



MKB Bank Zrt.

10 011 922 641 911 401
Reg. number

Interim Financial Report

according to
Hungarian Accounting Rules

Budapest, 31 August, 2017

June 30, 2017

NON-CONSOLIDATED BALANCE SHEET
(Hungarian Accounting Rules)

	Nr.	Item	31.12.2016	30.06.2017
		ASSETS:		
1	1.	Cash in hand, balances with central banks	33 592	49 382
2	2.	Treasury bills	897 111	793 683
3		a) held for dealing	607 982	436 602
4		b) held for investment	282 538	354 463
5	2/A	Revaluation difference on treasury bills	6 591	2 618
6	3.	Loans and advances to credit institutions	127 282	59 319
7		a) due on demand	59 623	10 199
8		b) other receivables from financial services	67 659	49 120
9		ba) maturity up to one year	67 659	49 120
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	36 422
14		– central counterparties	224	286
15		bb) maturity over one year	0	0
16		Of which: – to affiliated undertakings	0	0
17		– to significant undertakings	0	0
18		– to other undertakings with participating interest	0	0
19		– to the National Bank of Hungary	0	0
20		– central counterparties	0	0
21		c) receivables from investment services	0	0
22		Of which: – to affiliated undertakings	0	0
23		– to significant undertakings	0	0
24		– to other undertakings with participating interest	0	0
25		– central counterparties	0	0
26	3/A	Revaluation difference on receivables due from credit institutions	0	0
27	4.	Loans and advances to customers	863 425	887 867
28		a) receivables from financial services	835 545	855 984
29		aa) maturity up to one year	289 054	147 316
30		Of which: – to affiliated undertakings	27 795	10 787
31		– to significant undertakings	324	0
32		– to other undertakings with participating interest	0	0
33		ab) maturity over one year	546 491	708 668
34		Of which: – to affiliated undertakings	64 337	96 236
35		– to significant undertakings	0	314
36		– to other undertakings with participating interest		0
37		b) receivables from investment services	27 880	31 883
38		Of which: – to affiliated undertakings	0	0
39		– to significant undertakings	0	0
40		– to other undertakings with participating interest	244	0
41		ba) receivables from investment service activities on the stock exchange	244	0
42		bb) receivables from over-the-counter investment service activities	0	0
43		bc) receivables from investment services to customers	26 959	31 207
44		bd) receivables from central counterparties	0	0
45		be) other receivables from investment services	677	676
46	4/A	Revaluation difference on receivables due from customers	0	0
47	5.	Debt securities including fixed-income securities	82 506	82 094
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	82 038
52		ba) held for dealing	7 092	13 800
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	724
57		bb) held for investment	75 337	68 238
58		Of which: – to affiliated undertakings	0	0
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	56
62	6.	Shares and other variable-yield securities	783	632
63		a) shares and equity stakes held for dealing	711	525

NON-CONSOLIDATED BALANCE SHEET
(Hungarian Accounting Rules)

	Nr.	Item	31.12.2016	30.06.2017
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	107
71	7.	Shares and participating interests held for investment purposes	3 984	3 998
72		a) shares and participating interests	3 984	3 998
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	45 318
78		a) shares and participating interests in affiliated undertakings	44 911	45 318
79		Of which: – shares and participating interests in credit institutions	3 960	3 960
80		b) revaluation surplus on shares and participating interests in affiliated undertakings	0	0
81		Of which: – shares and participating interests in credit institutions	0	0
82	9.	Intangible assets	7 799	8 690
83		a) intangible assets	7 799	8 690
84		b) revaluation surplus on intangible assets	0	0
85	10.	Tangible fixed assets	1 936	2 023
86		a) tangible fixed assets for financial and investment services	1 863	1 942
87		aa) land and buildings	1 124	1 082
88		ab) technical equipment, fittings and vehicles	729	852
89		ac) fixed assets in the course of construction	10	8
90		ad) advance payments on constructions	0	0
91		b) tangible fixed assets servicing non-financial and non-investment activities	73	81
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	20
96		c) revaluation surplus on tangible fixed assets	0	0
97	11.	Own shares	0	0
98	12.	Other assets	19 951	24 346
99		a) stocks (inventories)	523	409
100		b) other receivables (from non-financial and non-investment securities)	4 548	8 505
101		Of which: – to affiliated undertakings	334	848
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	15 432
106	13.	Prepayments and accrued income	15 906	17 269
107		a) accrued income	14 901	13 876
108		b) prepayments	1 005	3 393
109		c) deferred charges	0	0
110		TOTAL ASSETS	2 099 186	1 974 621
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>765 954</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>1 191 398</i>
113		LIABILITIES		
114	1.	Liabilities to credit institutions	382 786	262 443
115		a) due on demand	4 607	1 613
116		b) liabilities from financial services with agreed maturity dates or periods of notice	378 070	242 463
117		ba) maturity up to one year	169 036	18 358
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	7 953
122		– central counterparties	0	0
123		bb) maturity over one year	209 034	224 105
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	139 008
128		– central counterparties	0	0

