

MKB Bank Zrt.

*Annual Report and
Independent Auditor's Report*

December 31, 2017

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 2017 which comprise the balance sheet as at December 31, 2017 (which shows an equal amount of total assets and total liabilities of HUF 2,062,717 million and profit for the year of HUF 27,744 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, 2017 and its financial performance for the year then ended in accordance with Act C of 2000 on Accounting (the „Accounting Act”) effective in Hungary.

Basis for 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 relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, 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 878,471 million comprise 43% of the total assets (gross book value of HUF 999,895 million), the relevant impairment charge recorded in the current year was HUF 28,401 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"> - historical loss data, - valuation of collaterals, - estimated time to realize the collaterals, - probability of default, - estimate that future cash-flows expected to be realized. <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"> - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment, - 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, - 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, - review of subsequent events (sold receivables), and analysis of the possible effect on the year audited, - evaluating of impairment triggers related to the non-impaired portfolio, - evaluating the appropriateness of related disclosures.

Other Information: The Business Report

Other information includes the business report of the Company for 2017. Management is responsible 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 independent auditor's report entitled „*Opinion*” does not apply to the business report.

Our responsibility in connection with our audit of the financial statements is to read the business report and, in doing so, consider whether the business report 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 also include assessing whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, and to express an opinion on the above and on whether the business report is consistent with the financial statements.

In our opinion, the business report of the Company for 2017 corresponds to the financial statements of the Company for 2017 and the relevant provisions of the Accounting Act in all material respects. As the Company is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

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 business report 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 Accounting 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 the going concern principle, and preparing the financial statements using the going concern basis of accounting. Management must apply the going concern principle, unless the use of this principle is precluded by any provision, or if any fact or circumstance prevails, which precludes the Company to continue as a going concern.

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 and the effective Hungarian laws and other regulations on audits 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 and the effective Hungarian laws and other regulations on audits, 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 preparation of the financial statements in accordance with the going concern principle 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.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on March 20, 2017 and our uninterrupted engagement has lasted for 5 years.

Consistence with the Additional Report to the Audit Committee

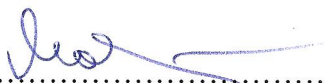
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on April 4, 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the business report.

The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

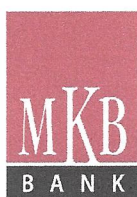
Budapest, April 4, 2018



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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



MKB Bank Zrt.

10 011 922 641 911 401
Reg. number

**Annual
Report**

according to
Hungarian Accounting Rules

Budapest, April 4, 2018

December 31, 2017

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MKB Bank Zrt.


NON-CONSOLIDATED BALANCE SHEET

Data in HUF' mill.

	Nr.	Item	31.12.2016	31.12.2017
		ASSETS:		
1	1.	Cash in hand, balances with central banks	33 592	21 447
2	2.	Treasury bills	897 111	905 591
3		a) held for dealing	607 982	369 496
4		b) held for investment	282 538	534 970
5	2/A	Revaluation difference on treasury bills	6 591	1 125
6	3.	Loans and advances to credit institutions	127 282	88 152
7		a) due on demand	59 623	67 101
8		b) other receivables from financial services	67 659	21 040
9		ba) maturity up to one year	67 659	21 040
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	64 300	10 131
14		– central counterparties	224	380
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	11
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	11
26	3/A	Revaluation difference on receivables due from credit institutions	0	0
27	4.	Loans and advances to customers	863 425	878 471
28		a) receivables from financial services	835 545	873 273
29		aa) maturity up to one year	289 054	306 799
30		Of which: – to affiliated undertakings	27 795	29 844
31		– to significant undertakings	324	264
32		– to other undertakings with participating interest	0	0
33		ab) maturity over one year	546 491	566 474
34		Of which: – to affiliated undertakings	64 337	90 700
35		– to significant undertakings	0	0
36		– to other undertakings with participating interest	0	0
37		b) receivables from investment services	27 880	5 198
38		Of which: – to affiliated undertakings	0	0
39		– to significant undertakings	0	0
40		– to other undertakings with participating interest	244	372
41		ba) receivables from investment service activities on the stock exchange	244	372
42		bb) receivables from over-the-counter investment service activities	0	0
43		bc) receivables from investment services to customers	26 959	4 425
44		bd) receivables from central counterparties	0	0
45		be) other receivables from investment services	677	401
46	4/A	Revaluation difference on receivables due from customers	0	0
47	5.	Debt securities including fixed-income securities	82 506	62 659
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	82 429	62 656
52		ba) held for dealing	7 092	18 492
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	648	588
57		bb) held for investment	75 337	44 164
58		Of which: – to affiliated undertakings	0	0

	Nr.	Item	31.12.2016	31.12.2017
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	77	3
62	6.	Shares and other variable-yield securities	783	702
63		a) shares and equity stakes held for dealing	711	478
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	72	224
71	7.	Shares and participating interests held for investment purposes	3 984	4 669
72		a) shares and participating interests	3 984	4 669
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	8.	Shares and participating interests in affiliated undertakings	44 911	45 229
78		a) shares and participating interests in affiliated undertakings	44 911	45 229
79		Of which: – shares and participating interests in credit institutions	3 960	3 838
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	9.	Intangible assets	7 799	11 490
83		a) intangible assets	7 799	11 490
84		b) revaluation surplus on intangible assets	0	0
85	10.	Tangible fixed assets	1 936	2 491
86		a) tangible fixed assets for financial and investment services	1 863	2 187
87		aa) land and buildings	1 124	1 045
88		ab) technical equipment, fittings and vehicles	729	1 049
89		ac) fixed assets in the course of construction	10	93
90		ad) advance payments on constructions	0	0
91		b) tangible fixed assets servicing non-financial and non-investment activities	73	304
92		ba) land and buildings	35	35
93		bb) technical equipment, fittings and vehicles	26	26
94		bc) fixed assets in the course of construction	0	0
95		bd) advance payments on constructions	12	243
96		c) revaluation surplus on tangible fixed assets	0	0
97	11.	Own shares	0	0
98	12.	Other assets	19 951	23 561
99		a) stocks (inventories)	523	438
100		b) other receivables (from non-financial and non-investment securities)	4 548	5 177
101		Of which: – to affiliated undertakings	334	314
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	14 880	17 946
106	13.	Prepayments and accrued income	15 906	18 255
107		a) accrued income	14 901	17 478
108		b) prepayments	1 005	777
109		c) deferred charges	0	0
110		TOTAL ASSETS	2 099 186	2 062 717
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>1 120 284</i>	<i>834 975</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>962 996</i>	<i>1 209 487</i>

Budapest, 4 April, 2018


 dr. Adam Balog
 Chief Executive Officer


 Csaba Gábor Fenyvesi
 Chief Financial Officer

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MKB Bank Zrt.

NON-CONSOLIDATED BALANCE SHEET

Data: in HUF' mill.

	Nr.	Item	31.12.2016	31.12.2017
113		LIABILITIES		
114	1.	Liabilities to credit institutions	382 786	243 677
115		a) due on demand	4 607	5 492
116		b) liabilities from financial services with agreed maturity dates or periods of notice	378 070	238 184
117		ba) maturity up to one year	169 036	29 994
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	120 000	0
122		– central counterparties	0	0
123		bb) maturity over one year	209 034	208 190
124		Of which: – to affiliated undertakings	0	0
125		– to significant undertakings	0	0
126		– to other undertakings with participating interest	0	0
127		– to the National Bank of Hungary	140 844	120 897
128		– central counterparties	0	0
129		c) liabilities from investment services	109	1
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	108	0
134	1/A	Revaluation difference on liabilities due to credit institutions	0	0
135	2.	Liabilities to customers	1 518 124	1 547 390
136		a) saving deposits	7	7
137		aa) due on demand	0	0
138		ab) maturity up to one year	0	0
139		ac) maturity over one year	7	7
140		b) other liabilities from financial services	1 505 921	1 536 867
141		ba) due on demand	758 967	1 177 922
142		Of which: – to affiliated undertakings	9 006	10 765
143		– to significant undertakings	71	200
144		– to other undertakings with participating interest	390	756
145		bb) maturity up to one year	696 972	275 457
146		Of which: – to affiliated undertakings	6 905	6 589
147		– to significant undertakings	70	0
148		– to other undertakings with participating interest	500	0
149		bc) maturity over one year	49 982	83 488
150		Of which: – to affiliated undertakings	8	3 807
151		– to significant undertakings	0	0
152		– to other undertakings with participating interest	0	0
153		c) liabilities from investment services	12 196	10 516
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	5
159		cc) liabilities to customers from investment services	12 196	10 511
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	3.	Liabilities from issued debt securities	13 350	11 684
164		a) issued bonds	13 350	11 684
165		aa) maturity up to one year	1 944	6 493
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	11 406	5 191
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

Data: in HUF'mill.

	Nr.	Item	31.12.2016	31.12.2017
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.	Other liabilities	36 610	61 723
192		a) maturity up to one year	10 292	23 837
193		Of which: - to affiliated undertakings	0	1
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	26 318	37 886
202	5.	Accruals and deferred income	8 982	12 351
203		a) accrued liabilities	275	382
204		b) accrued costs and expenses	8 688	11 950
205		c) deferred income	19	19
206	6.	Provisions	3 560	2 867
207		a) provisions for pensions and similar obligations	0	0
208		b) risk provisions for off-balance sheet items (for contingent and future liabilities)	2 243	2 687
209		c) general risk provision	0	0
210		d) other provisions	1 317	180
211	7.	Subordinated liabilities	0	21 710
212		a) subordinated borrowings	0	21 710
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.	Subscribed capital	100 000	100 000
223		Of which: repurchased own shares at face value	0	0
224	9.	Subscribed but unpaid capital (-)	0	0
225	10.	Capital reserves	19 131	19 131
226		a) share premium	19 131	19 131
227		b) other	0	0
228	11.	General reserve	1 014	4 097
229	12.	Retained earnings (accumulated profit reserve) (±)	0	9 123
230	13.	Legal reserves	0	0
231	14.	Revaluation reserve	6 506	1 220
232		Value-adjusted reserves	0	0
233		Revaluation reserves	6 506	1 220
234	15.	Profit or loss for the financial year (±)	9 123	27 744
235		TOTAL LIABILITIES	2 099 186	2 062 717
236		Of which: - SHORT TERM LIABILITIES [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]	1 680 441	1 567 598
237		- LONG TERM LIABILITIES [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]	270 429	318 586
238		- EQUITY (CAPITAL AND RESERVES) [8-9+10+11+12+13+14 ±15]	135 774	161 315

	OFF-BALANCE SHEET:	31.12.2016.	31.12.2017.
	Contingent liabilities:	489 451	570 925
	Future receivables	604 238	653 252
	Future liabilities:	592 768	646 142

Budapest, 4 April, 2018



dr. Ádám Balog
Chief Executive Officer



Csaba Gábor Fenyvesi
Chief Financial Officer

10011922641911401

MKB Bank Zrt.**NON CONSOLIDATED INCOME STATEMENT**

Data: in HUF' mill.

	Nr.	Item	2016.	2017.
1	1.	Interest receivable and similar income	57 561	47 901
2		a) interest income (receivable) from fixed-income securities	28 530	20 192
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	29 031	27 709
7		Of which: – from affiliated undertakings	1 238	1 593
8		– to significant undertakings	11	7
9		– from other undertakings with participating interest	0	0
10	2.	Interest payable and similar charges	10 854	3 927
11		Of which: – to affiliated undertakings	162	108
12		– to significant undertakings	0	0
13		– from other undertakings with participating interest	26	4
14		NET INTEREST INCOME	46 707	43 974
15	3.	Income from securities	326	462
16		a) income from shares held for dealing (dividend, profit-sharing)	12	17
17		b) income from shares in affiliated undertakings (dividend, profit-sharing)	314	445
18		c) to significant undertakings	0	0
19		d) income from other shares and participating interests	0	0
20	4.	Commission and fees income	36 409	36 885
21		a) from other financial services	27 322	28 693
22		Of which: – from affiliated undertakings	173	133
23		– to significant undertakings	3	3
24		– from other undertakings with participating interest	33	1
25		b) from investment services (except for income from trading activities)	9 087	8 192
26		Of which: – from affiliated undertakings	31	1
27		– to significant undertakings	0	0
28		– from other undertakings with participating interest	10	1
29	5.	Commission and fee expense	6 556	6 676
30		a) from other financial services	5 609	5 636
31		Of which: – to affiliated undertakings	19	60
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)	947	1 040
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.	Net profit or net loss on financial operations	2 409	30 288
39		a) income from other financial services	14 002	29 185
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	1 684	3 393
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)	71 188	75 488
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)	18	29
54		- valuation difference	16 086	16 594
55		d) expenses from investment services (expenses from trading activities)	81 097	70 992
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	182	1 481
60		- valuation difference	29 171	25 139
61	7.	Other operating income	59 388	22 302

