CIB BANK

CIB BANK LTD.
and its subsidiaries

Consolidated financial statements
for the year ended 31 December 2017
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

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Independent Auditors' Report

To the shareholder of CIB Bank Zrt.

Opinion

We have audited the 2017 consolidated financial statements of CIB Bank Zrt. and its subsidiaries (hereinafter referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, which shows total assets of MHUF 1,683,230, the consolidated statement of profit or loss and other comprehensive income, which shows profit for the year of MHUF 24,563, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter referred to as "EU IFRSs") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group for the purposes of our audit of the consolidated financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these, in the "Code of Ethics for Professional Accountants" issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans and advances to customers (HUF 762,601 million)

Refer to note 20 to the consolidated financial statement.

The key audit matter	*How the matter was addressed in our audit*
The impairment on loans are considered to be a key audit matter owing to the significance of loans and advances to customers, and the high degree of complexity and judgment applied by management in determining impairment. Net loans and advances to customers, amounting to HUF 762,601 million represents 45.31% of the total assets of the Group. The gross impairment amounts to HUF 63,371 million. Without having appropriate impairment assessment the carrying value of the loans might be overstated. The individual impairments on the individually significant, non-performing loans are based on management's judgment in estimating when an impairment event has occurred, and the present value of expected future cash flows which are inherently uncertain. This is challenging from an audit perspective specially in relation to project finance loans as the forecast cash flows include estimated timing and realization of the project. Collective impairments are determined either on a rating based approach at a customer level, or segmenting the portfolio into pools with homogeneous risk profiles for retail loans. Based on the assigned rating or pool, an estimate of the probability of default and the potential loss given default is applied to determine the collective impairment provision. This is challenging from an audit perspective due to the use of complex models to predict probability of default and loss given default estimates and the application of management judgment to the determination of the applied model parameters.	Our audit procedures included: Testing the key controls over impairment calculations, customer ratings, annual reviews, approvals on monthly impairment changes. Independently assessing the Group's judgment in the application of model parameters by applying sensitivities to assumptions underlying these parameters, and evaluation current economic conditions. Performing specific loan inspection for a sample of customer loans. Our sampling methodology ensures that the conclusion based on this sample can be projected to the whole population. Our loan inspection – among others - included examination of days past due information, financial performance and industry comparison. Moreover, we inspected the latest correspondence with the borrower, provision estimates prepared by credit risk officers and consideration of the resolution period estimated for the impaired loans. We challenged the assumptions based on our professional judgment and industry knowledge. We assessed collateral values with reference to valuations performed by valuers approved by CIB Group. We also reperformed key calculations.

Other Information

The other information comprises the 2017 Consolidated Business Report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the consolidated financial statements expressed in the Opinion section of our report does not cover the consolidated business report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and, in doing so, consider whether the consolidated business report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Act on Accounting, we are also responsible for assessing whether the consolidated business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements, including the assessment of whether the consolidated business report has been prepared in accordance with Section 95/B (2) e) and f) of the Act on Accounting.

With respect to the consolidated business report, based on the Act on Accounting, we are also responsible for checking that the information referred to in Section 95/B (2) a)-d), g) and h), Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In our opinion the 2017 consolidated business report of the Group is consistent, in all material respects, with the 2017 consolidated financial statements of the Group and the applicable provisions of the Act on Accounting.

There are no other legal requirements that are applicable to the consolidated business report of the Group, therefore, we do not express an opinion in this respects.

We confirm that the information referred to in Section 95/B (2) a)-d), g) and h), Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated business report, and if so, the nature of such misstatement. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with EU IFRSs and for the preparation of the financial statements in accordance with provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of the Act on Accounting and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Hungarian National Standards on Auditing and applicable laws and regulations in Hungary will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 consolidated financial statements.

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

• Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

We were appointed by members meeting on 10 June 2015 to audit the consolidated financial statements of the Group for the financial year ended 31 December 2017. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2012 to 31 December 2017.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Group dated 19 February 2018;

• we have not provided to the Group the prohibited non-audit services (NASs) as set out by Article 5(1) of EU Regulation (EU) No 537/2014 and in terms of the member state derogations by the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors in force in Hungary. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report isthe signatory of this report.

Budapest, 28 February 2018

KPMG Hungária Kft.

Registration number: 000202

István Henye
Partner, Professional Accountant
Registration number: 005674

CIB BANK

CIB Bank Ltd.
and its subsidiaries

Consolidated statements of comprehensive income
for the year ended 31 December 2017
(million HUF)

	Note	2017	2016
Interest income	7	28,392	35,943
Interest expense	7	(7,049)	(9,879)
Net interest income		**21,343**	**26,064**
Fee and commission income	8	33,707	32,780
Fee and commission expense	8	(6,205)	(4,821)
Net fee and commission income		**27,502**	**27,959**
Income from trading activities	9	9,831	9,790
Other operating income	10	2,517	5,464
Net banking income		**61,193**	**69,277**
Impairment losses on loans	11	11,698	4,864
Other impairment losses and provisions	11	5,559	(3,225)
Operating expenses without bank tax	12	(47,555)	(50,590)
Profit/(loss) before bank tax and income taxes		**30,895**	**20,326**
Bank tax	13	(3,762)	(4,897)
Profit/(loss) before income taxes		**27,133**	**15,429**
Income tax expense	14	(2,570)	(3,471)
Net profit/(loss) for the year		**24,563**	**11,958**
Items that may not be reclassified to profit or loss		**3,017**	**-**
Items that may be reclassified to profit or loss		**(495)**	**(1,876)**
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)		(495)	(1,876)
Other comprehensive income for the year (net of taxes)	**16**	**2,522**	**(1,876)**
Total comprehensive income for the year		**27,085**	**10,082**

28 February 2018

Dr. Pál Simák
CEO and Chairman of the Board

Paolo Vivona
Deputy CEO and CFO

CIB Bank Ltd.

The accompanying notes on pages 11 to 81 form part of these consolidated financial statements.

Consolidated statements of financial position as at 31 December 2017 (million HUF)

Assets	**Note**	**31 December 2017**	**31 December 2016**
Cash and current accounts with central bank	17	38,876	15,010
Due from banks	18	459,736	520,854
Financial assets at fair value through profit or loss excluding derivatives	19	63,717	38,514
Derivative financial assets	19	19,605	12,298
Loans and advances to customers	*20*	*825,972*	*876,177*
Allowance for loan losses	*20*	*(63,371)*	*(116,404)*
Net loans and advances to customers		762,601	759,773
Financial investments – Available-for-sale	22	247,653	202,693
Financial investments – Held-to-maturity	22	28,906	-
Non-current assets held for sale	16	339	641
Current tax assets	14	751	2,046
Deferred tax assets	14	328	79
Other assets	21	10,235	8,232
Repossessed properties	23	25,261	47,720
Intangible assets	24	9,620	8,178
Property, plant and equipment	25	15,602	13,912
Total assets		**1,683,230**	**1,629,950**

28 February 2018

Dr. Pál Simák
CEO and Chairman of the Board

Paolo Vivona
Deputy CEO and CFO

CIB Bank Ltd.

The accompanying notes on pages 11 to 81 form part of these consolidated financial statements.

Consolidated statements of financial position
as at 31 December 2017
(million HUF)

Liabilities and shareholders' equity	**Note**	**31 December 2017**	**31 December 2016**
Deposits from banks	26	210,247	195,784
Derivative financial liabilities	19	20,590	12,446
Deposits from customers	27	1,191,755	1,167,595
Liabilities from issued securities	28	2,609	6,331
Current tax liabilities		28	671
Deferred tax liabilities	14	303	482
Other liabilities	29	18,618	17,599
Provisions	30	10,562	6,868
Subordinated debt	31	9,311	9,332
Total liabilities		**1,464,023**	**1,416,828**
Shareholders' equity			
Share capital	32	50,000	50,000
Reserves	33	203,223	485,351
Retained earnings		(34,016)	(322,229)
Total shareholders' equity		**219,207**	**213,122**
Total liabilities and shareholders' equity		**1,683,230**	**1,629,950**

28 February 2018

Dr. Pál Simák
CEO and Chairman of the Board

Paolo Vivona
Deputy CEO and CFO

CIB Bank Ltd.

The accompanying notes on pages 11 to 81 form part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2017
(million HUF)

	Note	Ordinary shares	Retained earnings	Capital reserve	Revaluation reserve	General reserve	Other reserve	Total
Balance at 31 December 2015		**50,000**	**(333,436)**	**338,719**	**3,256**	**-**	**89,301**	**147,840**
Other comprehensive income (OCI)	16	-	-	-	(1,876)	-	-	**(1,876)**
General reserve	33		(751)			751		**-**
Increase of share capital and capital reserve	32	-	-	55,200	-	-	-	**55,200**
Net profit/(loss) for 2016		-	11,958	-	-	-	-	**11,958**
Balance at 31 December 2016		**50,000**	**(322,229)**	**393,919**	**1,380**	**751**	**89,301**	**213,122**
Other comprehensive income (OCI)	16	-	-	-	2,522	-	-	**2,522**
General reserve	33	-	(2,241)	-	-	2,241	-	**-**
Increase of share capital and capital reserve	32	-	-	15,000	-	-	-	**15,000**
Decrease of capital reserve	32	-	265,891	(265,891)	-	-	-	**-**
Reclassification of additional payment to shareholder to other liabilities	32	-	-	-	-	-	(36,000)	**(36,000)**
Net profit/(loss) for 2017		-	24,563	-	-	-	-	**24,563**
Balance at 31 December 2017		**50,000**	**(34,016)**	**143,028**	**3,902**	**2,992**	**53,301**	**219,207**

28 February 2018

Dr. Pál Simák
CEO and Chairman of the Board

Paolo Vivona
Deputy CEO and CFO

CIB Bank Ltd.

The accompanying notes on pages 11 to 81 form part of these consolidated financial statements.

Consolidated statement of cash flow
for the year ended 31 December 2017
(million HUF)

	Note	2017	2016
Operating activities			
Profit (loss) before tax		27,133	15,429
Depreciation	12	3,686	3,815
Fair value adjustment on PPE		264	-
Net unrealized (gain) / loss on financial instruments		(1,052)	2,040
Increase / (decrease) in allowance for loan losses		(19,333)	(1,687)
Increase in allowance for repossessed properties and own properties and intangible assets		1,675	6,312
Working capital changes:			
Decrease / (increase) in due from banks		81,524	(144,276)
Decrease / (increase) in financial assets at fair value through profit or loss	19	(30,652)	26,477
Decrease / (increase) in loans and advances to customers	20	16,925	151,846
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)	21	(405)	1,354
Increase / (decrease) in deposits from banks	26	14,463	(29,245)
Increase / (decrease) in deposits from customers and liabilities from issued securities	27 28	20,457	(33,537)
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	29 30	4,350	(163)
Income tax charged	14	(3,090)	(3,684)
Cash flows used in operating activites		**115,945**	**(5,319)**
Investing activities			
Purchase of financial investments		(271,946)	(137,824)
Proceeds from sale of financial investments		200,102	16,394
Acquisitions to intangible and tangible assets		(4,672)	(3,728)
Acquisitions to repossessed properties	23	(765)	(1,051)
Disposals of intangible and tangible assets		4	2,623
Disposals of repossessed properties		21,669	15,545
Cash flows used in investing activites		**(55,608)**	**(108,041)**
Financing activities			
Increase / (decrease) of subordinated debt	31	(21)	(47,089)
Issue of shares	32	15,000	9,000
Other equity contribution		(36,000)	46,200
Cash flows from financing activites		**(21,021)**	**8,111**
Net increase / (decrease) in cash and cash equivalents	**41**	**39,316**	**(105,249)**
Cash and cash equivalents at the beginning of year	41	399,578	505,334
Effect of exchange rate fluctuations on cash and equivalents held		(1,034)	(507)
Cash and cash equivalents at the end of year	**41**	**437,860**	**399,578**

28 February 2018

Dr. Pál Simák
CEO and Chairman of the Board

Paolo Vivona
Deputy CEO and CFO

CIB Bank Ltd.

The accompanying notes on pages 11 to 81 form part of these consolidated financial statements.

(million HUF)

Additional information for cash flows from operating activities

	2017	2016
Interest received	34,915	37,818
Interest paid	8,068	14,634
Dividend received	35	23
Income tax paid	3,200	3,861

Cash and cash equivalents presents the following balance sheet categories

	2017	2016
Cash and current accounts with central bank	38,876	15,010
Due from banks	396,984	376,577
Financial assets at fair value through profit or loss	2,000	7,991
Cash and cash equivalents at the year end	**437,860**	**399,578**

Notes to the consolidated financial statements

Part A – Accounting policies

(1) Corporate information

The sole owner and ultimate parent company of CIB Bank Ltd. ("the Bank") is Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that holds 100% of the shares of the Bank as at 31 December 2017.

Intesa Sanpaolo S.p.A acquired CIB Bank Ltd's ownership from Intesa Sanpaolo Holding International S.A. effective on 1 November 2016.

The Bank is a fully licensed Hungarian bank conducting local and international banking business both within and outside Hungary.

The registered address of the Bank is 4-14 Medve utca, Budapest.

Person responsible for directing and managing the tasks related to accounting is Hajnalka Szarvas (Budaörs), the chartered accountant registration number: 005105.

The persons authorized to sign the consolidated financial statement are Dr. Pál Simák and Paolo Vivona.

The Bank engaged KPMG Hungary Ltd. (1134 Budapest, Váci út 31.; Chamber of Hungarian Auditors reg. no.: 000202) to perform the statutory audit of the business year 2017. The individual responsible for the auditing isIstván Henye, member of the Chamber of Auditors (MKVK registration number: 005674).

The Bank and its subsidiaries paid HUF 109 million for audit and HUF 9 million for other audit related services to the auditor company in 2017.

The average number of active employees of the Bank and its subsidiaries was 2,174 in 2017 and 2,193 in 2016, respectively.

As at 31 December 2016 the Bank had the following subsidiaries ("the Group"):

Company	CIB Group's % share	Country of incorporation	Principal Business
CIB Leasing Co. Ltd.	100%	Hungary	Financial leasing services
CIB RENT Leasing and Trading Company Ltd.	100%	Hungary	Leasing services
CIB Real Estate Leasing Co. Ltd.	100%	Hungary	Real estate leasing services
CIB Insurance Broker Ltd.	100%	Hungary	Insurance agency services
CIB Factor Ltd.	100%	Hungary	Factoring financing services
Recovery Ltd.	100%	Hungary	Professional services

The winding up procedure of CIB Car Ltd. and Brivon Hungary Ltd. commenced on the 1st of January, 2016.The winding up procedure of CIB Car Ltd finished on the 31st of December 2016. The winding up procedure fo Brivon Hungary Ltd. and CIB Property Management Ltd finished during 2017.

The Bank took over CIB Factor's activity and its financial assets as of 1st January 2017, as a result of it CIB Factor's activity ceased and the winding up procedure of CIB Factor commenced on 27th December 2017.

According to the decision made on the 30th of June, 2017 CIB Real Estate Leasing Co. Ltd. will merge into CIB Leasing Ltd. with the effective date of 31 December 2017.

(2) Statement of compliance

The consolidated financial statements for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Management Board on 28 February 2018.

The Bank is consolidated by its ultimate parent company. The ultimate parent company's consolidated financial statements are available at www.intesasanpaolo.com web site.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by European Union.

The original consolidated financial statements has been prepared in Hungarian and it is the translation of the Hungarian version. The original consolidated financial statements are available at www.cib.hu web site.

(3) Basis of measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for available-for-sale financial assets, derivative financial instruments, other financial assets and liabilities held for trading, which all have been measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges are adjusted to record changes in fair value of hedged items attributable to the risks that are being hedged.

These financial statements are presented in Hungarian Forint (HUF) and all amounts are rounded to the nearest million except when otherwise stated.

The official rate of exchange quoted by the Hungarian Central Bank as at 31 December 2017 the euro was EUR 1 = HUF 310.14 (2016: EUR 1 = HUF 311.02) and Swiss Franc was CHF 1 = HUF 265.24 (2016: CHF 1 = HUF 289.41).

Financial assets and financial liabilities are offset and net amount presented in the statement of financial position when, and only when the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(4) Basis of consolidation

The consolidated financial statements comprise the financial statements of CIB Bank Ltd. and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using accounting policies consistent with those of the parent.

All inter-company balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are investees controlled by the Bank. According to IFRS 10 the Bank controls an investee if it is exposed to or has the right to, variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control commences until the date when control ceases. The list of consolidated subsidiaries is included in Note (1).

(5) Significant accounting judgments and estimates

In preparing these consolidated financial statements management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(5) Significant accounting judgments and estimates (continued)

The most significant cases for which judgments and estimates are required to be made by the management include:

- the use of measurement models for determining the fair value of financial instruments not listed on active markets,
- the measurement of impairment losses on loans and other financial assets,
- recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used,
- the measurement of impairment on non-financial assets,
- the measurement of impairment on available-for-sale investments,
- the measurement of provisions for risk and charges,
- the measurement of impairment on repossessed properties.

(a) Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. For details please refer to Note 40.

(b) Impairment losses on loans and advances

At each reporting date, the Group assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower,
- default or delinquency by a borrower,
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise,
- indications that the borrower will enter bankruptcy,
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances at both a specific asset and a collective level.

All individually significant loans and advances are assessed for specific impairment. The individual component of the total allowance for impairment is based on management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor’s financial situation and the net realizable value of any underlying collateral.

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by Credit Risk function.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant, and
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported).

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentration and economic factors.

Parameters used in the collective assessment are calculated with statistical methodologies and models which are to the largest extent possible aligned or identical to those used in the processes of approval of facilities or calculation of capital adequacy.

(5) Significant accounting judgments and estimates (continued)

The formula of impairment / provision is as follows.

Losses = EAD * PD * LGD * LCP

The details of the parameters used are as follows.

- *Exposure at default (EAD).* The exposure consists of on-balance sheet assets and off-balance sheet liabilities, where off-balance sheet exposure represents the amount of contingent off-balance sheet liabilities of the Bank adjusted by a credit conversion factor (CCF) to convert off-balance sheet exposure into an on-balance sheet equivalent and is added to the actual on-balance sheet exposure. The credit conversion factor is defined at the level of loan facilities and is calculated using the simplified statistical methods adopted for Internal Capital Adequacy Assessment (ICAAP) purposes.
- *Probability of default (PD)*. PD component determines probability of default, i.e. the probability of transition from the performing portfolio to the non-performing portfolio on debtor level. The PD component is the result of a combination of objective and subjective information about the debtor's credit-worthiness. The PD component for the retail (private individuals and entrepreneurs), small business, corporate (SME and large corporate) and project segments is calculated with statistically developed models. For each mentioned segment the Bank is using a separate, segment-specific model for the calculation of PDs and internal ratings. The models were developed with the through-the-cycle approach.
- *Loss given at default (LGD)*. LGD calculated by portfolio segments is the measure of losses incurred on facilities that have defaulted. Assuming that the process of collection of the existing and future non-performing facilities of the Bank will be equally or similarly efficient as the historical collection, LGD also represents the assessment of future losses on each facility that will default. For the purpose of the assessment of impairment / provision, the Bank uses the results of a simplified statistical method that was approved for Internal Capital Adequacy Assessment (ICAAP) purposes with downturn adjustments. Until the Advanced Internal Rating Based approach (AIRB) compliant LGD models are under development the Bank keeps using the ICAAP LGDs for impairment / provision calculation.
- *Loss identification period*. Internal methodology measures losses in a limited period of time (loss confirmation period - LCP) which is integrated in the calculation of losses and represents a period of time between the occurrence of the event that generates loss (e.g. loss of job) and manifestation of the evidence of loss (e.g. delinquency in settling obligations to the Bank). In the context of the internal methodology, the LCP parameter distinguishes between expected annual losses and the portion of these losses that have already been incurred but have not yet been reported. Considering the technical difficulties in the statistical measurement of the LCP parameter (the period of time between known and unknown events is measured), CIB Group uses LCP=1 for each exposure.

For the portfolio segments with insufficient homogeneous set of data for statistical assessment of loss, the Bank uses the experience-based judgements of the quality and behaviour of the portfolio in the past, risk profile of the portfolio, external ratings, guidelines obtained from the parent bank and other available and relevant information. In this way, the specific, expert judgment based impairment / provision rates have been defined for:

- central governments and central banks;
- public sector entities treated as institutions;
- municipalities;
- institutions.

The parameters used in the impairment / provision calculation is subject to regular internal reviews in order to ensure that those always reflect a best estimate for expected credit risk losses.

Management can apply judgment to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date

(5) Significant accounting judgments and estimates (continued)

(c) Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Group had unused tax loss carry forwards as of 31 December 2016 and 2017. These losses relate to the Bank and to subsidiaries that have a history of losses. Due to the current market and economic conditions the management considered per individual entities whether the Bank and subsidiaries will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets.

(d) Impairment on non-financial assets

Impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on discounted cash flow model. Impairment losses are recognised in profit or loss.

An impairment loss for other assets is reversed only to the extent that the asset's carrying amount does not exceed the the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Impairment on available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment the Group evaluates among other factors historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(f) Provisions for risk and charges

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. In assessing and determining the amount of obligation the Group considers whether a reliable estimate can be made of the amount of outflow of economic benefits.

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The Group is involved in ongoing legal disputes; provision is made based on the assessment on their likelihood and the potential financial loss.

The Bank is committed to close branches; provision is made based on the landlord's agreement for the obligation to be settled.

Provision on personal type expenses and other obligations are measured based on the best available estimation.

For details please refer to Note 30.

(5) Significant accounting judgments and estimates (continued)

(g) Impairment on repossessed properties

Repossessed assets shall be measured at the lower of cost and fair value less cost to sell (FVLCTS).

Subsequent to initial recognition repossessed properties are annually tested for impairment and stated at the lower of cost and FVLCTS. The Group regards the market value determined by external valuations as the FVLCTS for its repossessed real estates.

The basis of the impairment calculation is the market value determined by an external valuation dated less than 90 days from the relevant year end date. External valuation should be prepared for all commercial assets, and for residential assets above or equal net book value of HUF 50 million. For residential assets below net book value of HUF 50 million external valuations should be prepared in every 3 years and during the intervening period statistical revaluation could be applied.

(6) Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

6.1 Foreign currency transactions

The presentation currency of the Group is the Hungarian Forint (HUF). Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of transactions. Spot rate is the official rate of exchange quoted by the Hungarian Central Bank.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined.

Foreign currency differences arising on translation are generally recognized in profit or loss. However foreign currency differences arising from available-for-sale equity instruments are recognized in OCI.

6.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose with management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost and other adjustment at initial recognition is amortized using the effective interest rate method.

6.3 Date of recognition

All “regular way” purchases and sales of financial assets and liabilities are recognized on the settlement date, i.e. the date that the financial asset is delivered except for derivatives. Regular way purchases or sales are purchases or sales that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Derivatives are recognized on a trade date basis. Trade date is the date that the Group commits itself to purchase or sell an asset.

The evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value measurement is not evidenced by a valuation technique that uses only data from observable markets, then the carrying amount of the financial instrument on initial recognition is adjusted to defer the difference between the fair value measurement and the transaction price.

(6) Significant accounting policies (continued)

Subsequently, the difference recognized in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If the fair value measurement is evidenced by a quated price in an active market or is based in another valuation technique that uses only data from observable markets, then the Group immediately recognizes gain or loss.

Government grant is recognised only when there is reasonable assurance that the entity will comply any conditions attached to the grant and the grant will be received.

The Group's financial instruments include loans initiated by the National Bank of Hungary under the Funding for Growth scheme program, which are in scope for recognizing initial fair value difference and for accounting as government grant under IAS 20.

6.4 Derecognition

A financial asset is derecognised when:

- The contractual rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash-flows from the asset or has assumed an obligation to pay the received cash-flows in full without material delay to a third party and either:
    - the Group has transferred substantially all the risks and rewards of the asset, or
    - the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

6.5 Financial asset at fair value through profit and loss

Financial assets or financial liabilities at fair value through profit or loss are financial assets and financial liabilities that are classified either as held for trading or designated by the Group as at fair value through profit or loss upon initial recognition. These financial instruments are carried at fair value with any gain or loss arising from change in fair value being included as Income from trading activities in the consolidated statement of comprehensive income in the period in which it arises.

Financial assets included in this category are debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking.

6.6 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in the fair value and are used by the Group in the management of its short term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(6) Significant accounting policies (continued)

6.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, and valuation techniques such as discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument. The Group, in accordance with the Intesa Sanpaolo Group's policies, designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items (efficiency tests). The effectiveness of the hedge must be tested both at its inception (designation of hedging relationship) and regularly during the entire lifetime of the hedge. In the case of a fair value hedge, changes in the fair value of derivatives that are designated as hedging items in fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in profit or loss.

IAS 39 Financial Instruments: Recognition and Measurement requires hedge effectiveness to be assessed both prospectively and retrospectively. Retrospective test reveals the degree of hedge effectiveness achieved during the period from designation to the performance of the test; in other words, it measures how much the actual results have deviated from those of a perfect hedge.

Prospective test demonstrates the expected effectiveness of the hedge in future periods. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the delta change in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the delta fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

The Group applies hedge accounting to its fixed rate assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the banking book.

6.8 Due from banks

Due from banks include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available-for-sale;
- those for which the Group may not recover substantially all of its initial investment other than because of credit deterioration.

After initial measurement Due from banks are stated at amortized cost less any amounts written off and allowance for impairment. The amortisation is included in Interest income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in impairment losses, provisions and net loan losses.

(6) Significant accounting policies (continued)

Where the loan on drawdown is expected to be retained by the Group and not sold in short term the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example due to a counterparty credit event).