NON-CONSOLIDATED BALANCE SHEET
(Hungarian Accounting Rules)

	Nr.	Item	31.12.2016	30.06.2017
129		c) liabilities from investment services	109	18 367
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	1 460 584
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	1 448 487
141		ba) due on demand	758 967	811 336
142		Of which: – to affiliated undertakings	9 006	9 681
143		– to significant undertakings	71	93
144		– to other undertakings with participating interest	390	914
145		bb) maturity up to one year	696 972	539 488
146		Of which: – to affiliated undertakings	6 905	8 434
147		– to significant undertakings	70	70
148		– to other undertakings with participating interest	500	3 369
149		bc) maturity over one year	49 982	97 663
150		Of which: – to affiliated undertakings	8	8
151		– to significant undertakings	0	0
152		– to other undertakings with participating interest	0	0
153		c) liabilities from investment services	12 196	12 090
154		Of which: – to affiliated undertakings	0	0
155		– to significant undertakings	0	0
156		– to other undertakings with participating interest	0	274
157		ca) liabilities from investment service activities on the stock exchange	0	274
158		cb) liabilities from over-the-counter investment service activities	0	0
159		cc) liabilities to customers from investment services	12 196	11 816
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	12 436
164		a) issued bonds	13 350	12 436
165		aa) maturity up to one year	1 944	0
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	12 436
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
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	51 837

NON-CONSOLIDATED BALANCE SHEET
(Hungarian Accounting Rules)

	Nr.	Item	31.12.2016	30.06.2017
192		a) maturity up to one year	10 292	20 236
193		Of which: – to affiliated undertakings	0	66
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	31 601
202	5.	Accruals and deferred income	8 982	7 496
203		a) accrued liabilities	275	383
204		b) accrued costs and expenses	8 688	7 094
205		c) deferred income	19	19
206	6.	Provisions	3 560	3 822
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	2 633
209		c) general risk provision	0	0
210		d) other provisions	1 317	1 189
211	7.	Subordinated liabilities	0	21 621
212		a) subordinated borrowings	0	21 621
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	1 014
229	12.	Retained earnings (accumulated profit reserve) (±)	0	9 123
230	13.	Legal reserves	0	0
231	14.	Revaluation reserve	6 506	2 224
232		Value-adjusted reserves	0	0
233		Revaluation reserves	6 506	2 224
234	15.	Profit or loss for the financial year (±)	9 123	22 890
235		TOTAL LIABILITIES	2 099 186	1 974 621
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	1 453 089
237		- LONG TERM LIABILITIES [1.bb) + 2.ac) + 2.bc) + 3.ab) + 3.bb) + 3.cb) + 4.b) + 7]	270 429	355 832
238		-EQUITY (CAPITAL AND RESERVES) [8-9+10+11+12+13+14 ±15]	135 774	154 382

Budapest, 31 August, 2017


 dr. Adám Balog
 Chief Executive Officer


 Csaba Gábor Fenyvesi
 Chief Financial Officer

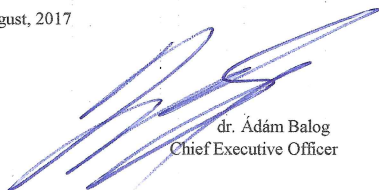
NON CONSOLIDATED INCOME STATEMENT
(Hungarian Accounting Rules)