	Nr.	Item	2016.	2017.
62		a) incomes from non-financial and non-investment services	2 586	4 009
63		Of which: – from affiliated undertakings	88	154
64		– to significant undertakings	0	0
65		– from other undertakings with participating interest	0	0
66		b) other income	56 802	18 293
67		Of which: – from affiliated undertakings	0	3
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.	General and administrative expenses	33 624	39 488
72		a) Staff costs	15 733	19 609
73		aa) wages and salaries	11 025	14 411
74		ab) other staff costs	1 299	1 602
75		Of which: – social security contributions	214	217
76		= pension costs	24	29
77		ac) contributions on wages	3 409	3 596
78		Of which: – social security contributions	3 378	3 497
79		= pension costs	0	0
80		b) Other administrative expenses (material-type expenses)	17 891	19 879
81	9.	Depreciation (value adjustments in respect of assets items 9 and 10)	2 030	1 788
82	10.	Other operating expenses	78 327	41 560
83		a) expenses from non-financial and non-investment services	1 945	3 134
84		Of which: – to affiliated undertakings	289	363
85		– to significant undertakings	0	0
86		– to other undertakings with participating interest	0	0
87		b) other expenses	76 382	38 426
88		Of which: – to affiliated undertakings	274	0
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.	Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	29 280	29 776
93		a) value adjustments (decrease) in respect of loans and advances	27 963	28 543
94		b) provisions for contingent liabilities and commitments	1 317	1 233
95	12.	Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments	24 960	19 678
96		a) value re-adjustments (increase) in respect of loans and advances	21 083	18 889
97		b) use of provisions for contingent liabilities and commitments	3 877	789
98	12/A.	General risk provision and use	0	0
99	13.	Value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests	6 520	229
100	14.	Reversals of value adjustments in respect of debt securities held for investment purposes, shares in affiliated undertakings and participating interests	0	0
101	15.	Profit or loss on ordinary activities	13 862	34 072
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)	13 221	33 197
103		– PROFIT OR LOSS OF NON-FINANCIAL AND NON-INVESTMENT SERVICES (7/a -10/a)	641	875
104	16.	Extraordinary income	2 483	1 065
105	17.	Extraordinary expense	1 001	858
106	18.	Extraordinary profit or loss (16-17)	1 482	207
107	19.	Profit or loss before taxation (±15±18)	15 344	34 279
108	20.	Tax payable	5 207	3 452
109	21.	Profit or loss after taxation (±19-20)	10 137	30 827
110	22.	Addition to and use of general reserve (±)	1 014	3 083
111	23.	Profit or loss for the financial year (±21±22)	9 123	27 744

Budapest, 4 April, 2018



dr. Adam Balog
Chief Executive Officer



Csaba Gábor Fenyesi
Chief Financial Officer

Statutory supplement

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General informations

Company:	MKB Bank Zrt.
Head Office:	1056 Budapest, Váci utca 38.
Internet home page:	www.mkb.hu

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 2016. 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 have 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 2018 as the date when the financial statements for 2017 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. Szugyiczki, Roland, Director of the Accounting Department
Registration number: 186842
Place of birth, date: Budapest, 1979. 11. 19.
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 16th July 2014 and 7th November 2014 for conversion of repayment of due installments 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 2016 till the first fulfillment of installment 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 (1056 Budapest, V. Váci utca 38).

IFRS conversion

According to Hungarian Accounting Law 9/A MKB Bank Zrt. applies International Financial Standards ("IFRS") from 1st of January 2018 for preparing their separate financial statements.

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

Nr.	Item	31.12.2016	31.12.2017
	A S S E T S		
1.	Cash in hand, balances with central banks	33 592	21 447
2.	Treasury bills	897 111	905 591
3.	Loans and advances to credit institutions	127 282	88 152
4.	Loans and advances to customers	863 425	878 471
5.	Debt securities including fixed-income securities	82 506	62 659
6.	Shares and other variable-yield securities	783	702
7.	Shares and participating interests held for investment purposes	3 984	4 669
8.	Shares and participating interests in affiliated undertaking	44 911	45 229
9.	Intangible assets	7 799	11 490
10.	Tangible fixed assets	1 936	2 491
11.	Own shares	0	0
12.	Other assets	19 951	23 561
13.	Prepayments and accrued income	15 906	18 255
	TOTAL ASSETS:	2 099 186	2 062 717
	L I A B I L I T I E S		
1.	Liabilities to credit institutions	382 786	243 677
2.	Liabilities to customers	1 518 124	1 547 390
3.	Liabilities from issued debt securities	13 350	11 684
4.	Other liabilities	36 610	61 723
5.	Accruals and deferred income	8 982	12 351
6.	Provisions	3 560	2 867
7.	Subordinated liabilities	0	21 710
8.	Registered capital	100 000	100 000
9.	Reserves	26 651	33 571
10.	Result for the year	9 123	27 744
	TOTAL LIABILITIES:	2 099 186	2 062 717
	Of which: - SHAREHOLDERS' EQUITY	135 774	161 315

3. Income statement (Hungarian Accounting Rules)

Nr.	Item	2016.	2017.
1.	Interest receivable and similar income	57 561	47 901
2.	Interest payable and similar charges	10 854	3 927
	NET INTEREST INCOME	46 707	43 974
3.	Income from securities	326	462
4.	Commission and fees income	36 409	36 885
5.	Commission and fee expense	6 556	6 676
6.	Net profit or net loss on financial operations	2 409	30 288
7.	Other operating income	59 388	22 302
8.	General and administrative expenses	33 624	39 488
9.	Depreciation	2 030	1 788
10.	Other operating expenses	78 327	41 560
11.	Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments	29 280	29 776
12.	Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments	24 960	19 678
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	6 520	229
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	13 862	34 072
16.	Extraordinary income	2 483	1 065
17.	Extraordinary expense	1 001	858
18.	Extraordinary profit or loss	1 482	207
19.	Profit or loss before taxation	15 344	34 279
20.	Tax payable	5 207	3 452
21.	Profit or loss after taxation	10 137	30 827
22.	Addition to and use of general reserve	1 014	3 083
23.	Profit or loss for the financial year	9 123	27 744

4. Cash flow statement

Nr.	Item	2016.	2017.
1	Interest income	57 561	47 901
2 +	Income from other financial activities	41 311	57 795
3 +	Other income (excluding utilized and released provisions)	56 551	18 148
4 +	Income from investment services	64 171	67 057
5 +	Incomes from non-financial activities	2 586	4 009
6 +	Dividend received	326	462
7 +	Extraordinary revenues	2 280	147
8 -	Interest paid	10 854	3 927
9 -	Other expenditure of financial activities	7 463	9 029
10 -	Other expenditure (excluding provisions)	76 213	38 416
11 -	Expenditures on investment services	52 691	45 412
12 -	Expenditures on non-fin. inst. activities	1 945	3 134
13 -	General and administrative expenses	33 624	39 488
14 -	Extraordinary expenditure (excluding current year's corporation tax)	1 001	858
15 -	Current year's corporation tax	5 207	3 452
16 -	Dividend paid	0	0
17	Operating Cash Flow (Nr. 01-16)	35 788	51 803
18 ±	Liability position	112 429	-76 196
19 ±	Receivables position	-85 867	13 801
20 ±	Inventory position	2	85
21 ±	Changes in stock of securities disclosed as current assets	269 111	225 867
22 ±	Financial investment position	-317 082	-222 491
23 ±	Investment position (including advance payment)	-10	-83
24 ±	Intangible asset position	-3 635	-5 205
25 ±	Net change in stock of tangible fixed assets (excl. investment and advance payment for investment)	-248	-746
26 ±	Changes of prepayments and accrued income	457	-2 349
27 ±	Changes of accruals	-7 261	3 369
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
	Net Cash Flow (Nr. 17-31)	3 684	-12 145
	<i>of which: - changes in cash balance (HUF and FX)</i>	-783	1 606
	<i>- changes (in money in transit deposits at NBH and deposits at foreign banks)</i>	4 467	-13 751

5. Balance sheet structure

Assets and liabilities

Description	31.12.2016		31.12.2017	
	HUF million	Balance sheet As a percentage of total assets	HUF million	Balance sheet As a percentage of total assets
Receivables due from customers	863 425	41.1	878 471	42.60
Liabilities due to customers	1 518 124	72.3	1 547 390	75.00
Receivables due from banks	127 282	6.1	88 152	4.30
Liabilities due to banks	382 786	18.2	243 677	11.80
Securities and cash	1 017 976	48.5	995 068	48.20
Liabilities due to issued securities	13 350	0.6	11 684	0.60
Other liabilities and prepayments	35 857	1.7	41 816	2.00
Other liabilities and accruals	45 592	2.2	95 784	4.60
Own assets and long-term investments	54 646	2.6	59 210	2.90
Shareholders' equity and provisions	139 334	6.7	164 182	8.00
Total assets	2 099 186	100	2 062 717	100

By the end of the reporting year, total assets of MKB Bank was HUF 2 062.7 billion, which represents 36.5 billion decrease compared to the end of 2016. Contrary to previous year, receivables to credit institutions and liabilities to credit institutions decreased significantly within the balance. There was a significant decrease both in securities and cash. Similar to the decline experienced in previous years the receivables due from customers have been increased during the year 2017, and by the end of the period it increased by approximately HUF 15.04 billion, 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 29.3 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 decrease both in receivables due from banks both in liabilities due to banks. The decrease of HUF 39.1 billion in such kind of receivables was generated by the decrease of inter-bank transactions, while the decrease of HUF 139.1 billion in liabilities was primarily caused by the decrease in refinancing related to the loan programs launched by the National Bank of Hungary (NBH).

The nearly HUF 22.9 billion decrease in securities and cash was generated by the government bond purchases and increased balance of accounts led by NBH. At the end of the reporting year the volume

of issued bonds decreased by HUF 1.7 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	31.12.2016	%	31.12.2017	%	Change
A S S E T S					
Cash	33 592	1.6%	21 447	1.0%	-12 145
Short-term receivables	463 644	22.1%	423 272	20.5%	-40 372
Securities held for trade	622 525	29.7%	389 818	18.9%	-232 707
Stocks	523	0.0%	438	0.0%	-85
Prepayments	15 906	0.8%	18 255	0.9%	2 349
Total short-term assets	1 136 190	54.2%	853 230	41.4%	-282 960
Long-term receivables	546 491	26.0%	566 474	27.5%	19 983
Securities held for investment	357 875	17.0%	579 134	28.1%	221 259
Equity investments	48 895	2.3%	49 898	2.4%	1 003
Intangible assets	7 799	0.4%	11 490	0.6%	3 691
Tangible assets	1 936	0.1%	2 491	0.1%	555
Total long-term assets	962 996	45.8%	1 209 487	58.6%	246 491
TOTAL ASSETS:	2 099 186	100.0%	2 062 717	100.0%	-36 469
L I A B I L I T I E S					
Short-term liabilities	1 678 497	80.0%	1 561 105	75.7%	-117 392
Securities issued (short-term)	1 944	0.1%	6 493	0.3%	4 549
Provisions	3 560	0.2%	2 867	0.1%	-693
Accruals	8 982	0.4%	12 351	0.6%	3 369
Total short-term liabilities	1 692 983	80.7%	1 582 816	76.7%	-110 167
Long-term liabilities	259 023	12.3%	313 395	15.2%	54 372
Securities issued (long-term)	11 406	0.5%	5 191	0.3%	-6 215
Shareholders' equity	135 774	6.5%	161 315	7.8%	25 541
Total long-term liabilities	406 203	19.3%	479 901	23.3%	73 698
TOTAL LIABILITIES:	2 099 186	100.0%	2 062 717	100.0%	-36 469

During the year 2017 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 729.6 billion at the end of the year, while the surplus of long-term assets was HUF 556.8 billion at the end of 2016. The specific ratio of the open maturity position to total assets increased to 35,37%. (2016: 26,5%).

Within the asset maturity structure, short-term assets decreased (by HUF -283 billion). The main factor in the decline of up to one year assets was the drop in trading securities portfolio by HUF 232.7 billion. In line with that, the volume of short-term receivables decreased by HUF 40.4 billion, which was mostly generated by the increase in Loans and advances to banks.

By the end of 2017, short-term liabilities decreased by HUF 117.3 billion in which the liabilities from up to one year securities increased by HUF 4.5 billion. At the same time, long-term assets showed slight growth of HUF 73.6 billion.

7. Fair value valuation, derivative financial instruments

On 1 January, 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.

There is currently no documented hedge business in the Bank.

Groups of financial instruments and their fair value

a) Securities held for trading purposes

Balance sheet row	Item	Revaluation difference 31.12.2016	Revaluation difference 31.12.2017
5	State bonds	204	132
5	Zero-coupon securities	0	0
61	Debt securities	-7	0
70	Shares	38	0
Total:		235	132

b) Available-for-sale securities
(valuation directly against fair value reserve /equity/)

Balance sheet row	Item	Revaluation difference 31.12.2016	Revaluation difference 31.12.2017
5	State bonds	6 388	993
5	Zero-coupon securities	0	0
61	Debt securities	84	3
61	Close-ended investment funds	0	0
70	Shares	34	224
70	Open-ended investment funds	0	0
Total:		6 506	1 220

c) Derivative financial instruments held for trading purposes

	2016 Fair value (gain) M:95	2016 Fair value (loss) M:177	2017 Fair value (gain) M:95	2017 Fair value (loss) M:177	Fair value change (2017-2016)
IRS	10 582	-22 948	14 292	-33 356	-6 698
CIRS	116	-9	428	-165	156
CAP/RAC	58	-4	26	0	-28
FX FORWARD	715	-1 437	1 897	-2 181	438
FX FUTURES	454	-720	334	-672	-72
FX SWAP	2 016	-712	184	-1 257	-2 377
FX OPTION	437	-244	359	-252	-86
BUX/SHARES FUTURES	8	-10	0	0	2
SHARES INDEX OPTION	494	-234	71	-3	-192
FRA	0	0	355	0	355
Total:	14 880	-26 318	17 946	-37 886	-8 502

d) Option premiums: Deals stated before 2017

	Fair value (gain)	Fair value (loss)	Net gain/loss	Matured in 2017
FX OPTION	77	-137	-60	-87
CAP/RAC	77	-27	50	0
INDEX OPTION	645	-15	630	125
Total:	799	-179	620	38

e) Option premiums: Deals stated in 2017

	Fair value (gain)	Fair value (loss)	Net gain/loss	Transfers between P&L 2017
FX OPTION	0	-21	-21	66
CAP/RAC	0	0	0	0
INDEX OPTION	0	-1	-1	-126
Total:	0	-22	-22	-60