6.9 Loans and advances to customers

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are carried at amortized cost using the effective interest rate method less allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the established future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal repayments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

A credit risk allowance for loan impairment is established for significant loans if there is objective evidence that the Group will not be able to collect all amounts due. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Loans that are individually assessed for impairment (over HUF 75 million in case of non performing status)) and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are recognized in the consolidated statement of comprehensive income as other operating income.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the allowance.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal systems that consider credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors and have been estimated based upon historical patterns of losses in each component.

The general mostly applied rule of calculating impairments and allowances are based on discounted expected future cash flow method, with best available data for the Group. The present value of the available estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the available estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans and advances to customers are classified to the non-performing loan category if the receivable is individually impaired. Evidence of impairment may include that the borrower is experiencing significant financial difficulties (is under liquidation), the probability that they will enter into bankruptcy (past due rate is 100%) or delinquency in interest or principal payments (have more than 90 days past due) and where observable data indicates that there is a change in economic conditions that correlate with default (managed by work-out department). For more information on non-performing loans see Note (45) on Risk Management.

(6) Significant accounting policies (continued)

Where possible the Group seeks to restructure loans rather than to take possession of collateral. Restructuring may involve extending the payment period arrangements and the agreement of new loan conditions, particularly interest level. Management continuously monitors renegotiated or restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

6.10 Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. The net investment in finance leases provided by the Group is included in loans and advances to customers. A receivable is recognized over the leasing period of an amount equaling the present value of the lease payment using the implicit rate of interest at the inception of the lease and including any residual value that has been guaranteed whether by the lessee, a party related to the lessee, or an independent third party. All income resulting from the receivable is included in interest income in the statement of comprehensive income, except for the residual value accounted as other operating income (expense) when closing the contract.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- there is substantial change to the asset.

6.11 Financial investments – Held-to-maturity

Held-to-maturity financial investments are non-derivative financial assets which carry fixed of determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in “interest income” in the statement of comprehensive income.

6.12 Financial investments - Available-for-sale

Available-for-sale financial investments are those which are designated as such or are not classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. After initial recognition, investments which are classified ‘available-for-sale’ are re-measured at fair value. Unrealized gains and losses on re-measurement to fair value are reported in the consolidated statement of other comprehensive income for the period.

In the case of debt instruments classified as available-for-sale the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income. Future interest income is based on the reduced carrying amount.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through profit or loss.

(6) Significant accounting policies (continued)

6.13 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the Statement of Financial Position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in net trading income.

6.14 Fair values

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. For equities traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market closing prices at the close of business on the reporting date.

The fair value of interest-bearing items not traded on an active market is estimated based on discounted cash-flows using interest rates for items with similar remaining maturity. The carrying value of demand deposits is considered to be the fair value.

For equities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

Classification is based on a hierarchy that reflects the significance of unobservable inputs used in the measurement. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 40.

6.15 Repurchase and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated ftatement of financial position and are measured in accordance with accounting policies for non-trading investments. The liability for amounts received under these agreements is included in deposits from banks. The difference between sale and repurchase price is treated as interest expense in the respective period.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the consolidated statement of financial position.

Amounts paid under these agreements are included in due from banks and other financial institutions. The difference between purchase and resale price is treated as interest income in the respective period.

6.16 Intangible assets, property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Premises consists of operational buildings are subsequently carried at the revalued amount. Premises are revalued annually and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

(6) Significant accounting policies (continued)

Increases in carrying amounts arising from revaluation are recognized in the asset revaluation reserve and revaluation reserve on the other comprehensive income in equity, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognized in the statement of comprehensive income.

Decreases in carrying amounts that offset previous increases of the same asset are recognized against the asset revaluation reserve. All other decreases in carrying amounts are recognized as loss in the statement of comprehensive income.

Depreciation is provided on a straight-line basis over the estimated useful lives of all property, plant and equipment, except operational buildings.

Cost incurred after initial recognition are activated, except for tangible assets measured at fair value.

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises	2%	30% of gross value for the headquarters
Leasehold improvements	5%	individually assessed
Electronic equipment's and office furniture	14.5%	individually assessed
Computer equipment	33%	individually assessed
Software	20%	individually assessed
Motor vehicles	20%	20% of gross value

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the asset is included in the statement of comprehensive income as operating income in the year the asset is derecognized. The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

6.17 Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in profit or loss.

6.18 Repossessed assets and other assets

Repossessed properties are usually repossessed under lease contracts or real estate developments/projects or construction contracts.

The Bank Group keeps all repossessed real estates with the intent to dispose of the asset in the reasonable short period of time. Repossessed assets shall be measured at the lower of cost and fair value less cost to sell (FVLCTS) and shall not be amortised but only subject to the impairment test.

Repossessed properties are derecognised when either they have been disposed or when the repossessed property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

(6) Significant accounting policies (continued)

Transfers are made to or from repossessed property only when there is a change in use. For a transfer from repossessed property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

Other assets are recognized at cost, which comprise all costs of purchase, costs of conversion and other costs. The balance of other assets includes those balances which have not been disclosed separately in the statement of financial position (e.g. trade receivables, inventories). After initial recognition they are measured at the lower of cost and net realizable value.

6.19 Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded and met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, equipment and intangible assets once classified as held for sale are not depreciated or amortised.

6.20 Deposits from banks and from customers

All money market and customer deposits are initially recognized at fair value. After initial recognition, all interest bearing deposits, other than liabilities held for trading, are subsequently measured at amortized cost~~.~~

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

For liabilities carried at amortized cost, any gain or loss is recognized in profit or loss when the liability is derecognized.

6.21 Liabilities from issued securities

Financial instruments issued by the Group – other than deposits from banks and customers - that are not designated at fair value through profit or loss, are classified as Liabilities from issued securities, where the substance of the contractual arrangement results in the Group having an obligation to deliver cash to the holder. After initial measurement liabilities from issued securities are subsequently measured at amortised cost.

6.22 Revenue recognition

Revenue is recognized to the extent that is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale financial investments and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or financial liability. The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for providing services over a period of time - such as servicing fee, account turnover fee, card fee, investment services fee, documentary fee and cash management fee - are accrued over that period. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transactions. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the consolidated statement of comprehensive income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

(6) Significant accounting policies (continued)

Commissions for syndicated loans are recognized in the consolidated statement of comprehensive income at the end of the syndication or when the Group's syndicated loan placement is settled or if the Group provides it to the client under the same conditions as the other parties of the syndicated transaction.

Dividend income is recognised when the Group's right to receive the payment is established.

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

6.23 Taxation

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Local business tax and Innovation contribution are both revenue driven taxes, thus considered income tax.

Deferred tax

Deferred tax is recognised for temporary difference in relation with corporate tax expense.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward for unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future; and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Recognised and unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax items are recognised in the consolidated statement of comprehensive income as income tax expense.

Deferred tax asset and deferred tax liabilities are offset if legally enforceable rights exists to set off current tax assets against current tax liabilities and the deferred taxes relates to the same taxable entity and the same tax authority.

(6) Significant accounting policies (continued)

Bank tax

For 2017 the basis and rates are based on statutory reported financial data of the reporting entity for the period ended 31 December 2015. For 2016 the basis and rates are based on statutory reported financial data of the reporting entity for the period ended 31 December 2009.

The tax rates for credit institutions were 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.21% had been applied for the amount exceeds HUF 50 billion for 2017 and 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.24% had been applied for the amount exceeds HUF 50 billion for 2016, respectively. For leasing companies 6.5% had been applied for the net of net interest income and net commission.

Bank tax is presented as operating expense in the consolidated statement of comprehensive income as it does not meet the definition of income tax under IFRS and presented on a separate line on the face of the consolidated statement of comprehensive income.

Financial Transaction Duty

Financial transaction duty is presented as operating expense in the consolidated statement of comprehensive income.

6.24 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

6.25 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated statement of financial position.

6.26 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the Statement of financial position at fair value, and the fair value is recognized in other liabilities.

Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee and the amount recognized less cumulative amortization. Any change in the fair value relating to financial guarantees is taken to the consolidated statement of comprehensive income.

6.27 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

For details please refer to Note 30.

6.28 Operating profit

Operating profit represents profit from business operations and is defined as profit before tax connected to non-financial operations.

(6) Significant accounting policies (continued)

6.29 Employee benefits

Employee benefit is a consideration paid to employees for their services, which may be short-term employee benefits, post-employment benefits, other long-term employee benefits and severance payments.

6.30 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's Financial Statements are listed below. The list contains standards and interpretations issued and expected to be relevant to the Group and to be adopted when they become effective.

IFRS 9 Financial instruments

IFRS 9 published in July 2014 will replace the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. I. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Group is required to adopt IFRS 9 from 1 January 2018. The Group has assessed the estimated impact of initial application on the financial statements. The estimated impact of the adoption of the standard on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impact of the adoption of IFRS 9 at 1 January 2018 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

The Group implemented the changes in its IT and control systems, however, further banking business considerations might be necessary.

The default definition has not been affected by the application of IFRS 9.

(million HUF)	As reported as 31 Dec 2017	Estimated adjustment due to adoption of IFRS 9	Estimated adjusted opening balance at 1 Jan 2018
Reserves	169,207	(813)	168,394

(million HUF)	First time adoption reseve as at 1 January 2018
Impairment on performing exposure	(412)
Impairment on performing debt securities	(274)
Impairment on non-performing exposure	(272)
Impairment on low credit risk portfolio	(82)
Reclassification of loans (SPPI failed)	20
Reclassification of available for sale instruments to financial assets FVTPL	(37)
Total reserve	**(1,057)**

First time adoption reserve comprises effects of reclassification from other comprehensive income regarding Available for sale financial insturments with an amount of Huf 244 million.

The application of the new impairment model results in additional valuation allowance to be recognized. This is mostly due to the application of lifetime expected loss model on those loans classified in Stage 2 due to the significantly increased credit risk since initial recognition.

(6) Significant accounting policies (continued)

The release in Stage 1 is caused by the application of the newly developed point-in-time PD model compared to the through-the-cycle one used under IAS 39.

On 12 December 2017, the European Parliament and the European Council published Regulation (EU) 2017/2395 “Transitory dispositions to mitigate the impact of the introduction of IFRS 9 on own funds” updating Regulation 575/2013 CRR with the new Article 473 bis “Introduction of IFRS 9” that offers banks the opportunity to offset the impacts of the introduction of IFRS 9 on own funds for a 5-year transition period (March 2018-December 2022), re-inserting in CET 1 a progressive effect. The Group has opted to adopt the “static approach”, to be applied to the result of a comparison between the IAS 39 adjustments as at 31/12/2017 and the IFRS 9 adjustments as at 1/1/2018. From 2018, banks opting for the transition period shall in any case provide market information on available capital, Risk weighted asset (RWA), Capital ratio and fully-loaded Leverage ratio, in appliance of the Guidelines published on 12 January 2018.

The above described effects do not have significant impact on the capital requirement.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristic. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through OCI (FVTOCI) and fair value through profit or loss (FVTPL). The standard eliminates IAS 39 categories of held to maturity, loans and receivables and available for sale.

Financial assets may be measured at amortized cost once they are classified under the Hold to Collect business model and pass the SPPI test (cash flows only relate to principal and interest payments). Assets that fail the SPPI test shall be measured at fair value through profit or loss. If financial assets are classified as Hold to Collect and Sell and pass the SPPI test then they can be measured at fair value through other comprehensive income.

Business model test

Based on the analysis, the securities portfolios currently measured at amortised cost generally have a modest movement until maturity, which is in line with the strategy of a Hold to Collect business model. Debt securities currently classified as Assets Available for sale shall adopt the Hold to Collect and Sell model in the majority of portfolios. Only limited assets of insignificant value has led to reclassification based on the considerations regarding the business model test of IFRS 9. Moreover, in line with the Standard, the current approach to credit management, for both retail and corporate customers, can basically be attributed to a Hold to Collect business model. Thus, loans to banks and loans to customers currently measured at amortized cost will be compliant with the Hold to Collect business model. Trading securities and derivative financial assets are attributed to the Other business model category (Trading) and are continued to be measured at fair value.

Cash flow test (SPPI)

The Group has tested all of its financial assets under a Hold to Collect or Hold to Collect and Sell model for SPPI purposes. Different approaches have been used for the retail and corporate loan portfolios either assessing them individually or collectively. In both portfolios there are loans under special governmental programs that are not SPPI compliant and thus failed the test. In retail portfolio these are related to special housing loans while in corporate portfolio these are subsidised investment loans. Non-trading debt securities were also assessed for SPPI purposes and were classified as Hold to Collect and Sell since they passed the SPPI test.

With regard to equity instruments (classified as financial assets available for sale under IAS 39) the Group is not using the FVOCI option given by IFRS 9 at the first time adoption.

Impairment – Financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECL’s which will be determined on a probability-weighted basis.

(6) Significant accounting policies (continued)

The new impairment model will apply to financial assets measured at amortised cost or FVOCI. Loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of the financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The Group applies the new regulations on impairment model as follows:

- allocation of performing assets in different credit risk stages (staging), with corresponding adjustments based on 12-month expected losses (Stage 1), or lifetime (Stage 2) in the event of significant increase in credit risk determined by a comparison of the Probability of Default art first recognition and that at reporting date;
- allocation of non-performing assets in Stage 3, always adjusted according to lifetime expected losses;
- including forward-looking information in the calculation of Expected Credit Losses (ECL), also connected to changes in the macro-economic scenario.

Credit impaired assets are classified to Stage 3 during staging. The Group has also identified some purchased or originated credit impaired assets (POCI) as well classified as Stage 3 at first-time adoption which are of insignificant value.

The Group has a significant amount of low credit risk financial assets. These are mainly intercompany items (receivables from subsidiaries and related parties) related to the accounts of due from banks and net loans and advances to customers.

For some exposures (clearly identified and performing government debt securities measured at fair value through other comprehensive income), the IFRS 9 low risk exemption will be adopted, according to which exposures that, at the date of transition to the new Standard, are rated as investment grade, or above (and similar) will be recognised as low risk and treated as Stage 1.

The Group applies the new credit risk model and impairment requirements on its finance lease receivable portfolio. Simplified method of impairment requirements is applied on financial assets subject to IFRS 15 (trade receivables) based on IFRS 9.

Impairment requirements do not change significantly in case of financial guarantees and loan commitments. The Group uses "point-in-time" probability of default which generally results in reversal of impairment depending on the customer rating.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, under the new standard fair value changes of liabilities designated as at FVTPL are recognised as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018. After a specific evaluation, it has been decided not to use the Fair Value Option (with separate disclosure in net equity of the changes in fair value due to own credit risk) for financial liabilities existing at 1 January 2018.

(6) Significant accounting policies (continued)

Hedge accounting

Regarding hedge accounting, the new model – that does not apply to macro-hedging – aims to align accounting recognition with risk management and reinforce the disclosure of the risk management activities of the entity preparing the financial statements.

At the first time adoption the Group chooses the exemption possibility of IFRS 9 to continue using the IAS 39 hedge accounting requirements.

Disclosure

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied prospectively. The Group will take advantage to the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes, including impairment. Differences in the carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The finalization of the Group's IFRS 9 accounting policy is in progress.

Other changes and amendments

The following amended standards and interpretations are not expected to have a significant impact on the Group's financial statements:

- IFRS 15 Revenue recognition: IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group does not expect to have a significant impact on implementation of IFRS 15 based on the assessment performed.
- IFRS 16 Leases: The new standard replaces existing guidelines of IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transaction Involving the Legal Form of a Lease. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. IFRS 16 project is planned to be initiated in 2018, the impact on implementation of the standard cannot be quantified yet.
- Annual Improvements to IFRSs 2014-2016 Cycle – Amandements to IFRS 1 and IAS 28
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments.

Part B – Information on the consolidated statement of comprehensive income

(7) Interest income and interest expense

Interest income (million HUF)	2017	2016
Loans to customers	23,740	30,514
Financial investments – Available-for-sale	2,622	1,970
Due from banks	584	2,604
Financial investments – Held-to-maturity	163	-
Subtotal	**27,109**	**35,088**
Financial assets at fair value through profit or loss	1,283	855
Total interest income	**28,392**	**35,943**

Interest income on impaired financial assets is HUF 3,136 million during 2017, and HUF 5,405 million during 2016.

Interest income on liabilities was HUF 19 million during 2017.

Interest expenses (million HUF)	2017	2016
Due to customers	4,321	7,715
Due to banks	1,597	1,226
Issued securities	143	580
Subtotal	**6,061**	**9,521**
Financial liabilities at fair value through profit or loss	988	358
Total interest expenses	**7,049**	**9,879**

Interest expenses on asset was HUF 1,037 million during 2017.

Low demand for new financing together with the extremly low interest rate environment that kept customer deposit spreads under pressure in the last few years resulted in a drop of net interest result.

(8) Fee and commission income and expense

(million HUF)	2017	2016
Servicing fee income for loans	4,021	4,720
Account turnover fee income	11,404	10,865
Card fee income	5,795	5,099
Investment services fee income	7,261	6,811
Documentary fee income	1,214	1,425
Cash management fee income	1,356	1,397
Agent fee income	877	611
Other fee income	1,779	1,852
Total fee and commission income	**33,707**	**32,780**

Net commission income decreased slightly, due to lower loan fee income connected to the cleaning of the loan portfolio.

(million HUF)	2017	2016
Card fee expense	3,087	2,566
Account turnover fee expense	1,308	652
Investment services fee expense	247	240
Documentary fee expense	534	428
Servicing fee expenses for loans	34	34
Agent fee expense	146	42
Other fee expense	849	859
Total fee and commission expenses	**6,205**	**4,821**

(9) Income from trading activities

(million HUF)	2017	2016
Net revaluation gain/(loss) from derivatives and trading with foreign currencies	5,373	6,289
Net realised gain/(loss) from derivatives	1,650	3,222
Net revaluation gain/(loss) on hedging instruments	112	19
Net revaluation gain/(loss) from trading with financial assets through profit or loss	274	63
Net realised gain/(loss) from trading with financial assets through profit or loss	31	197
Net gain from financial investments – Available-for-sale	2,391	-
Total	**9,831**	**9,790**

Slightly decrease in trading income was the consequence of realised net gain on available for sale financial investments which compensated the lower result of derivatives.

(10) Other operating income and expense

(million HUF)	2017	2016
Net gain / (loss) from selling of tangible and intangible assets	6	1,426
Dividend and similar income	35	23
Result on disposal of inventories	8	(11)
Income from property management	893	1,252
Net result on non-current asset held for sale	(31)	1,716
Fair value adjustment on premises	(264)	-
Other operating income / (expenditures)	1,870	1,058
Total	**2,517**	**5,464**

(11) Impairment losses, provisions and net loan losses

(million HUF)	2017	2016
Individual impairment expense/(reversal) for loan losses	(8,087)	(214)
Collective impairment expense/(reversal) for loan losses	(3,611)	(4,650)
Impairment expense/(reversal) for losses on loans subtotal	***(11,698)***	***(4,864)***
Provision expense/(reversal) for financial guarantees	(24)	(325)
Provision expense/(reversal) for other commitments and contingencies	82	(446)
Net losses/(gain) on sale of loans	(5,479)	2,128
Net losses/(gain) on repossessed properties	(3,656)	(38)
Other impairment expense/(reversal) for other receivables	(110)	165
Other provision expense/(reversal)	3,628	1,741
Other impairment losses and provisions	***(5,559)***	***3,225***
Total	**(17,257)**	**(1,639)**

The positive result was mainly the effect of lower impairment need of the corporate (especially real-estate finance) portfolio and the positive result of selling of non-performing retail loans.

Result on sale of repossessed properties is HUF 5,212 million during 2017.

(12) Operating expenses without bank tax

(million HUF)	**2017**	**2016**
Personnel expenses	21,794	22,807
a, Salaries	*15,319*	*14,562*
b, Other benefits	*1,878*	*2,345*
c, Social contributions	*4,597*	*5,900*
Depreciation and amortisation	3,686	3,815
Office and Information Technology maintenance	5,405	5,266
Financial transaction duty	4,272	4,139
Other taxes and obligatory fees	3,729	4,453
Material expenses	1,437	1,653
Rent and leasing	2,069	2,348
Communications	1,327	1,480
Advertising	976	1,205
Expert fees	94	449
Other expenses	2,766	2,975
Total	**47,555**	**50,590**

(13) Bank tax

The following table illustrates the bank tax obligation of the Group in 2017 and in 2016.

Company (million HUF)	**2017**	**2016**
CIB Bank Ltd.	3,209	4,797
CIB Leasing Co. Ltd.	491	-
CIB Real Estate Leasing Ltd.	20	52
CIB Faktor Ltd.	42	48
Total	**3,762**	**4,897**

The Group applied the tax allowance connected to fx loan conversion and deducted from the bank tax paid for the CIB Bank and CIB Leasing regarding the year 2016.

(14) Income tax benefit / (expense)

The current income tax expense is based on the corporate income tax payable on the results for the year determined in accordance with Hungarian taxation rules.

For the year 2017, the corporate tax rate of 9% is applicable all Group companies for the profit before tax.

For the year 2016, the corporate income tax rate of 19% applicable to all Group companies but dependent from the level of profitability. If the tax base of a company is below HUF 500 million the corporate income tax rate is 10%. If the tax base of a company is above HUF 500 million the corporate income tax rate is 19% for the part of the profit above HUF 500 million.

(14) Income tax benefit / (expense) (continued)

For the year 2016, the Bank was entitled to pay 5.6 % tax on its investment services activities result.

For deferred tax calculation purposes the Group applied the tax rates that are expected to apply in the year when the asset is realised or the liability is settled

(million HUF)	**2017**	**2016**
Current income tax charge	(3,090)	(3,684)
A, Corporate Income tax	*(1,165)*	*(805)*
B, Local business tax	*(1,926)*	*(1,922)*
C, Innovation contribution	*(291)*	*(289)*
D, Investment services tax	*292*	*(668)*
Deferred income tax	520	213
Total income tax benefit / (expense)	**(2,570)**	**(3,471)**

(million HUF)	**2017**	**2016**
Origination and reversal of temporary differences	520	213
Total deferred income tax	**520**	**213**

Reconciliation of income tax expense to profit before tax	**2017 (million HUF)**	**2017 %**	**2016 (million HUF)**	**2016 %**
Profit before tax	27,133		15,429	
Theoretical income tax expense at the statutory rate	2,442	9.00%	2,932	19.00%
Tax base amending items according to the local regulations	(1,194)	(4.40%)	(1,095)	(7.10%)
Use of deferred losses	*(1,182)*	*(4.36%)*	*(1,959)*	*(12.70%)*
Non-deductible provision	*(10)*	*(0.04%)*	*71*	*0.46%*
Non-deductible expenditure	*411*	*1.51%*	*793*	*5.14%*
IFRS conversation effect	*(413)*	*(1.52%)*	-	-
Tax allowances	(45)	(0.17%)	(1,032)	(6.69%)
Effect of applying tax rate of 10%	-	-	(180)	(1.17%)
Not recognised tax asset	(886)	(3.27%)	237	1.54%
Recognised tax asset	328	1.21%	-	-
Effect of change in deferred tax rate	-	-	(270)	(1.75%)
Other income type taxes	1,925	7.09%	2,879	18.66%
Income tax at effective tax rate	**2,570**	**9.47%**	**3,471**	**22.50%**

(14) Income tax benefit / (expense) (continued)

Deferred tax assets and liabilities comprise (million HUF)	**2017**		**2016**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Loans	-	-	25	167
Leasing	-	-	54	54
Properties	-	210	-	249
Securities at fair value	-	-	-	12
Losses carried forward	328	-	-	-
Total deferred tax to profit or loss	**328**	**210**	**79**	**482**
Securities at fair value through OCI	-	93	-	-
Total deferred tax through OCI	**-**	**93**	**-**	**-**
Total	**328**	**303**	**79**	**482**

The management assess whether sufficient taxable profit will be available at some entities int the Group to allow the benefit of all deferred tax asset to be utilized. The management decided to recognize deferred tax asset as at 31 December 2017 based on the budget plan. As the profitability of the entity in the near foreseeable future was doubtful or uncertain, no deferred tax was recognized as at 31 December, 2016.

The balance of carry forward unused tax losses which amount was HUF 423,824 million as at 31 December 2017 and HUF 458,211 million as at 31 December 2016.

(15) Dividend paid

There were no dividends, declared or paid in either 2017 or 2016.

(16) Other comprehensive income

Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes) are as follows:

(million HUF)	**2017**	**2016**
Net gains/(losses) from changes in fair value	3,713	(802)
Amortization of available-for-sale securities	11	15
Hedge accounting adjustment on available-for-sale securities	(1,990)	(1,089)
Reclassification adjustment to the income statement	(1,653)	-
Deferred tax	(93)	-
Net (loss) / gain on available-for-sale securities (net of taxes)	**(12)**	**(1,876)**
Fair value adjustment on premises	2,534	-
Net gain on premises revaluation (net of taxes)	**2,534**	**-**
Total	**2,522**	**(1,876)**

Futher information about hedge accounting is presented in Note 19.

Fair value adjustment on premises is the positive valuation difference of the Group's the building as at year-end 2017.

Part C – Information on the consolidated statement of financial position

(17) Cash and current accounts with central bank

Cash and current accounts with the central bank comprise notes and coins of various currencies and nostro accounts with the central bank kept in Hungarian Forint. The Bank is required to maintain a minimum average balance as a restricted deposit for the month equivalent to 1% of the Bank's total resident customer deposits, foreign customer HUF and currency (less than one year) deposits with the National Bank of Hungary in 2017 in 2016 respectively.