	S.sz.	Megnevezés	30.06.2016	30.06.2017
1	1.	Interest receivable and similar income	30 048	23 806
2		a) interest income (receivable) from fixed-income securities	15 576	9 944
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	14 472	13 862
7		Of which: – from affiliated undertakings	1 074	1 272
8		– to significant undertakings	0	0
9		– from other undertakings with participating interest	0	4
10	2.	Interest payable and similar charges	6 532	1 837
11		Of which: – to affiliated undertakings	118	55
12		– to significant undertakings	0	0
13		– from other undertakings with participating interest	0	3
14		NET INTEREST INCOME	23 516	21 969
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		– to significant undertakings	0	0
19		c) income from other shares and participating interests	0	0
20	4.	Commission and fees income	18 020	18 633
21		a) from other financial services	13 438	13 673
22		Of which: – from affiliated undertakings	92	64
23		– to significant undertakings	0	0
24		– from other undertakings with participating interest	0	16
25		b) from investment services (except for income from trading activities)	4 582	4 960
26		Of which: – from affiliated undertakings	25	1
27		– to significant undertakings	0	0
28		– from other undertakings with participating interest	0	6
29	5.	Commission and fee expense	2 875	3 197
30		a) from other financial services	2 650	2 628
31		Of which: – to affiliated undertakings	0	28
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)	225	569
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	-7 502	14 689
39		a) income from other financial services	6 760	13 196
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	2 540	774
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)	42 429	46 497
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	18
54		- valuation difference	19 221	11 878
55		d) expenses from investment services (expenses from trading activities)	54 151	44 230
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	98	419
60		- valuation difference	27 030	16 249
61	7.	Other operating income	30 065	3 707
62		a) incomes from non-financial and non-investment services	986	1 790
63		Of which: – from affiliated undertakings	41	71
64		– to significant undertakings	0	0
65		– from other undertakings with participating interest	0	0

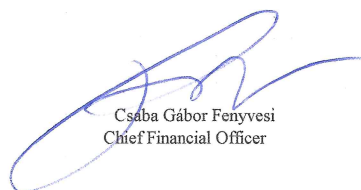
NON CONSOLIDATED INCOME STATEMENT
(Hungarian Accounting Rules)

	S.sz.	Megnevezés	30.06.2016	30.06.2017
66		b) other income	29 079	1 917
67		Of which: – from affiliated undertakings	0	0
68		– to significant undertakings	0	0
69		– from other undertakings with participating interest	0	0
70		– value re-adjustment (increase) of stocks (inventories) (not more than acquisition value)	0	0
71	8.	General and administrative expenses	16 555	17 956
72		a) Staff costs	8 020	8 123
73		aa) wages and salaries	5 780	5 875
74		ab) other staff costs	468	670
75		Of which: – social security contributions	113	117
76		= pension costs	12	14
77		ac) contributions on wages	1 772	1 578
78		Of which: – social security contributions	1 682	1 558
79		= pension costs	0	0
80		b) Other administrative expenses (material-type expenses)	8 535	9 833
81	9.	Depreciation (value adjustments in respect of assets items 9 and 10)	977	880
82	10.	Other operating expenses	39 543	12 219
83		a) expenses from non-financial and non-investment services	656	1 545
84		Of which: – to affiliated undertakings	140	173
85		– to significant undertakings	0	0
86		– to other undertakings with participating interest	0	0
87		b) other expenses	38 887	10 674
88		Of which: – to affiliated undertakings	0	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	14 841	8 962
93		a) value adjustments (decrease) in respect of loans and advances	14 775	8 029
94		b) provisions for contingent liabilities and commitments	66	933
95	12.	Reversals of value adjustments in respect of loans and advances and use of provisions for contingent liabilities and commitments	15 961	9 895
96		a) value re-adjustments (increase) in respect of loans and advances	12 107	9 353
97		b) use of provisions for contingent liabilities and commitments	3 854	542
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	3 821	0
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	1 774	26 141
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)	1 444	25 896
103		- PROFIT OR LOSS OF NON-FINANCIAL AND NON-INVESTMENT SERVICES (7/a -10/a)	330	245
104	16.	Extraordinary income	2 140	102
105	17.	Extraordinary expense	491	351
106	18.	Extraordinary profit or loss (16-17)	1 649	-249
107	19.	Profit or loss before taxation (±15±18)	3 423	25 892
108	20.	Tax payable	1 528	3 002
109	21.	Profit or loss after taxation (±19-20)	1 895	22 890
110	22.	Addition to and use of general reserve (±)	0	0
111	23.	Profit or loss for the financial year (±21±22)	1 895	22 890

