principal in 2013</b>	<b>Repayment of interests in 2013</b>	<b>Remaining principal debt</b>
Members of Supervisory board	31	1	0	5
Members of Board of directors	38	8	1	24
<b>Total:</b>	<b>69</b>	<b>9</b>	<b>1</b>	<b>29</b>

Granted loans have maturity of 4 years or more and fix interest rates.

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

MKB Bank Zrt. has no pension commitments towards former members of Board of Directors and Supervisory Board.

From 25 July, 2016 János Jaksa, Imre Kardos, Balázs Benczédi and Rakesh Kumar Aggarwal were elected to the new members of the Board of Directors. János Jaksa became the new Chairman of the Board.

From 25 July, 2016 the composition of the Supervisory Board also changed: dr. Mihály Barcza, dr. Ádám Lovászi-Tóth, Tibor Lados and Albert Godena are members of the Supervisory Board, and the new chairman is Mihály Barcza. Dr. Edit Juhász and dr. László Parragh resigned.

The underwriters of financial report are the following responsible leaders: János Jaksa, dr. Ádám Balog.

**d) Loans of associated partners**

<b>Currency</b>	<b>Actual principal</b>
CHF	593
EUR	3 279
HUF	88 260
<b>Total:</b>	<b>92 132</b>

**e) Key exposures to State of Hungary and local governments**

	<b>Central government</b>		<b>Local government</b>	
	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>
Loans and advances to customers	901	0	0	0
Bonds of public sector issuers	843 982	0	0	0
Current and deposit accounts	1 268	0	14 063	0
Undrawn commitments to extend credit	400	0	13 347	0
Guarantees	0	0	47 000	0

The exposures to State of Hungary and local governments have been purchased and issued by market terms.

The state is no longer considered related parties due to change of owner in 2016 and therefore 0 is displayed in the column 2016.



### 34. Expenditures of non-banking activities broken down by type

Type of cost	2015	2016
Costs of stock sold	26	2
Costs of intermediated services	921	1 462
Other	190	481
<b>Total (P/L: 83.):</b>	<b>1 137</b>	<b>1 945</b>

### 35. Changes in impairment

2016

Line	Title	Opening balance	Increase in 2016	Prior year reversals	Derecognition (write off or sale)	Effect of FX rates' change	Closing balance
M 6	Loans and advances to credit institution	0	0	0	0	0	0
M 27	Loans and advances to customer	179 553	42 509	42 009	57 501	-728	121 824
M 100	Other receivables	1 286	95	167	5	0	1 209
	<b>Total receivables</b>	<b>180 839</b>	<b>42 604</b>	<b>42 176</b>	<b>57 506</b>	<b>-728</b>	<b>123 033</b>
M 3	State bonds	0	152	0	0	1	153
M 52	Debt securities incl. fixed-income securities	18	29	18	0	0	29
M 62	Shares and other variable-yield securities	33	0	0	0	0	33
M72	Shares and participating interests held for investment purposes	342	0	0	0	0	342
M 78	Shares and participating interests in affiliated undertakings	32 659	30 469	26 219	0	0	36 909
M 99	Stocks	0	0	0	0	0	0
	<b>Total:</b>	<b>213 891</b>	<b>73 254</b>	<b>68 413</b>	<b>57 506</b>	<b>-727</b>	<b>160 499</b>

In 2016, the amount of total impairment decreased by HUF 53.4 billion from HUF 213.9 billion to HUF 160.5 billion. Basically discharged under the portfolio of stocks used for cleaning after customer claims (written and sold) as a result. In the same time due to the portfolio of loans and advances to customers, provision allocation was not needed during the year. Increase of Impairment on affiliated companies was due to the write off the assets in the relevant companies. In 2016 concerning other type of assets there were no significant changes in the balance of impairment.

### 36. Development of budget relations

#### a) Tax expenditure settled with Tax and Financial Control Office

Item	31.12.2015	31.12.2016
Supplementary Tax for financial institutions	13 241	1 193
Special Tax of Credit Institutions	0	4 961
Corporate Profit Tax	0	222
Corporate Profit Tax due to the self-revision of the previous years	0	2
Corporate Profit Tax paid abroad	28	22
Financial Institutions' allowance	239	126
a) to be paid after state-aided loans	152	121
b) to be paid after the amount of 50% of OVP's released claims	87	5
Personal Income Tax	2 032	2 075
Personal Income Tax due to the self-revision of the previous years	0	1
Personal Income Tax due to capital incomes	1 209	1 253
Supplementary Tax for employees*	626	-30
VAT (ÁFA) **	253	744
a) to be paid	276	757
b) deductible	23	13
Innovation contribution	299	412
- thereof NAV revision in 2014 for years 2008-2010 ***	0	-62
Rehabilitation contribution	87	82
Vocational training contribution	191	198
Fleet tax	38	31
Penalty, late charges	0	39
- thereof NAV revision in 2014 for years 2008-2010 ***	0	-57
Self-revision charges	1	0
Other tax payment liability due to self-revision	0	0
Transaction duty	10 823	11 020
Health contribution	682	410
- thereof reduced from interest incomes****	331	226
Social security contributions	5 766	6 005

\*From 29 September 2014 to June 2016 MKB Bank was owned by the Hungarian State so surtax obligation arose. The base of the surtax was the income paid to employees upon employment is terminated. Due to a change in the law retroactive from 2015 the income shall be exempt from surtax in case of collective redundancies.

\*\*VAT does not contain the non-deductible VAT amount relating to the financial activities accounted for as costs. MKB Bank Zrt. operates as a VAT group with Euro-Immat Kft.