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 2016	Revaluation difference 2017
Securities held-for-trading	-32	-102
Derivatives held-for-trading	-13 055	-8 443
Fair value hedges (not effective parts)	0	0
Total:	-13 087	-8 545

g) The effect of fair value revaluation on Equity

	Revaluation difference 2016	Revaluation difference 2017
Equity	6 506	1 220

Derivative financial instruments – by main types

h) FX forwards

Products	Amounts bought	Amounts sold	Fair value
AUD/HUF	109	108	1
CHF/HUF	30	29	1
EUR/CHF	12 283	12 239	55
EUR/HUF	182 178	182 687	-397
EUR/RUB	124	127	-2
EUR/TRY	62	67	-1
EUR/USD	226	220	6
GBP/HUF	646	648	-1
JPY/HUF	503	520	-17
NOK/HUF	105	100	5
TRY/HUF	73	76	-1
USD/HUF	70 354	70 473	45
USD/JPY	3 371	3 361	22
FX forward deals total:	270 064	270 655	-284

i) FX futures

Products	Amounts bought	Amounts sold	Fair value
CHF/HUF	699	663	36
EUR/CAD	372	373	-1
EUR/HUF	48 595	48 804	-209
EUR/JPY	1 101	1 096	7
EUR/NOK	185	185	0
EUR/TRY	133	134	-1
EUR/USD	13 092	13 157	-64
GBP/HUF	9 078	9 156	-75
TRY/HUF	15	14	2
USD/HUF	13 953	14 013	-37
USD/TRY	135	129	4
FX futures deals total:	87 358	87 724	-338

j) FX swap deals

Products	Amounts bought	Amounts sold	Fair value
CAD/CHF	1 238	1 213	25
EUR/AUD	1 416	1 414	-1
EUR/CHF	796	798	-3
EUR/GBP	7 689	7 721	-38
EUR/HRK	329	333	-4
EUR/HUF	44 339	44 406	-32
EUR/NOK	536	533	3
EUR/RON	3 363	3 372	-11
EUR/SEK	536	530	6
EUR/TRY	69	67	1
EUR/USD	55 821	56 321	-637
USD/BGN	11	11	0
USD/CHF	11 635	11 803	-178
USD/DKK	124	125	-1
USD/HUF	43 515	43 580	-187
USD/JPY	3 080	3 080	-4
USD/PLN	495	520	-26
USD/RUB	808	792	14
FX swap deals total:	175 800	176 619	-1 073

k) CIRS (Cross-currency interest rate swaps)

No Hedge	Bought product	Sold product	Bought principal	Sold principal	Fair value
NO HEDGE	EUR	USD	2 325	2 179	150
NO HEDGE	HUF	EUR	12 995	12 999	277
NO HEDGE	USD	EUR	2 089	2 234	-164
CIRS deals total:			17 409	17 412	263

l) IRS

No Hedge	Bought/Sold	Principal	Fair value
NO HEDGE	EUR	52 997	335
NO HEDGE	HUF	1 171 904	-19 533
NO HEDGE	USD	7 765	134
IRS Total:		1 232 666	-19 064

m) FX options

Products	Nominal amount in HUF	Fair value
EUR/HUF	65 538	84
EUR/USD	762	2
USD/HUF	7 669	21
FX option deals total:		107

Other derivative financial instruments

n) Other shares

Products	Bought/Sold	Notional	Fair value
CAP	EUR	24 668	0
Rac	HUF	1 416	26
RAC deals total:		26 084	26
Share index option	EUR	3 344	1
Share index option	HUF	5 124	67
Share index option total:		8 468	68
Share futures	HUF	21	0
Share futures total:		21	0
FRA	HUF	387	355
FRA total:		387	355

8. Securities

a) Securities on own account

31.12.2017

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)	91 936	110 349	254 645	259 147	346 581	369 496
Government securities for investment purposes (M:4)	273 179	291 176	261 774	243 794	534 953	534 970
Debt securities for dealing (M:52)	17 360	17 896	612	596	17 972	18 492
Debt securities for investment purposes (M:57)	21 300	21 176	25 345	22 988	46 645	44 164
Shares and participation for dealing (M:63)	0	0	0	478	0	478
Non-fixed securities for dealing (M:67)	0	0	33	0	33	0
Dealing securities total:	403 775	440 597	542 409	527 003	946 184	967 600

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:52)	6 238	6 437	664	655	6 902	7 092
Debt securities for investment purposes (M:57)	0	0	88 813	75 337	88 813	75 337
Shares and participation for dealing (M:63)	9	168	0	543	9	711
Non-fixed securities for dealing (M:67)	0	0	33	0	33	0
Dealing securities total:	584 843	619 354	363 310	354 306	948 153	973 660

In the year 2017, the volume of investments in securities decreased by 0.6%, i.e. HUF 6 billion compared to the end of last year within which also a rearrangement between the portfolios was experienced from the category of securities for investment to that of for dealing purposes. The changes were mainly determined the decrease of HUF 31 billion in the volume of debt securities hold for investment.

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 ($\max(\text{market value}; \text{face value}) - \text{cost} < 0$)
- in case of other bonds' transactions the difference of bought price and market price and the amount of negative fair value. ($\text{market value} - \text{cost} < 0$)

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

31.12.2017

Title of Securities	Nominal value	Book value
Government bonds*	215 747	233 956
BEVA bonds	21 650	18 763
OBA fonds	41 050	26 389
Total	278 447	279 108
Other	0	803
Total	278 447	279 911

* of which Repo securities for dealing 460 484

31.12.2016

Title of Securities	Nominal value	Book value
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
Total	377 371	376 142
Other	0	592
Total	377 371	376 734

* of which Repo securities for dealing 2 000 2 414

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

31.12.2017

Custodian	Total book value of securities on own account	Total nominal value of securities on own account	Total nominal value of securities held on behalf of third parties	Total nominal value
Keler Zrt.	893 141	874 186	1 462 731	2 336 917
-securities with no physical appearance	893 141	874 186	1 437 631	2 311 817
- printed	0	0	25 100	25 100
MKB Zrt.	0	0	155 445	155 445
-securities with no physical appearance	0	0	0	0
- printed	0	0	155 445	155 445
Other	74 459	71 998	107 021	179 019
-securities with no physical appearance	56 870	52 087	100 617	152 704
- printed	17 589	19 911	6 404	26 315
Total	967 600	946 184	1 725 197	2 671 381

31.12.2016

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

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	31.12.2016		31.12.2017	
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets
Loans on demand	49 192	49 192	431	431
Equity instruments	0	0	0	0
Debt securities	281 316	281 316	144 905	144 905
Loans and advances other than loans on demand	0	0	53 901	53 901
Other assets	0	0	0	0
Total assets:	330 508	330 508	199 237	199 237

At the end of 2017 the total size of encumbered assets was 9.66% 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

31.12.2017

Collateral received by the reporting institution	Fair value of encumbered collateral received or own debt securities issued	Non-encumbered	
		Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of collateral received or own debt securities issued non available for encumbrance
Loans on demand	0	1 842	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	375 218
Collateral received and own debt securities issued	0	1 842	375 218

31.12.2016

Collateral received by the reporting institution	Fair value of encumbered collateral received or own debt securities issued	Non-encumbered	
		Fair value of collateral received or own debt securities issued available for encumbrance	Nominal value of collateral received or own debt securities issued non available for encumbrance
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
Collateral received and own debt securities issued	0	2 336	419 969

f) Sources of encumbrance

Sources of encumbrance	31.12.2016		31.12.2017	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	301 077	330 508	167 203	199 237
Derivatives	22 185	49 907	30 262	95 680
Deposits	278 892	280 601	136 941	103 557
Repurchase agreements	2 471	2 416	489	484
Collateralised deposits other than repurchase agreements	276 421	278 185	136 452	103 073
Debt securities issued	0	0	0	0
Other sources of encumbrance	0	0	0	0
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-collateral	0	0	0	0
Other	0	0	0	0
Total Sources of encumbrance	301 077	330 508	167 203	199 237

9. Receivables

a) Maturity structure of receivables

Maturity structure of short-term receivables

31.12.2017

Item	Up to 3 months	Between 3 and 12 months	Impairment	Long-term receivables due within 1 year	Total
Receivables from financial institutions	20 448	592	0	0	21 040
Receivables from customers	169 376	76 899	-67 640	128 164	306 799
Total	189 824	77 491	-67 640	128 164	327 839

Maturity structure of long-term receivables

31.12.2017

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	198 166	550 205	-53 733	-128 164	566 474
Total	198 166	550 205	-53 733	-128 164	566 474

Loan portfolio structure

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

31.12.2017

	Gross exposure		Impairment	
	HUF million	percentage	HUF million	as a percentage of loans
Above 10%	132 876	13,29%	0	0,00%
1 to 10%	320 607	32,06%	29 497	24,29%
0.1 to 1%	155 586	15,56%	12 649	10,42%
Below 0.1%	390 826	39,09%	79 278	65,29%
Total:	999 895	100,00%	121 424	100,00%

31.12.2016

	Gross exposure		Impairment	
	HUF million	percentage	HUF million	as a percentage of loans
Above 10%	111 531	11,32%	1 109	0,91%
1 to 10%	338 477	34,35%	32 706	26,85%
0.1 to 1%	143 037	14,52%	13 961	11,46%
Below 0.1%	392 204	39,81%	74 048	60,78%
Total:	985 249	100,00%	121 824	100,00%

In 2017 the customer loan portfolio increased by 1.5%, the number of customers increased by 3.3%.

The main reason of the increase 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 value of impaired loans. Parallel 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% decreased from 34.35% to 32.06%, loans that are between equity's 0.1% and 1% increased from 14.52% to 15.56%, meanwhile loans, that are above equity's 10% increased from 11.32% to 13.29%.

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

31.12.2017

Segment	Gross exposure		Impairment	
	HUF million	percentage	HUF million	Total impairment as a percentage
Retail	313 435	31.35%	71 810	59.14%
Micro SME	31 923	3.19%	2 646	2.18%
Wholesale	118 374	11.84%	1 162	0.96%
Other	2 022	0.20%	291	0.24%
Project	39 296	3.93%	13 740	11.32%
SME	494 845	49.49%	31 775	26.17%
Total:	999 895	100.00%	121 424	100.00%

31.12.2016

Segment	Gross exposure		Impairment	
	HUF million	percentage	HUF million	Total impairment as a percentage
Retail	337 041	34.21%	66 135	54.29%
Micro SME	27 886	2.83%	2 766	2.27%
Wholesale	120 149	12.19%	1 849	1.52%
Other	1 356	0.14%	297	0.24%
Project	104 959	10.65%	17 600	14.45%
SME	393 858	39.98%	33 177	27.23%
Total:	985 249	100.00%	121 824	100.00%

The volume of loan portfolio increased by HUF 14.6 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 2016, this segment represented a share of 10.65%, which is equivalent to HUF 104.9 billion within the receivables from customers, which decreased to i.e. HUF 39.2 billion at the end of the year. As of 1st February, 2016 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 2017 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 (2016: 34,21%, 2017: 31,25%).

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

On 1 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 was available until 31 March 2017.

On 16 March 2016, 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 2017 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 251.54 billion and EUR 56.1 million loans were provided for maximum 2.5% rates of interest to small and medium sized-enterprises.

On 31 December 2017, the value of loan portfolio held for sale was HUF 21.8 billion. The gross amount of loan portfolio was HUF 66.0 billion and HUF 44.2 billion related impairment. In the third quarter of 2017 they signed the contract about the receivable transfer concern on loan portfolio which was in notarial deed. Based on the contract the handover will be fulfilled in two parts: in February 2018 and in the last quarter of 2018. The date of the settlement was 30 April 2017, which was the base of determining the purchase price. The customer paid the 10% of the total purchase price in 2017. The two other parts are due on the handover date.

The first part of the loan portfolio was given over, which was the total 84% of the total package.

d) FX receivables

Data in FX thousand and HUF million

31.12.2017

Currency	FX Hungary		FX abroad	
	FX	Forint	FX	Forint
USD	26 559	6 874	16 854	4 362
CHF	27 405	7 269	3 563	945
JPY	4 786	11	66 568	153
EUR	1 009 438	313 067	123 889	38 423
EGYÉB	26 530	564	73 052	2 550
Total		327 785		46 433

Data prepared on original maturity.

e) Subordinated assets

MKB Bank Zrt. had not subordinated assets for the period ended 31 December 2016 and 2017.

f) MKB's receivables from affiliated companies

31.12.2017

	M:30	M:34	M:101
Euro-Immat Üzemeltetési Kft.	0	0	300
Euroleasing Kft.	42	0	0
Exter Adósságkezelő Kft.	0	0	0
Exter-Immo Zrt.	0	0	0
Exter-Reál Kft.	391	659	0
I.C.E Kft.	0	0	0
MKB Befektetési Alapkezelő Zrt.	0	0	0
MKB Consulting Kft.	235	0	0
MKB Inkubátor Kft.	52	0	0
MKB Jelzálogbank Zrt.	0	0	0
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	0	0	6
MKB Üzemeltetési Kft.	0	0	0
MKB-Euroleasing Autóhitel Zrt.	638	1 803	0
MKB-Euroleasing Autólízing Zrt.	28 485	87 519	8
MKB-Euroleasing Zrt.	1	0	0
Retail Prod Zrt.	0	719	0
Subsidiaries total:	29 844	90 700	314

Receivables from significant undertaking of MKB Bank

31.12.2017

Megnevezés:	M:31	M:35	M:102
MKB-Pannónia Alapkezelő Zrt.	0	0	0
Pannonhalmi Apátság Pincészet Kft.	264	0	0
Total:	264	0	0

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**

31.12.2017

	M:32	M:36	M:40	M:103
Budapesti Értéktőzsde Zrt.	0	0	372	0
CIG Pannónia Életbiztosító Nyrt.	0	0	0	0
GARANTIQA Zrt.	0	0	0	0
Kisvállalkozás-fejlesztő Pénzügyi Zrt.	0	0	0	0
MKB Bank Teljesítményjavadalmazási MRP Szervezet	0	0	0	0
Total:	0	0	372	0

10. Spot FX transactions outstanding at balance sheet date

Data in HUF million and in foreign currency thousand

31.12.2017

Currency	Amounts bought		Amounts sold	
	in FX	in HUF	in FX	in HUF
EUR	12 144	3 766	19 386	6 012
USD	759	196	4 317	1 117
CHF	10	3	0	0
JPY	0	0	20 000	46
Other FX		103		1
Total:		4 068		7 176

11. Key figures of the Bank for 2016 and 2017

Item	2016	2017
Shareholders' equity *	135 774	161 315
Total assets	2 099 186	2 062 717
Gross operating income	80 146	106 411
Profit before taxation	15 344	34 279
Profit after taxation	10 137	30 827
Capital adequacy ratio	14.62%	20.10%
Pre-tax return on average shareholders' equity **	12.00%	23.08%

* including net profit for the period

** average shareholders' equity: HUF 127 849 M (2016); HUF 148 545 M(2017) M

The Bank's Shareholders' equity increased from HUF 135.8 billion at the end of 2016 to HUF 161.3 billion, which reflects a 18.8% growth. During 2017 the subscribed capital remained HUF 100.0 billion. The value of Profit before taxation exceeded the 2016 year end value with HUF 18.9 billion, the Profit after taxation exceeded the 2016 year end value with HUF 20.69 billion.