(million HUF)	31/12/2017	31/12/2016
Cash	13,502	10,359
Current HUF account with the National Bank of Hungary	25,374	4,651
Total (included cash and cash equivalents Note 41)	**38,876**	**15,010**
Compulsory reserve set by the National Bank of Hungary	10,131	9,082

(18) Due from banks

(million HUF)	31/12/2017	31/12/2016
Nostro accounts	9,893	10,827
of which included in cash and cash equivalents (Note 41)	*9,893*	*10,827*
Due from banks	449,843	510,027
of which included in cash and cash equivalents (Note 41)	*387,091*	*365,750*
Total	**459,736**	**520,854**

(19) Financial instruments at fair value through profit or loss

(million HUF)	31/12/2017	31/12/2016
Hungarian Government securities – HUF	63,473	38,288
of which included in cash and cash equivalents (Note 41)	*2,000*	*7,991*
Hungarian Government securities – NON-HUF	31	175
Bank and corporate bonds – HUF	17	2
Shares listed on stock exchange – HUF	195	48
Other securities– NON-HUF	1	1
Total	**63,717**	**38,514**

Financial assets at fair value through profit or loss include only financial assets classified as held for trading. The Group has not designated financial assets as fair value through profit or loss upon initial recognition.

(19) Financial instruments at fair value through profit or loss (continued)

Income from equity investments and other non-fixed income instruments is recognized in other operating income.

Financial derivatives designated as held for trading: breakdown by product

2017/12/31 (million HUF)	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	9,021	461,178	9,010	347,219
Currencies	7,701	427,211	5,825	454,453
Equities and stock indexes	1,732	82,387	1,722	82,012
Total	**18,454**	**970,776**	**16,557**	**883,684**

2016/12/31 (million HUF)	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	5,647	305,003	4,932	209,621
Currencies	2,360	213,907	2,805	263,948
Equities and stock indexes	3,563	95,314	3,563	95,314
Total	**11,570**	**614,224**	**11,300**	**568,883**

Financial derivatives designated as fair value hedge: breakdown by hedged instrument

2017/12/31 (million HUF)	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate swaps - hedge of financial assets available for sale	-	-	3,424	149,400
Interest rate swaps - hedge of loans	-	-	515	5,900
Interest rate swaps - hedge of financial liabilities	1,151	39,476	94	16,862
Total	**1,151**	**39,476**	**4,033**	**172,162**

2016/12/31 (million HUF)	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate swaps - hedge of financial assets available for sale	-	-	984	119,300
Interest rate swaps - hedge of loans	26	1,900	86	4,000
Interest rate swaps - hedge of financial liabilities	702	38,533	76	14,255
Total	**728**	**40,433**	**1,146**	**137,555**

(19) Financial instruments at fair value through profit or loss (continued)

2016/12/31 (million HUF)	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate swaps - hedge of financial assets available for sale	-	-	984	119,300
Interest rate swaps - hedge of loans	26	1,900	86	4,000
Interest rate swaps - hedge of financial liabilities	702	38,533	76	14,255
Total	**728**	**40,433**	**1,146**	**137,555**

Accumulated fair value change of hedged instruments

(million HUF)	2017	2016
Financial assets available for sale	3,079	1,089
Loans	332	9
Financial liabilities	410	400

Accumulated amount of fair value hedge adjustment is included in the carrying amount in case of loans and financial liabilities. In the case of financial assets available for sale the fair value adjustment is recognised in comprehensive income.

(20) Loans and advances to customers

Analysis by sector

The gross loan portfolio may be analyzed by sector as follows:

Sector	31/12/2017		31/12/2016	
	(million HUF)	%	(million HUF)	%
Private customers	288,110	34.88	323,497	36.92
Other, mostly service industries	108,718	13.16	112,496	12.84
Real estate investments	104,188	12.62	146,913	16.77
Heavy industry	67,818	8.21	45,276	5.17
Trading	64,523	7.81	68,000	7.76
Transportation and communication	50,007	6.05	51,982	5.93
Light industry	46,881	5.68	45,454	5.19
Food processing	33,622	4.07	27,606	3.15
Agriculture	31,094	3.77	33,007	3.77
Financial activities	20,345	2.46	14,487	1.65
Chemicals and pharmaceuticals	10,666	1.29	7,459	0.85
Total	**825,972**	**100.00**	**876,177**	**100.00**

(20) Loans and advances to customers (continued)

Analysis of Leasing sector

The leasing subsidiaries of the Bank operate in the domestic leasing market and provide finance lease products to customers.

The following tables indicate the key amounts of this activity for the not past due receivables as at 31 December of the year.

(million HUF)	31/12/2017	31/12/2016
Future minimum lease payments:		
Within one year	23,315	10,877
One to five years	43,287	45,859
More than five years	14,319	34,044
Total	**80,921**	**90,780**

The present value of minimum lease payments receivables comprise (million HUF)	31/12/2017	31/12/2016
Within one year	20,749	7,744
One to five years	39,052	40,802
More than five years	12,768	31,706
Total	**72,569**	**80,252**
Unearned finance lease income	8,351	10,528
Accumulated allowance for uncollectible minimum lease payments receivable	**2,322**	**6,402**

The term of the leasing contracts are usually between 3 months and 10 years.

Analysis of allowances

Allowance for loan losses comprise (million HUF)	31/12/2017	31/12/2016
Opening balance	116,404	183,597
Increase of allowance during the year	36,365	59,381
Decrease of allowance during the year	(55,698)	(61,068)
Write-off	(33,700)	(65,506)
Closing balance	**63,371**	**116,404**

(20) Loans and advances to customers (continued)

Allowance for loan losses comprise (million HUF)	**31/12/2017**	**31/12/2016**
Individual allowance	49,918	98,044
Collective allowance	13,453	18,360
Total	**63,371**	**116,404**

The revaluation gain on loans specified as hedged items is presented in Note 19.

The liquidation value of collateral that the Group holds relating to loans at 31 December 2017 amounts to HUF 852,332 million and HUF 866,700 million as at 31 December 2016, respectively.

As at 31 December 2017 the Group has no active repurchase agreement. As at 31 December 2016 the Group has an active repurchase agreement with an amount of 2,030 million HUF.

(21) Other assets

(million HUF)	**31/12/2017**	**31/12/2016**
Accrued assets	1,778	1,210
Items in transit	190	179
Trade receivables	685	1,695
Inventories	351	822
Other items	7,231	4,326
Total	**10,235**	**8,232**

Other items includes the balance of settlement accounts which contains those items in transit which are unsettled as at period end.

For ensuring the consistance in presetation income type taxes balance, other assets were modified regarding 2016.

(22) Financial investments

Financial investments – Available-for-sale comprises (million HUF)	**31/12/2017**	**31/12/2016**
Government securities – HUF	242,324	201,194
of which included in cash and cash equivalents (Note 41)	-	-
Bank and corporate bonds – HUF	3,561	
Shares listed on stock exchange – NON-HUF	1,745	1,426
Equity investment – HUF	23	73
Total	**247,653**	**202,693**

(22) Financial investments (continued)

Financial investments – Held to maturity (million HUF)	31/12/2017	31/12/2016
Bank and corporate bonds – HUF	28,906	-
Total	**28,906**	**-**

(23) Repossessed properties

(million HUF)	31/12/2017	31/12/2016
Opening balance	47,720	67,750
Additions	765	1,051
Sales	(21,669)	(15,545)
Net loss from impairment charges	(1,555)	(5,536)
Closing balance	**25,261**	**47,720**

Repossessed properties are located in several regions in Hungary, the closing balance includes HUF 9,684 million properties located in Budapest as at 31 December 2017, while it was HUF 20,052 million as at 31 December 2016.

(million HUF)	Gross value of repossessed properties		Impairment of repossessed properties	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Building	24,585	62,002	(8,055)	(26,290)
Land	17,732	22,299	(9,001)	(10,291)
Total	**42,317**	**84,301**	**(17,056)**	**(36,581)**

(24) Intangible asset and goodwill

At 31 December 2017 and 2016 intangible assets and the related accumulated amortisation comprised the following:

(million HUF)	Cost of intangible assets				
	2017	Other changes	Disposal	Acquition	2016
Software licenses and development	44,687	-	758	3,978	41,467
Goodwill	-	-	-	-	-
Other	382	-	1	-	383
Total	**45,069**	**-**	**759**	**3,978**	**41,850**

(24) Intangible asset and goodwill (continued)

(million HUF)	Accumulated amortisation / impairment of intangible assets				
	2017	**Other changes**	**Disposal**	**Increase**	**2016**
Software licenses and development	35,143	-	758	2,521	33,380
Goodwill	-	-	-	-	-
Other	306	-	-	14	292
Total	**35,449**	**-**	**758**	**2,535**	**33,672**

(million HUF)	Cost of intangible assets				
	2016	**Other changes**	**Disposal**	**Acquition**	**2015**
Software licenses and development	41,467	-	2,901	2,796	41,572
Goodwill	-	-	833	-	833
Other	383	-	372	43	712
Total	**41,850**	**-**	**4,106**	**2,839**	**43,117**

(million HUF)	Accumulated amortisation / impairment of intangible assets				
	2016	**Other changes**	**Disposal**	**Increase**	**2015**
Software licenses and development	33,380	-	2,901	2,378	33,903
Goodwill	-	-	833	777	56
Other	292	-	372	9	655
Total	**33,672**	**-**	**4,106**	**3,164**	**34,614**

Net book value of intangible assets (million HUF)	31/12/2017	31/12/2016
Software licenses and development	9,544	8,087
Goodwill	-	-
Other	76	91
Total	**9,620**	**8,178**

As of 31 December 2016 CIB Group ceased to recognize the goodwill as CIB Factor merged into the Bank Ltd as of 31 December 2016.

The amount of internally developed software is HUF 5,034 million as at 31 December 2017 and HUF 3,774 million as at 31 December 2016, respectively.

(25) Property, plant and equipment

At 31 December 2017 and 2016 property, plant and equipment and the related accumulated depreciation comprised the following:

(million HUF)	Cost of property, plant and equipment				
	2017	**Other changes**	**Disposals**	**Additions**	**2016**
Land, premises	20,153	2.270	26	90	17,819
Leasehold improvements	4,783	-	210	49	4,944
Electronic equipment and office furniture	9,283	-	187	234	9,236
Computer equipment	7,778	-	37	163	7,652
Motor vehicles	363	-	23	-	386
Other	118	-	2	-	120
Total	**42,478**	**2.270**	**485**	**536**	**40,157**

The other changes in the amount of Land and premises is the fair value adjustments on the Group's the buildings. Impairment recognized on property, plant and equipment during 2017 on property, plant is HUF 120 million.

(million HUF)	Accumulated depreciation / impairment of property, plant and equipment				
	2017	**Other changes**	**Disposals**	**Increase**	**2016**
Land, premises	6,291	-	33	289	6,035
Leasehold improvements	4,347	-	210	278	4,279
Electronic equipment and office furniture	8,538	-	186	282	8,442
Computer equipment	7,431	-	35	240	7,226
Motor vehicles	269	-	18	24	263
Other	-	-	-	-	-
Total	**26,876**	**-**	**482**	**1,113**	**26,245**

(million HUF)	Cost of property, plant and equipment				
	2016	**Other changes**	**Disposals**	**Additions**	**2015**
Land, premises	17,819	-	3,231	239	20,811
Leasehold improvements	4,944	-	1,364	-	6,308
Electronic equipment and office furniture	9,236	-	726	147	9,815
Computer equipment	7,652	-	88	168	7,572
Motor vehicles	386	-	114	-	500
Other	120	-	1	-	121
Total	**40,157**	**-**	**5,524**	**554**	**45,127**

(25) Property, plant and equipment (continued)

(million HUF)	Accumulated depreciation / impairment of property, plant and equipment				
	2016	**Other changes**	**Disposals**	**Increase**	**2015**
Land, premises	6,035	-	893	305	6,623
Leasehold improvements	4,279	-	1,318	308	5,289
Electronic equipment and office furniture	8,442	-	776	290	8,928
Computer equipment	7,226	-	159	499	6,886
Motor vehicles	263	-	92	26	329
Other	-	-	-	-	-
Total	**26,245**	**-**	**3,238**	**1,428**	**28,055**

Net book value of property, plant and equipment (million HUF)	31/12/2017	31/12/2016
Land, premises	13,862	11,784
Leasehold improvements	436	665
Electronic equipment and office furniture	745	794
Computer equipment	347	426
Motor vehicles	94	123
Other	118	120
Total	**15,602**	**13,912**

Leasehold improvements include improvements on leased branches.

(26) Deposits from banks

(million HUF)	31/12/2017	31/12/2016
Deposits from National Bank of Hungary	56,082	75,341
Deposits from other banks in Hungary	76,083	44,755
Deposits from banks in other countries	78,082	75,688
Total	**210,247**	**195,784**
- *from which related party*	*57,027*	*15,878*

(27) Deposits from customers

(million HUF)	31/12/2017	31/12/2016
Deposits from customers in Hungary	1,163,984	1,132,372
Deposits from customers in other countries	27,771	35,223
Total	**1,191,755**	**1,167,595**
- *from which related party*	*109*	*932*

The revaluation gain on deposits specified as hedged items is presented in Note 19.

(28) Liabilities from issued securities

(million HUF)	31/12/2017	31/12/2016
Gross amount of issued securities	5,008	23,670
Repurchased amount of issued securities	(2,911)	(17,771)
Accrued interest payable from the net amount of issued securities	512	432
Net amount of liabilities from issued securities	**2,609**	**6,331**

The result from repurchase of issued securities was HUF 7 million gain for the year 2017 and HUF 24 million gain for the year 2016 respectively.

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities (million HUF)	31/12/2017	31/12/2016
CIB 2018/B bonds were issued in HUF since 8 August 2013 and will mature on 28 December 2018. The bonds pay fix interest of 30.0% at maturity.	2,601	2,580
CIB E FIX 17/A bonds were issued in EUR since 18 July 2014 and will mature on 18 July 2017. The bonds pay fix interest of 1.75% annually.	-	2,073
CIB C LE 17/A bonds were issued in HUF since 17 September 2014 and will mature on 18 September 2017. The bonds bear interest at 6 month EURIBOR plus 110 basis points.	-	1,670
CIB Kincsem bonds	8	8
Total	**2,609**	**6,331**

(29) Other liabilities

(million HUF)	31/12/2017	31/12/2016
Accrued liabilities	5,299	5,328
Items in transit	193	122
Suppliers	2,824	3,984
Financial guarantees	538	575
Other items	9,764	7,590
Total	**18,618**	**17,599**

The balance of other items contains those items in transit which are unsettled as at period end.

For ensuring the consistance in presetation income type taxes balance, other liabilities were modified regarding 2016.

Financial guarantees comprise (million HUF)	31/12/2017	31/12/2016
Opening balance	575	889
Increase during the year	134	233
Decrease during the year	(171)	(547)
Closing balance	**538**	**575**

Concerning financial guarantees see Note 34 on Commitments and contingencies.

(30) Provision

31/12/2017 (million HUF)	Commit-ments and contingen-cies	Other	Total
Opening balance	1,265	5,603	**6,868**
Increase of provision during the year	1,116	5,749	**6,865**
Decrease of provision during the year	(1,038)	(2,133)	**(3,171)**
Closing balance	**1,343**	**9,219**	**10,562**

31/12/2016 (million HUF)	Commit-ments and contingen-cies	Other	Total
Opening balance	1,721	3,916	**5,637**
Increase of provision during the year	792	6,117	**6,909**
Decrease of provision during the year	(1,248)	(4,430)	**(5,678)**
Closing balance	**1,265**	**5,603**	**6,868**

(30) Provision (continued)

Provisions for commitment and contingences were created for future credit obligations (see also Note (34) on Commitments and contingencies). All of the provisions expected to incur cost over one year.

Other provision established to cover the Group's present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Other provision includes litigation provision with an amount of HUF 5,781 million as of 31 December 2017 and HUF 3,177 million as of 31 December, 2016 respectively.

Other provision includes the Group's future obligations relating to rationalising the branch network.

Other provisions include provision on personal type expenses based on our best available estimation.

(31) Subordinated debt

(million HUF)	31/12/2017	31/12/2016
From Intesa Bank Ireland plc. for 30 million EUR. The debt's expiry date is 26 November 2021 with interest payable at 3 months EURIBOR plus 0.37%.	9,311	9,332
Total	**9,311**	**9,332**

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

(32) Share capital

During 2017 Intesa Sanpaolo S.p.A. increased the share capital of the Bank with HUF 1 issuing 1 pieces of ordinary share of HUF 1.

During 2016 Indesa Sanpaolo S.p.A. increased the share capital of the Bank in two occasions with HUF 1 each issuing 2 pieces of ordinary shares of 1 HUF each.

At 31 December 2017 the fully paid share capital consisted of 50,000,000,003 ordinary shares of HUF 1 each.

At 31 December 2016 the fully paid share capital consisted of 50,000,000,002 ordinary shares of HUF 1 each.

There were no significant incremental costs directly attributable to the issue of shares 2017 and 2017.

(33) Reserves

Capital reserve

Capital reserve contains the shareholders total capital contributions that connecting to the issue of new shares.

In the first half of 2017 Intesa Sanpaolo S.p.A. issued new shares for the Bank by HUF 15,000 million. HUF 1 was recorded as share capital increase, the difference between the face value of the new shares and the paid in capital contribution is recognized in the capital reserve.

During 2017, according to the Hungarian Accounting Law, reclassification of HUF 265,891 million was made between retained earnings and capital reserve upon CIB Factor merge into the Bank.

(33) Reserves

In the first half of 2016 Intesa Sanpaolo S.p.A. issued new shares for the Bank by HUF 9,000 million. HUF 1 was recorded as share capital increase, the difference between the face value of the new shares and the paid in capital contribution is recognized in the capital reserve.

In the first half of 2016 Intesa Sanpaolo S.p.A. converted HUF 46,200 million subordinated loan into equity out of which HUF 1 was recorded as share capital increase, the difference between the face value of the new shares and the paid in capital contribution is recognized in the capital reserve.

Revaluation reserve

Revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Futhermore, the revaluation reserve comprises the cumulative, positive change in fair value of those tangible asset for which the revaluation modell is applied, until the assets are derecognized or the change in fair value becomes negative.

Other reserve

Other reserve comprised the additional payment by shareholders to cover financial losses in the amount of HUF 36,000 million as at 31 December 2013. The Bank reclassified the additional payment made by the shareholder from equity to liabilities in 31 March 2017. During May, 2017 the entire amount of the additional payment made by the shareholder was repaid.

Other reserve comprises the Group's income from transaction under common control in the amount of HUF 4,164 million. These reserves are non-distributable as dividends. In addition to the above other reserve includes proceed received on sale of loan portfolio to the shareholder in amount of HUF 49,137 million.

General reserve

Under section 83 of Act No. CCXXXVII of 2013, an amount equal to 10% of net profit after tax must be transferred to a non-distributable general reserve from the retained earnings. If there is a loss in the current financial year, the general reserve may be released insofar as to cover any such losses, but is not to exceed the amount set aside in the general reserve.

Reserves classified as capital reserve, revalution reserve, other reserve and general reserve can not be paid as dividend.

(34) Commitments and contingencies

Commitments and contingent liabilities are summarized as below:

31/12/2017 **(million HUF)**	**Gross amount**	**Other liability**	**Provision**
Guarantees	30,871	(527)	-
Letters of credit	4,738	(11)	-
Total financial guarantees	**35,609**	**(538)**	-
Commitments	375,940	-	(1,344)
Total	**411,549**	**(538)**	**(1,344)**

(34) Commitments and contingencies (continued)

31/12/2016 (million HUF)	Gross amount	Other liability	Provision
Guarantees	29,043	(562)	-
Letters of credit	2,972	(13)	-
Total financial guarantees	**32,015**	**(575)**	-
Commitments	302,388	-	(1,265)
Total	**334,403**	**(575)**	**(1,265)**

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon the failure of the customers to perform under the terms of contract. Guarantees and standby letters of credit carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, guarantees, and endorsement liabilities from bills rediscounted.

Commitment to extend credit represents contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses.

The amount of long term financial guarantees and commitments with a remaining maturity over one year is HUF 12,218 million as at 31 December 2017 and HUF 30,476 million as at 31 December 2016, respectively.

The amount of the securities in custody is HUF 985,427 million at 31 December 2017 and HUF 885,413 million at 31 December 2016, respectively.

(35. a) Carrying amount of assets and liabilities at 31 December 2017 by earlier of contractual repricing or maturity date

(million HUF)	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	25,374	-	-	-	-	-	13,502	**38,876**
Effective interest rates	*0.90*	-	-	-	-	-	-	***0.59***
Due from banks	9,942	429,468	20,326	-	-	-	-	**459,736**
Effective interest rates	-	*(0.15)*	*(0.06)*	-	-	-	-	***(0.14)***
Financial assets at fair value through profit or loss excluded derivatives	-	14,050	40,759	8,001	540	171	196	**63,717**
Effective interest rates	-	*0.00*	*0.00*	*0.03*	*1.39*	*3.00*	-	***0.02***
Derivative financial assets	-	3,287	7,061	8,030	1,227	-	-	**19,605**
Loans and advances to customers	42,648	264,639	194,244	157,389	69,906	33,775	-	**762,601**
Effective interest rates	*3.93*	*1.37*	*1.73*	*3.04*	*2.31*	*3.32*	-	***2.21***
Financial investments – Available-for-sale	-	-	10,254	24,550	211,080	-	1,769	**247,653**
Effective interest rates	-	-	*0.23*	*0.33*	*0.44*	-	-	***0.42***
Financial investments – Held-to-maturity	-	-	-	-	28,906	-	-	**28,906**
Other assets	-	-	-	-	-	-	62,136	**62,136**
Liabilities								
Deposits from banks	852	106,574	10,998	18,838	56,495	16,490	-	**210,247**
Effective interest rates	-	*0.22*	*0.13*	*0.32*	*0.13*	*0.01*	-	***0.18***
Derivative financial liabilities	-	3,586	5,872	9,913	1,219	-	-	**20,590**
Deposits from customers	873,612	32,963	40,822	62,114	180,058	2,186	-	**1,191,755**
Effective interest rates	-	*0.37*	*0.61*	*1.43*	*1.37*	-	-	***0.31***
Liabilities from issued securities	-	8	-	2,601	-	-	-	**2,609**
Effective interest rates	-	-	-	*1.38*	-	-	-	***1.37***
Subordinated debt	-	-	-	9,311	-	-	-	**9,311**
Effective interest rates	-	-	-	*0.70*	-	-	-	***0.70***
Other liabilities	-	-	-	-	-	-	29,511	**29,511**
Net repricing gap	**(796,500)**	**568,313**	**214,952**	**95,193**	**73,887**	**15,270**	**48,092**	**219,207**

(35. b) Carrying amount of assets and liabilities at 31 December 2016 by earlier of contractual repricing or maturity date

(million HUF)	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	4,651	-	-	-	-	-	10,359	**15,010**
Effective interest rates	*0.90*	-	-	-	-	-	-	***0.28***
Due from banks	10,869	419,048	86,273	4,664	-	-	-	**520,854**
Effective interest rates	-	*(0.15)*	*0.45*	-	-	-	-	***(0.05)***
Financial assets at fair value through profit or loss excluded derivatives	-	4,703	14,331	19,081	179	171	49	**38,514**
Effective interest rates	-	*0.28*	*0.53*	*0.12*	*1.12*	*2.49*	-	***0.31***
Derivative financial assets	-	2,258	4,666	3,259	2,115	-	-	**12,298**
Loans and advances to customers	34,117	256,980	240,981	135,922	60,560	31,213	-	**759,773**
Effective interest rates	*5.07*	*1.96*	*2.44*	*3.23*	*2.42*	*3.89*	-	***2.59***
Financial investments	-	24,619	50,845	1,997	123,733	-	1,499	**202,693**
Effective interest rates	-	*0.33*	*0.44*	*0.19*	*0.85*	-	-	***0.67***
Other assets	-	-	-	-	-	-	80,808	**80,808**
Liabilities								
Deposits from banks	1,676	36,119	14,657	66,443	51,423	25,466	-	**195,784**
Effective interest rates	-	*0.08*	*0.13*	*0.10*	*0.23*	*0.00*	-	***0.10***
Derivative financial liabilities	-	2,071	3,661	4,535	2,179	-	-	**12,446**
Deposits from customers	767,504	110,651	179,326	38,041	72,073	-	-	**1,167,595**
Effective interest rates	-	*0.67*	*1.42*	*1.60*	*2.07*	-	-	***0.36***
Liabilities from issued securities	-	8	1,671	2,073	2,579	-	-	**6,331**
Effective interest rates	-	-	*1.74*	*0.82*	*1.38*	-	-	***1.29***
Subordinated debt	-	-	-	9,332	-	-	-	**9,332**
Effective interest rates	-	-	-	*0.15*	-	-	-	***0.15***
Other liabilities	-	-	-	-	-	-	25,340	**25,340**
Net repricing gap	**(719,543)**	**558,759**	**197,781**	**44,499**	**58,333**	**5,918**	**67,375**	**213,122**

(36. a) Carrying amount of assets and liabilities by maturity date as at 31 December 2017

(million HUF)	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks[1]	38,876	-	-	-	-	**38,876**
Due from banks	392,543	20,672	46,521	-	-	**459,736**
Financial assets at fair value through profit or loss	4,759	21,803	36,417	377	361	**63,717**
Derivative financial assets	4,184	3,242	2,823	6,352	3,004	**19,605**
Loans and advances to customers	68,776	51,427	118,304	317,219	206,875	**762,601**
Financial investments – Available-for-sale	1,746	-	34,803	211,081	23	**247,653**
Financial investments – Held-to-maturity	-	-	-	28,906	-	**28,906**
Non-current assets held for sale	-	-	339	-	-	**339**
Tax assets	-	-	-	1,079	-	**1,079**
Other assets	1,778	-	236	8,221	-	**10,235**
Intangible assets, property, plant and equipment	-	-	-	50,483	-	**50,483**
Total assets	**512,662**	**97,144**	**239,443**	**623,718**	**210,263**	**1,683,230**
Liabilities						
Deposits from banks	8,919	4,721	20,314	148,244	28,049	**210,247**
Derivative financial liabilities	4,154	2,460	1,855	8,707	3,414	**20,590**
Deposits from customers	906,000	40,014	62,929	180,592	2,220	**1,191,755**
Liabilities from issued securities	-	-	2,609	-	-	**2,609**
Tax liabilities	-	-	-	331	-	**331**
Other liabilities	5,300	-	193	13,125	-	**18,618**
Provisions	-	-	-	10,562	-	**10,562**
Subordinated debt	-	-	6	9,305	-	**9,311**
Total liabilities	**924,373**	**47,195**	**87,906**	**370,866**	**33,683**	**1,464,023**
Net position	**(411,711)**	**49,949**	**151,537**	**252,852**	**176,580**	**219,207**

[1]The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (17).