\*\*\* An overall inspection for the years 2008-2010 carried by National Tax Office stated and paid a HUF 318 million tax shortage belonged to the item of Innovation contributions. The overall HUF 252 million tax shortage, penalty fee and delay fee was appealed at the court of

justice. According to the court's decision HUF 62 million innovation contributions HUF 31 million tax penalty and HUF 26 million late payment surcharge was credited for MKB

.  
\*\*\*\*From 1st, August 2013 EHO (health contribution) have to be paid after special incomes referred in the act.

## b) Corporate tax

On the basis of the Act on Corporate tax the rate of corporate tax is based on the amount of profit before tax: under HUF 500 million it is 10% of the base amount and 19% of the residual amount.

Despite the result of the year, the amount of tax payable is mainly affected by the amount of the items, referred in the act, which adjust the tax base.

Item	31.12.2015	31.12.2016
Profit before taxation	-64 595	15 344
Items reducing the tax base (-)	41 667	6 997
Items increasing the tax base (+)	46 834	6 898
Tax base	-59 428	15 245
Calculated tax	0	222
Tax concession	0	0
Corporate tax payable 30% Corporate tax after payments for foreigners*	28	5 207
- thereof: Corporate tax for current year Prior year supplementary taxes	0	222
Corporate tax, Supplementary tax for prior years	0	2
Special Tax of Credit Institutions	0	4 961
Corporate Profit Tax paid abroad	28	22
<b>Profit or Loss after tax</b>	<b>-64 623</b>	<b>10 137</b>

**c) Items reducing the tax base in calculating corporate profit tax**

Deductable items of Corporate Tax are belong to the Act on Corporate Income Tax 7. §

Item	31.12.2015	31.12.2016
Use of provisions made for expected liabilities and future costs	38 190	4 024
Amount of depreciation taken into account in accordance with the Corporate Income Tax Act.	3 059	2 311
Amount of dividends and profit distributions received	412	326
Amount given for foundations and other public obligations	0	1
Received penalty according to NAV revision, charges on arrears	0	52
Amount settled as incomes in accordance with tax self revision	0	62
Amount settled as incomes in accordance with the surplus of booking value of write off shares	0	0
Impairment reversed on receivables	6	7
Other	0	214
<b>Total:</b>	<b>41 667</b>	<b>6 997</b>

**d) Items increasing the tax base in calculating corporate profit tax**

Deductible items of Corporate Tax are belong to the Act on Corporate Income Tax 8. §

Item	31.12.2015	31.12.2016
Provisions for expected liabilities and future costs	4 268	534
Depreciation and impairments on fixed assets accounted for as cost under the Accounting Act. Value accounted for as expenditure in the sale of tangible and intangible assets	2 872	2 043
Cost related to non-entrepreneurial activities and activities that do not generate revenue*	39 374	4 154
Amounts accounted for as tax deficits, resulting from findings of tax audits or self-revisions	0	0
Impairments accounted for on receivables in the tax year	9	40
Penalties, fines	5	38
Given contribution without repayment obligation	0	0
Uncollectible and forgiven debts	92	69
Other	214	20
<b>Total:</b>	<b>46 834</b>	<b>6 898</b>

\* Impairments settled for consumer loans (HUF 39 097 million) are to be recorded as increasing items in the base of Corporate Income Tax

**e) Development of Financial institutions' extraordinary tax („Banking tax”)**

Item	31.12.2015	31.12.2016
Total Assets in 2009	2 897 590	2 897 590
Items reducing the tax base (-)	364 265	364 265
Items increasing the tax base (+)	982	982
Adjusted Total Assets	2 534 307	2 534 307
Banking tax calculated on adjusted total assets	<b>13 241</b>	<b>6 037</b>
Banking tax calculated on investment activities	0	117
Total Banking tax	<b>13 241</b>	<b>6 154</b>
Special Tax of Credit Institutions	0	4 961
Adjusted Bank tax	<b>13 241</b>	<b>1 193</b>

In the year 2016 two significant changes came in financial institution's special taxes in legal regulation.

1. The 2009 revised projected balance sheet total bank tax is reduced, which makes the tax liability has changed almost by half.
2. The year of 2016, our bank after the investment and additional service's activity of the new bank tax is debited.

According to the legal regulation the Bank first in 2016 was committed to pay special tax of credit institution the extent of 30% of profit before tax, which was calculated based on profit before tax without banking tax, and which amount was deducted from the calculated banking tax for 2016.



**f) Tax obligations to be settled with local governments**

<b>Item</b>	<b>31.12.2015</b>	<b>31.12.2016</b>
Local business tax	1988	2 735
Building tax	2	2
Vehicle tax	11	8

It can be established, that in 2016 the local business tax payment obligation to the local government has increased. The reason for the raise was the net sales income, which forms the tax base, that increased by HUF 38.1 billion.

Other local tax obligation had not changed significantly.

MKB Bank Zrt. fully met its tax payment obligations regarding the municipal taxes in 2016.

### 37. Settlement with the National Deposit Insurance Fund

MKB Bank Zrt. has joined the National Deposit Insurance Fund on 1st of July, 1993.

According to the regulation the annual fee consists of the followings:

- **The base of the fee** is the insured amount of deposits which relate to the previous year and disclosed in audited Financial Statement which is approved by the General Assembly\*
- The fee **rate** is 0.175 percent of the base of the fee

Based on the regulation above the fee payable is the following in 2016:

The base of the insurance premium	HUF 1 120 479 million
The average size of the insured deposit	HUF 6.3 million
The fee payable for 2016	HUF 797 million

\*On condition, that from 3. July 2015 the premium payment base is determined only on aggregated deposit up to 100.000 euro.

### **38. Settlement with the Investor-Protecting Fund**

MKB Bank Zrt. has joined the Investor-Protecting Fund in 13th of September, 1997.

From January 1, 2016, the base of the annual payment is the average stock of money- and securities of the previous year that are managed by the member of the Fund but are in the property of insured investors.