Budapest, 31 August, 2017



dr. Ádám Balog
Chief Executive Officer



Csaba Gábor Fenyvesi
Chief Financial Officer

STATEMENT
on the non-consolidated semi-annual financial statements of 2017
and on the Report of the Management
Pursuant to Ministry of Finance Decree no. 24/2008 (VIII.15.)

MKB Bank Zrt (hereinafter: Bank) declares concerning its non-consolidated semi-annual financial statements the following statement:

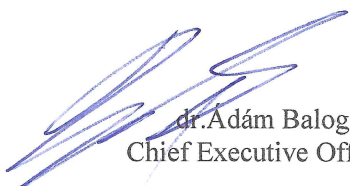
The Bank declares that the non-consolidated semi-annual financial statements have been compiled in accordance with the applicable accounting rules. The non consolidated semi-annual financial statements compiled based on the best knowledge of the Bank's competent experts and decision making managers present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

No independent audit report was made concerning the non-consolidated semi-annual financial statements.

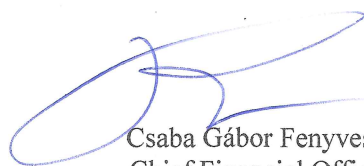
The Bank declares furthermore that The Report of the Management (Business Report) provides a reliable picture of the position, situation, development and performance of the Bank as an issuer of securities, and describes the key risks and uncertainty factors concerning the remaining six months of the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

Budapest, 31 August, 2017

MKB Bank Zrt.



dr. Ádám Balog
Chief Executive Officer



Csaba Gábor Fenyvesi
Chief Financial Officer



MANAGEMENT REPORT

to the 2017 H1.

REPORT

of MKB Bank Zrt.

(Hungarian Accounting Rules, HAR)

OPERATING ENVIRONMENT

Macroeconomic environment

The first half of 2017 has been an eventful period in the global economy. The announcements and steps of major central banks were dominated by monetary policy dilemmas due to continuous improvement in macroeconomic data and permanently low inflation expectations.

The Fed raised the interest rates twice in March and June, but following the increase at the beginning of the year, US inflation figures drifted away from the price stability objective by the end of the first half of the year. In addition, the growth of the American economy observed in Q1 also turned out to be lower than expected. The Fed left another rate increase option open in June; in terms of the monetary policy developments the start of the expected cuts in the USD 4,500 bn central bank balance sheet will remain the key component in the forthcoming months. 2017 started well in the Eurozone. The business cycle indices rose to six-year highs reflecting permanently positive outlook, while moderate inflation expectations enabled the resumption of the loose monetary policy. The European political risks have significantly diminished during the first six months.

There was 3.7% average (yearly) expansion of the Hungarian GDP in H1. The expansion was supported mainly by the increase in capital investments and the favourable external business cycle. In addition, cuts in employer contributions and minimum wage increases in 2017 could continue to foster savings and increase in household consumption: while the former kept reaching new records during the first half of 2017, consumption figures may receive additional boost in the second half of the year. Unemployment rate may stabilise at a historically low level this year, yet the shortage of workforce may be stronger in certain sectors in the second half of the year.

Consumer price indices may reflect moderate increases in the next few months. Core inflation may rise gradually due to the pick-up in residential demand, but cuts in employer contributions at the beginning of the year could partially offset increases in companies' wage costs; hence, the cost increases could be reflected in the prices at a lower extent. With no change in the base rate, the National Bank of Hungary (MNB) announced gradual reduction in the three-month deposit facility for commercial banks in June: the cap will shrink from HUF 500 bn in Q2 to HUF 300 bn by September. Two new components were added to the unconventional monetary policy framework during the first half of the year: with the introduction of the 6 and 12-month currency swap tenders the MNB can maintain surplus liquidity in the interbank market for an extended period.