(36. b) Carrying amount of assets and liabilities by maturity date as at 31 December 2016

(million HUF)	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks[(1)]	15,010	-	-	-	-	**15,010**
Due from banks	429,917	86,273	4,664	-	-	**520,854**
Financial assets at fair value through profit or loss	1,373	10,563	18,639	7,729	210	**38,514**
Derivative financial assets	1,451	688	2,332	6,127	1,700	**12,298**
Loans and advances to customers	91,083	34,839	94,152	280,566	259,133	**759,773**
Financial investments	1,426	-	29,253	171,941	73	**202,693**
Non-current assets held for sale	-	-	641	-	-	**641**
Tax assets	-	-	-	5,053	-	**5,053**
Other assets	1,210	-	241	3,853	-	**5,304**
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	69,810	-	**69,810**
Total assets	**541,470**	**132,363**	**149,922**	**545,079**	**261,116**	**1,629,950**
Liabilities						
Deposits from banks	12,921	5,495	38,026	86,550	52,792	**195,784**
Derivative financial liabilities	888	1,023	2,760	5,880	1,895	**12,446**
Deposits from customers	846,901	48,601	51,823	218,198	2,072	**1,167,595**
Liabilities from issued securities	-	-	3,743	2,588	-	**6,331**
Tax liabilities	-	-	-	3,957	-	**3,957**
Other liabilities	5,327	-	122	9,066	-	**14,515**
Provisions	-	-	-	6,868	-	**6,868**
Subordinated debt	-	-	1	9,331	-	**9,332**
Total liabilities	**866,037**	**55,119**	**96,475**	**342,438**	**56,759**	**1,416,828**
Net position	**(324,567)**	**77,244**	**53,447**	**202,641**	**204,357**	**213,122**

[1)]The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (17).

(37) Analysis of financial liabilities' gross contractual cash flows by remaining contractual maturities

The following table summarize the maturity profile the Group's financial liabilities' gross contractual cash flows – together with future interest income - as at 31 December. Repayments which are not subject to notice are treated as if notice were to be given immediately.

Carrying amount of the undiscounted financial liabilities is disclosed in the Note (36).

31 December 2017 (million HUF)	**Under 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Deposits from banks	8,938	4,785	20,598	149,000	28,273	**211,594**
Derivative instruments	4,154	2,460	1,855	8,707	3,414	**20,590**
Deposits from customers	906,033	40,211	64,661	182,574	2,220	**1,195,699**
Liabilities from issued securities	-	-	2,609	-	-	**2,609**
Subordinated debt	-	-	66	9,502	-	**9,568**
Financial guarantees	3,503	6,690	14,076	7,554	3,786	**35,609**
Total undiscounted financial liabilities	**922,628**	**54,146**	**103,865**	**357,337**	**37,693**	**1,475,669**

31 December 2016 (million HUF)	**Under 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Deposits from banks	12,929	5,546	38,276	88,042	53,967	**198,760**
Derivative instruments	888	1,023	2,760	5,880	1,895	**12,446**
Deposits from customers	846,945	48,967	53,891	228,266	2,090	**1,180,159**
Liabilities from issued securities	-	7	3,766	2,819	-	**6,592**
Subordinated debt	-	-	14	9,544	-	**9,558**
Financial guarantees	1,246	5,407	11,802	9,875	3,685	**32,015**
Total undiscounted financial liabilities	**862,008**	**60,950**	**110,509**	**344,426**	**61,637**	**1,439,530**

Part D – Additional Information

(38) Related Party transactions

(a) Companies (Intesa Sanpaolo Group)

For the purpose of the financial statements, related parties include all the enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the reporting enterprise (this includes parents, subsidiaries and fellow subsidiaries), associated companies and key management personnel.

Intesa Sanpaolo S.p.A /Italy, Torino/ (ultimate parent) is regarded as a related party that has significant control over the Bank.

The Group also has entered into several transactions with companies controlled by Intesa Sanpaolo Group.

All transactions with companies in the Intesa Sanpaolo Group are conducted at market conditions.

2017 (million HUF)	**Parent**	**ISP Group Companies**	**Total**
Assets			
Cash and current accounts	5,108	2,130	**7,238**
Loans and advances to customers / Due from banks	109,783	10,506	**120,289**
Financial investments	398	-	**398**
Derivative financial assets	330	9,398	**9,728**
Other assets	-	152	**152**
Liabilities			
Current accounts	90	261	**351**
Deposits from customers / banks	55,164	1,621	**56,785**
Subordinated debt	-	9,311	**9,311**
Derivative financial liabilities	151	10,662	**10,813**
Commitments			
Guarantees	-	84	**84**
Loan commitments	60,000	2	**60,002**
Interest rate derivatives	4,000	889,890	**893,890**
Currency derivatives	65,406	326	**65,732**
Equity derivatives	-	42,628	**42,628**
Net interest income	**(843)**	**(630)**	**(1,473)**

(38) Related Party transactions (continued)

2016 (million HUF)	**Parent**	**ISP Group Companies**	**Total**
Assets			
Cash and current accounts	5,106	2,273	**7,379**
Loans and advances to customers / Due from banks	279,600	2,691	**282,291**
Financial investments	375		**375**
Derivative financial assets	977	6,415	**7,392**
Other assets	-	753	**753**
Liabilities			
Current accounts	4	879	**883**
Deposits from customers / banks	12,708	3,219	**15,927**
Subordinated debt	-	9,332	**9,332**
Derivative financial liabilities	523	4,009	**4,531**
Other liabilities	-	-	**-**
Commitments			
Guarantees	76	22	**98**
Loan commitments	60,000	2	**60,002**
Interest rate derivatives	4,000	515,321	**519,321**
Currency derivatives	115,552	308	**115,860**
Equity derivatives	-	58,154	**58,154**
Net interest income	**(778)**	**(204)**	**(982)**

The Group has significant transactions with the following ISP Group members:

- BANCA FIDEURAM S.P.A.
- PRIVREDNA BANKA ZAGREB D.D.
- VSEOBECNA UVEROVA BANKA AS
- BANCA IMI SPA
- INTESA SANPAOLO ROMANIA S.A.

The most significant transactions with related parties are loan deposits and derivatives (foreign exchange swap deals and interest rate swap transactions).

(38) Related Party transactions (continued)

(b) Key management personnel

The key management personnel, who have authority and responsibility for planning, directing and controlling the activities of the entity, are the members of the Bank's Management Board and Supervisory Board. They receive conditions generally provided to the employees of the CIB Group.

Members of the Bank's Management Board as at 31 December 2017:

Dr. Pál Simák (CEO and Chairman of the Board) – CIB Bank Ltd.
Giorgio Gavioli – CIB Bank Ltd.
Dr. Tamás Ákos – CIB Bank Ltd.
István Attila Szabó – CIB Bank Ltd.
Zoltán Csordás – CIB Bank Ltd.
Paolo Vivona – CIB Bank Ltd.

Members of the Bank's Supervisory Board as at 31 December 2017:

Ezio Salvai (Chairman) – Intesa Sanpaolo Group
Giampiero Trevisan – Intesa Sanpaolo Group
Francesco Del Genio – Intesa Sanpaolo Group
Ciro Vittoria – Intesa Sanpaolo Group
Franco Sgubin – Intesa Sanpaolo Group
Zsófia Szabó – CIB Bank Ltd.
Ilona Csuka-Fügedy – CIB Bank Ltd.

Exposures to / from Boards members (million HUF)	**2017**	**2016**
Assets		
Loans	69	73
Equity instruments	69	27
Liabilities		
Current accounts and deposits	222	2
Commitments		
Loans and overdraft facilities not disbursed	5	8
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	939	929

There were changes in the Group's key management members during 2017 and 2016.

(39) Average balances

Averages carrying amounts and average interest rates (where appropriate) are set out in the table below. The amounts are calculated by using a simple average of daily balances for trading instruments and monthly balances for other instruments. The average interest rates disclosed are the weighted average effective yields of interest-bearing financial instruments for the reporting period.

(million HUF)	2017 Average carrying amount	2017 Average interest rate (%)	2016 Average carrying amount	2016 Average interest rate (%)
Financial assets				
Cash	9,415	0.00	8,375	0.00
Deposit with banks	427,398	-0.11	452,818	0.45
Financial assets at fair value through profit or loss	57,522	1.32	44,887	1.49
Loans and advances to customers	758,674	3.13	1,007,728	3.59
Financial investments	266,318	1.10	139,132	1.39
Other assets	91,862	-	623,193	-
Financial liabilities				
Deposits from banks	206,891	0.23	222,787	0.17
Deposits from customers	1,134,601	0.38	1,099,786	0.70
Liabilities from issued securities	5,086	2.82	19,746	2.94
Subordinated debt	9,289	0.80	12,381	2.10
Other liabilities	47,964	-	265,702	-

(40) Fair value of financial assets and liabilities

The following tables comprise the book value and the fair value of those financial assets and liabilities, which are not presented at fair value in the statement of financial position.

31 December 2017 (million HUF)	Variable rate instruments Book value	Variable rate instruments Fair value	Fixed rate instruments Book value	Fixed rate instruments Fair value
Financial assets				
Due from banks	58,008	58,228	401,728	401,708
Financial investments -Held to maturity	28,906	29,253	-	-
Loans and advances to customers	613,487	621,916	149,114	149,582
Financial liabilities				
Deposits from banks	128,326	129,828	81,921	80,432
Deposits from customers	1,071,171	1,071,574	120,584	124,858
Liabilities from issued securities	-	-	2,609	2,184
Subordinated debt	9,311	9,676	-	-

(40) Fair value of financial assets and liabilities (continued)

31 December 2016 (million HUF)	Variable rate instruments		Fixed rate instruments	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Due from banks	29,455	29,457	491,399	491,468
Loans and advances to customers	631,225	651,250	128,548	135,411
Financial liabilities				
Deposits from banks	77,971	78,346	117,813	116,217
Deposits from customers	933,689	938,907	233,906	236,929
Liabilities from issued securities	1,670	1,669	4,661	4,414
Subordinated debt	9,332	9,371	-	-

The estimated fair value of due from banks and loans and advances to customers is based on the discounted amount of the estimated future cash flows.

In the case of financial investments – Held-to-maturity and liabilities from issued securities are measured with the actual market price or by applying broker price quotations.

Deposits from banks and customers have been estimated using discounted cash flows.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: inputs that are quoted marked prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Unobservable input is used for instruments with conditions not closely connected to active markets.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2017 (million HUF)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	19,605	-	**19,605**
Financial assets at fair value through profit or loss	63,716	1	-	**63,717**
Financial investments - Available-for-sale	246,283	1,348	-	**247,631**
Financial investments – Held-to-maturity	28,906	-	-	**28,906**
Financial liabilities				
Derivative financial liabilities	-	20,590	-	**20,590**

(40) Fair value of financial assets and liabilities (continued)

31 December 2016 (million HUF)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	12,298	-	**12,298**
Financial assets at fair value through profit or loss	38,513	1	-	**38,514**
Financial investments - Available-for-sale	201,570	1,050	-	**202,620**
Financial liabilities				
Derivative financial liabilities	-	12,446	-	**12,446**

During the reporting period ending 31 December 2017 and 2016 there were no transfers between Level 1 and Level 2 fair value measurements or any transfers into Level 3 fair value measurement.

The following table shows an analysis of financial instruments not measured at fair value by level of the fair value hierarchy:

31 December 2017 (million HUF)	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current accounts with central bank	38,876	-	-	38,876	38,876
Deposits with banks	-	-	459,936	459,936	459,736
Loans and advances to customers	-	-	771,498	771,498	762,601
Financial investment – Held-to-maturity	29,253	-	-	29,253	28,906
Financial liabilities					
Deposits from banks	-	-	210,261	210,261	210,247
Deposits from customers	-	-	1,196,432	1,196,432	1,191,755
Liabilities from issued securities	-	2,184	-	2,184	2,609
Subordinated deposits	-	-	9,676	9,676	9,311

31 December 2016 (million HUF)	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current accounts with central bank	15,010	-	-	15,010	15,010
Deposits with banks	-	-	520,925	520,925	520,854
Loans and advances to customers	-	-	786,661	786,661	759,773
Financial liabilities					
Deposits from banks	-	-	194,563	194,563	195,784
Deposits from customers	-	-	1,175,836	1,175,836	1,167,595
Liabilities from issued securities	-	6,083	-	6,083	6,331
Subordinated deposits	-	-	9,371	9,371	9,332

(40) Fair value of financial assets and liabilities (continued)

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. The fair value of deposits from banks and customers is estimated using discounted cash flow techniques. The fair value of deposits on demand is the amount payable at the reporting date.

(41) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalent comprises the following balances with less than three months maturity from the date of acquisition.

(million HUF)	Note	2017	2016
Cash and cash equivalents	17	38,876	15,010
Due from banks	18	396,984	376,577
Financial assets at fair value through profit or loss	19	2,000	7,991
Total		**437,860**	**399,578**

(42) Business combinations and transactions under common control

There was no business combination and transaction under common control in 2017 nor in 2016.

(43) Events after the reporting period

There is no adjusting or non-adjusting event after the reporting period.

(44) Segment report

For management purposes the Group is organised into operating segments based on services and products. The Management Board of the Bank monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Operating segment result represents the banking income less of impairment loss, provision and net loan losses. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following segments could be distinguished as being separate

- Retail banking contains private customer current accounts, savings, deposits; customer loans and mortgages; financial leasing services
- Corporate banking contains banking services, savings, deposits, investment savings products and corporate loans.
- Treasury and Bank segment contains trading and treasury services.
- The other segment contains both the subsidiaries whose activities are not financial and public sector, such as property management.

Net banking income of other segment is due to the transfer of interest on non-interest earning asset and liabilities classified to the other segment category.

Geographical segments are not presented in the consolidated financial statements as the cost of producing such information would exceed its merits.

(44) Segment report (continued)

31 December 2017 (million HUF)	**Retail banking**	**Corpo-rate banking**	**Treasury/ Bank**	**Other**	**Total**
Net interest income	8,669	8,824	1,395	2,455	21,343
Net commission income	17,154	10,348	-	-	27,502
Trading income	-	-	9,831	-	9,831
Other operating income	-	-	-	2,517	2,517
Net banking income	**25,823**	**19,172**	**11,226**	**4,972**	**61,193**
Impairment losses, provisions and net loan losses	4,858	12,475	-	(76)	17,257
Segment result	**30,681**	**31,647**	**11,226**	**4,896**	**78,450**
Unallocated cost					(51,317)
Profit before tax					27,133
Income tax					(2,570)
Profit for the year					**24,563**
Segment assets					
Loan and advances to customers	290,189	472,412	-	-	762,601
Due from banks	-	-	459,736	-	459,736
Securities	-	-	340,253	23	340,276
Derivative financial assets	-	-	19,605	-	19,605
Other assets	-	-	-	100,684	100,684
Deferred tax assets	-	-	-	328	328
Total asset	**290,189**	**472,412**	**819,594**	**101,035**	**1,683,230**
Segment liabilities					
Deposit from customers and liabilities from issued securities	500,466	693,898	-	-	1,194,364
Deposit from banks and subordinated debt	-	-	219,558	-	219,558
Derivative financial liabilities	-	-	20,590	-	20,590
Other	-	-	-	29,208	29,208
Deferred tax liabilities	-	-	-	303	303
Total liabilities	**500,466**	**693,898**	**240,148**	**29,511**	**1,464,023**

(44) Segment report (continued)

31 December 2016 (million HUF)	**Retail banking**	**Corpo-rate banking**	**Treasury/ Bank**	**Other**	**Total**
Net interest income	11,655	11,432	(347)	3,324	26,064
Net commission income	15,936	12,023	-	-	27,959
Trading income	-	-	9,790	-	9,790
Other operating income	-	-	-	5,464	5,464
Net banking income	**27,591**	**23,455**	**9,443**	**8,788**	**69,277**
Impairment losses, provisions and net loan losses	(7,334)	10,394	-	(1,421)	1,639
Segment result	**20,257**	**33,849**	**9,443**	**7,367**	**70,916**
Unallocated cost					(55,487)
Profit before tax					15,429
Income tax					(3,471)
Profit for the year					11,958
Segment assets					
Loan and advances to customers	298,740	461,033	-	-	759,773
Due from banks	-	-	520,854	-	520,854
Securities	-	-	241,134	73	241,207
Derivative financial assets	-	-	12,298	-	12,298
Other assets	-	-	-	95,739	95,739
Deferred tax assets	-	-	-	79	79
Total asset	**298,740**	**461,033**	**774,286**	**95,891**	**1,629,950**
Segment liabilities					
Deposit from customers and liabilities from issued securities	482,432	691,494	-	-	1,173,926
Deposit from banks and subordinated debt	-	-	205,116	-	205,116
Derivative financial liabilities	-	-	12,446	-	12,446
Other	-	-	-	24,858	24,858
Deferred tax liabilities	-	-	-	482	482
Total liabilities	**482,432**	**691,494**	**217,562**	**25,340**	**1,416,828**

Part E – Information on risks

(45) Risk management

Risk is inherent in the Group's activities, but it is carefully managed through a process of ongoing identification, measurement and monitoring, subject to prudent risk limits and strong control. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The most significant risks to which the Group is exposed are credit-, operational-, liquidity- and market risk, including interest rate, foreign exchange risks and other price risk.

The Management Board of the Bank, within the rules as established by the National Bank of Hungary and Intesa Sanpaolo S.p.A, sets risk management policies. The Management Committees of the Group implement the execution of these policies. Besides to the Management Committees, an independent Risk Assumption and Risk Management Committee has been established according to the legislative requirements in order to further strengthening the risk control.

The Risk Management Division is responsible for implementing and maintaining risk related procedures to ensure an independent control process. Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and manages daily liquidity of the Bank. Activity of Treasury is supervised on a daily basis by the Market Risk Department and strategic ALM decisions are made by Financial Risk Committee.

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management. Risk management framework is also comprehensively examined yearly by the National Bank of Hungary in the course of the Supervisory Review and Evaluation Process.

The Group has established reporting systems, which permit the continuous monitoring of risk exposures. The risks are measured and quantified according to different methods, both statistical and non-statistical. Each method is based on different levels of uncertainty. The combination of methods makes it possible for the Group to assess the behavior of its exposure in different risk scenarios in order to capture all the aspects of the risk. This reflects both the expected loss likely to arise in normal circumstances and unexpected loss, which is an estimate of the ultimate actual loss based on statistical models.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and any exposures arising from forecasted transactions. The Group actively uses collaterals to reduce its credit risks.

(a) Credit risk

Credit risk is the risk that a customer or counter party will be unable or unwilling to meet a commitment that they have entered into with a member of the Group. It arises from lending, trade finance, treasury and other activities undertaken by Group companies. Credit risk on loans and receivables is managed by the Management Board through the Credit Committee, the Asset Quality Session and the Problem Asset Committee, which establish credit regulations including the approval processes, discretionary credit limits, standards for the measurement of credit exposures, risk ratings of clients and assessments of management quality and financial performance.

Each significant outstanding loan is reviewed at least monthly. Loans are classified based on a point rating system, which incorporates qualitative and quantitative factors.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the Statement of Financial Position. Credit risk on trading instruments is managed by the Management Board through the Financial Risk Committee. The Group maintains strict control on open net positions, i.e. the difference between purchase and sale contracts, by both amount and term.

(45) Risk management (continued)

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below shows the maximum exposure (gross carrying amount without any impairment losses) to credit risk. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

31/12/2017 (million HUF)	**Maximum exposure**	**Maximum exposure to credit risk**
Cash and balances with central bank	38,879	38,876
Due from banks	459,782	459,736
Financial assets at fair value through profit and loss	63,717	63,717
Derivative financial assets	19,605	19,605
Loans and advances to customers	825,972	791,630
Financial investments – Available-for-sale	247,630	247,631
Financial investments – Held-to-maturity	28,906	28,906
Other assets	9,647	7,916
Financial guarantees	35,609	35,071
Commitments	375,940	374,596
Total maximum exposure	**2,105,687**	**2,067,684**

31/12/2016 (million HUF)	**Maximum exposure**	**Maximum exposure to credit risk**
Cash and balances with central bank	15,010	15,010
Due from banks	520,979	520,854
Financial assets at fair value through profit and loss	38,514	38,514
Derivative financial assets	12,298	12,298
Loans and advances to customers	876,168	759,764
Financial investments – Available-for-sale	202,693	202,693
Other assets	4,969	3,093
Financial guarantees	32,015	31,440
Commitments	302,388	301,123
Total	**2,005,034**	**1,884,789**

(45) Risk management (continued)

The fair values of derivatives shown on the statement of financial position represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in values.

The Group's loans and advances to customers before taking into account any collateral held or other credit enhancement can be analysed by the following geographical regions:

(million HUF)	31/12/2017	31/12/2016
Hungary	784,679	852,898
Euro Zone countries	23,847	19,672
- of which PIGS countries	*194*	*306*
European but Non-Euro Zone countries	16,759	3,038
Other regions	687	569
Total	**825,972**	**876,177**

PIGS' countries include the followings: Greece, Portugal, Ireland and Spain. An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements is provided in Note 20.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, mortgage charges over real estate properties, inventory and trade receivables;

The Group also obtains guarantees from parent company for loans to their subsidiaries. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Effect of Credit Risk Mitigation on the exposure to credit risk:

(million HUF)	31/12/2017	31/12/2016
Financial collateral	(22,750)	(13,358)
Guarantees	(60,044)	(57,118)
Total	**(82,794)**	**(70,476)**

(45) Risk management (continued)

The Group assesses the loans with internal rating system, which differentiates the quality of non-overdue loans. The table below shows the credit quality of the loans and advances to customers excluding allowances based on the Group's credit rating system.

(million HUF)	2017	2016
Performing loans		
A – Excellent	86,673	35,194
B – Stable	156,660	107,843
C – Acceptable	347,923	358,817
D – High Risk	136,337	154,874
Other	8,905	31,433
Total performing loans	**736,498**	**688,161**
Non-performing loans		
Corporate loans	61,048	111,840
Retail loan	28,426	76,176
Total non-performing loans	**89,474**	**188,016**

The „Other" rating refers to clients, which were assessed with not the latest, but a previous rating model.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. These facilitates focused on management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The attributable risk ratings are assessed and updated regularly.

The Group does not recognize any credit risk in relation with Available-for-sale investments, as the majority of the Available-for-sale security portfolio consisted of government bonds.

Thanks to portfolio cleaning efforts the credit quality of the portfolio started to improve in the previous periods and the positive tendency reflected in declining NPL volumes and improving cost of risk.

The table below shows the credit quality of the due from banks portfolio, based on the external rating system.

(million HUF)	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+/ BB-	B+/ B-	Not rated	Total
31/12/2017	227	3,550	443,526	5,172	1,501	5,760	**459,736**
31/12/2016	25,484	1,939	483,658	922	1,701	7,150	**520,854**

(45) Risk management (continued)

The table below shows the aging analysis of past due but not individually impaired loans by segment.

2017 (million HUF)	**Under 1 month**	**31 to 60 days**	**61 to 90 days**	**Over 91 days**	**Total**
Corporate loan	7,684	578	93	236	**8,591**
Retail loans	14,220	1,684	602	205	**16,711**
Total	**21,904**	**2,262**	**695**	**441**	**25,302**

2016 (million HUF)	**Under 1 month**	**31 to 60 days**	**61 to 90 days**	**Over 91 days**	**Total**
Corporate loan	10,621	677	232	160	**11,690**
Retail loans	16,036	1,921	548	353	**18,858**
Total	**26,657**	**2,598**	**780**	**513**	**30,548**

Of the total aggregate amount of gross past due but not individually impaired loans and advances to customers, the liquidation value of collateral that the Group held as at 31 December 2017 HUF 17,176 million and was HUF 19,222 million as at 31 December 2016.

The Group addresses impairment into two types: individually assessed allowances and collectively assessed allowances.

The following table below shows the credit quality of the non-performing loans and advances to customers based on the Group's rules:

(million HUF)	**2017**	**2016**
Doubtful loans	**8,873**	**29,064**
Individually assessed	1,651	3,563
Collectively assessed	7,222	25,501
Unlikely to pay loans	**30,571**	**60,695**
Individually assessed	23,225	46,470
Collectively assessed	7,346	14,225
Past due loans	**112**	**213**
Individually assessed	-	60
Collectively assessed	112	153
Total	**39,556**	**89,972**

The Group determines the individually assessed allowances appropriate for each individually significant loan and advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, its expected dividend payout should bankruptcy ensue, its ability to recover outstanding amounts, the availability of other financial support and the realisable value of collateral.