Total assets of MKB Bank amount to HUF 2 062.7 billion at the end of 2017, which reflects a 1.74% decrease from HUF 2 099.2 billion at the end of 2016.

Gross operating income has risen to HUF 106.4 billion in 2017 from HUF 80.1 billion. The proportion of interest income margin decreased from 58.3% to 41.32%, the proportion of net commission and fee income decrease from 37.3% to 28.4% while the other non-interest income increased from 4.1% to 29.85%.

The return on average shareholders' equity ratio (ROAE) was 23.08% (2016: 12.00%) in the reporting year. The gross operating margin (the gross operating income divided by the average balance sheet total) increased from 3.9% to 5.11% in 2017. At the same time the operating expenses slightly increased from 1.8% to 2%. Due to the improving loan portfolio, the relative indicator of net provisioning was 0.6% in 2017 (2016: 0.7%).

12. Regulatory capital and capital adequacy ratio

The Capital situation of MKB was sufficient at the end of 2017.

As a result of the 2017YE profit (a therefore core capital accumulation) the available core capital increased significantly. The owners of the MKB Bank are 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 Zrt's unconsolidated capital adequacy ratio.

Item	2016 Basel III	2017 Basel III
Subscribed capital	100 000	100 000
Subscribed but unpaid shares (-)	0	0
Repurchased own shares (-)	3 330	3 852
Capital reserve	19 131	19 131
Retained earnings	0	9 123
Profit for the year	9 123	27 744
Intangible assets (-)	7 799	11 490
General reserve	1 014	4 097
General risk provision, net of corporate profit tax	0	0
Revaluation reserve	6 506	1 220
AVA	-663	-444
Basic capital /CORE Tier1 elements	123 982	145 529
Additional Tier1 elements	0	0
Tier1 capital	123 982	145 529
Supplementary capita /Tier2 elements	0	21 710
Regulatory capital	123 982	167 239
Total assets	2 099 186	2 062 717
Risk-weighted assets	690 562	669 713
Capital requirements for credit risks	55 245	53 577
Large loan limit	0	0
Capital requirements for open position- and foreign exchange rate risks	1 069	524
Capital requirements for operational risks	11 548	12 465
Regulatory capital / Total assets	5.91%	8.11%
Capital Adequacy Ratio	14.62%	20.10%

Tier 1 Capital includes securities with no fixed maturity date, such as ordinary shares. At December 31, 2017, as an actual figure of tier1 capital the Bank had HUF 167.2 billion based on Basel III HAS under Supervisory Regulation. The regulatory capital has increased by HUF 43.3 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, the core capital deduction and the increase of Solvency margin deduction because of the MRP financial contribution. Risk-weighted assets – including the operating and market risk- decreased by 2% from HUF 848.3 billion to HUF 832.1, along with the strengthening forint exchange rate (0.28%).

The reduction of the risk weighted assets was because of decreased capital requirement for market risk, the work out and SCU, and the RWA saving project.

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

31.12.2017

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	94 011	0	0	0	69 802	163 812	-115	0	148 151	151	12
Regional governments or local authorities	61 085	-60 000	0	0	46	1 131	0	0	795	159	13
Public sector entities *	850 581	-59 811	0	0	177 391	968 160	0	0	951 140	245	20
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	48 536	-2 180	0	0	8 347	54 704	0	0	50 936	13 895	1 112
Corporates	816 023	-120 942	0	0	10 772	705 854	-52 326	-101	402 611	385 916	30 873
Retail	102 567	-23 189	0	0	0	79 378	-535	-12	68 868	49 495	3 960
Secured by mortgages on immovable property	201 014	0	0	0	0	201 014	0	0	196 322	79 968	6 397
Exposures in default	54 645	-1 069	0	0	832	54 408	-142	0	52 088	53 812	4 305
Items associated with particular high risk	2 176	0	0	0	0	2 176	0	0	2 176	3 264	261
Covered bonds	33 345	0	0	0	0	33 345	0	0	33 345	6 669	534
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	13 966	0	0	0	0	13 966	0	0	13 966	34 914	2 793
Other items	206 072	0	0	0	1	206 073	0	0	196 662	38 618	3 089
Total	2 484 021	-267 191	0	0	267 191	2 484 021	-53 118	-113	2 117 060	667 106	53 369

* Bonds issued by the ÁKK belong to the public sector , not the central government

31.12.2016

Exposure class	Exposure net of value adjustments and provisions	Unfunded credit protection: adjusted values (Ca)		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
Total	2 460 008	-246 043	0	0	246 043	2 460 008	-32 555	-159	2 174 159	681 135	54 491

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

Before the allocation of earnings

Limit de finition	31.12.2017
1/ Hit. 106. § (Total related party loans)	no excess
2/ CRR. 392. § , Hit. 302. § (total large exposure > Core capital*10%)	4db
3/ CRR. 395. § , Hit. 302. § (single large exposure < Core capital*25 %)	no excess
4/ Hit. 102. § (total investment < Core capital* 100 %)	52 774
5/ Hit 101. § (non-banking premises < Core capital* 5 %)	0
6/ CRR. 392. § (basic capital elements 100%> additional capital elements)	145529>21709,8
7/ Capital adequacy (Core capital*8% < capital adequacy)	20.10%

After the allocation of earnings

Limit de finition	31.12.2017
1/ Hit. 106. § (Total related party loans)	no excess
2/ CRR. 392. § , Hit. 302. § (total large exposure > Core capital*10%)	4db
3/ CRR. 395. § , Hit. 302. § (single large exposure < Core capital*25 %)	no excess
4/ Hit. 102. § (total investment < Core capital* 100 %)	52 774
5/ Hit 101. § (non-banking premises < Core capital* 5 %)	0
6/ CRR. 392. § (basic capital elements 100%> additional capital elements)	145529>21709,8
7/ Capital adequacy (Core capital*8% < capital adequacy)	20.10%

15. Shares and participations for investment purposes

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

31.12.2017

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-Pannónia Alapkezelő Zrt.	150	0	150
Pannonhalmi Apátság Pincészet Kft.	460	44	416
CIG Pannónia Életbiztosító Nyrt.	10	0	10
MKB MRP Szervezet	3 344	0	3 344
MKB Bank Teljesítményjavaldalmazási MRP Szervezet	508	0	508
S.W.I.F.T . SCRL	26	0	26
Primus Capital Kockázati Tőkealapkezelő Zrt.	2	0	2
Trend Zrt.	3	3	0
Összesen:	4 716	47	4 669

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

Budapesti Értéktőzsde Zrt.

1054 Budapest Szabadság tér 7.

Core Solutions Kft.

1139 Budapest, Váci út 95.

Garantiqa Hitelgarancia Zrt.

1082 Bp. Kisfaludy u. 32.

Kisvállalkozás-fejlesztő Pénzügyi Zrt.

1027 Budapest Kapás u. 6-12.

MKB-Pannónia Alapkezelő Zrt.

1056 Budapest Váci u. 38.

Pannonhalmi Apátság Pincészet Kft.

9090 Pannonhalma, Vár 1.

CIG Pannónia Életbiztosító Nyrt.

1033 Budapest Flórián tér 1.

MKB Bank MRP Szervezet

1054 Budapest Kálmán Imre u. 1.

MKB Bank Teljesítményjavadalmazási MRP Szervezet

1054 Budapest Kálmán Imre u. 1.

S.W.I.F.T SCRL

Avenue Adele 1 B - 1310 La Hulpe, Belgium

Primus Capital Kockázati Tőkealapkezelő Zrt.

1012 Budapest Pálya u. 9.

Trend Zrt.

1113 Bp. Diószegi Sámuel u. 53.

c) Shares and participations in affiliated companies
31.12.2017

Company	Gross value	Impairment	Net value
Participation in subsidiaries:			
<u>Domestic credit institution</u>			
MKB Jelzálogbank Zrt.	4 000	162	3 838
Total:	4 000	162	3 838
 <u>Domestic company</u>			
Euro-Immat Üzemeltetési Kft.	18 564	17 197	1 367
Exter Adósságkezelő Kft.	890	890	0
Extercom Vagyonkezelő Kft.	1 640	1 640	0
Exter-Estate Kft.	147	0	147
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 Kockázati Tőkealap-kezelő Zrt.	110	0	110
MKB Consulting Kft.	9	0	9
MKB Inkubátor Kft.	340	0	340
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	50	0	50
MKB Üzemeltetési Kft.	38 848	4 716	34 132
MKB Euroleasing Autóhitel Zrt.	7 502	7 456	46
MKB-Euroleasing Zrt.	7 944	3 133	4 811
Total:	78 366	36 975	41 391
Total:	82 366	37 137	45 229

Changes concerning affiliated companies in 2017 are detailed below:

Capital increasing:

MKB Inkubátor Kft.

Exter-Estate Kft.

MKB Kockázati Tőkealap-kezelő Zrt.

Acquisition:

1% of MKB Jelzálogbank' shares

Liquidation:

Füred Service Kft. "va"

Establishment:

MKB Kockázati Tőkealap-kezelő Zrt.

d) Shares and participations

31.12.2017				
Item	Domestic credit institution	Domestic company	Foreign company	Total
In parent company and subsidiary:				
unit	1	15	0	16
million HUF	3 838	41 391	0	45 229
Participation in jointly controlled companies:				
unit	0	0	0	0
million HUF	0	0	0	0
<i>Total:</i>				
<i>unit</i>	<i>0</i>	<i>15</i>	<i>0</i>	<i>16</i>
<i>million HUF</i>	<i>3 838</i>	<i>41 391</i>	<i>0</i>	<i>45 229</i>
Other participations:				
unit	0	11	1	12
million HUF	0	4 643	26	4 669
Total unit:	0	26	1	28
Total Booked value:	3 838	46 034	26	49 898

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

31.12.2017

Name and domicile of the company	Shares in %	Registered capital	Reserves	Profit/loss for the period	Shareholders' equity
<i>Subsidiaries</i>					
Euro-Immat Üzemeltetési Kft. 1134 Bp. Kassák L. u. 18.	100	4 758	-3 266	-125	1 367
Exter Adósságkezelő Kft. 1134 Bp. Kassák L. u. 18.	100	13	-10	5	8
Extercom Vagyonkezelő Kft. 1134 Bp. Kassák L. u. 18.	100	25	348	-49	324
Exter-Estate Kft. 1134 Bp. Kassák L. u. 18.	100	4	137	-1	140
Exter-Immo Zrt. 1134 Bp. Kassák L. u. 18.	100	102	174	-14	262
Exter-Reál Kft. 1134 Bp. Kassák L. u. 18.	100	4	34	-39	-1
MEDISTER Kft. * 1134 Bp. Kassák L. u. 18.	100	3	-2 123	-25	-2 145
MKB Befektetési Alapkezelő Zrt. 1056 Bp. Váci u. 38.	100	100	174	467	741
MKB Kockázati Tőkealap-kezelő Zrt. 1056 Bp. Váci u. 38.	100	11	99	-19	91
MKB Consulting Kft.* 1056 Bp. Váci u. 38.	75	12	6	7	25
MKB Inkubátor Kft. 1132 Bp. Nyugati tér 5.	100	10	330	-74	266
MKB Jelzálogbank Zrt. 1134 Bp. Kassák L. u. 18.	100	2 000	1 990	-153	3 837
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft. 1134 Bp. Dévai u. 23.	100	50	566	-16	600
MKB Üzemeltetési Kft. 1134 Bp. Kassák L. u. 18.	100	37 526	-2 912	73	34 687
MKB-Euroleasing Autóhitel Zrt. 1134 Bp. Lőportár u. 24.	74+(26)	50	-733	454	-229
MKB-Euroleasing Zrt. 1134 Bp. Lőportár u. 24.	100	50	2 193	195	2 438

* 31.12.2016 data
Data in () means participation.