The fee must be determined in HUF as the (arithmetic) average of the month-end deposit volumes of the previous year.

Rate of the annual fee: 0.175 percent.

The annual fee must be determined from the fee base, pro-rata, including the money- and securities stock which do not exceed the compensations limit of the individual investors.

According to the Premium Regulation, MKB should pay HUF 600 million protection fees in 2016.\*

\*HUF amount of 100 thousand EUR per Investors

### 39. Allocation of profit for the year 2016

2016		
1.	Profit or Loss before taxation	15 344
2.	Taxation	5 207
3.	Profit or Loss after taxation	10 137
4.	Utilization of General Reserves	1 014
<b>5.</b>	<b>Result for the year</b>	<b>9 123</b>

#### 40. Auditor

##### Auditing is compulsory at MKB Bank Zrt.

Auditor of MKB Bank Zrt:

Deloitte Könyvvizsgáló és Tanácsadó Kft.


Chartered auditors (Chamber of Hungarian Auditors registration number: 000083)

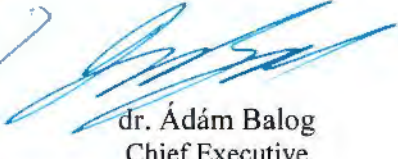
Audit fee payable for 2016	
Audit fee	74
Other certification survey	0
Other advising activity (accounting, tax)	0
Non auditory services	6
<b>Total:</b>	<b>80</b>

The person who is responsible for the audit:

Molnár, Gábor chartered auditor (Chamber of Hungarian Auditors registration number: 007239), in case of his non-availability Horváth, Tamás (Chamber of Hungarian Auditors registration number: 003449).

Budapest, 10 March, 2017

  
János Jaksa  
Chairman

  
dr. Ádám Balog  
Chief Executive  
Officer

## **BUSINESS REPORT**

### **INTERNATIONAL ECONOMIC ENVIRONMENT**

2016 was a volatile year globally: the beginning of the year saw a rough start to the year driven by the fear of the slow-down in Chinese economic growth. Later on, the willingness of investors' risk-taking has typically improved in the global money and capital markets, which was also supported by the measures taken by the main central banks (BoJ, ECB). The favourable changes in the macro-economic indicators somewhat reduced the recession fears and the forward-looking confidence indicators. After a fall-back at the start of the year, global macro figures improved during the spring. The second quarter of the year was characterised by optimism due to delayed interest rate hike expectations of the Fed and by the uncertainty about the referendum on Britain's membership of the EU (at the end of June). After the voting on 23 June, the role of the USD as a safe-haven currency has strengthened and the stock market uptrend has temporarily come to a halt.

Macro data published in the developed countries reflected stable economic growth in the second half of the year, and investor sentiment was determined by positive expectations related to central bank actions. Towards the year-end, the American presidential elections came into the focus, and after the victory of Donald Trump, optimism has increased about the expansion of the US economy, which at the same time led to the increase of inflation expectations and a jump in government bond yields. Before the Fed increased the interest rate the dollar had strengthened by 7% against the Euro. The weakening of the Euro was partly caused by the unsuccessful Italian constitutional referendum and the renewing problems of the Italian bank sector. In the meantime, the oil exporting countries announced measures to reduce output, which supported the year-end rise of oil prices; the price of crude oil almost doubled during 2016.

In addition to increasing the interest rate in December 2016, the Fed projected a higher interest rate course for the year of 2017, while the ECB announced the extension of its asset purchase program. While the year of 2016 started with the increasing fear of deflation, in 2017 inflation is expected to gain ground, which would also determine central banks' monetary policy decisions; they are expected to gradually withdraw from applying the zero interest policy.

Heading into 2017, the International Monetary Fund expects 3.4% growth of the world economy in 2017, which may be followed by 3.6% increase in 2018. While United States growth expectations improved compared to the projections of October 2016, emerging markets' growth outlook have somewhat diminished. For the Eurozone, 1.6% growth is expected for the year of 2017 and in 2018.

### **HUNGARIAN ECONOMIC ENVIRONMENT**

In 2016 the economic growth was somewhat more moderated than in 2015. After a GDP growth of 3.1% in 2015, in 2016 the Hungarian economy showed an expansion of 2%. Regarding the production side, construction was a laggard in growth figures, while agriculture and services were the key factors. Within the construction sector various economic incentives (CSOK, VAT discount for housing) were already apparent in 2016, but the sector has not contributed substantively to the growth of economy. Due to the favourable weather in the spring and summer, agricultural harvest figures came to historical high or close to that, which also fuelled the economic growth. On the expenditure side, consumption

was the catalyst of growth in 2016. The permanent expansion of retail consumption was supported by the historically high financial wealth, favourable income-related dynamics and increased lending to households. 2016 was characterised by the dynamic growth of employment and a tightening labour market. The unemployment rate declined at the end of 2016 to the lowest level in more than 10 years (to 4.5%). In addition, labour shortage had increasingly become a problem hindering growth, which affected all sectors of the economy. Growth in 2016 was also constrained by the lower amount of EU funds flowing into the country, in comparison to 2015. Tenders of EU funds for the 2014-2020 periods have increased substantially, however, due to delays in announcing the winning bids, the disbursements and the implementation of the projects would mostly take place in 2017 and beyond.

Hungary has finally said goodbye to its junk bond status during 2016, as all three credit rating agencies upgraded the country to investment grade. Fitch upgraded Hungary's government bond rating to investment grade in May, while S&P announced a similarly positive move in September, and Moody's in November. Through these upgrades in 2016, Hungary has become a more attractive investment destination, and thanks to favourable financial conditions the government got more room for procyclical fiscal policy.