(45) Risk management (continued)

Collectively assessed allowances are assessed for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration historical losses on the portfolio.

Collective allowances are calculated based on the actual rating based PD of the client, and modelled LGD or collateral coverage of the given exposure.

Counterparty credit risk of derivatives is calculated on a counterparty basis over the entire life of the exposure.

(b) Liquidity risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its payment obligations due to its inability to obtain funds on the market (funding liquidity risk) or to liquidate its assets (market liquidity risk).

The Management Board is responsible for maintaining a level of liquidity and the definition of control policies and management processes relating to the specific risk profile. Financial Risk Committee monitors the implementation of the Liquidity Policy of the Bank and delegates day-to-day activities to the most appropriate offices and departments of the Bank. In the day-to-day liquidity management the Head of Treasury and Capital Markets is responsible for implementing the liquidity strategy and maintaining adequate liquidity within the limits described below. The Financial and Market Risk Management measures and monitors the liquidity position and controls liquidity limits on a daily basis, and also in charge of reporting to the management bodies and to the Parent Company with regard to liquidity conditions and limits.

The intention of the Group is to promote CIB’s long standing philosophy of safe, sound and conservative liquidity risk management and to give the right guidance to ensure continuous and safe liquidity levels within the Group. The key elements of the CIB Group’s liquidity strategy are as follows:

- increase Self Financing Capacity in all segments;
- improve Structural Liquidity Position through matched funding (shareholder or market driven);
- focused approach to short-term, medium-term, long-term product definitions in each business line;
- in line with new regulations recently introduced in Hungary, the Bank will always strictly respect all regulatory liquidity ratios.

Through active participation in monetary and financial markets, the Treasury and Capital Markets ensures integrated management of the Group’s liquidity in local currency as well as in foreign currencies; optimizes the liquidity portfolio, guaranteeing efficient collateral management; and with regard to the other CIB group companies, the Treasury and Capital Markets coordinates and facilitates intragroup cash flows, favouring organised, efficient development in compliance with internal and external regulations. It also acts to resolve any liquidity imbalances of the subsidiaries, in cooperation with the Financial and Market Risk Management, and promotes all operating activities deemed suitable to return or keep the subsidiaries within the limits set forth by internal or external rules.

The Liquidity Policy includes to the Contingency Funding Plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations and describing the liquidity early warning system in operation.

The liquidity ratio is calculated as the ratio of liquid assets to total assets where liquid assets consists of cash, nostro balances and – maximum 30 day remaining maturity – bonds that are categorized by the National Bank of Hungary as eligible for its repo facility.

(45) Risk management (continued)

The liquidity ratio during the year was as follows

Liquidity ratio (%)	2017	2016
31 December	39.7	32.9
Daily average during the period	31.1	21.1
Highest	41.2	32.9
Lowest	22.8	15.5

(The liquidity of the Group depends on the Bank stand-alone liquidity the above table includes the CIB Bank only liquidity ratios.)

The maturity profile of the Group's financial liabilities at 31 December 2017 is presented in Note 37.

(c) Market risk - Trading

Market risk is the risk of loss due to fluctuations in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored through applying methodology that reflects the interdependency between risk variables.

The market risk for the trading portfolio is managed and monitored based on a VaR (Value at Risk) methodology which reflects the interdependency between different risk factors. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

The Group uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from previous years. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The factors of the distribution are calculated by using exponentially weighted historical data. The use of VaR has limitation because it is based on historical correlation and volatilities in market prices and assumes that future price movements will follow a statistical distribution.

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under – or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations with separate limit amounts for foreign exchange, interest rate, equity and total VaRs. Exposures are reviewed daily against the limits by management.

VaR – 2017 (million HUF)	Foreign ex-change	Interest rate	Equity	Correla-tion effect	Total
31 December	16	9	1	(10)	**15**
Daily average during the period	24	22	1	(13)	**34**
Highest	60	63	4	(35)	**92**
Lowest	6	7	1	(3)	**11**

(45) Risk management (continued)

VaR – 2016 (million HUF)	Foreign ex-change	Interest rate	Equity	Correla-tion effect	Total
31 December	55	22	1	(10)	**68**
Daily average during the period	31	48	1	(19)	**61**
Highest	75	109	2	(60)	**126**
Lowest	1	19	1	1	**22**

(As the market risk trading book is managed at the CIB Bank level, the table includes the amounts on a Bank level basis).

In addition to the VaR limits, position and stop-loss limits have been set up in line with the internal regulations of Intesa Sanpaolo Group.

Position limits enables the monitoring of exposures real time, and as a robust measurement technique, can be relied upon in case of error in the VaR model.

Separate position limits and sub-limits are in place for foreign exchange, equity and interest rate positions.

Stop-loss limits are designed to control the down side movement of the profit and loss in a particular position. Separate stop-loss limits have been established both on a month-to-date and year-to-date horizon for the individual Treasury desks.

(d) Market risk – Non-trading

Interest rate risk– Non-trading

Interest rate risk is measured by the extent to which changes in market interest rates impact on equity and on net interest income. Gaps in the value of assets, liabilities and off balance sheet instruments that mature or reprice during a given period generate interest rate risk. The Group reduces this risk by matching the repricing of assets and liabilities using pricing/maturity techniques, including the use of derivative products.

Interest rate risk is managed by the Treasury in the Group day-to-day operation supervised by the senior management, by Risk Management, and by the Parent Company. Risk tolerance limitation and the related policy are set by the Group’s Management Board. On the tactical horizon interest risk is managed by the Financial Risk Committee, which proposes position and sensitivity limits, and monitors such limits to restrict the effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the consolidated statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating and fixed rate non-trading financial assets and financial liabilities held at 31 December 2017. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2017 for the effects of the assumed changes in interest rates. The Group uses for the sensitivity of equity calculations, among others, the NPV and modified duration method, with admitting negative value on interest rates for the year 2017 and applying zero floor on interest rates for the year 2016.

A threshold of zero is implemented in the calculation for those cases when the decrease of basis points would indicate a negative interest income. This method amends the symmetry of the sensitivity analysis.

(45) Risk management (continued)

2017 (million HUF)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	200	**5,583**	(484)	(186)	1,664	(254)	**740**
EUR	100	**1,187**	(215)	91	431	529	**836**
USD	25	**32**	1	16	1	7	**25**
CHF	25	**7**	(60)	3	(23)	(21)	**(101)**
Other	25	**(2)**	1	1	(18)	1	**(15)**

2017 (million HUF)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(200)	**(5,443)**	11	7	(927)	1.230	**321**
EUR	(100)	**(1,061)**	18	41	(50)	(307)	**(298)**
USD	(25)	**(32)**	(1)	(8)	-	(5)	**(14)**
CHF	(25)	**(24)**	8	(4)	(44)	(6)	**(46)**
Other	(25)	**-**	-	-	10	(1)	**9**

2016 (million HUF)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	200	**1,334**	(1,291)	(650)	1,393	(1,878)	**(2,426)**
EUR	100	**598**	(135)	66	287	(32)	**186**
USD	25	**(1)**	0	59	29	5	**93**
CHF	25	**86**	25	8	(17)	(14)	**2**
Other	25	**(4)**	0	0	1	(10)	**(9)**

2016 (million HUF)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(200)	**(1,096)**	242	195	(1,314)	2,870	**1,993**
EUR	(100)	**(876)**	238	187	(1,165)	1,304	**564**
USD	(25)	**(1)**	0	(60)	(30)	(7)	**(97)**
CHF	(25)	**(136)**	15	(1)	(27)	9	**(4)**
Other	-	**4**	0	0	1	11	**12**

(45) Risk management (continued)

Foreign exchange risk– Non-trading

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in FX rates.

The Group has assets and liabilities, both on and off balance sheet, denominated in various foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Any non-trading foreign exchange risk is transferred through internal hedges to trading book and is therefore reflected and managed via the value-at-risk figures in the trading books described under section (c) Market risk – Trading, with the exception of strategic and residual foreign FX positions. The following table demonstrates the sensitivity of the consolidated statement of comprehensive income to reasonable possible changes in exchange rates, with all other variables held constant:

2017 (million HUF)	**Foreign exchange risk – Non-trading Sensitivity of net income**		
	EUR	**CHF**	**Total**
5% strengthening of currencies vs. HUF	386	(3.5)	**382.5**
5% weakening of currencies vs. HUF	(386)	3.5	**(382.5)**

2016 (million HUF)	**Foreign exchange risk – Non-trading Sensitivity of net income**		
	EUR	**CHF**	**Total**
5% strengthening of currencies vs. HUF	335	(120)	**215**
5% weakening of currencies vs. HUF	(335)	120	**(215)**

Changes in exchange rates does not have any effect on equity.

(45) Risk management (continued)

The currency structure of the Group's financial assets, liabilities as follows (currency equivalents in million HUF):

31/12/2017 (million HUF)	HUF	EUR	CHF	USD	Other	Total
Cash and current accounts with central bank	37,760	811	24	219	62	**38,876**
Due from banks	320,521	129,657	581	2,383	6,594	**459,736**
Financial assets at fair value through profit or loss	63,685	4	-	28	-	**63,717**
Net loans and advances to customers	493,401	230,778	23,897	13,336	1,189	**762,601**
Financial investments – available-for-sale	245,884	398	-	1,348	-	**247,630**
Financial investments – held-to-maturity	28,906	-	-	-	-	**28,906**
Other assets	6,699	1,011	60	91	55	**7,916**
Total financial assets	**1,196,856**	**362,659**	**24,562**	**17,405**	**7,900**	**1,609,382**
Deposits from banks	107,883	84,409	17,514	434	7	**210,247**
Deposits from customers	896,288	239,523	4,229	44,320	7,395	**1,191,755**
Liabilities from issued securities	2,609	-	-	-	-	**2,609**
Other liabilities	9,897	2,147	6	489	50	**12,589**
Subordinated debt	-	9,311	-	-	-	**9,311**
Total financial liabilities	**1,016,677**	**335,390**	**21,749**	**45,243**	**7,452**	**1,426,511**
Net on-statement of financial position	**180,179**	**27,269**	**2,813**	**(27,838)**	**448**	**182,871**
FX position of derivatives	**(3,571)**	**(19,232)**	**(2,872)**	**27,594**	**(481)**	
Off-balance						
Guarantees	*17,569*	*10,623*	-	*2,152*	-	***30,344***
Letters of credit	*16*	*4,368*	-	*343*	-	***4,727***
Commitments	*233,761*	*113,922*	*43*	*26,870*	-	***374,596***

(45) Risk management (continued)

31/12/2016 (million HUF)	**HUF**	**EUR**	**CHF**	**USD**	**Other**	**Total**
Cash and current accounts with central bank	14,031	671	25	211	72	**15,010**
Due from banks	207,937	301,840	1,510	2,243	7,324	**520,854**
Financial assets at fair value through profit or loss	38,338	41	-	127	8	**38,514**
Net loans and advances to customers	493,843	227,969	32,273	4,450	1,238	**759,773**
Financial investments – available-for-sale	201,267	375	-	1,051	-	**202,693**
Other assets	2,073	861	65	90	4	**3,093**
Total financial assets	**957,489**	**531,757**	**33,873**	**8,172**	**8,646**	**1,539,937**
Deposits from banks	96,843	40,880	56,679	1,251	131	**195,784**
Deposits from customers	854,137	251,334	4,446	41,944	15,734	**1,167,595**
Liabilities from issued securities	2,588	3,743	-	-	-	**6,331**
Other liabilities	7,022	1,047	13	363	47	**8,492**
Subordinated debt	-	9,332	-	-	-	**9,332**
Total financial liabilities	**960,590**	**306,336**	**61,138**	**43,558**	**15,912**	**1,387,534**
Net on-statement of financial position	**(3,101)**	**225,421**	**(27,265)**	**(35,386)**	**(7,266)**	**152,403**
FX position of derivatives	**147,309**	**(217,861)**	**24,817**	**37,559**	**8,176**	
Off-balance						
Guarantees	*16,525*	*11,857*	*-*	*99*	*-*	***28,481***
Letters of credit	*16*	*2,679*	*-*	*264*	*-*	***2,959***
Commitments	*219,547*	*68,295*	*30*	*13,251*	*-*	***301,123***

(45) Risk management (continued)

(e) Operational risk

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of internal processes, human resources and internal systems, or as a result of external events. Operational risk includes:

- legal risk, meaning the risk of losses resulting from the breach of laws or regulations, contractual or other liability or from other disputes;
- model risk, defined as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models;
- compliance risk, defined as the risk to incur judicial or administrative penalties, significant financial losses or damage to reputation as a result of the violation of mandatory rules or self-governance regulation;
- ICT risk (Information and Communication Technology risk), defined as the risk of economic, reputational and market share losses related to the use of information and communication technology.

Strategic and reputational risks are excluded.

In the Group, Operational Risk Management measures and monitors the Group's exposure to operational risk and reports thereon to the senior management and supervisory bodies. Operational Risk Management is also responsible for the consistent application and operation of the Intesa Sanpaolo Group's operational risk management framework, also taking into account the local idiosyncrasies.

In the Group, the governing committee responsible for overviewing operational risk management activities is the Operational Risk Committee (ORC). The primary purpose of the Committee is to propose, advise on and investigate matters related to operational risk, thereby support the Management Board of the Bank. The Committee meets quarterly when it reviews and discusses the Bank's operational risk exposure and the ongoing risk mitigation actions.

In managing the Group's operational risk exposure, both qualitative and quantitative tools are being applied.

One of the qualitative tools is the annual operational risk self-diagnosis where operational criticalities are identified and mitigating actions are defined in response to those criticalities. A set of operational key risk indicators is also used as a qualitative measure aiming at conveying an easily understandable overall picture to the senior management about the operational risk profile of the Group, and in the meanwhile, enabling the Group to react in a timely manner to adverse changes in that risk profile.

As a quantitative measure historical operational risk loss data have been collected and analysed in a systematic way since 2004. On the basis of the analyses performed by Operational Risk Management, mitigating actions are initiated to avoid the re-occurrence of similar losses or prevent the materialisation of potential risks.

In 2017, the Group detected and recorded in its internal loss database 997 operational risk events which caused HUF 1,379 million effective operational loss (excluding losses boundary with credit risk and specific provisions). In 2016, the corresponding numbers were 640 events with HUF 1,271 milllion loss.

Since January 2008 both the Bank on a stand-alone basis and the Group on the consolidated basis have been calculating the regulatory capital requirement of the operational risk on the basis of The Standardised Approach (TSA). For ICAAP purposes, the Group quantifies the operational risk capital requirement using the ISP Group's Advanced Measurement Approach (AMA) model.

Part F – Information on capital

(46) Capital and capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business with special focus on the liquidity risk management tools and the capital requirements.

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in 2017 as well as in 2016.

The Group quantifies the regulatory and ICAAP capital requirements at the solo Bank and the consolidated Group level. The capital adequacy assessment and risk management processes are operated for the CIB Group as a whole. Both the risk management processes and the capital requirement therefore cover the entire Group.

Internal Capital Adequacy Assessment Process (ICAAP)

The second pillar of Basel II capital framework prescribes how supervisory authorities and banks can effectively assess the appropriate level of capital. The assessment must cover all the risks incurred by the Group, their sensitivity to crisis scenarios, and how they are expected to evolve in light of changes in the Group's business going forward.

The Group not only reviews its capital ratios, but it also assesses and continuously monitors its risk bearing capacity. The Group’s primary internal measure to assess the impact of very severe unexpected losses across the different risk types is economic capital, which is also planned as part of the risk and capital strategy.

The Bank continuously focusing on the following risks:

Credit Risk

Risk that customers may not be able to meet their contractual payment obligations.

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, model, compliance and ICT (Information and Communication Technology) risk, but excludes strategic and reputational risk.

Market Risk

The risk that arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility.

(46) Capital and capital management (continued)

Residual Risk

The risk that arises from the recognized risk measurement and mitigation techniques used by the credit institution proves less effective than expected. The residual risk has three main components: (i) residual risk of assets is used in credit risk mitigation, (ii) residual risk of own bank properties, (iii) residual risk of repossessed properties.

Model Risk

Risk that occurs when a financial model used to measure a firm's risks does not perform the tasks or capture the level of risks it was designed to. Any model is a simplified version of reality, and with any simplification there is the risk that something will fail to be accounted for.

Concentration Risk

Concentration risk is a banking term denoting the overall spread of a bank's outstanding accounts over the number or variety of debtors to whom the bank has lent money. This risk is calculated using a "concentration ratio" which explains what percentage of the outstanding accounts each bank loan represents.

Banking book – Interest Rate Risk

Risk of losses on the fair value of the portfolio of banking assets and liabilities, not including trading assets and liabilities, resulting from changes in interest rates.

Interest rate risk is taken to be the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. In the context of Pillar 2, this is in respect of the banking book only, given that interest rate risk in the trading book is already covered under market risk regulations.

Liquidity Risk

The risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

Country Risk

The risk that the Bank may suffer a loss, in any given country, due to deterioration in economic conditions, political and social unrest, nationalization and expropriation of assets, government repudiation of external indebtedness, exchange controls and currency depreciation or devaluation.

Settlement Risk

Settlement risk is the risk that a transaction executed is not settled as expected through a settlement system. Settlement risk comprises credit risk and liquidity risk elements. Treasury transactions, trading book items (deals) and capital market dealings concluded as part of investment services convey a settlement risk that is a specific mix of credit and liquidity risk. The credit institution or the investment firm bears the risk that while it fulfils its contractual obligations (payment or delivery), the counterparty fails or defaults to do so.

Reputational Risk

The reputation risk is defined as a risk of a drop in profits or capital due to a negative perception of the image of the bank by customers, counterparties, shareholders, investors or supervisory authorities

Strategic Risk

Present or prospective strategic risk is defined as the risk linked to a potential drop in profits or capital due to changes in the operating context or erroneous corporate decisions, inadequate implementation of decisions or poor reactions to changes in the competitive environment.

High Risk Portfolio

In line with the National Bank of Hungary's requirement the Group identifies the portfolio meeting the criteria defined by the Supervisor for high risk portfolio and allocates additional capital for it.

(46) Capital and capital management (continued)

Applied methodologies

The Group applies Standardized Methodologies (STA) for managing Credit risk, Operational risk and Market risk under Pillar 1 (regulatory capital requirement). The Group continuously improves the applied methodologies to be prepared for implementing advanced methodologies in a proper time frame.

In relation to Pillar 2 the Group implemented and use advanced methodologies.

Capital management

The Group's regulator, National Bank of Hungary sets and monitors capital requirements for the Group.

The Groups's regulatory capital consists of the sum of the following elements:

- Tier 1 (all qualifies as Common Equity Tier 1 (CET1) capital), which includes ordinary share capital, related share premiums, retained earnings, reserves and deductions for intangible assets and deferred tax other than temporaray differences
- Tier 2 capital, which includes qualifying subordinated liabilities

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, specific limits, risk measures, the rules and ratios.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value based on total capital ratio.

To strengthen the Bank's capital position the shareholders increased the share capital of the Bank by HUF 1 as the face value of the issued shares in 2016. The total capital contribution that was paid by the shareholders was HUF 9,000 million in 2016. The difference between the face value of the shares and the total paid contribution was registered as capital reserves.

Conversion of HUF 46,200 million from subordinated loan to capital also increased the share capital by HUF 1 and the difference was registered as capital reserve in 2016.

(46) Capital and capital management (continued)

Regulatory capital (million HUF)	31/12/2017	31/12/2016
Share capital	50,000	50,000
Reserves	144,644	151,164
Current year's profit or (loss)	24,563	11,958
Total shareholder's equity	**219,207**	**213,122**
Deduction item: intangible assets	(9,620)	(8,178)
Tier 1 capital	**209,587**	**204,944**
Subordinated capital	7,270	9,152
Tier 2 capital	**7,270**	**9,152**
Total capital	**216,857**	**214,096**
Risk weighted assets for Credit risks	761,747	801,665
Risk weighted assets for Market risks	28,202	35,889
Risk weighted assets for Operating risks	107,661	140,555
Credit Valuation Adjustment	693	5,059
Risk weighted assets	**898,303**	**983,168**
Tier 1 capital ratio	23.33%	20.85%
Total capital ratio	24.14%	21.78%

The minimum capital requirement is 8% under Pillar1. The Group also meet the requirement of SREP.

SREP requirements for 2018 are already available, and the Group meets the relating requirements according to the expectations.

CIB BANK Ltd.
and its subsidiaries

BUSINESS AND MANAGEMENT REPORT

based on the audited, consolidated financial statements
for the year ended 31 December 2017
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

I. Business environment

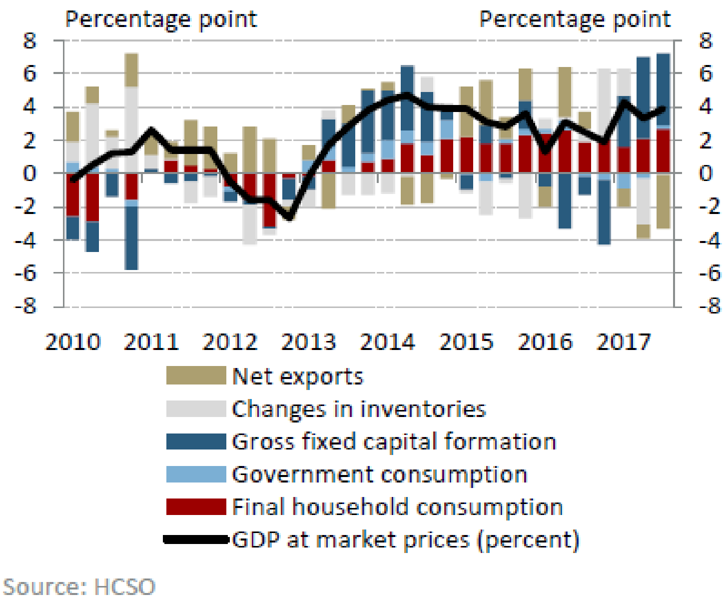
Macro and microeconomic environment

1. GDP

The Hungarian economic growth gained momentum in 2017 following a slowdown in the preceding two years. GDP growth had started to slow down already from H2 2014 before momentum turned at the beginning of 2017.

The revival of the Hungarian economy came in line with expectations. GDP growth in Q1 showed a jump of 4.3% year-on-year, exceeding the market consensus. The turn was driven partially by the revival of industrial production, partially by rising wages and the related boost of domestic demand, which lifted services too. The following two quarters delivered sub -4% growth rates, but still very robust dynamics compared to the preceding year. Market consensus expectations for the full year 2017 growth varied between 3.6% and 4.0% at the end of the year. The Central Bank (National Bank of Hungary, MNB, December 2017) projected 3.9%, revised up from the preceding quarter's forecast. Forecasts were partly boosted by technical factors at the end of the year as the Hungarian Statistical Office (KSH) revised up its GDP figures for 2017 and earlier years.

EU-funded projects gave a strong boost to the economy, investment dynamics became more broad-based. While private investments are still relatively weaker, investments in construction, machinery and equipment rose in 2017. On the production side, the primary contributors to economic growth were market services. The automotive industry recorded a relatively weaker performance, while all sectors accounting for a more significant weight within the processing industry showed growth. From the absoprtion side households' demand was a key factor in growth, supported by double-digit wage growth. Fiscal policy also provided more support to growth than in 2016.



Data source: NBH, Central Statistical Office (CSO)

2. Budget and external balance

The 2017 fiscal performance was twin-faced, especially due to the effect of the domestic pre-financing of EU-funded projects and programmes. Annual data showed that the overall state budget produced an annual cash-based deficit of HUF 1,974 bn, well above the plan and the 2016 gap, and above 5% of GDP. The jump was primarily driven by a strong wave of EU-financed programs and their pre-financing without sufficient inflow of the related EU financing. Total domestic expenditure of EU programmes in 2017 amounted to HUF 2,555 bn, 466 bn above the 2016 sum. Within the main balance figure the central balance was HUF -1,904 bn, the social security balance HUF -142 bn, while separate state funds delivered a surplus of HUF 73 bn. The above-plan deficit naturally created a jump in state financing needs, but the favorable interest rate environment provided new bond releases with low yields, close to zero in the case of in-year maturities. Regarding the budget balance it is important to note an economically vitally important measure of the balance actually came better than the plan: the EU-methodology (ESA2010) shows a deficit below the 2.4% of GDP plan – probably close to 2.0% according to the preliminary statement of the Ministry of Economy. This measure comes with a different way of calculation of EU-financing and pre-financing. From the fundamental side it was faster GDP-growth and fast wage growth (also supporting tax proceeds) that supported a better ESA-balance. Tax income related to employment alone showed a rise of HUF 340 bn compared to 2016.