16. Intangible assets

31.12.2017

Gross value	Rights and titles	Goodwill	Software	Other	Total
Opening balance	4 641	0	16 982	3 920	25 543
Acquisition	0	0	0	5 881	5 881
Activation	224	0	623	0	847
Other increase	0	0	0	0	0
Disposal	-41	0	0	0	-41
Other decrease	0	0	0	-1 524	-1 524
Closing balance	4 824	0	17 605	8 277	30 706
De pre ciation					
Opening balance	3 719	0	14 025	0	17 744
Scheduled depreciation	461	0	1 052	0	1 513
Extraordinary depreciation	0	0	0	0	0
Other increase	0	0	0	0	0
Disposal	-41	0	0	0	-41
Other decrease	0	0	0	0	0
Closing balance	4 139	0	15 077	0	19 216
Total:	685	0	2 528	8 277	11 490

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	0	524	0	1 075
Other increase	0	0	0	0	0
Disposal	0	0	0	0	0
Other decrease	0	-270	0	-1 076	-1 346
Closing balance	4 641	0	16 982	3 920	25 543
De pre ciation					
Opening balance	3 239	270	12 742	0	16 251
Scheduled depreciation	480	0	1 283	0	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
Closing balance	3 719	0	14 025	0	17 744
Total:	922	0	2 957	3 920	7 799

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

On 31 December 2017 the non-activated items of intangible assets are included in the other categories. The HUF 1 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	31.12.2016	31.12.2017	Change
Opening balance	2 039	2 045	6
Additions	6	13	7
Reclassification	0	0	0
Other increase	0	0	0
Write-offs	0	0	0
Disposals	0	0	0
Other decrease	0	0	0
Closing balance	2 045	2 058	13
Depreciation			
Opening balance	831	921	90
Scheduled depreciation	90	92	2
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
Closing balance	921	1 013	92
Total:	1 124	1 045	-79

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

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

Gross value	31.12.2016	31.12.2017	Change
Opening balance	2 086	2 231	145
Activation	245	566	321
Other increase	0	0	0
Disposals	-43	-248	-205
Transferred without consideration	0	0	0
Write-offs (special depreciation)	0	0	0
Other decrease	-57	0	57
Reclassification	0	0	0
Closing balance	2 231	2 549	318
Depreciation			
Opening balance	1 413	1 502	89
Small value depreciation	0	0	0
Scheduled depreciation	177	182	5
Extraordinary depreciation	2	0	-2
Devaluation reverse of Extraordinary depreciation	0	0	0
Transferred without consideration	0	0	0
Write-offs (special depreciation)	0	0	0
Decrease due to disposal	-33	-185	-152
Other increase and decrease	-57	1	58
Move +/-	0	0	0
Closing balance	1 502	1 500	-2
Total of equipment, machinery, tools and vehicles:	729	1 049	320

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

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

Gross value	31.12.2016	31.12.2017	Change
Opening balance	0	10	10
Purchase	262	708	446
Purchase of small value equipment	0	0	0
Capitalisation (Additions to fixed assets)	-252	-615	-363
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	-10	-10
Closing balance	0	0	83
Total:	10	93	83

Fixed assets of non-financial services

d) Movements in premises

Gross value	31.12.2016	31.12.2017	Change
Opening balance	38	38	0
Capitalisation	0	0	0
Disposals	0	0	0
Other decrease	0	0	0
Closing balance	38	38	0
Depreciation			
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
Closing balance	3	3	0
Total of premises:	35	35	0

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

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

Gross value	31.12.2016	31.12.2017	Change
Opening balance	29	29	0
Activation	0	0	0
Other increase	0	0	0
Disposals	0	0	0
Other decrease	0	0	0
Closing balance	29	29	0
Depreciation			
Opening balance	2	3	1
Scheduled depreciation	1	0	-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
Closing balance	3	3	0
Total of equipment, machinery, tools and vehicles:	26	26	0

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

18. Inventories

	31.12.2016	31.12.2017	Change
Purchased goods	523	438	-85
- materials	122	38	-84
- manufactured goods	0	0	0
- commercial goods	401	400	-1
- disposal for stocks	0	0	0
- others	0	0	0
Stocks received for settlement of a claim	0	0	0
- property	0	0	0
- equipment, machinery, tools and vehicles	0	0	0
- others	0	0	0
Subcontractor's fulfillment	0	0	0
Impairment	0	0	0
Total of inventories:	523	438	-85

19. Accrued income and deferred expenses

	31.12.2016	31.12.2017	Change
Accrued income M:107	14 901	17 478	2 577
Interest	13 680	15 471	1 791
Others	1 221	2 007	786
Accrued costs M:108	1 005	777	-228
Bond issue	2	1	-1
Others	1 003	776	-227
Total	15 906	18 255	2 349

20. Liabilities

a) Maturity structure of liabilities

Maturity Structure of short term liabilities 31.12.2017

Item	Within 3 months	Over 3 months within 1 year	Long-term liabilities due within 1 year	Total
Liabilities to financial institutions	6 000	28	23 966	29 994
Savings deposit	0	0	0	0
Liabilities to customers	122 943	138 783	13 731	275 457
Total	128 943	138 811	37 697	305 451

Maturity Structure of long term liabilities 31.12.2017

Item	Within 3 months	Over 3 months within 1 year	Long-term liabilities due within 1 year	Total
Liabilities to financial institutions	26 404	205 752	-23 966	208 190
Savings deposit	7	0	0	7
Liabilities to customers	60 510	36 709	-13 731	83 488
Total	86 921	242 461	-37 697	291 685

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

To Financial Institutions

31.12.2017

Currency	FX	HUF
EUR	174 310 983	54 061
USD	5 676 300	1 469
Total		55 530

To Customers

31.12.2017

Currency	FX	HUF
CHF	351 857	93
EUR	7 527 237	2 334
GBP	118 612	41
USD	3 372 227	873
Total		3 341

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

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

31.12.2017

Type of liability	HUF
To Financial institutions	150 222
To Customers	33 368
Total	183 590

d) Liabilities with remaining maturities over 5 years

To Financial institutions

31.12.2017

Type of liability	HUF
FX liabilities	2 900
HUF liabilities	107 975
Total	110 875

To Customers

31.12.2017

Type of liability	HUF
FX liabilities	13
HUF liabilities	47
Total	60

e) **FX liabilities**

Data in thousand FX or million HUF

31.12.2017

Currency	FX Hungary		FX abroad	
	FX	Forint	FX	Forint
USD	252 338	65 310	214 164	55 430
CHF	25 177	6 678	2 786	739
JPY	92 238	212	1 740	4
EUR	997 298	309 302	185 464	57 520
EGYÉB	303 475	11 995	31 857	3 107
Total		393 497		116 800

Data prepared on original maturity.

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

31.12.2017				
	M:142	M:146	M:150	M:193
Euro-Immat Üzemeltetési Kft.	60	0	0	0
Euroleasing Kft.	1	0	0	0
Exter Adósságkezelő Kft.	10	0	0	0
Extercom Kft.	218	0	0	0
Exter-Estate Kft.	44	0	0	0
Exter-Immo Zrt.	264	0	0	0
Exter-Reál Kft.	25	0	0	0
I.C.E Kft.	4	0	0	0
Medister Kft.	78	0	0	0
MKB Befektetési Alapkezelő Zrt.	438	0	0	0
MKB Jelzálogbank Zrt.	38	0	3 800	0
MKB Kockázati Tőkealap-kezelő Zrt.	93	0	0	0
MKB Nyugdíjpénztárt és Egészségpénztárt Kiszolgáló Kft.	1 250	6 043	0	0
MKB Üzemeltetési Kft.	7 905	546	0	0
MKB-Euroleasing Autóhitel Zrt.	189	0	0	1
MKB-Euroleasing Autólízing Zrt.	51	0	7	0
MKB-Euroleasing Zrt.	44	0	0	0
Retail Prod Zrt.	53	0	0	0
Affiliated companies total:	10 765	6 589	3 807	1

Liabilities from significant participations of MKB Bank

31.12.2017				
	M:143	M:147	M:151	M:194
MKB-Pannónia Alapkezelő Zrt.	0	0	0	0
Pannonhalmi Apátság Pincészet Kft.	200	0	0	0
Total:	200	0	0	0

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

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

31.12.2017

	M:144
Budapesti Értéktőzsde Zrt.	690
CIG Pannónia Életbiztosító Nyrt.	40
GARANTIQA Zrt.	13
Kisvállalkozás-fejlesztő Pénzügyi Zrt.	6
MKB Bank Teljesítményjavalmazási MRP Szervezet	7
Total:	756

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:

	31.12.2017	31.12.2017
Securities:	1 282 405	1 720 826
Money instruments owned by customers:	252	367
- other bank keeps the account	105	182
- MKB keeps the account	147	185

i) Subordinated debt capital

31.12.2017

Series	Issuance	Issue date	Maturity date	Interest	Currency	Amount in currency	Amount (MHUF)
MKB subordinated 2024/A Bond	Private	26.05.2017	14.06.2024	Fix	EUR	70 000 000	21 710
Total subordinated loan capital:						70 000 000	21 710

21. Accruals and deferred income

Denomination	31.12.2017	31.12.2017	Change
Deferred income M:203	275	382	107
Safe fees	1	1	0
Other	274	381	107
Accrual of costs and expenditures M:204	8 688	11 950	3 262
Interests payable	5 497	6 679	1 182
Wage and associated costs	0	3 241	3 241
Expert fees	211	572	361
Others	2 980	1 458	-1 522
Deferred income M:205	19	19	0
Deferred income	19	19	0
Total:	8 982	12 351	3 369

22. Issued bonds

31.12.2017

Reference	Maturity	Original currency	Par value amount in original	Par value amount in HUF million
MKB USD Fix 20180223 Kötvény	2018.02.23	USD	6 087 200	1 575
MKB ÁRFOLYAMSÁV 20180223	2018.02.23	HUF	674 800 000	675
MKB ÁRFOLYAMSÁV 20180323	2018.03.23	HUF	741 600 000	742
MKB DK 2018/A	2018.06.15	HUF	299 880 000	300
MKB Európai Részvény Indexált Euró 201811	2018.11.08	EUR	10 323 600	3 201
MKB SVÁJCI RÉSZVÉNY IND. 20190207 KÖ	2019.02.07	HUF	1 615 380 000	1 615
MKB DK 2019/A	2019.04.30	HUF	78 660 000	80
MKB EURÓPAI RÉSZVÉNY IND. HUF 20190	2019.05.09	HUF	1 219 960 000	1 220
MKB NÉMET RÉSZVÉNY INDEXÁLT 20190	2019.07.02	HUF	2 155 370 000	2 155
MKB DK 2020/A	2020.04.30	HUF	49 980 000	50
MKB DK 2021/A	2021.04.30	HUF	49 980 000	50
MKB DK 2022/A	2022.04.30	HUF	21 300 000	21
Összesen:				11 684

23. Movements of provisions

31.12.2017

Line	Title	Opening balance	Increase in 2017	Release at rating, utilization of provision			Effect of FX rates' change	Closing balance
				Utilization in 2017	Utilization in 2016	Release in 2016		
M 207	Provisions for pension and payoff	0	0	0	0	0	0	0
M 208	Provisions for contingent liabilities	2 243	1 233	0	789	0	0	2 687
M 209	General risk reserve	0	0	0	0	0	0	0
M 210	Other reserve	1 317	11	0	918	147	-83	180
Total:		3 560	1 244	0	1 707	147	-83	2 867

The Bank did not allocated provision for affiliated companies.

24. Equity

a) Nominal value and number of shares

31.12.2017

Share	Number of shares issued	Nominal value HUF/piece	Registered share capital
Class „A” share	100 000 000	1000	100 000
Closing total:		1 000	100 000

There were no changes in the registered share capital in 2017.

b) Ownership structure of MKB

Key shareholders	Proportion as percentage of registered capital
2017	
Metis Magántőkealap	45.00%
Blue Robin Investments S.C.A.	26.00%
Pannónia Nyugdíjpénztár	10.00%
MKB Bank MRP Szervezet	15.00%
RKOFIN Befektetési és Vagyonkezelő Kft.	4.00%
Összesen:	100.00%
2016	
Metis Magántőkealap	45.00%
Blue Robin Investments S.C.A.	30.00%
Pannónia Nyugdíjpénztár	10.00%
MKB Bank MRP Szervezet	15.00%
Total:	100.00%

The owners of the Bank are: Blue Robin Investments S.C.A, METIS Magántőkealap, and Pannónia Nyugdíjpénztár in consortium. In 2017 RKOFIN Befektetési és Vagyonkezelő Kft. acquired 4% participation in MKB Bank Zrt.

c) **MKB Zrt shareholders' equity**

31.12.2017

Item	Total
Issued capital	100 000
- Opening balance	100 000
- Capital decreasing	0
Total capital reserves	19 131
- Share premium	19 131
Opening balance	19 131
Capital decreasing	0
- Other	0
Opening balance	0
Capital decreasing	0
Profit reserves	9 123
- Opening balance	0
- Profit on the previous year	9 123
- Correction	0
Locked-up reserves	0
Opening balance of Capitalized value of foundation and restructuring expenses	0
- Depreciation on capitalized value of foundation and restructuring expenses	4 097
General reserves	1 014
Opening balance	3 083
Addition in 2017	1 220
Revaluation reserves	6 506
Adjustment to opening balance	-5 287
Movement in 2017	1
Profit on the period	27 744
Profit after taxation	30 827
Utilization of General reserves	3 083
Total Shareholders' Equity:	161 315

There were no major changes in capital structure in 2017.