The Hungarian yield curve became steeper in Q1 2017 and then fell back to the levels seen at the start of the year by the end of the June. Looking ahead, the yield curve may remain steep in the rest of the year, as well: the short term interbank and government securities market yields may remain at historically low levels, while the yields of long-term bonds may continue to remain above 3% in the next few months.

With moderate swings, the EUR/HUF exchange rate varied around the 309 level in the first half of the year. The same fluctuation is projected for this currency pair in the second half of 2017, too.

Position of the banking sector

The favourable profitability of the Hungarian banking sector continued in H1 of 2017, although the profit before taxation of the credit institutions was HUF 184.4 bln, 5.6% lower than in the similar period of 2016. The still massive profit continued to increase the capital buffers of the sector and the total average capital adequacy ratio improved to 21.3%.

In Q1 2017 the balance sheet total of credit institutions grew by HUF 127.0 bln (0.4%) and was close to HUF 34,600 bln at the end of March. The net loan portfolio of both domestic non-financial corporations and households have expanded by 1.3% since the end of 2016. The lending developments of the corporate segment were assisted by favourable macroeconomic trends, low interest rates, continued PHP¹ support and a drawdown of EU resources, while on the retail side the increasing consumption improving labour market trends, an increase in real income caused by low inflation and the dynamism of the housing market drove both the mortgage and personal loans.

MKB expects the banking system to further strengthen its position in the rest of 2017: the favourable tendencies in lending processes will continue and then the investment and consumption demand will drive up lending in the core, retail and corporate, customer segments. In terms of profitability an increase in lending mitigates the effect of low interest rates. The digital transformation process taking place in the sector will lead to long-term sustainable profitability increase in the banking system.

OVERVIEW OF MKB BANK PERFORMANCE IN H1 2017

At the end of H1 2017 the balance sheet total of MKB Banks Zrt calculated according to HAS was HUF 1,974.6 bln, reflecting 5.9% reduction since the end of 2016. Owing to the growing dynamism in new loans, the receivables from customers reached HUF 887.9 bln with a 2.8% increase, while the liabilities to customers dropped by 3.8% and amounted to HUF 1,460.6 bln at the end of the period. Profitability improved significantly: the bank reported HUF 25.9 bln profit before taxation following the HUF 3.4 bln profit reported at the end of H1 2016. The bank has stable financial and business foundations, which also include its capital strength, liquidity, self financing capacity, balance sheet total and performance of its business lines.

¹ central bank's Market-based Lending Scheme

PERFORMANCE OF THE INDIVIDUAL BUSINESS LINES

Retail segment

The existing retail customers and customers who currently decide to choose MKB as their account managing bank can find numerous innovations which make banking easier, faster and simpler. MKB takes all reasonable efforts – to become market leading digital bank –, to offer services that provide higher and higher quality experience to customers enabling them to satisfy their personalised financial needs also digitally anywhere at any time.

Functions were added to the mobile application introduced in 2016 and currently used by more than 25 thousand users (MKB Mobilbank) including fingerprint identification, arrangeable opening screen, copyable account numbers and display of future items. Development takes place continuously and a new version of the service will be released later on in the year. The MKB Pay application was introduced during the past six months with which customers can virtualise their bank cards into an application running on mobile phones and make payments through the touch screens of POS terminals.

However, the MKB digitalisation efforts will not stop. The next innovation is the online account opening option, with the help of which retail accounts can be opened using a tablet and a video chat. In the rest of the year the bank will digitise the application processes for other products. In the near future we plan to receive and store contracts containing the customer's digital signature online. Free internet access is available through the Wi-Fi installed in branches yet the new innovative account package products also give preference to digital banking: the recently introduced Digit@ll service package encourages the customer to manage their finances electronically simply, fast and at a low cost.

MKB managed to achieve major successes in retail lending in the first six months of the year: the portfolio of disbursed mortgage loans almost trebled compared to the similar period of last year. The bank has also achieved considerable growth in unsecured lending: the disbursement has more than quadrupled since H1 2016. The major expansion in external sales partner relations, as a result of which more than 1,000 partners are now authorized to recommend MKB loan products has also contributed a great deal to the excellent results.