After two years concerning negative inflation, consumer prices have increased by an average of 0.4% in 2016 compared to the previous year.

Between March and May, NBH cut the key policy rate three times by 15 bps (total 45 bps), thus it declined to 0.90%. Regarding the monetary policy, the two-week NBH deposit was phased out at the end of April and the ceiling of three-month deposits was set as HUF 900 billion at the end of 2016.

In the course of 2016 the sentiment of the domestic money market was mainly determined by the international developments and a major swing was apparent in the HUF exchange rate at the beginning of the year and in the second half of April. At the start of autumn, HUF reached the year-high record versus the Euro (305) with positive expectations related to the credit rating agencies, but in November forint weakened again, partly because of the NBH's non-conventional monetary policy and partly because of the turbulence in global markets after US elections. The yield curve became steeper during the year: while short term yields plunged below the 0.90% base rate permanently due to the unconventional steps taken by the NBH, the long term yields increased driven by international events. The yield of 5-year government bonds decreased by 87 bps to 1.86%, while the yield of the 10-year government bonds declined by 16 bps to 3.26% by the end of 2016.

## **HUNGARIAN BANKING SECTOR<sup>1</sup>**

The Hungarian banking system reached the turning point of the period following the crisis: not only the complete bank system but also most of the banks, which earlier permanently generated loss, - closed a profitable year. The credit portfolio started to grow again in respect of most of the segments and products. Banks has significantly intensified their lending activity in retail unsecured credit, in particular in consumer loans, while the housing market has been further supported by state incentives, although its segmented boom has a favourable effect on housing loans. The decrease of the bank tax also contributed to the stable operation environment.

Financial institutions' lending activity has favourable characteristics. New disbursements of both corporate and retail loans have grown. In 2016 new volumes of households' mortgage backed loans

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<sup>1</sup> Source: MNB, HAR, nonconsolidated, preliminary data

grew by ~27%. According to the preliminary data total assets of credit institutions increased by 4% compared to the end of - 2015. Net corporate loans increased by 3.9%, while the credits of households stagnated; the securities portfolio grew by 10.7%. During the period, the rate of loans in default for longer than 90 days further improved: in the household sector it decreased from 17.6 % to 12.7 %, while in the sector of non financial enterprises it dropped from 9.6 % to 5.4%. Financial institutions achieved a total of HUF 510.3 billion pre-tax profit (2015: HUF 34.3 billion), which represents a 15.4% average return on equity. From among the 111 institutions, 76 booked a profit of HUF 527.2 billion, while 35 booked HUF 17.0 billion loss during the year. There are, however, highly volatile and cyclic one-off profit items in the background of the significant improvement of profitability, such as provision release, the moderation of the bank tax and the VISA-transaction.

In 2017 we expect further strengthening of the banking system; the growth will be supported by intensifying retail consumption, improving trends of the labour market, increasing real wages, a low inflation level and the drawdown of EU funds. At the same time, however, as in the whole European banking system, the major challenge the domestic banks will have to face is the management of the effects of the permanently low interest environment, as due to the shrinking interest margins the banks' profitability will be under pressure. The impact of the low interest rate environment will be mitigated by the further recovering lending activity, however, the lower 0 percent limit of retail deposit interest rates and the ever-intensifying competition may further reduce the margins that can be achieved.

## **PERFORMANCE OF MKB BANK IN YEAR 2016**

At the end of year 2016, the **(stand-alone)** total assets of **MKB Bank Zrt. according to HAS** amounted to HUF 2,099.2 billion at the end of 2016 increasing by 6,3% compared to the end of 2015. As a result of the intensifying dynamics of new lending, customer loans, increasing by 1.7% reached HUF 863.4 billion, while the portfolio of customer funds, increasing by 10.4% amounted to HUF 1,518.1 billion at the end of 2016. The profitability of MKB Bank in year 2016 significantly improved: the Bank achieved HUF 15.3 billion pre-tax profit after last year's loss of HUF 64.6 billion. Such an extent of improvement was caused by the decrease of the allocation of provisions, 23.4% cutback on costs (including depreciation), and the 20.5% and 5.9% increase of net interest income and net fee and commission income, respectively. The Bank' financial and business fundamentals are stable, including its capital strength, liquidity, self-financing ability, changing in its balance sheet structure and performance of its business lines.

## **PERFORMANCE OF THE BUSINESS LINES OF MKB BANK<sup>2</sup>**

### **DIGITALIZATION**

The digitalization projects support the operation of both the corporate and retail business lines, which contribute to the moderation of costs, increase the efficiency of banking operations and may open new directions. In 2016 the Bank Transformation project had outstanding significance, whose purpose is to introduce the Flexcube banking system in addition to adopting the currently existing customer portfolios. In 2016 the process started with massive BPR (Business Process Reengineering), a gap analysis was prepared for the system, the specifications of the requested customisations have been completed and the developments have been delivered. The electronic filing system and biometric

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<sup>2</sup> Source of information: Hungarian National Bank (MKB analysis)



signature (DMS) projects have been launched, in which significant results were achieved in the course of 2016. The new software solutions support the product development and customer registration processes, make the bank's operation smoother, faster and more efficient. Due to the development process MKB Bank's service quality and reliability may improve.

## **BRANCH NETWORK AND ALTERNATIVE SALES CHANNELS**

MKB sales channel network has developed in harmony with the digitalization endeavours. In order to improve efficiency the branch network has been rationalised, as a result of which at the end of year 2016 MKB Bank provides services for its customer in 73 **branches**. In the third quarter of 2016 MKB's share of the card market maintained the same level achieved in 2015, and in the retail segment its market share was 2.2% by issuing 200 thousand cards, while in the corporate segment it was 5.4%. The number of **NetBankár** service users is close to 151 thousand, while the **PC Bankár**, designed mostly for companies, closed the year 2016 have almost 8 900 corporate users. The Bank's **Telebankár** service is also highly popular among the users, it had more than 140 thousand users at the end of year 2016. After surveying the needs of users the retail mortgage loans and unsecured credit products, as well as small company account management and credits have been added to the product portfolio of external sales partners; the sale of MKB products is supported by 89 **external sales partners**.