25. Off-Balance-Sheet Items

31.12.2017

Contingent liabilities	
Guarantees (HUF and FX)	146 052
Import and certified export letter of credit	13 881
Undrawn credit line	314 291
Liabilities subject to legal proceedings	86 478
Liabilities arising from option transactions	253
Repurchase agreements	0
Other	9 970
Total	570 925

Future receivables	
Interest swap	120 032
Receivables from other futures transactions	533 220
Total	653 252

Future liabilities	
Interest swap	
- single-currency	17 565
- double-currency	93 577
Other liabilities arising from futures transactions	535 000
Total	646 142

Guarantees granted	
Bank guarantee in HUF	131 762
- granted with maturity within the year	7 820
- granted with maturity beyond the year	123 942
Bank guarantee in FX	14 290
- granted with maturity within the year	2 784
- granted with maturity beyond the year	11 506
Total	146 052

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

Undrawn credit lines:	31 429 million HUF
Granted guarantees:	7 303 million HUF

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
Total	489 451

Future receivables	
Interest swap	101 253
Receivables from other futures transactions	502 985
Total	604 238

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

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

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

26. Secured assets and commitments (Financial services)

Type of secured assets and commitments	31.12.2016	31.12.2017
Cash deposit	22 196	29 987
Debt securities issued by	34 791	40 876
- Central governments	27 016	4 457
- Companies	7 775	36 419
- Others	0	0
Shares	0	0
Mortgage	368 498	278 883
- Building	340 626	252 134
- Others	27 872	26 749
Guarantees from	249 648	258 778
- Central governments	246 845	242 203
- Other banks	1 962	4 669
- Companies	841	11 906
Others*	78 268	145 999
Total:	753 401	754 523

* 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	31.12.2016	31.12.2017
Shares	0	0
Other	0	0
Total:	0	0

28. Income structure

Item	2016	2017	Change
Interest margin	46 707	43 974	-5.9%
Dividends received	326	462	41.7%
Net income from commissions and fees	29 853	30 209	1.2%
Other non-interest income	3 260	31 767	874.4%
Gross operating income	80 146	106 412	32.8%
Tax expenses	-17 735	-18 021	1.6%
Other income and expenses	344	-928	-369.8%
Operating costs (including depreciation)	-35 654	-41 276	15.8%
Impairment, provision charge and amounts written-off	-13 239	-12 115	-8.5%
of which: - specific and industry-risk	-10 750	-11 643	8.3%
General risk provision	0	0	0.0%
Extraordinary profit and loss	1 482	207	-86.0%
Profit before taxation	15 344	34 279	-123.4%

During 2017, gross operating incomes increased to HUF 106.4 billion, which represents a 32.8% increase compared to the previous year. The unexpectedly significant decline of the BUBOR subscriptions and Forint money market conditions caused a slightly decline (HUF 2.7 billion) in the interest income which was balanced in the income structure by the increase of the net interest and fees income by HUF 0.4 billion and the increase of other non-interest income by HUF 28.5 billion.

The increase of non-interest income was an effect of the exchange-rate gains by HUF 25.9 billion, the valuation difference by HUF 4.5 billion, and the change in FRA transactions by HUF 1 billion. The loss on IRS transactions by HUF 2.6 billion did not influence the gain on non-interest income.

The operating costs increased in 2017 by HUF 5.6 billion, which was 15.8%. The Wages and Salaries increased by HUF 3.4 billion, the Social contribution increased by HUF 187 million, and the Other Administrative expenses increased by HUF 1.99 billion.

In 2017 provision, impairment and direct write off were shrinking by HUF 1.1 billion, which was due to a better loan portfolio thanked to a huge portfolio-cleaning process started a few years ago.

29. Bank income indicators

Components as a percentage of gross operating income

Item	2016(%)	2017(%)
Interest margin	58.28%	41.32%
Dividends received	0.41%	0.43%
Net Income from commissions and fees	37.25%	28.39%
Other non-interest income	4.06%	29.85%
Gross operating income	100.00%	100.00%
Tax expenses	-22.13%	-16.94%
Other income and expenses	0.43%	-0.87%
Operating costs (including depreciation)	-44.48%	-38.79%
Impairment, provision charge and amounts written-off	-16.52%	-11.39%
<i>of which: - specific and industry-risk</i>	<i>-13.41%</i>	<i>-10.94%</i>
General risk provision	0.00%	0.00%
Extraordinary profit and loss	1.85%	0.19%
Profit before taxation	19.15%	32.21%

Components as a percentage of average total assets

Item	2016 (%)	2017 (%)
Interest margin	2.29%	2.11%
Dividends received	0.02%	0.02%
Net Income from commissions and fees	1.46%	1.45%
Other non-interest income	0.16%	1.53%
Gross operating income	3.93%	5.11%
Tax expenses	-0.87%	-0.87%
Other income and expenses	0.02%	-0.04%
Operating costs (including depreciation)	-1.75%	-1.98%
Impairment, provision charge and amounts written-off	-0.65%	-0.58%
<i>of which: - specific and industry-risk</i>	<i>-0.53%</i>	<i>-0.56%</i>
General risk provision	0.00%	0.00%
Extraordinary profit and loss	0.07%	0.01%
Profit before taxation	0.75%	1.65%

Average total assets: HUF: 2 036 799 million (2016), and HUF 2 080 952 million (2017).

30. Operating costs

Cost items	2016	2017
Salaries, wages and other staff-related expenses	15 733	19 609
Other administrative expenses (material-type expenses)	17 891	19 879
Total general costs	33 624	39 488
Depreciation	2 030	1 788
Total operating costs:	35 654	41 276

31. Changes in active headcount numbers

Date	Number of active staff	Branches in the Countryside Number of branches	Countryside Staff	Branches in Budapest Number of branches	Budapest Staff	Headquarter Staff
31.12.2016	1 770	54	417	19	202	1 151
31.12.2017	1 777	51	417	18	192	1 168

32. Revenues from and expenditures

a) Revenues from and expenditures on affiliated and associated companies

2017

Affiliated companies	E:7	E:11	E:22	E:26	E:31	E:63	E:84	E:88
Subsidiaries	1 593	108	133	1	60	154	3	363
Total Related parties:	1 593	108	133	1	60	154	3	363

2017

Significant participations	E:8	E:12	E:23	E:27	E:32	E:64	E:85	E:89
Significant equity holdings	7	0	3	0	0	0	0	0
Total:	7	0	3	0	0	0	0	0

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

b) Revenues from and expenditures on other companies

Name of the company	E:13	E:24	E:28
Other associated enterprises	4	1	1
Total:	4	1	1

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

c) Interest not accrued as at

31.12.2017

	Interest	Penalty interest	Fee	Total
HUF	16 122	27 933	180	44 235
FX	699	1 006	0	1 705
Total:	16 821	28 939	180	45 940

31.12.2016

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

d) Income and Expenses from investment services

2017

Item	Income	Expenses
	Line E: 25. and 49.	Line E: 34. and 55.
from activities of securities issue	4 675	1
from trust activities	2 275	607
from trade activities	75 488	70 992
- of which: devaluation	29	1 481
- of which: valuation difference	16 594	25 139
from deposit fee	49	244
from other activities	1 193	188
Total:	83 680	72 032

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
Total:	80 275	82 044

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

The net result of investment services in 2017 increased from HUF -1.8 billion to HUF 11.6 billion, which is the result of decreased expenses of commercial activity. From the result of commercial activity the valuation difference was HUF -8.5 billion.

The result from activities of securities issue was HUF 4.6 billion, which is HUF 967 million decrease compared to the previous year.

e) Effect of other derivatives for cash flow:

Type of derivatives	2016	2017
CPO	0	0
CRS	-73	149
FRA	-2	860
FWD	-380	-3 904
FXFUT	-710	-89
FXSW	4 256	-4 905
IRS	-833	-4 732
Total:	2 258	-12 621

33. Human resources

a) Wages and other personal costs and other supplementary information

2017

Categories	Average number of employees	Wage	Personal payments
Total full time	1 740	14 008	1 591
- Professional	1 723	13 910	1 583
- Other	17	98	8
Total part time	53	381	10
- Professional	53	381	10
- Other	0	0	0
Retired employees	8	22	1
Total:	1 801	14 411	1 602

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

2017

Remuneration	
Members of Supervisory board	118
Members of Board of directors	380
Total:	498

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

Loans	Amount lent	Repayment of principal in 2017	Repayment of interests in 2017	Remaining principal debt
Members of Supervisory board	31	1	0	5
Members of Board of directors	79	7	1	131
Total:	110	8	1	136

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.

The members of the Board of Directors on 31 December 2017:

- János Jaksa (chairman)
- Imre Kardos
- Balázs Benczédi
- Rakesh Kumar Aggarwal
- dr. Ádám Balog
- dr András Csapó
- Márk Hetényi

The members of the Supervisory Board on 31 December 2017:

- dr. Mihály Barcza (chairman)
- dr. Ádám Lovászi-Tóth
- Tibor Lados
- Albert Godena
- János Nyemcsok
- Ferenc Müller

The underwriters of financial report are the following responsible leaders: Dr. Ádám Balog and Csaba Gábor Fenyvesi.

d) Loans of associated partners

Currency	Actual principal
CHF	131
EUR	10 381
HUF	110 032
Total:	120 544

This list contains the loans of associated partners. Details of the loans can be found in the table 9 f).

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

Type of cost	2016	2017
Costs of stock sold	2	0
Costs of intermediated services	1 462	2 285
Other	481	849
Total (P/L: 83.):	1 945	3 134

35. Changes in impairment

2017

Line	Title	Opening balance	Increase in 2017	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	121 824	28 401	18 833	9 388	-580	121 424
M 100	Other receivables	1 209	142	56	744	0	551
	Total receivables	123 033	28 543	18 889	10 132	-580	121 975
M 3	State bonds	153	1 460	0	0	4	1 617
M 52	Debt securities incl. fixed-income securities	29	22	29	0	0	22
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	295	0	0	47
M 78	Shares and participating interests in affiliated undertakings	36 909	229	0	0	0	37 138
M 99	Stocks	0	0	0	0	0	0
Total:		160 499	30 254	19 213	10 132	-576	160 832

In 2017, the amount of total impairment increased from HUF 160.5 billion to HUF 160.8 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 2017 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	31.12.2016	31.12.2017
Supplementary Tax for financial institutions	1 193	0
Special Tax of Credit Institutions	4 961	1 979
Corporate Profit Tax	222	1 441
Corporate Profit Tax due to the self-revision of the previous years	2	0
Corporate Profit Tax paid abroad	22	32
Financial Institutions' allowance*	126	0
a) to be paid after state-aided loans	121	0
b) to be paid after the amount of 50% of OVP's released claims	5	0
Personal Income Tax	2 075	2 208
Personal Income Tax due to the self-revision of the previous years	1	0
Personal Income Tax due to capital incomes	1 253	1 464
Supplementary Tax for employees**	-30	14
VAT (ÁFA) ***	744	398
a) to be paid	757	415
b) deductible	13	17
Innovation contribution	412	468
- thereof NAV revision in 2014 for years 2008-2010 ****	-62	0
Rehabilitation contribution	82	100
Vocational training contribution	198	214
Vehicle tax	31	33
Penalty, late charges	39	0
- thereof NAV revision in 2014 for years 2008-2010 ****	-57	0
Self-revision charges	0	0
Other tax payment liability due to self-revision	0	0
Transaction duty	11 020	11 463
Health contribution	410	275
- thereof reduced from interest incomes*****	226	0
Social security contributions	6 005	5 778

*From 1 January 2017 the law of credit institution tax liability has ceased.

**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 1 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 was 10% in 2016, and it is 9% in 2017, 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	31.12.2016	31.12.2017
Profit before taxation	15 344	34 279
Items reducing the tax base (-)	6 997	3 755
Items increasing the tax base (+)	6 898	3 477
Tax base	15 245	34 001
Calculated tax	222	1 441
Tax concession	0	0
Corporate tax payable 30% Corporate tax after payments for foreigners*	5 207	3 452
- thereof: Corporate tax for current year Prior year supplementary taxes	222	1 441
Corporate tax, Supplementary tax for prior years	2	0
Special Tax of Credit Institutions	4 961	1 979
Corporate Profit Tax paid abroad	22	32
Profit or Loss after tax	10 137	30 827

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

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

Item	31.12.2016	31.12.2017
Use of provisions made for expected liabilities and future costs	4 024	388
Amount of depreciation taken into account in accordance with the Corporate Income Tax Act.	2 311	2 088
Amount of dividends and profit distributions received	326	461
Amount given for foundations and other public obligations	1	11
Received penalty according to NAV revision, charges on arrears	52	783
Amount settled as incomes in accordance with tax self revision	62	0
Amount settled as incomes in accordance with the surplus of booking value of write off shares	0	0
Impairment reversed on receivables	7	0
Other	214	24
Total:	6 997	3 755

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

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

Item	31.12.2016	31.12.2017
Provisions for expected liabilities and future costs	534	890
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	2 043	1 929
Cost related to non-entrepreneurial activities and activities that do not generate revenue	4 154	291
Impairments accounted for on receivables in the tax year	40	88
Penalties, fines	38	20
Given contribution without repayment obligation	0	0
Not considered as uncollectible and forgiven debts	69	224
Other	20	35
Total:	6 898	3 477

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

Item	31.12.2016	31.12.2017
Total Assets *	2 897 590	1 974 411
Items reducing the tax base (-)	364 265	91 158
Items increasing the tax base (+)	982	0
Adjusted Total Assets	2 534 307	1 883 253
Banking tax calculated on adjusted total assets **	6 037	1 979
Banking tax calculated on investment activities ***	117	0
Total Banking tax	6 154	1 979
Special Tax of Credit Institutions	4 961	1 979
Adjusted Bank tax	1 193	0

*Bank tax in 2016. was calculated based on the report of 2009., while in 2017. the bank tax was calculated based on the report of 2015.

**In 2017 there was a reducing item in Banking tax calculated on adjusted total assets: the amount (HUF 29 million) sent to Kárrendezési Alap, and in the remaining 50% (HUF 1916 million) they offered the tax to team sport organizations.

*** From 1 January 2017 the law of tax liability based on investment activity has ceased.

f) Tax obligations to be settled with local governments

Item	31.12.2016	31.12.2017
Local business tax	2 735	3 109
Building tax	2	2
Vehicle tax	8	8

It can be established, that in 2017 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.