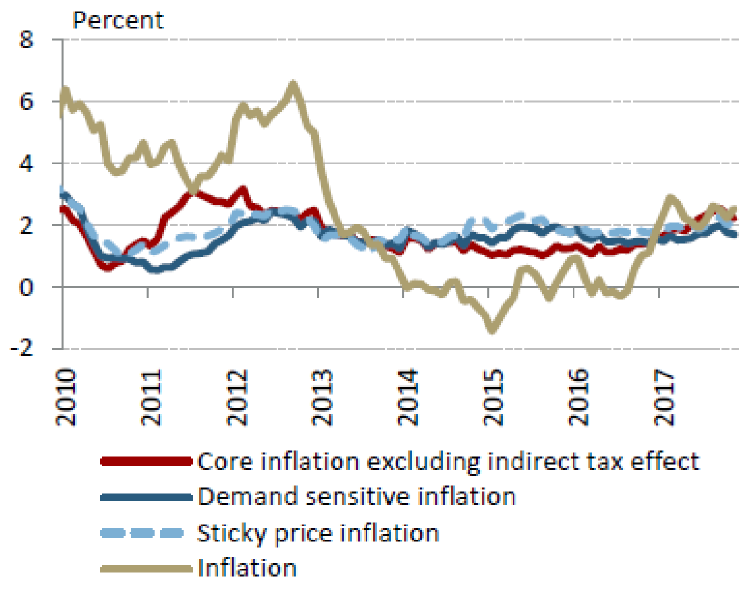
External balance indicators showed a continued favourable development in 2017 similar to 2016 and the preceding years. However, both export and import growth exceeded the preceding year's dynamics and the latter showed more acceleration. Hence both the current account balance and the trade balance showed a smaller (though still sizable) surplus in 2017. C/A balance came close to 3% of GDP, primarily a result of the trade balance which showed a positive balance close to an estimated EUR 8 bn in 2017. These developments also indicated an ongoing strong net financing capacity and a strong support to the forint's exchange rate.

3. Inflation

The December 2017 inflation figure came close to (slightly below) market expectations at 2.1% y/y, down from November's 2.5% y/y, implying an annual average CPI of 2.4% for 2017. This is a significant 2pps jump from the 2016 average but it came as no surprise: the market consensus had been hovering above 2% even from the beginning of 2017. At the same time, it did not imply a rising intra-year trend either: following the initial jump, there was no such clear trend and this was confirmed by Q4 data, too.

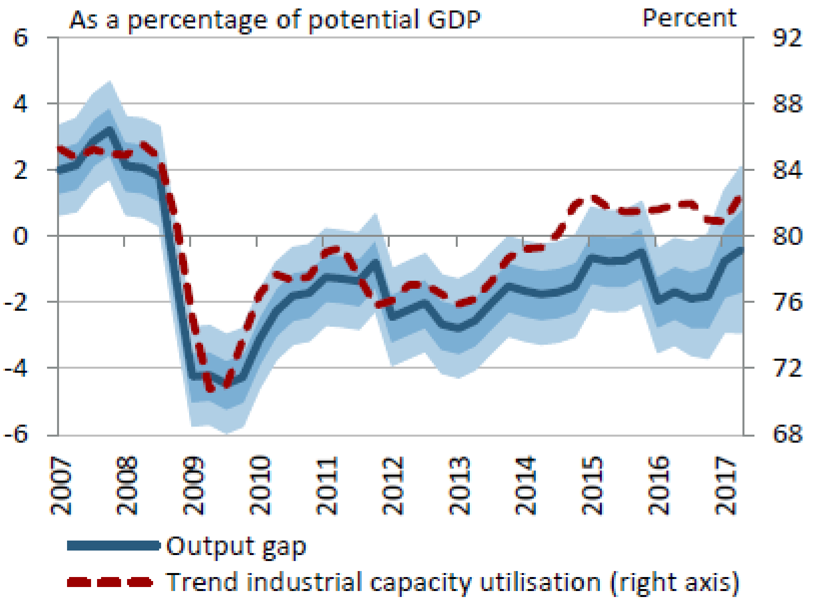
Core inflation reflected a different path, though eventually with a similar annual average level. Core rising trend was unbroken till September (from 1.6% to as high as 2.9%), followed by stagnation in Q4 (2,6-2,7%). In the trend of inflation, the intensification of domestic demand and the effect of wage increases appeared slower than expected, primarily due to the demand emerging in the housing market. However, the ongoing rise of wages, the core inflation trend and the recent rise of global oil prices still represents a source of upward risk.

INFLATION INDICATORS



Source: MNB calculation based on HCSO data

INDICATORS OF OUTPUT GAP



Note: The edge of the uncertainty band shows one standard deviation.
Source: MNB

Data source: NBH, CSO

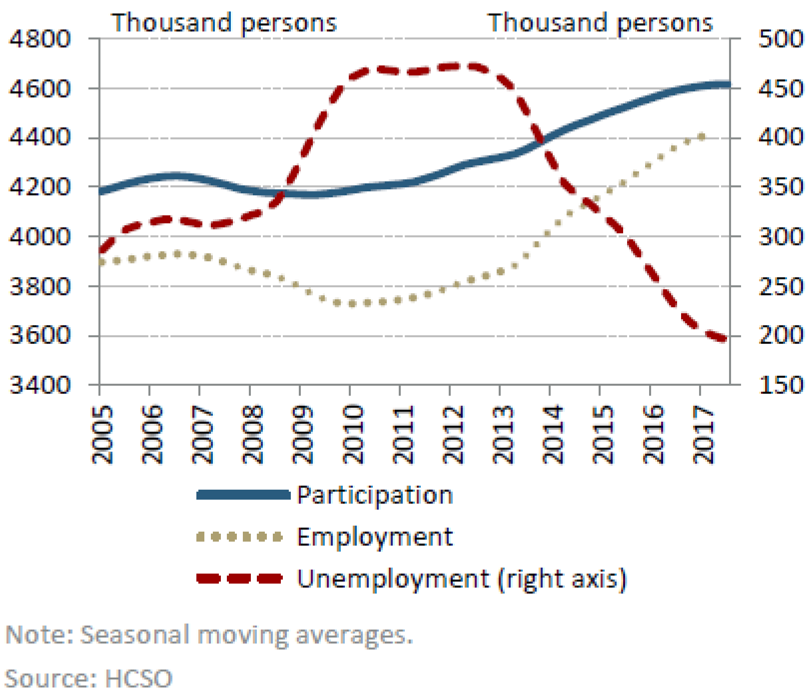
4. Labour market

Following the re-establishment of the decreasing trend of the unemployment rate at the end of 2015 and the drop of the rate to sub-6% levels in H2 2016, the year 2017 delivered further decrease even to below 4% in Q4 2017. At the same time the number of the employed rose slightly further, though at a milder pace compared to the preceding year, close to 4.5 million. The latest wave of further rise emerged in the private sector, especially in construction and the energy sector while the public sector showed a modest drop. The unemployment rate went down to 3.8% by the September-November period.

Such drop in unemployment was supported by a faster rise in employment coupled with the rise of the activity rate. However, this remained strongly affected by employees working abroad and by state subsidized employment. Structural inequilibrium has been on the rise, with reports of labour shortages in several areas of the economy, to an even grater extent in 2017 versus 2016. In addition to the state program, labour market processes are still affected by earlier changes in pension rules and the introduction of stricter rules of unemployment benefits.

In the January-November period of 2017 gross wages rose by 13% compared to the preceding year. Wage rise has been in double-digit territory during most of 2017. There was also a trend of dynamic growth regarding real wages in tandem with low inflation environment.

LABOUR MARKET



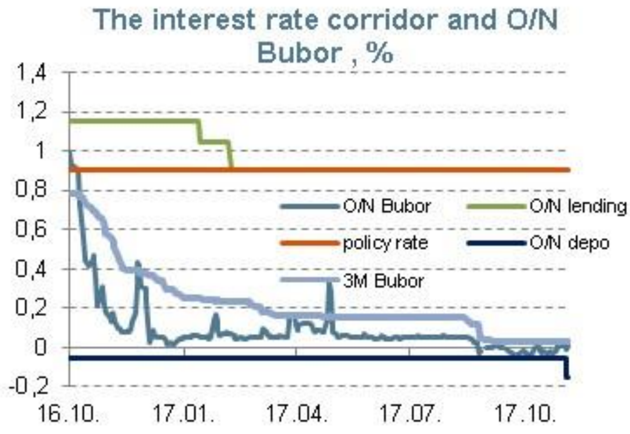
Data source: NBH, CSO

5. Monetary policy

The Central Bank's main policy rate was unchanged at 0.90% throughout the entire last year, following two mini-cycles of rate cuts in 2015 and 2016. However, the Monetary Council remained active in applying non-conventional measures to extend monetary easing. Also, the focus of interest rate policy shifted towards the O/N rate from the official policy rate (i.e. the 3M depo rate).

Low inflation (below the MNB target despite the rise at the end of 2016 and the beginning of 2017), ongoing supportive inflation outlook and and the ongoing QE (quantitative easing) programme by the European Central Bank (ECB) supported the maintainance of low interest rates and the extension of the series of unconventional easing measures.

The shift in interest rate policy was executed by limiting of the availability of the central bank's main policy instrument, i.e. the 3M deposit, with the declared aim to support lending and the self-financing programme (i.e. more domestic purchases of Hungarian government bonds). The measures had been effective from August 2016 (fewer 3M auctions) and from October 2016 (cap on the amount of 3M deposit available) and by the end of 2017 the limit on the stock of the 3M deposit was pushed down to HUF 75bn. Also, at the end of 2017 new measures were announced with the aim of pushing the long-end of the yield curve lower, too. These include a new forint swap programme (MIRS) and a mortgage bond buying programme, both starting at the beginning of 2018.



Data source: NBH

The forint's exchange rate was lent support by favourable external conditions (indluding strong global risk appetite) and domestic fundamental support coming from the massive external (trade and current account) surplus in 2017. With this background even with the low interest rate premium the Hungarian forint's vulnerability to external shocks was limited in 2017, especially given earlier measures of eliminating most CHF-risk in 2014 and boosting the self-financing programme in 2015-16 and maintaining in 2017.

As a result, despite pending geopolitical risks and uncertainties related to the ECB's and the Fed's monetary policy the Hungarian currency fluctuated in a stable manner throughout 2017, mostly in the EUR/HUF 305-315 range and even appreciating versus the US dollar.

Amid these circumstances, following a negative correction of the forint during most of Q4 2017, the Hungarian currency returned below EUR/HUF 310 by the end of 2017. As measured by the difference between the 2016 year-end levels and levels at the end of 2017, the Forint showed less than 0.3% weakening versus the euro. However, in 2017 the average EUR/HUF level was slightly above 309 versus 311 in 2016.

Foreign demand for Hungarian (forint denominated) government bonds continued to decrease in this period, though without triggering any significant pressure either in the bond or the FX market. The stock of non-residents' holdings drifted to below HUF 3,500 bn by the end of 2016, down from above HUF 3,800 bn one year before. The decrease continued in Q1 2017 to below 3,300 bn, which was followed by a period of stabilization and some rise from the April-June period. At the end of 2017 the stock stood at HUF 3,385 bn.

Data source: Bloomberg

6. Banking Environment

The Hungarian banking sector was characterised by solid profitability and solvency in 2016 and the recovery of the Hungarian banking sector continued in 2017. Customer loan volume started to grow, while the liquidity and capital position of the banks is solid.

As far as the operating environment for the domestic banking sector is concerned, a significant improvement has been seen compared to the previous years. A complete turnaround has occurred in lending developments. Rising consumption and investment demand is generating steadily increasing credit demand in both the corporate and household sectors.

Corporate lending, in particular to SMEs, improved substantially in last years, with the Funding for Growth Scheme (FGS) making a considerable contribution in this regard.

Looking ahead, developments in corporate lending will be driven by rising credit demand, easing credit conditions, the low interest rate environment and continued support from the Market based Lending Scheme (MLS) consequently, following the termination of the Funding for Growth Scheme at the end of Q1, the dynamics of SME lending and also total corporate lending remained practically unchanged.

The growing trend of new loan disbursements continued in the household sector. In 2016, a balance evolved between household loan disbursements and repayments, primarily as a result of an increase in new loans. Consequently, the outstanding loans of the household sector embarked on an upward path in 2017. The pick-up in the housing market and the continued rise in real wages project a further expansion in credit demand, which is strongly supported by the low interest rate environment as well.

In 2016, an extensive portfolio cleaning was carried out by banks in both the corporate and household non-performing portfolios; looking ahead, however, further steps are still needed for an appropriate treatment of the outstanding amount. Portfolio cleaning boosts banks' long-term profitability, and despite the one-off loss in the short term, the current profitability is able to cover this.

With respect to long-term profitability, the fact that the proportion of non-performing loans declined in both household and corporate loans is a favourable development, which can be attributed to new lending and improving workout activities.

Profitability of the banking sector returned to the positive territory in 2015, while sector closed the 2016 year with extraordinary result, furthermore domestic credit institutions achieved an all-time high profit after-tax in 2017, at the same time, the positive results are tempered by the fact that the profit of the banking sector is mostly the result of unique and one-off, unsustainable items, including the reversal of unnecessary loan impairments.

Credit institutions' profitability is cyclically affected by the extremely low interest rate environment. In the medium term, credit institutions' profitability may be supported by a rise in non-interest revenues as well as an increase in activity, in parallel with the declining costs, which is a necessary step to rationalize the branch network and increase digitalisation.

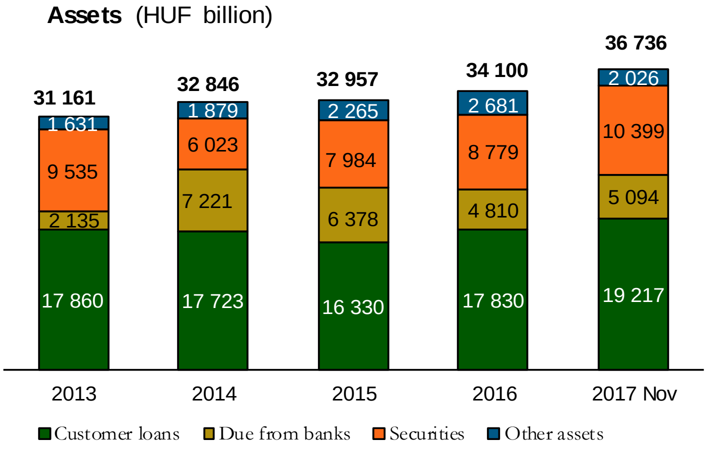
Total assets and liabilities

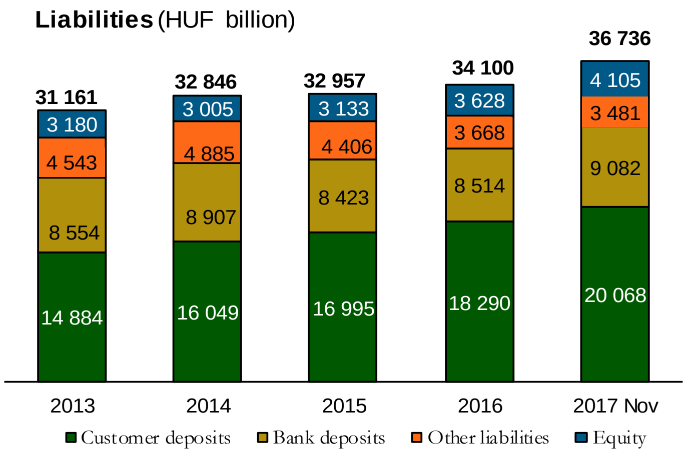
Based on the most recent available figures (as of November, 2017) the banking sector's overall total assets increased by 7.7% and amounted to HUF 36,736 billion.

The gross loan portfolio increased by 7.8% (HUF 19,217 billion) compared to December 2016 (+7.7% excluding the foreign exchange effect). The lending capacity of Hungarian banks remained under pressure also because of low profitability.

The decline in loans outstanding to households stopped, net balance evolved between disbursements and repayments (+2.3%). Demand for new loans was at very low level in the years following the financial crisis, however both in 2015 and 2016, growth was above 30% and this tendency continued in 2017. There was 30.5% increase in retail new disbursements as of November 2017 compared to the same period last year. The volume of foreign currency loans significantly decreased due to the conversion of the foreign currency mortgage portfolio from 58.1% as of December 2014 to 35.0% as of November 2017.

The volume of deposits from customers increased by 9.7% compared to the end of 2016, amounted to HUF 20,068 billion at the end of November 2017. Retail deposits increased by 6.3%, while corporate deposit showed 12.7% increase compared to December 2016. At the same time the net asset value of investment funds totalled to HUF 6,141 billion at the end of November 2017. While government bond portfolio of consumer customers increased by 16.7% as of October 2017 compared to December 2016.



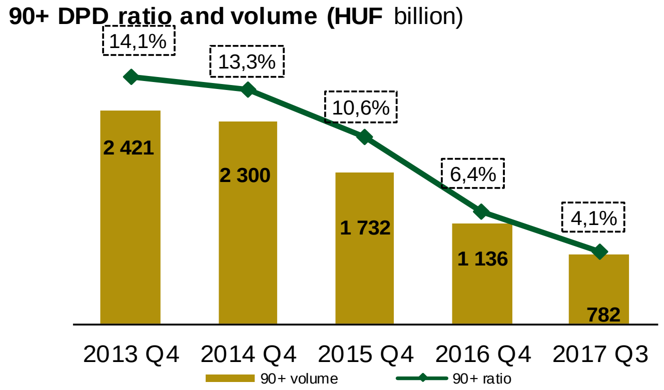


Data source: NBH, HAS - IFRS

Credit quality

90+ past due loan ratio (non-performing loans) decreased significantly, and it was 4.1% as of September 2017 thanks to the portfolio cleaning.

Volume of corporate loans with more than 90 days past due within total loan showed a significant decrease and the 90+ ratio was 3.8% at the end of September 2017. The retail segment's portfolio quality has improved significantly and 90+ ratio amounted to 8.5% as of Q3 2017, which is further 4.2% point improvement compared to the 2016 year-end.



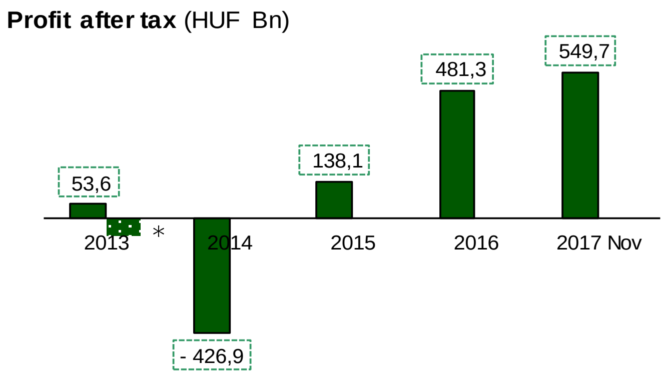
Data source: NBH; HAS-IFRS, Q4 2017 data is not available

Profitability

The profitability of the banking sector increased as of November 2017 compared to the same period of last year, mainly due to the significant provision release. The increased Net operating margin was partly offset the higher Operating Cost. The banking sector's profit after tax totalled to HUF 550 billion as of November 2017.

Net Interest Income decreased by 2.4%, Net Commission income increased by 13.0%, Profit from Trading Activities increased by 20.9% and Other Income / Expense improved by 6.2% compared to the same period last year. The cost / income ratio was 58.6% at the end of November 2017.

The profitability further improved thanks to the extra bank tax reduce in 2016 (tax rate decreased from 0.53% to 0.24% in 2016) and to 0.21% from 2017.



Year 2013 normalised with a one-off non-core bank transaction

Data source: NBH, HAS- IFRS

Liquidity and Capital

The amount of liquid assets (securities and interbank receivables) increased by HUF 1,904 billion (+14.0%) while the sector's loan to deposit ratio (net customer loan / customer deposits) increased by 0.6% points (92.0% as of November 2017).

The capital position of the banking sector is adequate, the Capital Adequacy Ratio (CAR) was 21.5% as of September 2017 (includes Co-operative credit institutions).

II. Business strategy and priorities

In 2013 CIB Bank, with the approval and support of parent bank Intesa Sanpaolo, formulated its strategy. The last year of the four-years-strategy is 2017, drafting the strategy for the next four years has been started with the support of parent bank. In 2017 the strategy was successfully ongoing, focusing on growth in strategically important segments and products, while maintaining the market position in areas where growth itself is not the primary target. The most important objective of the strategy is to operate profitably in the long-term by applying its efficient and effective operating model.

The strategic objectives of the current plan are:

- to ensure a sustainable profitability as a universal bank with a network of nationwide coverage
- growth in all significant segments and strong focus on acquisition of new customers and deals
- to enhance innovation and digital financial solutions in order to simplify everyday banking, enrich the customer experience and improve internal efficiency
- to gradually wind down value eroding assets
- to deliver excellent client service to ensure the Bank becomes the primary financial service provider for its customers

In CIB's growth focused strategy there is a particular emphasis on the development of its retail business and as a part of this, it aspires to become the primary bank for its customers. Key elements of this approach include the simplification of banking processes, the improvement of customer satisfaction and digitalization which becomes more and more a key element in sales performance and service model. All this will require a continuous expansion of the offer through the addition of premium banking services, as well as the provision of high-standard asset management products and top-quality, standardized banking services through electronic channels and the branch network. On the retail lending side, introducing processes, CIB puts great emphasis on mobile application and other commercial channels through which it can be increased the number of loan placements. As regards saving products CIB puts emphasis on offering alternative savings opportunities in an environment of extremely low interest rates.

Being one of the main market player in the corporate business, CIB is executing a strategy aimed at enhancing its position with enhanced acquisition. CIB continues to offer its own funded or the EXIM Bank refinanced loan schemes and its leasing products while professional EU fund consultancy and factoring service are examples of the enriched product catalogue. In addition, the scope of cooperation with institutional guarantors has been broaden. There is also a significant focus on treasury services. Besides over the coming years the synergies with the parent company, Intesa Sanpaolo will be even more effective, in order to help strengthen its presence in the multinational corporate sector.

The most important of business objectives of CIB are the areas that have long-term profit potential, and therefore the Bank will continue to manage separately its customers who have loan products that it no longer wishes to keep in its portfolio.

III. Outlook for the Bank Group

1. Increasing lending activity

Growing economy and increasing demand for bank financing will provide favourable conditions for lending. Retail loans will increase further, supported by the pick-up in the housing market, the continued rise in real wages and the easing conditions to access consumer credit. The two main products will be mortgages and personal loans. Corporate lending will grow as well, driven by investments and favourable interest rates.

2. Margins remain under pressure

No increase in the current extreme low money market interest rates is expected in the near future. Margins are under pressure both on the active and on the passive side. Negative interest rate on short term placement will cause further losses. Growing lending and transactional activity could mitigate the negative effect, however strong competition and digitalization will drive the fees down.

3. Improvement in credit quality

As a result of continuous portfolio cleaning the NPL portfolio of the sector and of CIB show a declining tendency. However, the high ratio of distressed household mortgage loans continues to be a risk in the financial system. Increased investor demand for non performing mortgages helps to clean the book of banks. The wind down of Corporate NPL portfolio will keep going and is supported by the increasing demand on the commercial real estate market.

IV. Evaluation on the performance of CIB Group including net assets, financial and earning position

Assets

The balance sheet total of CIB Group amounted to HUF 1,683 billion (+3.2% compared to December 2016) as of December 2017. The higher balance was primarily a consequence of the increase in deposits.

Customer Loans

At the end of December, 2017 CIB Group's consolidated gross loan portfolio was HUF 826 billion (-5.8%). Within the total portfolio the proportion of consumer loans (mortgage, car financing and others) reached 35.8% by the end of December (-1.9%). The decrease was the result of NPL portfolio cleaning, while performing loans increased thanks to growing new loan demand in this segment, especially for personal loans. The share of real estate financing diminished in line with the strategy, at the end of December it accounted for 19.4% of the portfolio (-5.7%). The share of large corporate loans grew by 7.0%, while that of SME and Small Business financing improved by 4 bps and 37 bps respectively. Demand for new financing increased compared to the same period of 2016, especially in the large corporate and retail unsecured markets, where new disbursements rose by 147% and 76% respectively.

Loan portfolio quality

The credit quality of CIB Group's loan portfolio improved in 2017, and the share of 90 days past due loans decreased to 4.7% (-5.9%) thanks to limited new inflow and portfolio cleaning activities. The improvement is connected mainly to retail customers (-10.3%), thanks to the sale of non-performing mortgage loan packages, but there was improvement in the corporate segment as well (-2.8%). Improving portfolio quality also reflected in the reversal of HUF 17.3 bn loan impairment over the year.

Securities

The Group held securities portfolio of HUF 340.3 billion by December, 2017 (+41.1%) of which trading portfolio amounted to HUF 63.7 billion; available for sale portfolio reached HUF 247.7 billion, while held to maturity investments amounted to HUF 28.9 billion. Most of the security portfolio (89.9% of total securities held) consisted of government bonds.

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 498.6 billion (-7.0%) by the end of December, as the Group invested higher proportion of its liquid assets into government bonds. 25.6% of interbank receivables was placed within Intesa Sanpaolo Group.

Repossessed properties, Tangible and Intangible Assets

Net book value of fixed and intangible assets reached HUF 50.5 billion (-27.7% compared to December 2016), thanks to successful sale of repossessed real estates in excess of HUF 22 billion. The net book value of repossessed real estates closed at HUF 25.3 billion.

Liabilities

Customer Deposits

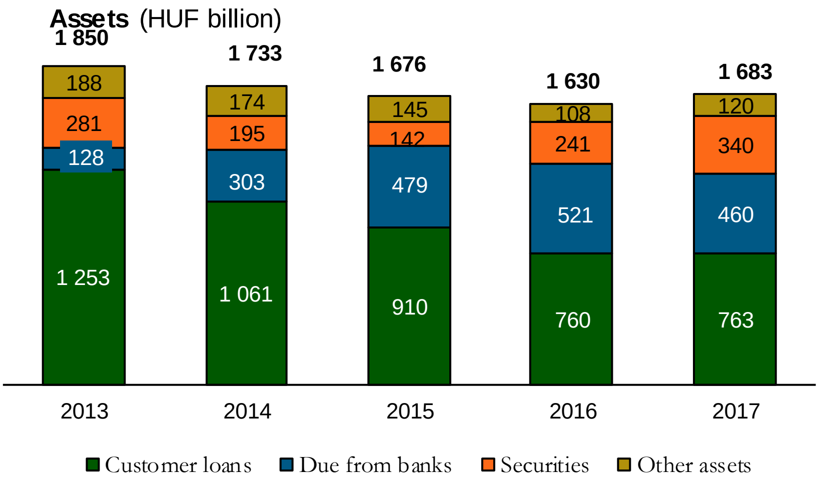
Total customer deposits, including issued bonds, amounted to HUF 1,194.4 billion (+1.7%) by the end of December, 2017. The increase is connected to Large Corporate and Small Business segments, while retail deposits remained at the level of the previous year-end.