## **CORPORATE AND INSTITUTIONAL CUSTOMERS**

MKB's focus on the SME sector increased in 2016 even more than in the past. In relation with that, several projects were launched to develop processes and products. The bank refined its business strategy, whose two basic pillars are digitalization and the concept of relationship-banking. Within its frames MKB created a new value offer, product and service portfolio, and strengthened the presence of an advisor attitude. As part of the small company project, the structure of corporate customer management has been transformed and the fundamentals of digital service were built. Thanks to the changes, better customer experience and quality services are offered to corporate customers. The bank's strategic objective is to strengthening market positions and its mission is to ensure that the gain of its customers should be the primary source of the bank's growth.

In the segment of non-financial enterprises, regarded as a strategic one, the Bank's customer portfolio and market share continuously decreased following the separation of SCU in 2015. Since August 2016, however, the credit portfolio has stabilized, then increased by the end of the year. The number of the MKB Bank corporate exceeded 44 thousand as of the end of the year and the core credit portfolio managed amounted to HUF 543 Bln. The Bank's market share compared to the sector portfolio was 8.2% at the end of 2016. The corporate business line success is reflected by more than 18% client's credit portfolio growth in business management.

Government programmes have outstanding significance in corporate lending. The market share of the MKB Group in the third phase of the Lending for Growth Program, launched by the National Bank of Hungary, is close to 14%. Since the start of (NHP) phase III the customers of MKB contracted for a credit amount of approx. HUF 65 Bln, from which HUF 53 Bln represent credits linked to Pillar I, and HUF 11 Bln linked to Pillar II of the credit programme. In addition to the Lending for Growth Program, the other important tool of corporate financing at MKB is. With 20% of factored turnover, MKB continues to be one of the biggest market players with a 12% portfolio share. Export promoting Credit Programme (EHP) products offered by EXIM are also an element of financing of outstanding

importance. In 2016 MKB extended export stimulating credits to its corporate customers in an amount equivalent to a total of approx. HUF 20 Bln, thus the year-end closing portfolio increased to HUF 41 Bln, which represents 54% growth compared to previous year's HUF 27 Bln. The Bank's financing products also include the card, operating assets and investment credit options offered under the Széchenyi economic development programme. In the frames of the programme in 2016 financing was ensured by the participating banks in the total amount of HUF 165 Bln, and the market share of MKB was 19% in 2016 based on its lending portfolio. The Agrarian Széchenyi card appeared as a new product, which reached a market share of 1.9% in the Bank by the end of 2016.

The market share of MKB Bank reached 10.7% regarding the total corporate deposit portfolio. In the segment of non-financial enterprises, regarded as a strategic one, the Bank has 10.4% market share which represents a slight growth compared to previous year's 9.9%. In addition to active and passive products, the MKB Group, by involving its members, is able to provide a wide-range of other financial services to the corporate customers of MKB. These include, among others, insurance policies for both the companies and their owners; the advisor services of the MKB Euroleasing complex vehicle financing group and MKB Consulting supporting EU projects; the up-to-date Cafeteria solutions for the handling of fringe benefits, such as 'Széchenyi Pihenő Kártya' Card, MKB-Pannónia Health and Mutual Fund, and MKB Voluntary Pension Fund.

## **RETAIL CUSTOMERS**

In 2015 our resources were tied up by the administration of settlement and conversion to HUF. In 2016, when such burdens ceased to exist the Bank was able to focus on re-thinking its business strategy and on product developments. MKB traditionally has highly-positioned customers, but along the digitization strategy the Bank also opens towards society's wider customer segments who have interest in/affinity for digital solutions. Parallel to the change in strategy the retail product portfolio has been reconsidered, the earlier housing loan products were reviewed, new products, interest periods and pricing structure were introduced in addition to adjusting these to the customers' needs. The business lines of strategic priority performed the changes under the control of dedicated managers and achieved positive results in 2016. The shift in strategy is successful, the number of customers leaving the bank dropped, while new acquisition increased, the number of customers by the year-end was closed to 190 thousand.

The credit market share of the retail division decreased slightly, and moved around 6% through the year. At the end of the year the retail credit portfolio amounted to HUF 352.9 Bln, within which the total housing and free-use mortgage loans made up 96% of the portfolio. In 2016 the new retail credits lent by MKB Bank significantly increased. The amount of contracted housing loans more than doubled, which is further increased by the sale of the new mortgage secured credit for optional use, introduced during the year. As a result, by the end of 2016 the market share of MKB in the disbursement of mortgage secured credits reached 4.1%, while increased to 4.4% in the market of housing loans, which is equivalent to a growth higher than 2 percentage points in a year. Furthermore, MKB also took an active part in the housing loan market in the housing credit programme with state subsidy. We were among the first ones to join the Családi Otthonteremtő Kedvezmény (Family Home Creation) programme, as a result of which the Bank accepted almost 1000 credit applications in the course of 2016, in the value of HUF 3.28 Bln. In the summer of 2016 the Bank started to sell unsecured credits and reengineered its consumer loans as well. The sale of this product grew fast and disbursements increased five times by the end of the year, compared to the level of the start of year.