Other local tax obligation had not changed significantly.

MKB Bank Zrt. fully met its tax payment obligations regarding the municipal taxes in 2017.

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 2017:

The base of the insurance premium	HUF 1 094 697 million
The average size of the insured deposit	HUF 6.5 million
The fee payable for 2017	HUF 697 million

*On condition, that from 3. July 2016 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, 2017, 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 657 million protection fees in 2017.

*HUF amount of 100 thousand EUR per Investors

39. Allocation of profit for the year 2017

2017		
1.	Profit or Loss before taxation	34 279
2.	Taxation	3 452
3.	Profit or Loss after taxation	30 827
4.	Utilization of General Reserves	3 083
5.	Result for the year	27 744

40. Auditor

Auditing is compulsory at MKB Bank Zrt.

Auditor of MKB Bank Zrt:

Deloitte Könyvvizsgáló és Tanácsadó Kft.

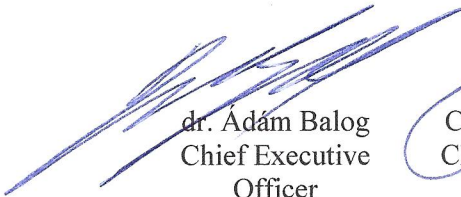
Chartered auditors (Chamber of Hungarian Auditors registration number: 000083)

Audit fee payable for 2017	
Audit fee	88
Other certification survey	27
Other advising activity (accounting, tax)	0
Non auditory services	10
Total:	125

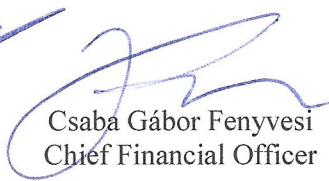
The person who is responsible for the audit:

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, 04 April 2018.



dr. Ádám Balog
Chief Executive
Officer



Csaba Gábor Fenyvesi
Chief Financial Officer

41. Events after the end of the reporting period

On 28-29 December, 2017, Blue Robin Investments and Pantherinae Pénzügyi Zrt. bought 10 million ordinary shares at 1,000 HUF face value from Pannónia Pension Fund. During the transaction Pantherinae Pénzügyi Zrt. acquired 3.1 % of sharing the Bank, the share of Blue Robin Investments S.C.A. increased from 26%, to 32.9%, the share of Pannónia Pension Fund was ceased. The fact of the purchase was entered in the Shareholder Register on 4 January 2018.

On 31 December, 2017, a large loan-portfolio was reclassified to non-current assets held for sale in net amount of HUF 21 648 million. According to the contract transferring of the loan-portfolio must be performed in two parts in 2018. The first package was transferred at the beginning of February 2018.

After the end of the reporting period there were changes in the Composition of the Governing bodies of MKB Bank Zrt. From 14 February 2018 the mandate of Rakesh Kumar Aggarwal, the member of Board of Directors, was ceased. From that date Drabik Zsolt's membership of the Board of Directors has been taken legal effect. On 2 March 2018 Supervisory Board's membership of Szemerey Tamás Béla entered into force. New members were designated by Blue Robin Investments S.C.A., the preferential shareholder, for the next 5 years from the assignment; the appointment was supported by Nomination Committee of MKB Bank Zrt., and the National Bank of Hungary authorized it, new members signed the Declaration of Acceptance.

On 9 March 2018 there was a private placement of subordinated bond in nominal amount of EUR 15 million with maturity of 14 June 2024."

BUSINESS REPORT

OPERATING ENVIRONMENT

International macroeconomic environment

With regard to global developments, 2017 was characterised by gradually improving macroeconomic environment, low volatility, persistently low inflation expectations and the related monetary policy dilemmas.

The Fed raised interest rates three times, respectively in March, June and December and, in October 2017, began to gradually reduce its approximately USD 4,500 billion balance sheet, effectively stepping on the path of quantitative tightening. In the last month of the year, market sentiment was shaped mainly by the expectations of the American tax overhaul.

At the same time, the ECB and the Japanese central bank decided to extend its scheme of asset purchases in 2018, which further increased the global liquidity surplus. In the Eurozone, business climate indices hit six-year records during the year, while the modest inflation expectations confirmed the continuation of the loose monetary policy. In the first half of the year, the European political risks dropped significantly, however, in the last month, the stalling negotiations in reorganizing the Catalan and German government cast a shadow on the overall picture. The Brexit talks entered into a new phase at the end of 2017, focusing on the issues of transition and the system of relations that will follow the UK exit.

In January 2018, the International Monetary Fund revised up its forecast for the global economic growth in 2018-2019' projecting 3.9% global growth for both 2018 and 2019, which is 0.2 percentage points higher than the prognosis published in October 2017. According to the IMF, the risks of global growth, driven mostly by the economic performance of the developing countries are balanced in the short term, but in the medium term the geo-political tensions, political uncertainties and the surfacing protectionist tendencies of certain countries pose downward risks.

Hungarian macroeconomic environment

In 2017, the average GDP growth was 4.0% in Hungary with the expansion fuelled by accelerating capital investments and the favourable external business climate. Due to the major sports events held in the summer, tourism and services grew dynamically, while the construction industry benefitted from the increase in EU projects and housing and office construction projects. Consumer prices rose on average by 2.3% in 2017. The volume of savings also grew owing to the wage contribution cuts and minimum wage increase: the financial assets held by residents expanded by 7.7% on an annual basis in Q3 2017. Household spending was also up in 2017. The unemployment rate stabilised at a low level and the shortage of labour still remained the characteristic of certain sectors in the second half of 2017.

In 2017, the National Bank of Hungary gradually reduced the three-month deposit stock (from HUF 900 billion at the beginning of the year to HUF 75 billion by December) without changing the reference rate. A number of new components were added to the unconventional monetary toolset. In the first half of the year, the central bank introduced 6 and 12-month FX swap tenders which could contribute to maintain an abundant liquidity for an extended period in the inter-bank market. As a result of the step, the Hungarian short-term inter-bank rates fell into the negative territory. In November 2017, decisions were taken to introduce two new unconventional tools aimed at maintaining the loose monetary policy.

In 2017, the EUR/HUF exchange rate fluctuated around the 309 level with moderate volatility (on average 309.24).

Overview of the banking sector¹

The favourable profitability trends of the Hungarian credit institution sector continued in 2017: Credit institutions reported HUF 694.0 billion profit before tax in 2017, which was up by 38% over the already record-high profit before taxation booked in the same period of the previous year. However, such a high profit level was partly the result of one-off, non-repetitive one-off items and impacts or structural effects, such as reversed impairment or the effect of reduced banking tax following the stabilisation of the budget. Due to the favourable macro-economic environment, portfolio cleaning and the significantly better quality of extended new loans, impairments and provision were released, which increased the profit. In the credit institutions sector, the ratio of loans overdue for more than 90 days sank to 7.6% in the household segment and dropped to 3.3% in the non-financial corporate segment.

In 2017, the capital requirements for banks were raised: apart from the increase in the capital maintenance buffer, a capital buffer was also introduced for other systemically significant institutions and a systemic risk capital buffer was required for non-performing project loans. Beside these measures, the capital position of the banking system still remains stable; at the end of 2017 the capital adequacy ratio was at 20.5%, while the historically high profits can further increase the capital buffer of the sector.

At the end of 2017, the total assets of the credit institutions were close to HUF 36.4 thousand billion. The net loan portfolios of domestic non-financial companies and households expanded by 12.7% and 4.6%, respectively. The lending practises of the corporate segment were supported by the favourable macroeconomic trends, low interest rates and the support of the continued Market-based Lending Scheme (MLS). While in the retail business the increasing consumption, improving labour market trends, a growth in real-wages due to the low inflationary environment and the dynamic housing market, gave momentum to both housing and personal loans.

MKB expects the banking system to further reinforce its position: the favourable tendencies in lending business will continue, while demand for the investment and consumption will drive up lending volume growth in the retail and corporate segments. In terms of profitability, an increase in lending mitigates the effect of low interest rates.

¹ Source: National Bank of Hungary, HAR, non-consolidated, preliminary data

Numerous innovations have been made in 2017 and are on-going in the banking sector for which customers are the direct beneficiaries: the digital shift, including the further introduction of an instant payment system, means faster, more efficient and cheaper products and services for customers, while the Certified Consumer Friendly Housing Loan created by the National Bank of Hungary strengthens the banking system competition and increases the transparency of the loan products and their comparability as well.

PERFORMANCE OF MKB BANK IN YEAR 2017

MKB Bank Zrt.'s (nonconsolidated) total assets under HAS was HUF 2,062.7 billion at the end of 2017, representing a 1.7% decrease. The portfolio of customer loans expanded by 1.7% to HUF 878.5 billion, while the customer deposit portfolio grew slightly by 1.9% to HUF 1,547.4 billion by the end of 2017. MKB Group's profitability improved significantly in 2017: it recorded HUF 34.3 billion pre-tax profit, relative to the HUF 15.3 billion in 2016. The Group's financial and business fundamentals, including capitalisation, liquidity, funding structure, balance sheet structure and the performance of its business lines, are stable..

PERFORMANCE OF THE BUSINESS LINES OF MKB BANK²

Retail segment

The aim is to place the retail business to a robust growth trajectory via increasing new customers, at the early phase of customer acquisition, relying partly on corporate affiliation and strategic co-operations of MKB, and with due time build upon the on-going digital developments and Fintech incubation programmes. This objective is supported by the improved processes, intensive product development and steps towards enhancing the digital customer experience, which enables the bank to provide retail customers more complex offers and a more complete product and service range. MKB is constantly developing its digital services in order to enable its customers to manage their finances faster and more effectively 24 hours a day.

Thanks to successfully implemented strategy, the number of customers has risen: the number of acquired new customers is almost 40% higher compared to previous year, while the number of customers leaving the bank dropped by two-thirds.

More than 21 thousand customers have joined the loyalty scheme of the MKB Pláza established at the end of 2016, benefiting from the preferential terms and conditions offered by 157 companies.

In 2017, there was a rapid rise in the new loans extended by the Bank to retail customers: the disbursed mortgage loan portfolio grew almost by 250%, while the disbursement of new personal loans increased by nearly 200%. The majority of the retail loans are secured: 91% of the portfolio is made up of mortgage loans for home purchases and all-purpose mortgage loans. The Bank's External Sales Partners also made valuable contributions to an increase in the loan portfolio.

The household assets managed by the Bank exceeded HUF 740 billion by the end of the year. The transformation of the structure of savings continued to follow the specificities of the low interest rate environment: while the share of term deposits and bonds was gradually decreasing, the assets in investment funds and government securities were rising.

² Source of information: Hungarian National Bank (MKB analysis)

Branch network and alternative sales channels/digitisation

In addition to its national network of 69 branches (24 branches in Budapest and the surrounding metropolitan area and 45 branches in the countryside), the Bank uses external sales channels to provide its products. In 2016, it re-introduced sales through loan intermediaries, as a result of which MKB became a dominant player in the market of mortgage loans and small corporate products.

It is MKB's ultimate strategic goal to become Hungary's leading digital bank. Further significant steps were taken in 2017 to achieve this goal: the Bank was first to introduce a number of developments in the market. The number of customers banking digitally has been constantly rising and by the end of the year, two-thirds of customers were using digital channels.

In April 2017, MKB was one of the first in Hungary to introduce the mobile wallet service called MKB Pay. In Hungary, mobile wallet payment is considered to be in its infancy, but it is developing robustly and may soon become a general payment method. The use of MKB Pay also reflects the same tendency: more than 10% of the customers banking through their mobile phones already use the application.

The introduction of online account opening was one of the greatest novelties in 2017. MKB beat its competitors and was among the first to launch this new service. Following a videochat identification not only can a bank account be opened but customers can also immediately start using the bank cards attached to their accounts with the help of the MKB Pay application. MKB Bank was the only bank offering instant bank card virtualisation to its customers in 2017.

The number of mobile bank application users more than doubled in 2017, which means that 25% of digitally banking customers use their smartphones for banking. A number of new functions were added to the application in two phases, in the spring and in the autumn: with a unique option, customers can login through a push message and approve transactions in Netbankár (internet based finance-management), while MKB was the first bank in Europe to introduce facial recognition based identification, significantly enhancing security in mobile banking.

MKB was also the first bank among the Hungarian credit institutions to introduce online requests for mortgage loan offers for its retail customers, significantly shortening and simplifying the administration.

Our website was also revised during the year for easier orientation and more effective information, as a result of which the number of new visitors doubled.

The other part of the development concerns the areas of operation which are less visible for customers. The change in the core operational system (Flexcube) of the bank and the optimization of business processes all contributed to a large extent to the implementation of a customer-oriented approach. These developments being tailored to the needs of customers support a safe, rapid and simple process of customer administration, while enhancing customer experience.

Corporate and institutional customers

The strategic aim of MKB Bank, building upon on its traditional values, is to maintain a strong corporate business line focusing on local knowledge, responsible and professional servicing, advisory-based sales and orientation for innovative solutions. In 2017, MKB focused, increasingly on small and medium-sized enterprises, beside the traditional large corporate segment. All corporate customers irrespective of size are served within one business line helps to expand the Bank's small corporate business. This structure secures that MKB can provide its customers with uniformly consistent, high quality and effective services, following their development. MKB achieved outstanding success in the small corporate segment in 2017. Following a successful public procurement procedure, in the summer of 2017 MKB signed an intermediary agreement with Hungarian Development Bank (Magyar Fejlesztési Bank, MFB) for the establishment of 35 MFB Points in MKB branches, for the intermediation of MFB products and in order to enable customer access to refundable and non-refundable financing under favourable conditions. More than 200 trained colleagues manage customer requests at MFB Points opened by MKB. By the end of the year, the processing of transactions of more than HUF 8.5 billion began and the first disbursements were also made.