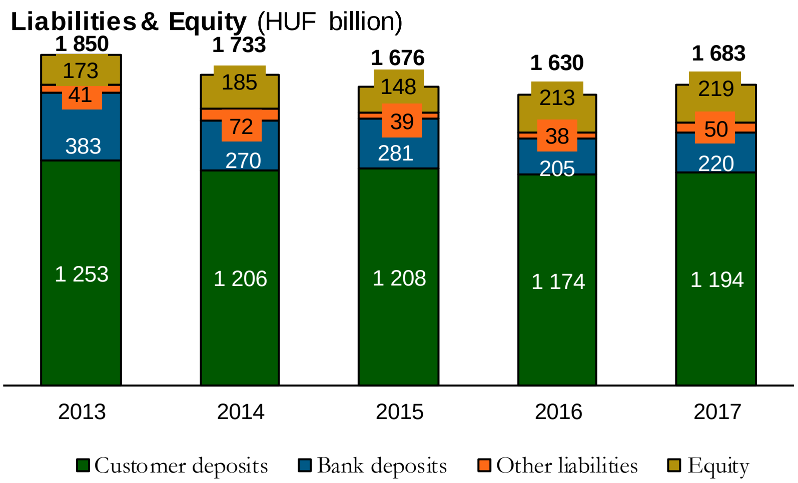
Deposit from banks

Interbank funds – including subordinated deposits – totalled to HUF 219,6 billion (+7.0%) as of December 2017. Part of the funds came from the Group's parent company, accounting for 30.2% of the total of interbank deposits, while the remaining part was received from supranational financial institutions and from the central bank.

Equity

CIB Group's total shareholders' equity was HUF 219.2 billion (+2.8%), the increase was the result of the profit for the current year, and the HUF 15 bn capital increase received from the parent in Q2 2017. On the other hand CIB repaid HUF 36 bn additional payment that was received from its parent to cover the losses in year 2013.





Data source: CIB Group, IFRS

Profit and loss

The Group closed the year with a profit of HUF 24.6 billion. The positive and sustainable tendency on profitability continued during 2017 as well.

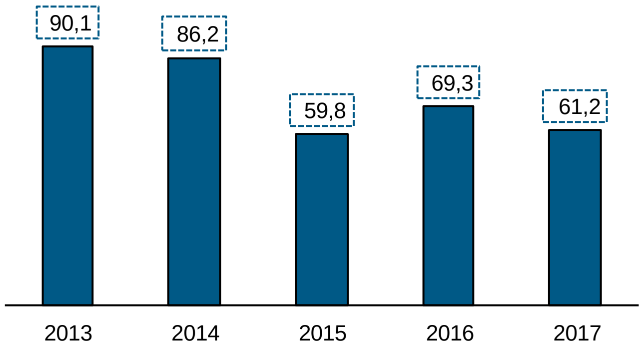
Revenues

Total revenue of CIB Group amounted to HUF 61.2 billion (-11.7% compared to 2016), out of which Net Interest Income was HUF 21.3 billion (-18.1%). Net Commission Income was HUF 27.5 billion (-1.6%), while Trading Income totalled to HUF 9.8 billion (+0.4%), Other operating income reached HUF 2.6 bn (-53.9%). The drop in other income is due to an extraordinary transaction in 2016.

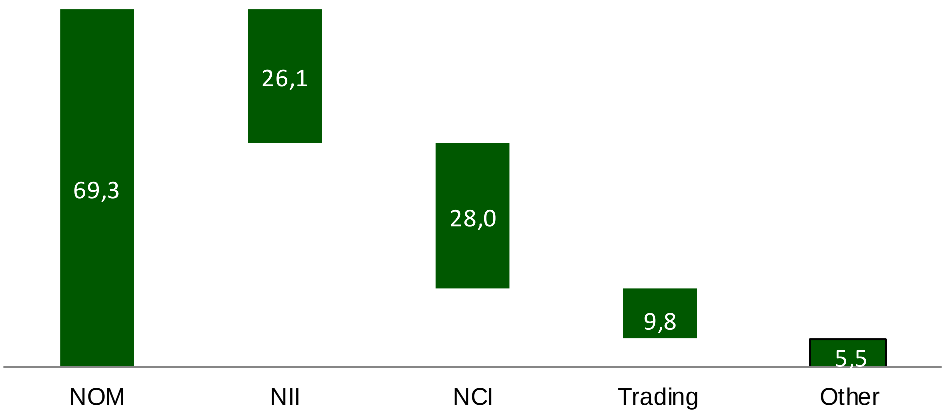
Revenues decreased compared to 2016, due to the lower transactional income, and less fees rates from funds.

Sligh increase in trading income was the consequence of better securities trading gains.

Revenues (HUF Bn)

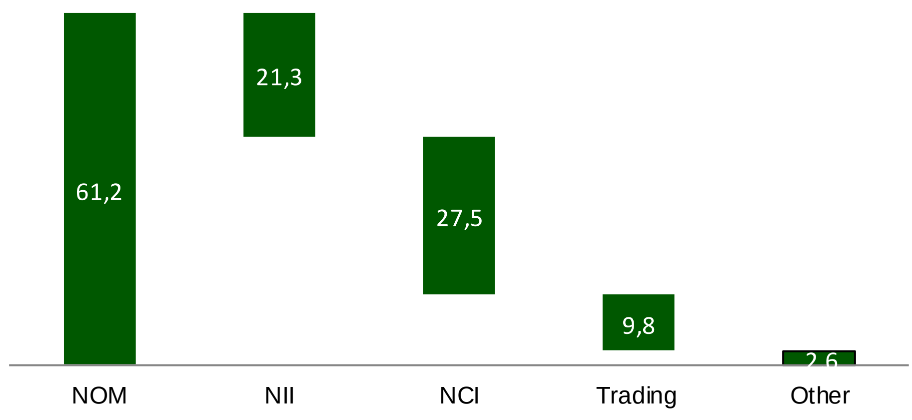


Breakdown of revenues - 2016



Relative weight	37.6%	40.4%	14.1%	7.9%

Breakdown of revenues - 2017

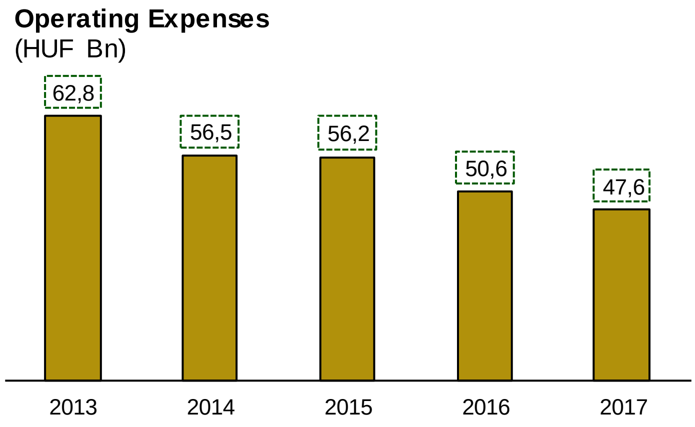


Relative weight	34,8%	45%	16%	4,2%

Data source: CIB Group, IFRS

Operating Expenses

Total operating expenses decreased by 6.0% compared to the same period of 2016 and amounted to HUF 47.6 billion without the bank tax. Personnel expenses as well as the bank's other administrative expenses reflected in cost savings.



Data source: CIB Group, IFRS

Banking Sector Taxes

Total extraordinary bank tax of the Group amounted to HUF 3.8 billion in 2017.

Allowances and impairments

The cumulated amount of new allowances, impairments and provisions showed a reversal of HUF 17.3 billion. Out of the total, loan impairment reversal amounted to HUF 17.2 bn. The positive result was mainly the effect of the improving rating of corporate customers, gain on sale corporate (especially real-estate project finance) portfolio, but the improvement in the quality of the mortgage book also contributed to the release.

Provision for future expenses amounted to HUF 3.6 bn due to the expected loss of some legal disputes. Net result on repossessed real estates was positive, HUF +3.7 bn, thanks to the gain on real estate sales.

V. Operations of the subsidiaries in 2017

The Group structure was the following at each 31. December:

(number of companies)	**2017**	**2016**
Companies for providing services and products to Group's customers	4	5
Companies responsible for the management of repossessed assets	1	1
Companies under unwinding procedure	1	3
Total	**6**	**9**

Companies for providing services and products to Group's customers

- **CIB Leasing Zrt.**

The business profile of the company, founded in 2000, is closed-end financial lease – primarily related to motor vehicles – and to provide financing to the purchase of vehicles and machinery. At the end of 2010 CIB Credit Zrt, CIB Property Zrt, and CIB Residential Property Zrt merged into CIB Leasing Zrt making the company the only entity in CIB Group providing financial leasing services. With a market share of 4.1% (as of September 2017) CIB Leasing subsidiaries were one of the key players on the market. The total assets of the company in December 2017 were HUF 91.4 billion. Net results for year 2017 was HUF +1.3 billion.

- **CIB Rent Zrt.**

The company is specialized in operative leasing transactions. The total assets of the company at the end of 2017 were HUF 0.7 billion, while profit after tax were HUF 0.1 billion based on HAS financial statement.

- **CIB Real Estate Leasing Zrt.**

The company started its operation in May 2001 with business activity of financial leasing of real estates. At the end of 2017 total assets of CIB Real Estate Leasing Zrt. amounted to HUF 2.6 billion, while its net result was a profit of HUF 0.1 billion. At the end of 2017 CIB Real Estate Leasing Zrt merged into CIB Leasing Zrt.

- **CIB Insurance Broker Kft.**

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2017 total assets of CIB Insurance Broker Kft. amounted to HUF 0.6 billion, while its profit after tax was HUF 0.26 billion based on HAS financial statement.

Companies responsible for the management of repossessed assets

- **Recovery Zrt.**

Recovery Ltd. (previously Expert Ltd.) is the main vehicle for the repossession of real estates. On 31 December 2011 CIB REAL Zrt. (a company dealing with the management of Group's operating premises) merged with Recovery Kft. The sole legal successor of the merged entities is Recovery Zrt. Total assets of the company closed the year at HUF 33.3 billion based on HAS financial statement. Thanks to the gain on real estate sales, the company closed the year with a profit of HUF 1.1 billion.

Companies under unwinding procedure

- **CIB Factor Zrt.**

The company became part of CIB Group in 2004. Its main activity is the factoring of receivables and the cross-selling of products with the SME division of the Bank. CIB Factor merged its business activities into the Bank as of 31. December 2016, its activity has been terminated and its liquidation is in progress.

VI. Key events and processes occurring after the balance sheet date

No significant events or processes occurred after the Balance sheet date, during the period prior to the preparation of the financial statements and the approval thereof that could have a material impact on the Group financial or earnings position.

At 1 January 2018 CIB Real Estate Leasing Ltd. has merged into CIB Leasing Co. Ltd. The successor is CIB Leasing Co. Ltd. The effect of the merge will be presented in the financial statements of CIB Leasing Co. Ltd. prepared for the year 2018.

VII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of liquid financial instruments.

The purpose of the substantial cash and short-term bank placements is to ensure immediate liquidity above the unencumbered high quality security portfolio. The portfolio of securities held for trading, serves several purposes at the same time: buffer to serve customers, provide a short-term opportunity to realise profit, while also as a secondary source of liquidity.

The derivative transactions are FX forward deals are futures dealt on the stock-exchange and OTC contracts, FX swaps, FX options, interest rate swaps and forward rate agreements. The Group performs such transactions mainly for hedging purposes. In the latter case the primary objective is not to hedge individual transactions for profit taking, but to reduce the bank's FX and interest rate risk exposure.

VIII. Risk-management and hedging policy of the Group

The Group's regulations pertaining to the various significant types of risk are approved, and reviewed at least once a year, by the Management Board of the mother company. The Group has credit risk management, market risk management, liquidity and liquidity crisis management, country risk management and operational risk management policies. These regulations serve to define the framework of its activities related to the specific areas of risk management along unified principles across the entire Group.

CIB Group's credit risk management policy defines fundamentals of credit risk management across the Group, risk appetite of the Group both on general level and on an annual basis adjusted to the changing business environment. Basic roles and responsibilities, clear segregation of duties and major tools of credit risk measurement and management are unambiguously defined in the policy.

The market risk management policy includes the guiding principles related to currency and interest risk, the regulations containing methodology of sensitivity analyses and value-at-risk calculations, as well as the market risk limits.

The liquidity policy determines the fundamental principles, goals, and procedures for liquidity management, maximum liquidity exposure limits, as well as the organizational framework for monitoring them. In the frame of the liquidity strategy, the bank's senior management takes into consideration the likely future development of business volumes, and the cost of funds. The liquidity policy includes the liquidity contingency plan, which specifies the procedures to be followed in case of an unexpected crisis scenario, and defines the order the liquidation of assets which may depend on the nature of the crisis. In these regulations, the bank also quantifies the maximum tolerance related to Basel 3 regulatory liquidity ratios, the LCR and the NSFR.

The Group applies hedge accounting to some specific assets and liabilities hedged by interest rate swaps in order to mitigate the interest rate risk in the Banking Book. The P&L calculation method depends on the purpose of the transaction wether trading or hedging. The effect of the changes in the fair value is immediately recognized on the income statement in case of the derivative transactions registered but not with hedging purposes.

The country risk management policy regulates the method for establishing limits for individual countries, and also specifies the extent of the regularly reviewed limits.

The operational risk management guidelines define the events that are grouped into this risk category, and the methods for measuring the risks of this type borne by the Group.

IX. Price, credit, interest, liquidity and cash-flow risks of the Group

In the course of its business operations, the Group is primarily and mainly exposed to credit risk. The mitigation of this type of risk is achieved partly through compliance with the statutory requirements and internal limits, and partly through prudent lending and loss-provisioning practices.

Legal requirements as well as best practices of risk management are transformed into daily operations of the Group by internal regulations. The internal regulations treat in detail the procedures related to debtor rating, deal approval, limit-setting, the recognition and evaluation of collateral, loan and customer monitoring, and risk management, applicable to the various customers and customer groups. They also specify the lending-related responsibilities and duties of the individual organizational units. In keeping with the requirements of the supervisory bodies and its owner, the Group pursues a prudent policy with regard to the assumption of risk.

Lending process is managed along structured principles in its entire complexity from customer request via credit approval and monitoring until full repayment of the loan or, if unavoidable, until work-out management. Basis of any credit-risk related decision is the exposure of the group of connected clients towards CIB Group as a whole.

On account of its activities the Group is exposed to interest rate risk in its core business. Accepting a certain level of interest rate risk is inherent in the business of banking and can be a major source of results and value creation. Each year, the Management Board, under the supervision of the Supervisory Board and in harmony with the group level risk tolerance of the parent company, determines the risk appetite and corresponding limits. Reports on the current interest rate risk position are submitted to the respective risk management committees on a monthly basis and regulated in the banking book interest rate risk management policy.

Special emphasis is also placed on the management of liquidity and cash-flow risks, due to the high importance of maintaining the Bank's solvency and ensuring the safety of customer deposits at all times.

Among the various price risks, the Group is predominantly susceptible to the impacts of changes in currency exchange rates, while fluctuations in the market values of securities and other prices have a lesser effect. The Group aims to hedge its FX positions as well as possible: the carefully considered assumption of positions is achieved as a part of the trading activities performed by the Treasury.

X. Research and development

In 2017 and 2016 the Group had no own research and development and not participated in the financing of any research projects.

XI. Employment policy of the Group

In respect of human resources management, the focus in 2017 was firstly on renewing recruitment based on trends of the labour market; secondly, on further strengthening the organisation’s retaining power by supporting diverse programs and trainings; and thirdly, on strengthening a solution-oriented attitude.

In 2017, within the framework set in the cooperation agreement signed on 9 March 2017, CIB Bank and the Works Council cooperated and consulted each other regularly on matters affecting the Bank’s economic situation and planned measures affecting larger categories of employees; delegated employee representatives have also started their work in the Bank’s supervisory board.

The general workforce shortage that currently characterises the labour market also impacts the financial sector. To counter this, in 2017 we focused not only on retention, but as well as on developments supporting recruitment. We continued to strengthen our cooperation with higher educational institutions; as a result of this, we launched two internship programs, thus supporting succession in the IT and business departments. Additionally, we participated in the educational programs of several institutions, with professional lectures and half-yearly seminar cooperation. Our purpose is for students to gain an attractive and also realistic view of bank jobs and for us to be present among the preferred employers in the broadest scope possible.

In the case of our management positions, preferring internal succession, we started conscious succession planning. For each management position, we identified whether there were any potential successors available within the company, so in management positions replacement became much easier to plan.

Much to our delight, our colleagues increasingly take the opportunity of the employee referral program; in 2017, in the case of searches that were particularly difficult from a recruitment point of view, they were given higher reward after any successful recommendations. One third of our job offers issued in 2017 was the result of referrals.

Today, recruitment techniques are aimed increasingly at addressing passive job seekers; it is no longer sufficient to focus on active job seekers. With this trend in mind, we established the so-called “sourcing” competence within the company, as well. We created the recruitment expert role that has the primary goal of searching for potential candidates who are currently not active on the job market. Additionally, we believed it was important to extend and lay a new basis for our cooperation with the headhunting companies: we signed a contract with 4 service providers, specifically for headhunting for IT jobs, senior expert and management positions.

We also took the first steps towards building a stronger employer brand in 2017. Based on a broad-ranging employee survey and our 2016 employee climate survey, we developed our employer value proposition, i.e. we defined our strengths as an employer, our characteristics that had a positive effect on our colleagues' engagement, and based on this, we determined the external communication strategy we needed to follow to create an attractive employer brand image among the active and passive job seekers who are relevant to us.

Maintaining and increasing employee engagement were of key importance in the Bank in 2017, as well. In line with this, senior management has set the goal of strengthening a solution-oriented and supportive organisational culture. Thus, in addition to the well-known and established CIB Spirit employee program portfolio (CIB Spirit Day, Sport, Family, etc.), the HR department implemented a special action plan in the following 4 categories: inspiration, engagement, recognition and leadership development. While inspiration could be found by colleagues from special open lectures and phrases and messages placed in the meeting rooms, we could gain insight into our staff's opinion from the completion of our "Bureaucracy – STOP" questionnaire, developed in-house, and in connection with our employee climate survey. At the same time, the colleagues could feel involvement not only in the two surveys above, but also at the "CIB Idea Campus" event where roughly 300 participants worked on more than 120 ideas that were submitted by the colleagues to make the organisation more successful, more efficient and more likeable. The purpose of the full-day event based on a hackathon format was to strengthen the internal innovational spirit in which speed, the possibility of moving between hierarchic levels and solution-orientation are of key importance. The implementation of the winning ideas will be guaranteed by making the necessary resources available, with the personal involvement of the members of the Management Board. At the end of the program, senior management rewarded the authors of the winning ideas with a considerable amount of remuneration. There were also other methods for strengthening, through recognition, the expected conduct models and good performance, as in 2017 other new elements were added to the established remuneration system; so this year, more than 270 of our employees were honoured by being congratulated as gold team members, Thank You card winners, leadership examples, achievers of acquisition success or workplace jubilee celebrators. This year we also renewed the Bank's leadership development system and held special "Challenge Day" programs on various management levels where participants had to face serious challenges and could experience that success required a solution-oriented mindset both at individual and group level.

This year we launched the fourth CIB Leadership Talent Program and the second one for Experts. Both initiatives included several elements of novelty, as the development portfolio was supplemented with a special "Collaborative Development Centre" methodology and a series of a knowledge-sharing internal talent conference.

With support from our parent company, we extended the insurance services to the health insurance service called International Healthcare Program, which provides full support to our colleagues in case of severe diseases.

In the employee climate survey launched in the last quarter of the year, the satisfaction indicator improved from 71% in 2016 to 74%.

XII. Sites of operation

The Group's head office is located at 1027 Budapest, Medve u. 4-14.

XIII. Corporate Governance Policy

In keeping with the applicable national and EU regulations CIB Bank and its subsidiaries comply, without exception, with the rules set out therein, including those on corporate governance. The national and EU norms are made available to the public via the www.magyarkozlony.hu and the http://eur-lex.europa.eu websites, respectively.

Consistent professional governance within the CIB Group takes place in accordance with the "Principles of the professional governance and operation of the CIB Group" policy, which defines the principles for the CIB Group's professional governance with regard to group members, and the guidelines for the running of the organisation.

The Bank's parent company issues group-level policies at predetermined intervals and on specified topics, which are enforced and implemented by the Group in accordance with the applicable "Policy on the Implementation and Issuance of Group Policies".

CIB Bank operates a responsible internal governance system, in which the individual governance and supervisory functions are clearly separated from one another. The governance functions are discharged by the Management Board and Governance Committees, while the control functions are performed by the Supervisory Board, the Audit Committee, Internal Audit and Validation, as well as through second-level and various built-in process controls. The external control function of the Bank is performed by the Auditor.

The **Sole Shareholder** practices the rights of the General Meeting which is the Bank's supreme decision-making body, the Sole Shareholder makes decisions in writing in the authority of the supreme decision making body, which becomes effective as soon as it is communicated to the Management Board. The Sole Shareholder makes decisions in accordance with the Bank's Statutes and the relevant statutory regulations. The Sole Shareholder chooses the members of the Management Board, as well as the executive entitled to use the title of CEO, from the members of the Management Board. Decisions falling within the Sole Shareholder's exclusive scope of authority are comprised by the Bank's Statutes.

The **Management Board** is the Bank's management body. Its members are chosen by the Sole Shareholder practicing the authority of the supreme decision maker in keeping with the Bank's Statutes. The Management Board has its own rules of procedure. The duties of the Management Board include making all decisions related to the management of the Bank that are outside of the Sole Shareholder's scope of authority, in accordance with the law or the Bank's Statutes.

The **Supervisory Board** is the Bank's supervisory body. Its members are chosen by the Sole Shareholder practicing the authority of the supreme decision maker. The Supervisory Board has its own rules of procedure. It is the duty of the Supervisory Board to oversee the Bank's executive management and administrative procedures, business management, trading and other relationships, in accordance with the provisions of the Bank's Statutes.

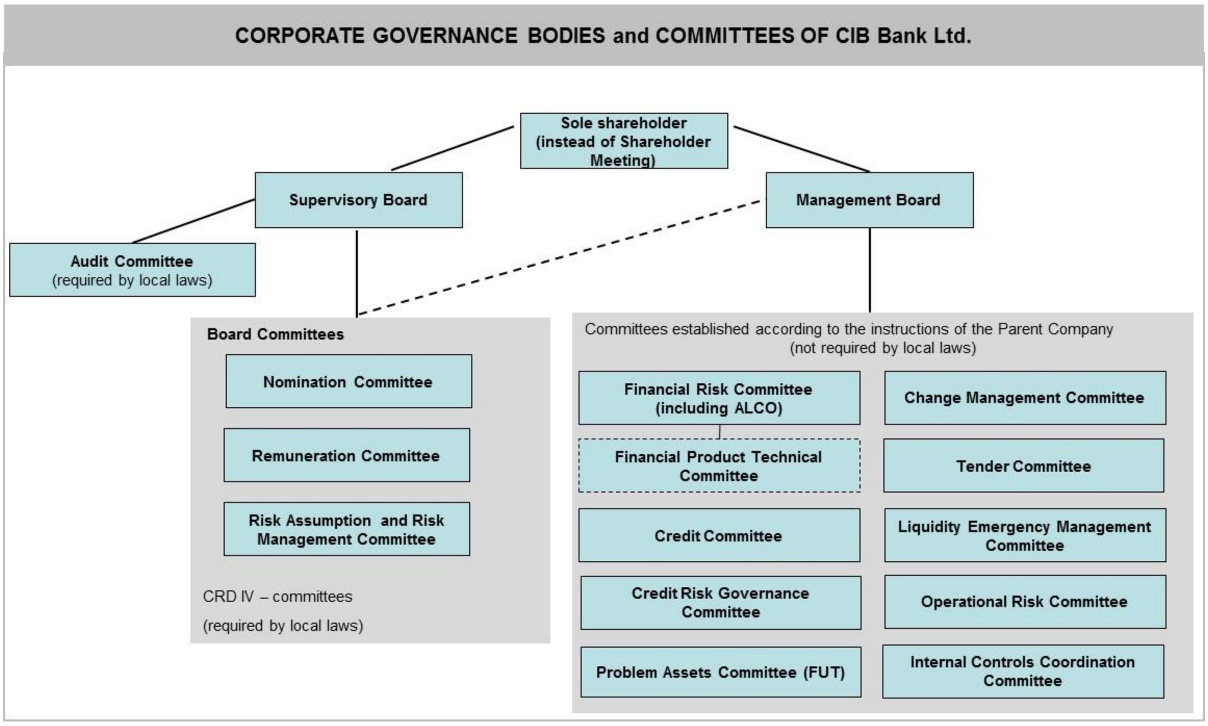
The Audit Committee is a body that supports the professional activities of the Supervisory Board with respect to internal audit tasks. The Audit Committee's members and rules of procedure are chosen by the Sole Shareholder practicing the authority of the supreme decision maker. The committee's duties include the review of the auditing process, internal and external control and risk management system.