In the domestic market, the bank savings of households (bank deposit, accounts, bonds, investment funds and government securities) grew last year, which is due primarily to the improving economic environment. The deposit portfolio still dominates the retail savings market, however, demand for domestic government securities significantly increased in the market. The asset portfolio of households in MKB retail management amounted to HUF 861.2 Bln at the end of the year. The Bank's market share compared to the sector is 4.9% in retail savings (within this, deposits 3.4%, bonds issued by credit institutions 11.9%,). The market share of investment funds increased from 4.1% to 4.6% at the end of 2016. In 2016 25% of retail savings was made up by the investment funds, which represents a slight decrease of 3% compared to 2015. MKB's market share in the retail government security market increased from 6.2% to 7.4% by the end of 2016 with a 46% growth of the managed portfolio.

## **MONEY AND CAPITAL MARKETS, INVESTMENT SERVICES**

In the permanently low-yield environment also prevailing in 2016 the Bank's customers turned to investment services. Among the various investment products offered by the Bank, customers mostly regrouped their savings into retail government securities, but the portfolio of investment funds also increased significantly, among which mostly the actively managed mixed funds and absolute-yield funds were preferred by the investors, as well as the various versions of these available in foreign currency. As a consequence of the rearrangement of customer portfolios the Bank's market share also showed a significant growth in the sale of both government securities and investment funds.

Keeping in sight its customers' requirements, the Bank focused on the diversification of the portfolio in the introduction of its Premium service. In order to make decision on investments easier, sample portfolios representing various investment purposes were created that serve as a guideline for the customers for compiling their own portfolios and the continuous optimisation of these. This service was introduced in 28 branches, where the customers using the Premium service may receive information about the currently available investment possibilities through personal consulting.

The asset management business line dynamically grew in 2016 too. On the one hand, the number and volume of asset management portfolios increased, on the other hand the advisor staff has also expanded at an outstanding pace. The bulk of the managed portfolios over-achieved the reference yields and the biggest portfolio (approx. HUF 93 Bln) can be proud to produce a yield of 7.3%. The assets managed for institutional and private investors exceeded HUF 157 Bln at the end of the reporting period, while the assets of the investment consulting mandate HUF 90 Bln, with a more than 40% growth in the latter. In addition to that, MKB Bank provides asset management services for the MKB Pension Fund and the MKB-Pannónia Health and Mutual Fund.

## **PRIVATE BANKING**

At the end of year 2016 the number of private banking customers was close to 2000, with more than 80% proportion of retail customers. Private banking increased the customers' assets by HUF 23 Bln, exceeding HUF 340 Bln.

## **MKB Subsidiaries/STRATEGIC PARTNERS**

### **MKB- Euroleasing Autólizing Zrt.**

In 2016 MKB Euroleasing became a strong leasing group in capital, developed the operation of its organisation and extended its product portfolio. Leaving its previous head office, the company moved into the renovated building of the MKB Group, where an up-to-date personal customer service office was built which is easy to access. Parallel to moving, within the frames of a major IT investment project the complete server and hardware infrastructure was replaced, which allowed extended product portfolio handling. Based on the MNB licenses obtained in September 2016, Euroleasing extended its services and in addition to vehicle financing it introduced asset, agrarian and large utility vehicle financing products as well, and now functions as a universal leasing company. The company's new placements more than doubled in total in year 2016, and far exceed the actual market growth. The growth of the retail car financing activity skyrocketed, thus it firmly holds its second position in its own market segment, while the agricultural machine financing business line, due to its unexpectedly high performance, became a determinant player of the segment. As a result of the above, MKB-Euroleasing Group is by now one of the three biggest players of the Hungarian leasing market.

### **MKB Fund Manager**

At the end of 2016, MKB Fund Manager offered 25 open-end and 20 closed-end investment funds for the investors. Out of the 25 open-ended funds 15 is denominated in HUF, 5 in Euro and 5 in USD. As a result of the successful sales process at the bank and the favourable performance of the fund, the portfolio of the funds managed by the Fund Manager increased in the course of 2016 by 18 % to HUF 253 Bln, exceeding the growth of the market by far. The portfolio of the open-end funds reached HUF 203 Bln at the end of December 2016, compared to the earlier level of HUF 165 Bln. The portfolio of the closed-end funds amounted to HUF 50 Bln at the end of 2016, similarly to the level of one year before. In 2016 7 closed-end capital protected funds expired, in the approximate value of HUF 17 Bln, while a total of 6 new closed-end funds were launched. We are glad to report that the MKB Adaptive Bonds Fund from the HUF 2.3 Bln level of the beginning of year 2016, with an imposing annual performance, increased to HUF 20.8 Bln by the end of the year. MKB Fund Manager closed successfully the business year of 2016, its market share increased from the 2015 year-end level of 3.8 % to 4.4% by the end of year 2016.

### **MKB Consulting Kft.**

MKB Consulting Kft. reinforces the performance of the MKB Group in the corporate sector, which continues to be active in the area of EU and domestic development grants. The activities of the subsidiary include tender development, tender writing, tender management and financing. The purpose of MKB Consulting is provide high-quality complex services from the realisation of the development objectives throughout the overall project cycle and to contribute to the professional and efficient use of funds in compliance with the relevant regulations. In order to maximise quality service provision and customer experience, MKB Consulting cooperates with the Bank in a number of areas. In cooperation with the Bank's capital market and transactions division, MKB Consulting took part in administering two major transactions and supports the innovative start-up companies selected under the Fintech Programme by providing expert consulting. In 2016 MKB Consulting achieved good results both in

the small enterprise and medium-large corporate sector. As far as the tender business line is concerned, during the year the company sold 135 small company packages, and as part of that it signed 110 contracts for writing individual tender applications. For its VIP customers with sales revenues above HUF 1 Bln the company prepared and submitted a total of 80 tenders with a budget of HUF 26 Bln and with HUF 12.8 Bln total grant applied for. 14 of these tenders have already won: thus the customers of the company received grants in the amount of HUF 6.5 Bln.