MKB continued its successful involvement in phase 3 of the Funding for Growth Scheme (FGS) of the National Bank of Hungary in the first quarter of the year, made further commitments in phase 2 of the Market-Based Lending Scheme (MLS) and considerably exceeded its overall MLS commitment in 2017. In addition, it also lent significant volumes in the framework of Eximbank's Export Promoting Credit Programme (Hungarian abbreviation: EHP). Financing products include card, working capital and investment loan facilities offered within the Széchenyi Programme. MKB Bank has played an outstanding role in the success of the Széchenyi Card Programme from the very beginning. By raising the maximum amount of loans to HUF 100 million, it now offers a flexible, even larger credit, facility which, combined with other MKB Bank products, creates a sound financial basis for micro, small and medium-sized enterprises. On the basis of the financing provided via the programme in 2017, the Bank had 20.3% market share, which secures the Bank a stable second position in the market. The Agricultural Széchenyi card instrument launched in 2016 must also be highlighted hence the Bank has already loaned approximately HUF 31.5 billion within this framework in 2017.

In the second half of 2017, the Bank founded the MKB Agricultural Competence Centre with the aim of providing the agricultural sector professional services such as key programmes, special financial products designed for the sector and expert advice. To promote the expert advisory services and to support the sector not only financially but also professionally, the bank entered into a strategic agreement with the Hungarian Chamber of Agriculture (NAK) and the National Association of Agricultural Machine and Equipment Distributors (MEGFOSZ).

In the large corporate segment, the Bank has maintained its strong market positions in lending and, among the large and medium-sized corporate customers, places great emphasis on offering effective financing instruments structured to suit individual requirements.

Investment services

MKB Group offers a wide ranges of investment banking services such as Private Banking, Asset Management, Consulting, Advisory in Capital Market and M&A, FintechLab, Venture Capital Fund management, MFB Points and Treasury. The aim is to exploit more intensively all means of cooperation within the group.

Apart from its own funds with a wide range of investment options, MKB-Pannónia Investment Fund Manager offers the products of five foreign and three Hungarian partners, available in the various customer segments. The sale of structured bonds and certificates was also added to the traded investment funds, thus expanding the spectrum of investment products.

MKB is a primary and contracted dealer of institutional and retail government securities. Within the framework of a distribution agreement, the Bank also sold the bonds of Diákhitelközpont, Hungarian Development Bank and FHB Mortgage Bank.

In the futures FX section of Budapest Stock Exchange, MKB became the stock exchange member with the second largest turnover in 2017.

MKB became a NOMAD (Nominated Advisor) in the recently founded SME market (Xtend) of the Budapest Stock Exchange at the end of the year. It started regular analyses in relation to Alteo and Masterplast shares and in 2018, the Bank regularly quotes bid and offer prices for the two securities for investors.

In 2017, the capital market and transaction advisory unit of MKB managed all, precisely four public purchase offers in the Hungarian capital market.

At the end of 2017, the National Bank of Hungary approved MKB's public issuance programme up to HUF 100 billion.

MKB Private Banking further strengthened its market positions in 2017. The business line managed more than HUF 420 billion assets of almost 2 thousand customers, which corresponds to a HUF 80 billion increase versus 2016. With that performance, the Private Banking business line made it into the top three players in the market. The average size of HUF 236 million assets managed for one customer stands out significantly from the market average. The opportunities involved in the cooperation between MKB Private Banking and MKB-Pannónia Investment Fund Manager may bring further important developments in investment banking, while the development incubated in MKB Fintechlab will also grant access to innovative services.

Premium investment services include customised sample portfolio-based investment consultancy and a broad array of products, customised products and personal liaising with highly qualified experts. The customer assets managed in the service launched in 2016 reached HUF 100 billion by the end of 2017.

Service quality and customer satisfaction

Customer satisfaction is a determining factor in our operations. The Bank is engaged in constant dialogue with its customers and regularly monitors their satisfaction. MKB Dialóg - an online Q&A query community platform for MKB customers - was launched in 2017 with an aim to represent customer voice within the organization and to ensure that customer opinion is taken into account and integrated into the operations of MKB, be it a new product launch or the approval of the of the new website.

The entire chain of MKB's actions is centred around customer experience. According to the results of the complex customer satisfaction survey conducted in the autumn of 2017 involving a number of business lines/segments via questioning thousands of customers, it seems the bank's efforts gaining ground since the conducted research indicates that a large number of customers would recommend MKB.

SUBSIDIARIES /STRATEGIC PARTNERS

In addition to our own banking products and services, our full product range includes the services offered by our subsidiaries and partners. Our aim is to reinforce the market position of our strategic subsidiaries, to enhance intra-group cooperation and to improve the auxiliary financial services.

MKB FINANCIAL GROUP

MKB Euroleasing group³

Based on new financing volumes which surpassed by almost 25% the 2017 Plan, MKB-Euroleasing solidly maintained its position and continued to be one of the top three market-leading leasing companies; it became the market leader in the agricultural machine financing segment in Q1 2017 and maintained its second position in retail vehicle financing, and at the same time, it also managed to become one of the largest market players in financing of large commercial vehicles. With solid basis for building diversified portfolio, the Group has an optimistic outlook for 2018, expecting an increase in the volume of its new loans and a further strengthening of its market position.

At MKB-Euroleasing group, the processes are developed with the Kaizen methodology, integrated deeply into the operation of the organisation. The continuous, gradual development taken in small steps is one of the fundamental principles of the methodology. 2017 was declared the year of Kaizen, and therefore almost 500 proposals were collected during the year, most of which were actually implemented. Simultaneously with process development, major product development activities also took place, as a result of which, the operational lease products became available in the general machine financing segment and the bank is the first to be able to offer open-ended financial lease products to retail customers in the market. The complex vehicle-financing instrument launched in the autumn of 2017 allows both companies and private individuals to use the servicing options integrated into the financing. With the dissemination of that product in the market, more and more customers can have access to a more economical and flexible option of the complex vehicle fleet management combined with a long-term operating lease.

MKB-Euroleasing is also seen as one of the best workplace, since in 2017 it received the AON Best Workplace award. Where people love to work, customers can count on the highest possible service level.

MKB Consulting

Just two years after its foundation at the end of 2017, MKB Consulting had become a major player in the tender and financial consultancy market. Concerning the tendering business line, the company helped 260 customers within its small corporate portfolio to gain access to approximately HUF 1.5 billion assistance during the year, while the key corporate customers of the company were granted HUF 11 billion assistance through successful applications dedicated mainly to research-development and innovation.

MKB Consulting provides advisory services in fund raising for various institutional entities, such as city of county rank, Budapest Stock Exchange (BÉT) and key equity fund managers. Within the framework of fund raising through the equity market, the company worked for almost eighteen months to re-start the National Exchange Development Fund with HUF 20 billion share capital, which,

³Source: Hungarian Leasing Association

according to the plans, can finance at least four new companies a year in making their way to the Budapest Stock Exchange. Besides this flagship project, the advisory activities of MKB Consulting also contributed to the implementation of the BÉT training and stock exchange preparation projects from 2018.

MKB Inkubátor Kft./MKB Fintechlab

We believe that large companies and start-ups complement each other. MKB, therefore, as the first Hungarian bank opened up to the world of start-up technology and innovation (and now with Fintechlab, i.e., its innovation laboratory and start-up incubator), MKB Fintechlab has become the dominant actor not only in the Hungarian, but in the regional market as well.

Fintechlab supports the strategy of the Financial Group through three pillars: it builds up a community leading in innovation around the Financial Group, supports start-ups within the framework of its incubation programme and seeks out and builds up valuable partnerships for MKB. In 2017, two partnerships were established: FintechBlocks developed the Bank's new innovation platform and FaceKom developed the unique video-bank-assisted account opening.

Each year Fintechlab selects 6-10 Hungarian and regional start-up companies that are developing global standard fintech solutions and provides a unique incubation environment (accelerated development path and validation, product development and market-entry) and financial support for them. In 2017, six Hungarian fintech start-ups took part in the incubation programme, and some of them won Hungarian and international awards. Fintechlab also began to raise its activities to international level: start-ups from 11 countries applied for the second incubation programme.

MKB SZÉP Card

The popularity of MKB SZÉP Cards speaks for itself. It rapidly became one of the most frequently selected extra-wage benefits. It allows for advanced, versatile and comfortable utilization for SZÉP Card holders at more than 23 thousand MKB acceptance sites in Hungary.

By the end of 2017, in total 216 thousand employees benefitted from the options available with the MKB SZÉP Cards to enjoy recreation and relaxation offered in the form of preferentially taxed employer benefits, which translated into 16% increase in the number of users of MKB SZÉP Cards. In 2017, cardholders received almost 13% more benefits, which corresponds to HUF 15.3 billion. The consumption ratio is an excellent indicator of the efficiency of the Card hence HUF 14.2 billion of the granted amounts, was turned back into the economy over one year.

MKB-Pannónia Investment Fund Manager

A new phase opened in the history of the MKB Financial Group with the merger of the asset and fund management companies that had previously operated as separate business associations: MKB Investment Fund Manager, MKB Bank's portfolio and asset management division and Pannónia CIG Fund Manager were incorporated into one entity. As a result of the transaction, the combined portfolio and fund management company named as 'MKB-Pannónia Investment Fund Manager' in terms of assets, became one of the five largest players in the Hungarian market. The objective is to develop the most effective professional cooperation between the Bank and the recently founded MKB-Pannónia Investment Fund Manager.

STRATEGIC COOPERATIONS

MKB Pension Fund

The voluntary segment of MKB Pension Fund had more than 84 thousand members and held almost HUF 133 billion assets at the end of 2017 which corresponds to almost 10% market share and ranked as 5th largest pension fund. The portfolio grew significantly, by almost 4.5% versus previous year. The terms and conditions offered by the Fund are among the most favourable available of the leading funds; its 22-year history, stable and prudent operation, professional background and results provide a guarantee for the savings of its members for retirement. The spectacular 14% increase in individual members' contributions was an outstanding result in 2017, clearly reflecting the increasing and deliberate intention of the members to save more for their retirement.

The private pension pillar of MKB Pension Fund had approximately 4 thousand members and HUF 19.5 billion assets in 2017. The main objective of the Fund is to offer services that fully satisfy customer needs with new innovative solutions. The Fund is committed to the continuous development of online services and therefore made electronic administration for its customers and employers available in 2017. With the Personal hosting and Electronic administration service, members can view their data stored in the system simply and rapidly, monitor the increase in savings and the annual account history, as well as check their current portfolio. As an electronic administration interface, the Employer portal offers administration advantages to employer partners.

MKB-Pannónia Health and Mutual Fund

MKB-Pannónia Health and Mutual Fund has been consistently one of the leading and largest funds for twenty years. The Health and Mutual Fund operates via an advanced online administration system offering a wide range of services. At the end of 2017, it had more than 186 thousand members and its assets under management reached HUF 12.3 billion.

Following a successful tender, Dimenzió Voluntary Health and Mutual Fund merged with MKB-Pannónia Health and Mutual Fund on 1 January 2018, which strengthened its market presence and allowed the fund to become the 2nd largest player among the health funds in the Hungarian market with members counting 210 thousand, and with the largest assets. In a unique manner, it will also have an own health centre.

In 2017, individual contributions grew by a remarkable 27% compared to the previous year and, for the first time ever, were higher than the employer contributions.

Members are able to spend their savings on themselves and on their family members at approximately 15 thousand service providers across the country, out of which 8,700 also accept MKB Health Fund cards. Customer satisfaction of the fund members illustrates the success of the self-assistance services, which have undergone dynamic growth since introduction in 2016.

The primary objective of the fund is to enhance customer satisfaction thus placing a strong emphasis on introducing new services within the legal framework. As a novelty, on 1 April 2017 it made the 'Care Health Insurance' available to all members on a solidarity basis, through which the fund members became automatically insured and gained eligibility for a wide range of high-quality health services.

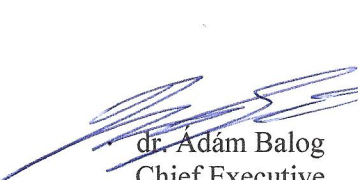
Other services' expenses executed by the Deloitte Kft. during the year 2017.

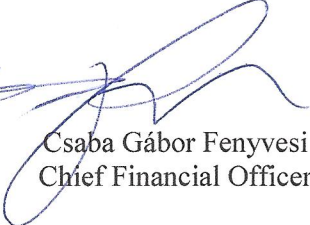
million Ft	
Mandate and its description*	31.12.2017
Problem Examination ** Problem examination in connection with mortgage loans' collateral security	8
Report of the preparedness for IFRS Mandate for adequacy of the IFRS conversion according to Act C of 2000 on Accounting	1
Examination of dividend payment Mandate for adequacy of the dividend payment prohibition which was undertaken towards the European Union	1
Total:	10

*All of the mandates were fixed expenses.

** During the year there were more mandates, the fee that is shown here contains all of the mandates from 2017.

Budapest, 04 April 2018.


dr. Adám Balog
Chief Executive
Officer


Csaba Gábor Fenyvesi
Chief Financial Officer

Governing bodies of MKB Bank Zrt. as at 31 December 2017

Supervisory Board:

Chairman

dr. Mihály Barcza

Members

Albert Godena

Tibor Lados

dr. Ádám Lovászi-Tóth

Ferenc Müller

János Nyemcsok

Directory:

Chairman

Jaksa János

Members

Rakesh Kumar Aggarwal

dr. Ádám Balog

Balázs Benczédi

dr. András Csapó

Márk Hetényi

Imre Kardos

Executive Board

Chairman

dr. Balog Ádám

Members

András Bakonyi

Zoltán Bánfi

dr. András Csapó

Csaba Gábor Fenyvesi

Ildikó Ginzer

Márk Hetényi

János Nyemcsok