The strategic agreements also helped MKB achieve its ambitious business goals set for 2017: the bank established strategic cooperation with CIG Pannónia Életbiztosító and the Ministry of Defence over the last six-month period.

This year the bank can offer more experiences and preferences to its customers. Customers can now choose from more than 60 trade and service partners who have become members of the MKB Klub and offer their products and services with 5-40% discount.

Corporate segment

One of the most important strategic goals of the MKB Corporate Segment was to enhance SME lending during the semi-annual period. In that framework the bank gradually fine tuned the operating framework of lending to adjust to market trends and customer needs. That involved not only a reform of its product range but also the development of its lending process, enabling the existing and potential customers to use the bank's services transparently and as fast as possible. One of the most important components in strengthening SME lending was participation in the Funding for Growth scheme. The bank successfully completed phase III. of the lending scheme: the achieved 11% market share is higher than the bank's average corporate market share. MKB already made preparations last year for the challenges expected to occur after the closing of the programme and can also offer favourable solutions to companies who are unable to have access to financing in the programme but wish to enjoy the benefits of favourable pricing.

Within the framework of the most recent market stimulation scheme of the central bank, launched under the title of Market-based Lending Scheme the bank undertook to further expand its loans to the SME sector, for further three years starting in 2016. With these resources MKB can offer favourable terms and conditions to finance the SME sector, which is the engine driving the Hungarian economy. The financing activity of the bank is well illustrated by the fact that it managed to expand its loan portfolio recognised within the framework of the MLS scheme more than its previous commitment.

In addition to lending the bank laid great emphasis on the development of the service model of its corporate business line. It involved the implementation of a programme focusing on complex customer service in the medium and large corporate segment guaranteeing that corporate bankers are absolutely proficient financial partners of their customers and ensuring the delivery of a complex solution by the bank reflecting on the economic situation of the customers. The revised service model was also implemented in the SME segment: MKB introduced a new governance model as part of its value offer focusing on the segment of small and medium-sized enterprises. The model combines the speed of the standard service with the flexible solutions that are required to resolve more complex financial situations.

The purpose of the newly adopted agricultural strategy is to increase market activity and strengthen the presence of the bank. As a first step an agreement on strategic cooperation was signed between MKB and the Hungarian Chamber of Agriculture in April 2017 followed by a further cooperation agreement between the bank and Hungarian Association of Agricultural Tools and Machinery Distributors in spring 2017 in order to build more intensive relations with the customers of the sector.

MKB was granted an opportunity to join the network of MFB points from H2 2017. This is an excellent opportunity to offer customers approaching the bank not only our own products but also EU repayable assistance under favourable terms and conditions.

Money and Capital Market, Investment Services

In H1 2017 there was no change in the extremely low interest rate environment prevailing in Hungary and abroad, and therefore the investment services maintained their outstanding importance. As the deposit interest rates are low, customers are most interested in retail government securities: interest has shifted from shorter maturities to longer-term bonds with a higher return. This trend was also assisted by ÁKK (Hungarian Debt Management Agency) by issuing its 2-year retail bonds. The Hungarian Debt Management Agency granted the third award of the distributor selling the most retail securities for MKB for its activities in 2016.

The bank also offered structured securities and certificates with returns, significantly higher than the possible market returns in the first half of the year. Demand for such securities is still increasing. In order to promote transferability between investments denominated in different currencies the bank introduced individually priced currency conversion for retail customers, available on the bank's website.

As a stock exchange member, MKB is an active participant in various sections of the Budapest Stock Exchange. It generated the second largest turnover in currency contracts on the foreign exchange market.

In the asset management business line the asset value of the managed portfolios grew and the overwhelming majority overperformed the reference yields.


Private Banking, Premium segment

The assets managed by private bankers grew dynamically and exceeded HUF 360 bln by the end of the first half. Within the framework of the premium service launched in 2016 the assets managed on the model portfolio principal grew to more than HUF 65 bln.

Budapest, 31 August, 2017



dr. Adám Balog
Chief Executive Officer



Csaba Gábor Fenyvesi
Chief Financial Officer