### **MKB Funds and the 'SZÉP Kártya' Card Program**

In 2016 the operation of the **MKB Pension Fund** was still characterised by tendencies generally typical of the sector. Retail savings increased by approx. 13% in the sector. The voluntary branch of the Pension Fund, regarding the number of its members and assets, is among the leading voluntary Pension Funds, on 31 December 2016 the number of its members was 85.6 thousand, and the value of the assets of all fund members handled by the Fund amounted to HUF 122 Bln. Regarding the assets of the voluntary Pension Fund, MKB's market share is around 10%, the number of members is close to 87 thousand, which represents 7.5 % market share. The private branch of the MKB Pension Fund had 3,936 members on 31 December 2016 and managed assets amounting to HUF 18 Bln.

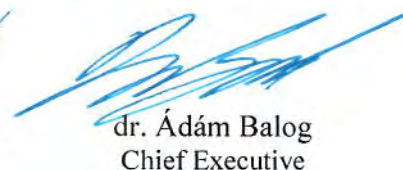
As of 1 October 2016 the general meeting finalised the merger of Pannónia Health and Mutual Fund into MKB Health and Mutual Fund, through which **MKB-Pannónia Health and Mutual Fund** was founded. After the merger, the health and mutual services continue to be available for the fund members in the same form and high quality. The number of members of the Fund increased from 175 thousand to 187 thousand in 2016, thus it is the 3rd biggest player on the market. The assets of the fund increased by 17% to HUF 12.4 Bln compared to the end of year 2015. The fund has reached the highest income from membership fees during its operation – HUF 9.7 Bln F – with an outstanding amount (HUF 4.1 Bln) and rate (42.7%) of individual deposits. The Fund is ready to serve its members and other partners with well balanced work and in high quality, which is supported by contracts signed with 11 thousand service providers and more than 8 thousand card acquisition points.

Among the fringe benefits 'Széchenyi Pihenőkártya' card ('SZÉP Kártya' card) is an elements of the past period that shows dynamic growth. It is an attractive cafeteria item offered for a number of corporate customers. The issue of the '**MKB SZÉP Kártya**' card and the operation of the system is performed by MKB Nyugdíjpénztár és Egészségpénztárt Kiszolgáltató Kft. This company has been a reliable partner for more than 15 years in the area of voluntary fund services. The company has issued more than 187 thousand 'SZÉP Kártya' cards up to date. In the course of year 2016, employers transferred benefits to card accounts in the amount of HUF 13.6 Bln, and the cardholders used services in the value of 13 Bln. The Company is owned by MKB Bank, which, as a secure bank in the background, guarantees reliable services for the market.

Budapest, 10 March, 2017



János Jaksa  
Chairman



dr. Ádám Balog  
Chief Executive  
Officer

## STATEMENT OF CORPORATE GOVERNANCE

The corporate governance system applied by MKB Bank Zrt. (hereinafter: the Company) is based on the effective Hungarian statutory regulations and the Articles of Association of the Company.

The Company was subject to a financial reorganisation procedure until 30 June 2016, which was closed upon the successful completion of a sales procedure closely monitored by the European Commission. In this Statement of Corporate Governance, the corporate governance structure for the period following the closure of the financial reorganisation procedure is presented. This corporate governance structure was in force also on 31 December 2016.

The Company is a private company limited by shares. Its supreme body is the General Meeting. At the General Meeting, each share entitles its holder to one vote. Furthermore, a Board of Directors and a Supervisory Board operate at the Company. The Board of Directors is the management body of the Company, which comprised three internal board members employed by the Company and four external board members on 31 December 2016. Approval of the By-laws of the Board of Directors and the Supervisory Board;

The Supervisory Board comprised four independent and three employee board members on 31 December 2016.

The detailed responsibilities and competence of the corporate bodies are set out in the Articles of Association, the Organisational and Operational Rules and the relevant legislation. The aforementioned regulations do not contain any deviations from the statutory provisions. The Bank complies the provisions of the referred regulations in its procedures.

A Management Committee chaired by the CEO and including the Deputy CEO for Strategy and Finance, the Deputy CEO for Retail and Digital Operations, the Deputy CEO for Business, the Deputy CEO for Operations and Legal, the Chief Risk Officer and the Executive Directorate for Risk Control operates at the Company. It also has decision preparation and decision-making powers in matters that do not fall within the competence of the General Meeting, the Board of Directors and the Supervisory Board.

There are the following committees at the Company, which the Company has a statutory responsibility to set up pursuant to Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises.

Audit Committee  
Risk Committee  
Remuneration Committee  
Nomination Committee

According to its 2017 work schedule the Remuneration Committee will discuss in July 2017 the Nomination Policy comprising in consolidated structure the elements of the diversity policy applied in case of the Company's management bodies, the recruitment policy for the selection of members of the management bodies, as well as the diversity policy applicable for the selection of members of the management bodies.

During the selection of the members of the Company's management bodies the Company places special emphasis on selecting adequate managers, accordingly the present members of the Company's management bodies have great professional knowledge, wide ranging expertise both in the respect of the financial sector and other areas of the economy.

## Main characteristics of the internal audit system of the Company:

The system of internal control functions within the organisation has been developed in accordance with the requirements set out in Recommendation No 5/2016 (6 June) of the Magyar Nemzeti Bank on 'the elaboration and operation of internal safeguards, the governing and controlling functions of financial institutions', and based on statutory and EU standards. Within the internal safeguards – in addition to internal governance – the system of internal control functions comprises the following main elements:

- Risk management
- Internal Audit System (within which: in-process control, management control, management information system and independent internal audit organisation)
- Compliance.

The units pursuing internal control functions are independent from each other within the organisation, and from the banking organisational units the activities of which are controlled by them.

The elements of the internal audit system aimed at in-process control, management control and the operation of the management information system, and the regulated operation thereof are secured by internal regulations, job descriptions and other IT-supported solutions (e.g. the self-control system operated in the branch network) forming an interlinking, hierarchical system. In addition, in accordance with the relevant provisions of the law, the Company shall also operate an independent internal audit unit, which is subordinated to the exclusive authority of the Supervisory Board and the Chairman and Chief Executive of the Company. The internal audit unit also performs group control tasks and in addition to its own directly performed audits, it also supervises the operation and tasks of the internal audit functions of other group members.

Brief presentation of the risk management system of the Company and the fundamental principles applied in the course of risk management:

The risk strategy and capital plan of the MKB Bank banking group is reviewed annually by the Risk Control Unit of MKB Bank with the involvement of the concerned units. Adapting to the current economic environment and in accordance with the Bank's business strategy and capital plan, the Risk Strategies incorporate the fundamental principles and objectives of the Bank's risk strategy in relation to each risk type and the defined risk appetite. The approval of the risk strategy belongs to the competency of the Board of Directors.

The concept that comprehensively concerns the risk assumption processes of the Company has been formulated and is continuously fine-tuned in accordance with the fundamental regulatory requirements.

The major elements of the concept:

- Implementation of the Unified Banking Segmentation categorisation applicable for the whole clientele of the Company;
- Decision-making system that is dependent on customer quality and the level of risk assumption;
- Application of Basel II conform rating tools and analytic and behavioural scorecards in the interest of IRBF compliance, and the corresponding customer rating system, which suitably supports the decision-making activity of the managements of the bank;
- Internal model validation methodology on an annual basis (rating and scoring tools, validation of the related processes);
- Monitoring process with IT support;
- Definition of a comprehensive criteria system to identify threatened loans as soon as possible, containing and considering the relevant indicators that facilitate the recognition of threatened loans; based on this, definition of the applicable deal management types, the related tasks, procedural rules;

- Provisioning system that is based on the Hungarian Accounting rules and IFRS;
- Pillar 1- and Pillar 2-based capital calculation system, which is based on the Hungarian Accounting Standards and the IFRS;
- Regular management reports, backtests (Risk Reports, Capital Management Reports, Rating Quality, Rating Monitoring Reports, etc.);
- Devising and monthly evaluation of a reviewed recovery plan.

The most important risk management principles contain final control enforced at the level of the Board of Directors, independent control separated from the risk assumption areas and adequate measuring, diversification, monitoring and reporting of the risks.

The efficient communication of risks and the risk appetite within the organisation, continuous developments in the interest of the recognition, measurement, monitoring of risks, making the risk processes of key importance up-to-date and user friendly, enhancing their performance and the employment of sufficiently qualified and trained workforce are the tokens of the efficient risk management function of the Company.

The Bank hereby declares that on 31 December 2016 it did not have any bonds listed on the stock exchange issued by the Bank, and that the additional information pertaining to the Bank in relation to Section 95/B can be found in Note No. 6 of the financial statements prepared under IFRS.

The Articles of Association of the Company are available for the public on the website of MKB Bank Zrt. ([www.mkb.hu](http://www.mkb.hu)) and in the registry of the Metropolitan Court of Budapest as Court of Registration.



### **Governing bodies of MKB Bank Zrt. as at 31 December 2016**

#### Supervisory Board:

##### Chairman

Dr Mihály Barcza  
Partner at Oppenheim Law Firm

##### Members

Dr Ádám Lovászi-Tóth  
Lawyer, Lovászi-Tóth Law Firm

Ferenc Smohay  
Head of the Risk management division of ABT  
Treuhand Group

Tibor Lados  
Director of Mátrai Erőmű Zrt./Mátra Power Plant  
Ltd.

János Nyemcsok  
Executive Director of MKB Bank Zrt.

Ferenc Müller  
Director of MKB Bank Zrt.

Albert Godena  
Director of MKB Bank Zrt.

#### Board of Directors:

##### Chairman

János Jaksa  
Chief Executive Officer of Minerva Tőkealap-  
kezelő Zrt./Minerva Capital Fund Management  
Plc.

##### Members

Imre Kardos  
Deputy Chief Executive Officer of Minerva  
Tőkealap-kezelő Zrt./Minerva Capital Fund  
Management Plc.

Rakesh Kumar Aggarwal  
Investor of Blue Robin Investments S.C.A.

Balázs Benczédi  
Chief Executive of Pannónia CIG Alapkezelő  
Zrt./Pannónia CIG Fund Manager Ltd.

Dr Ádám Balog  
Chief Executive Officer of MKB Bank Zrt.

Ildikó Katona  
Deputy Chief Executive of MKB Bank Zrt.

Márk Hetényi  
Deputy Chief Executive of MKB Bank Zrt.



## **STATEMENT**

on the non consolidated annual financial statements of 2016  
and on the Report of the Management  
Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)  
and Act CXX of 2001 on the Capital Market

## STATEMENT

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

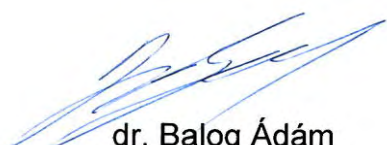
MKB Bank Zrt (hereinafter: Bank) declares concerning its non-consolidated annual financial statements – accepted by the Annual General Meeting of the Bank on March 20, 2017 and audited by an independent auditor - the following statement:

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

The Bank declares furthermore that The Report of the Management (Business Report) provides a reliable picture of the position, situation, development and performance of the Bank as an issuer of securities and describes the key risks and uncertainty factors.

Budapest, 20 March 2017.

MKB Bank Zrt.



dr. Balog Ádám  
Chief Executive Officer



Sándor Benedek  
Deputy Chief Executive Officer