The Remuneration Committee operates based on the Constitution and upon 117. § (6) of Act CCXXXVII of 2013 also known as the Hungarian Banking Act (Hpt.). Remuneration Committee's members and rules of procedure are determined by the Management Board. The Committee's duties include recommending final approval of the Remuneration Policy for the Management Board of the Bank, in line with ISP Group Policies. The Committee has its own rules of procedure.

The Nomination Committee operates based on the Constitution and upon 112. § of Act CCXXXVII of 2013 also known as the Hungarian Banking Act (Hpt.). The Committee's duties include recommending the appointments of the members of the Management Board and the Supervisory Board for the Sole Shareholder and also the re-assessment of the suitability of the members.

The Risk assumption and Risk Management Committee operates based on the Constitution and upon 110. § of Act CCXXXVII of 2013 also known as the Hungarian Banking Act (Hpt.). The Committee's duties include supporting the Management Board and the Supervisory Board to decide the risk appetite framework and the risk strategy of the Group and in the implementation of the approved risk strategy.

The governance committees are established on the basis of the resolution of the Management Board (in line with the Bank's Statutes). The scope of authority and the operating procedures of these committees must be stipulated by a Policy that is approved by the Management Board. Governance Committees are the individual decision-making and –the basis of the relevant decision of the Management Board – initiating, proposing and opining bodies. Based on a decision of Management Board, Governance Committees may operate along with Subcommittees and sections. The Management Board decides about the Subcommittees and Section's establishment, scope and termination. The members, operation and decision making competencies of governance committees are regulated in a separate policy.



Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Mission:

- To ensure a continuous and independent supervision over the conduct of business and the processes, in order to prevent or detect any irregular practices or risky behaviors / situations;
- To ensure the efficient and effective management of the Company's processes, the safeguard of assets and protection against losses, reliability and integrity of the accounting and operational information, the compliance of operations with the policies established by corporate governance bodies and internal and external regulations;
- To provide consulting support to the Company and Group functions, also by participating in projects, with the aim of adding value and improving the effectiveness of control, risk management and governance processes of the organization;
- To ensure the supervision over the Internal Control System of subsidiaries, including governance and guidance activities for the relevant Internal Auditing Functions;

Currently CIB does not have a policy on diversity within the management body of the Bank. Pursuant to the legal requirement, in October 2014 the Nomination Committee discussed the target ratio for the representation of the underrepresented gender in the management body of the Bank. The Parent

Company's standard approach applicable to foreign subsidiary banks of ISBD is in the process of elaboration, therefore the Committee decided to revisit the issue subject to the availability of such standard approach.

XIV. NON-FINANCIAL STATEMENT

Our sustainability principles, reporting

Since 2005, every year CIB Group has prepared its sustainability report in line with the GRI international reporting guidelines, which is to be supplemented starting from this year with the below brief report prepared in conjunction with financial statements.

The CIB Group has organically integrated the fundamental principles of sustainability into its basic operation and corporate culture, and it is along these lines that we carry out our various tasks, because just like our parent company, the Intesa Sanpaolo Group, we believe that the best practice is for these to be reflected in the processes and day-to-day operation of an organisation.

We performed our activities and the development of our business processes last year based on the targets defined in our strategy that was last overhauled in 2013. We took a firm decision to concentrate on expanding our lending activity, improving the range and quality of services, and growing our customer base. With solid support from our parent bank, the main points of focus continue to include our efforts to be a bank that provides our highly discerning retail and corporate customers with services that always stand out from the crowd. We believe that long-term sustainable growth can only be achieved through the fulfilment of these objectives.

In the course of our operation last year, we continued our projects aimed at retaining our staff and supporting the professional development of exceptionally skilled employees, and aligned our corporate culture with our business objectives. We made significant efforts to strengthen our staff's commitment and motivation and we sought to involve them not only in the implementation of strategy, but also in the social and environmental protection programs and energy saving initiatives of the Bank Group. Through a variety of direct and indirect initiatives, which have been running for many years, we have assisted approximately 65,000 people in need by holding numerous volunteering programmes and as a result of projects organised with the help of our civil-sector partners.

Our sustainability reports have been prepared in compliance with the international guidelines of the Global Reporting Initiative (GRI) The report, which is published during the year as a stand-alone publication, contains the essential topics, examining them primarily from the point of view of our main stakeholder and our report's target group, the customers. For the eighth year running, our report also describes the fulfilment of the principles set out in the UN Global Compact.

Assessment of the business model

With its close to 40 years of expertise in universal banking, CIB Bank offers the full range of commercial banking and investment services, supplemented by products and solutions offered by its subsidiaries. In addition to offering services to close to 430,000 customers through its nation-wide branch network, CIB continues to seek innovative solutions tailored to customer needs. Its services are available to businesses, institutions, municipalities and sole traders, as well as to retail customers. Besides the bank's branches, customers also have an exceptionally wide variety of electronic channels to choose from, through which to manage their finances quickly and conveniently, such as CIB Online, CIB Internet Bank, CIB Mobile Application or eBroker, the Bank's information and securities trading system.

Based on the four-year strategy set out for CIB Group in 2013, it has focused on growth in strategically key segments and product categories, while maintaining its market position in the areas where growth is not the main objective. In 2018, a new multi-year international group-level and local business strategy will be introduced, which will be discussed in more detail in next year's report.

The business strategy effective in 2017 rested on three main pillars: **(1)** Renewal of the business operations and market activity of the "Growth Bank", **(2)** Continuing the wind-down of the bad portfolio elements, seeking to achieve the best possible recovery, **(3)** Simplification of the processes, more efficient operation.

At the centre of the strategy lie our customers: our objective is for the Bank to become the primary financial service provider of its customers through excellent customer relations. For this it is essential for the Core Bank to operate profitably in a sustainable manner, and for us to gradually phase out the assets and activities that decrease value.

Ethical norms, rules of conduct

We wish to achieve our goals while observing, and putting into practice, the principles of sustainable development and responsible operation. Our operation is founded on our seven core values, which also support sustainability, which are described in detail in the sustainability section of our website. The fulfilment of these requirements is assured by our advanced corporate governance system and decision-making processes.

As a company that operates in compliance with strict ethical norms, we have put in place a number of mechanisms that reveal risks that have previously, due to their nature, remained hidden; these include ethical risks. The purpose of these procedural rules is to enable victims in ethics cases to ask for help, to consult and request advice, before taking action if needs be, and to do so in an anonymous manner. An Ethics Committee operates at the CIB Group, and its chairperson, who also functions as the ethics ombudsman, is the Bank's CSR head. The Code of Conduct is a means of articulating, in the form of regulations, the values enshrined in the Code of Ethics. The rules ensuring ethical conduct, with a special focus on corruption-free and discrimination-free operation, are incorporated into the Bank Group's regulatory system in the form of a policy, the breaching of which may have consequences under labour law. The key areas of our responsible corporate governance also include the efforts to combat money laundering, the avoidance of conflicts of interests, risk management and internal auditing, all of which are overseen by named responsible persons. More details about responsible corporate governance, the operation and diversity of the ethics system, and past complaints can be found on our website.

Stakeholder dialogue

In the course of our stable operation and the implementation of our trust-based growth strategy that offers real opportunities, maintaining a continuous dialogue with our stakeholders is essential. We regard as our stakeholders all those who may be affected by the activities and operations of the bank, and/or who may have an effect on our organisation. Of these, the following three groups are of critical importance from the perspective of our operation: employees, customers and the owner. Besides these three priority groups, we have identified further stakeholder groups, which are: suppliers, civic organisations, local communities and professional organisations. Our definition of community relations includes our relationships with professional organisations (associations, trade federations, chambers) and the third sector (non-profit organisations, foundations, local communities), and the members of the local communities themselves. We come into contact with our stakeholders using various communication tools and via many different channels. The most important of these are also highlighted in this report, while a more comprehensive overview is available on the website.

HUMAN RIGHTS

HIGHLIGHTS

- We have made a commitment to protect human rights in accordance with the 1948 Universal Declaration on Human Rights of the UN. We expect all of our Hungarian and foreign partners to do the same.
- In the course of its operation our Bank fully respects the Fundamental Law of Hungary and all other general domestic and international conventions on human rights and ethics.
- We treat protecting the personal data of our customers as a key priority; we investigate complaints related to data handling, and take steps to reduce the number of complaints to a minimum.
- We provide our employees with fair and satisfactory working conditions and pay, as well as a wide range of other benefits. The average starting monthly wage is nearly double the statutory minimum wage.
- In 2017, we continued with the implementation of the Code of Ethics and Rules of Conduct based thereon, and continued operations based on the acceptance of procedures and the system.
- We are committed to eliminating all forms of discrimination from our conduct and to respecting differences in gender, age, race, religion, political and trade-union alignment, and language, and to respecting the rights of those with disabilities.
- Our branches are 100% accessible to persons with disabilities.

RELEVANT CONSIDERATIONS AND THEIR DETAILED EXPLANATION

In addition to abiding by the relevant laws, CIB Bank strives to identify, mitigate and prevent – where possible – any human rights abuses related to its activity, in accordance with the recommendations enshrined in the relevant UN guiding principles governing business and human rights. Its parent company, Intesa Sanpaolo adopted a specific policy on human rights, which was approved by its Board of Directors in December of 2017, which, taking into consideration the principles already present in the Code of Ethics, declares that

- it is committed to helping safeguard human rights in accordance with the principles of the Universal Declaration of 1948 and in subsequent international conventions on civil and political rights and on economic, social and cultural rights;
- it recognises the principles set out in the ILO (International Labour Organisation) fundamental conventions, particularly the right of association and collective bargaining, the ban on forced and child labour and the elimination of discrimination at work;
- it contributes to the fight against corruption, supporting the OECD (Organisation for Economic Cooperation and Development) guidelines and the anti-corruption principles issued by the United Nations in 2003, including through a "zero tolerance" approach to any cases of corruption.

The introduction of this human rights policy at CIB Bank is expected to take place in 2018.
CIB Bank is committed to supporting human rights in all cases where it recognises that its activity can have an impact; therefore, it has identified areas of responsibility as regards all the groups – employees, customers, suppliers, communities – that are affected by its activity. Considering that the issue of environmental protection ties in strongly with the issue of human rights, supporting strict environmental regulations can also be regarded as a key measure leading to the respect and enforcement of human rights. The area of impact is quite wide-ranging, and can be summarised as follows:

- respect for the rights of employees;
- respect for the rights of customers (in particular to privacy, health, security and non-discrimination);
- respect for the rights of suppliers (in particular to health, security and non-discrimination);
- respect for human rights throughout the supply chain (in particular, avoiding trade relationships with suppliers that violate the human rights of their employees or that of their wider communities);
- respect for human rights as regards financing activities, capital investments, and customer services (including the areas of risk assessment, having special regard to high-volume projects and enterprises operating in sensitive sectors).

We are especially mindful of those who are most vulnerable, both through the different forms of community support and through projects targeting financial integration.

PROCESS OF MONITORING RELEVANT CONSIDERATIONS

Ongoing compliance with and application of the protection of human rights are monitored by the Compliance, Human Resources and CSR departments, by way of the below procedures:

- by way of the monitoring of compliance with the Group's Code of Ethics, in accordance with international corporate social responsibility related standard ISO 26000, and in particular the areas related to the topic of human rights;
- by way of the sustainability report that encompasses the inclusion of stakeholders and identifies development goals and the related metrics;
- by analysing the potential areas of risk within human rights, which analysis sheds light on the possible effects that the company's activities can have – in light of the individual principles set out in international conventions – on the stakeholders and the relevant corporate regulations.

The Code of Ethics mailbox (etikaibejelentes@cib.hu), under the jurisdiction of the Ethics Committee, represents another guarantee for all stakeholders, which can be used by all to report any rights violations with the guarantee that any reports made will be treated confidentially and will not result in retaliation.

A FEW IMPORTANT INDICATORS (as at 31 December 2017)

- Proportion of male and female employees at the various levels of seniority (%):

	male	female
manager	58.7%	41.3%
specialist	45.1%	54.9%
colleague	26.5%	73.5%

- Workplace accidents and the number of working days lost as a result (days) 15 accidents and 267 days
- Number of ethics complaints made due to violations of the right to privacy: 0
- Donations made to vulnerable and underprivileged groups (Hungarian forints): HUF 20 million CIB Bank and HUF 12.7 million CIB Foundation
- Child financial literacy education activities: Pénz7 (Money Week), World Savings Day (child financial literacy education programme week)

SOCIAL AND LABOUR AFFAIRS

HIGHLIGHTS

- The Bank abides by the laws of the country and the relevant passages of the Fundamental Law of Hungary and complies fully with the Labour Code.
- The organisation regulates matters that affect every employee equally in the Human Resources regulations.
- An employee trade union is in place and in May 2016, the Works Council was formed, which now operates with 10 participants.
- We declared in our Code of Ethics that we are committed to eliminating all forms of discrimination from our conduct and to respecting differences in gender, age, race, religion, political and trade-union alignment, and language, and to respecting the rights of those with disabilities.
- Our organisation is willing to appoint physically disabled staff to certain positions.
- Achieving gender equality is important to us and our objective is to fully comply with the principle of “equal pay for equal work”.

RELEVANT CONSIDERATIONS AND THEIR DETAILED EXPLANATION

- ***Equal treatment and diversity***

The Bank also clearly defines its key principles related to responsible practices in its Organisational and Operational Regulations (OOR). Through this, the Bank rejects all forms of discrimination and corruption in both its internal and external communication, prohibits any form of discrimination and guarantees the general requirements of equal treatment in accordance with the relevant EU guidelines. Besides the above, the regulations governing compliance and risk management activities also proclaim similar principles aimed at supporting responsible operation.

The CIB Group ensures equal treatment for its existing and future employees in accordance with the Fundamental Law of Hungary, the effective statutory provisions and the Bank Group's Code of Ethics. This is achieved through the transparency of decision-making processes within the company and the ethical training provided to both managers and employees. The examination of ethical issues associated with this topic and the subsequent preventive changes ensure legal and ethical compliance in this area.

We ensure equal treatment for all existing and prospective employees, but at the same time we also give special consideration to ensuing work opportunities for people with disabilities and disadvantaged workers, and to creating a level playing field for these individuals. In connection with this, as on previous occasions, it was decided that the downsizing should not affect any employees who are in some way disadvantaged or living with a disability. Where necessary, we adapt the hiring process to accommodate the special needs of people with altered abilities. Through these measures, we ensure the diversity of our staff.

- ***Remuneration and Pay***

We carry out the classification of salaries based on several criteria. We examine what sort of complex tasks the job entails, we look at the level of demand for the particular job in the labour market, and we also check the salary curve to date by looking at when it was that the employee was hired for the position, what sort of experience he or she has, and what sort of performance he or she has delivered over the course of the work.

The wide-ranging system of fringe benefits is an important part of our new remuneration strategy. The value of the benefits package provided under the Cafeteria system remained the same in 2017. Part-time workers continued to be entitled to Cafeteria benefits on a pro-rata basis.

- ***Trade Unions***

A trade union and a Works Council are in place at CIB Bank. Representatives of the trade union and the works council make up what is known as the Social Committee, whose task is to manage certain forms of social assistance that we provide to employees. The Works Council and the Employer decide on the utilisation of welfare funds together, the Works Council assesses any planned employer measures that would affect a large group of employees, delegates employee representatives to the Supervisory Board of the Bank, engages in consultations prior to the decision of the Employer to carry out collective redundancies, and consults with the Employer regularly on basic issues affecting workers' economic situation, such as changes in wages.

- ***Health at Work***

Participation in all the periodic vocational and professional suitability and fitness tests prescribed by law continued to be compulsory for all of our staff in 2017. In keeping with the practice of previous years, for managers above a certain grade we continued to provide executive medical screening as part of the annual occupational health examination, due to the higher-risk environment.

- ***Performance Assessment***

Since 2012, a new, revised, performance assessment system ("TÉR"), valid in respect of all employees, has been in operation at the Bank. During the performance assessment period, a series of panel discussions held throughout the organisation ensure the consistency of the evaluations between the management levels and the individual divisions. In addition, in line with the Bank's new strategy for 2014-2017, in 2014 we revised and improved our sales incentives system applicable to staff working in the business units. The performance assessment and incentive processes developed by our the International Subsidiary Banks Division (ISBD) of our owner, Intesa Sanpaolo Group, served as the basis of this change. Our aim in introducing the new, expanded system is to motivate, and thus retain, successful and high-performing employees and their line managers, in order that we can jointly contribute to the realisation of our strategy. Every Bank employee is given an assessment of their performance and an overview of their career opportunities.

Our career management system continues to operate, closely linked to the TÉR processes, with the main objectives of the system being for us to identify and retain our talented members of staff, for every employee to have the opportunity to carefully consider what career path he or she would like to follow within the CIB Bank Group, for managers to deliberately plan succession within their team, and to promote career mobility among the various divisions.

PROCESS OF MONITORING RELEVANT CONSIDERATIONS

Ongoing compliance with and application of the protection of social and workers' rights are monitored by the Compliance, Human Resources and CSR departments, by way of the below procedures:

- At the level of the Intesa Sanpaolo Group, by way of the monitoring of compliance with the Group's Code of Ethics, including the assessment of third parties, in accordance with international corporate social responsibility related standard ISO 26000, and in particular the areas related to the topic of occupational safety rights.
- By way of the sustainability report that encompasses the inclusion of stakeholders and identifies development goals and the related metrics.
- Through regular and ad-hoc, official consultations between the Works Council, Human Resources, and the Chairman & CEO.
- We are monitoring changes in our corporate culture and our colleagues' opinion by conducting regular employee satisfaction surveys.

The Code of Ethics mailbox (etikaibejelentes@cib.hu), under the jurisdiction of the Ethics Committee, represents another guarantee for all stakeholders, which can be used by all to report any rights violations with the guarantee that any reports made will be treated confidentially and will not result in retaliation.

MAIN INDICATORS (as at 31 December 2017)

- Employee satisfaction level (%) : 74% (on a scale of 7; aggregating ratings of 5, 6, and 7, where 7 is the best)
- Number of employees of the CIB Group, per level of seniority (persons):

colleague	1,253
specialist	548
manager	213
Total	**2,014**

- Standard deviation of salaries at CIB Bank broken down by gender and seniority category (%):

	male	female
colleague	98.68%	95.65%
specialist	94.47%	91.40%
manager	90.39%	89.19%

- Average number of training hours (hour/person) 32.23
- Ratio of part-time employees (%): 3.1%
- Percentage ratio of trade union member employees (%): 9.2%
- Number of workplace accidents (number): 15 (4 workplace accidents and 11 traffic accidents)

ANTI-CORRUPTION, CONFLICT OF INTEREST

HIGHLIGHTS

- The Bank has approved the Code of Ethics and the Code of Conduct setting forth the standards of behaviour that are expected of our employees, which also has a section devoted to the prohibition of corruption.
- Our conflict of interest regulations are stricter than the national requirements.
- All employees of the CIB Group have received training in the prevention of money laundering and conflicts of interests, through the e-learning interface (MultiLearn) accessible via the internal network.

RELEVANT CONSIDERATIONS AND THEIR DETAILED EXPLANATION

In terms of responsible banking operation, clearly defining responsibilities, and in certain cases – depending on the relative importance of the given function – creating a separate organisational unit, is of key importance. We regard legal compliance – especially with respect to the prevention of market fraud and money laundering – and the appropriate management of the risks arising from our operation as being of particular importance.

The functions supporting compliance with EU guidelines and legislative requirements ensure responsible operation, a key tenet of which is the effort towards corruption-free operation.

A separate team of specialists coordinates anti-money laundering activities. They have the task of checking transactions that are relevant or risky from the perspective of money laundering and sanctions, authorising the opening of accounts for new customers and reviewing existing customer relationships, as well as providing training for employees in the prevention of money laundering, forwarding reports to the competent authorities, and ensuring the necessary flow of information.

The obligatory Code of Conduct, which was approved in 2008, and the Anti-corruption Regulations issued by Intesa Sanpaolo in 2017 include a set of rules on the prohibition of corruption. As a part of its efforts to combat corruption – in keeping with the relevant guiding principles of Intesa Sanpaolo – the CIB Group does not, in any way, support politicians or political parties, or institutions with which they are associated. The “principle of zero tolerance” towards corruption applies to our employees, suppliers and other external parties.

Internal Audit is an independent and objective, corroborative and advisory function, the purpose of which is to improve the operations and effectiveness of the given organisation. In order to assist in achieving the organisation’s stated objectives, the Internal Audit function methodically and systematically assesses and improves the effectiveness of the audited organisation’s governance and control procedures.

Our internal policies set out stricter rules on conflicts of interest than the provisions of Act CXXXVII of 2013 (Credit Institutions Act), Act CXXXVIII of 2007 (Investment Firms Act) and Act I of 2012 (Labour Code).

The purpose of the risk management function is to identify the risks of the given organisational unit, to measure the identified risks and manage them to ensure that they do not jeopardise prudent operation or the fulfilment of business objectives. At the CIB Bank Group, it is the Risk Management department that is responsible for these activities.

It is important for us to advance ethical behaviour within our industry by exhibiting fair market and competitive conduct, leading by example, and through participation. We adhere to the self-regulating approach adopted by the industry and apply this to our own operations, while acting ethically towards our competitors. Fair competitive market conduct serves as the basis for our pricing policy.

PROCESS OF MONITORING RELEVANT CONSIDERATIONS

- Our corporate governance regulations, process requirements and internal training courses ensure that our employees do not fall victim to or become involved in corruption. Our staff receives training and information on this topic as part of our ethical training course, while our compliance systems ensure these anti-corruption rules are enforced in practice through various compliance checks.
- Our employees take part in distance learning courses and examinations on the prevention of money laundering, conflicts of interest and security awareness via the e-learning platform accessible via the intranet, as well as through in-person training courses.
- The controlling of conflicts of interest is performed by the independent Compliance unit.
- The Compliance unit also performs the controlling and recording of gifts accepted by employees. The main principles governing the acceptance of gifts are zero tolerance and exceptionality. The acceptance of gifts can, in certain cases, be classified as corruption.

The Code of Ethics mailbox (etikaibejelentes@cib.hu) and postal address, under the jurisdiction of the Ethics Committee, allowing the reporting of any reports, questions, comments represents another guarantee for all stakeholders, which can be used by all to report any rights violations with the guarantee that any reports made will be treated confidentially and will not result in retaliation. As an additional guarantee the Compliance and Internal Audit departments are also available for this purpose at compliance@cib.hu and belsoellenorzes@cib.hu.

MAIN INDICATORS (as at 31 December 2017)

- Number of employees that have attended and took examinations in distance learning courses related to the prevention of money laundering (%): 77%
- Number of employees that attended in-person training courses on the prevention of money laundering: 231 persons
- Number of employees that have attended and took examinations in distance learning courses on safety awareness (%): 91%
- Number of ethics violation reports related to suspected corruption: 0

ENVIRONMENTAL PROTECTION

HIGHLIGHTS

- The ISO 50001 standard was introduced at the end of 2016 and was certified by an external audit company.
- We continue to perform the energy efficiency objectives (energy optimisation of the data centre, installing LED lights in the bank branches, UPS optimisation, server cooling setting).
- Riding a bike to work remained popular, and our bicycle storage facilities were used to their full capacity last year as well.
- When preparing and implementing the training programs we take special care to respect the values of our natural, economic and social environment, and make an effort to manage our resources responsibly and without waste. To this end we give preference to electronic communication (e.g. in the process of sending out invitations, information or training materials), and where paper-based documentation is absolutely necessary we produce this economically, with double-sided printing.
- By 2019 we will achieve selective waste collection in the entire branch network. Every year, the volume of hazardous waste is reduced, and most of it is reused (restaurant fats are recycled).
- We plan the installation of charging stations for electric cars.
- CIB Group first joined Earth Hour, WWF’s international climate protection initiative in 2010. In 2017 we again committed to turning off lights wherever it was technically feasible in our central buildings during Earth Hour, highlighting the importance of climate and environmental protection.

RELEVANT CONSIDERATIONS AND THEIR DETAILED EXPLANATION

We aim to use all our resources sparingly. In this regard we promote conduct that is based on the best use of resources and on the avoidance of waste and ostentation. We give priority to solutions that have been designed with sustainability in mind.

In December of 2016, CIB Bank adopted its energy policy, in which it has declared the following:

- we are committed to complying with all the legal requirements and other commitments undertaken in relation to energy management;
- we are continuously working toward improving our performance indicators and our energy management system;
- we are committed to ensuring that all necessary information and resources are available so that we are able reach our energy management goals;
- as a key component, energy efficiency will be integrated into our procurements, renovation, and building plans;
- we strive towards preventing pollution, reducing our ecological footprint and energy consumption by raising our colleagues’ environmental awareness.
- we encourage our colleagues to engage in creative cooperation aimed at the realisation of our corporate objectives and improving the effectiveness of processes.

In certain contracts we stipulate that in the course of fulfilling their obligations suppliers are obliged to use environmentally friendly technology, products and materials, and make efforts to recycle the waste that is generated. We have launched numerous initiatives aimed at reducing energy and water consumption, including the installation of solar panels on the roofs of our central office buildings, in order to cut down on the use of non-renewable energy sources. We continue to perform the energy efficiency objectives (energy optimisation of the data centre, installing LED lights in the bank branches, UPS optimisation, server cooling setting).

- ***Introduction of the ISO 50001 Standard***

In 2016, CIB began the introduction of the ISO 50001 energy management system standard.
In addition to it being a legal requirement, the introduction of this standard is also a means to improving corporate energy efficiency through regulated and monitored energy management, therefore, it is justified by both management expectations and professional reasons.

The main goal is to reduce energy costs, green-house gas emissions, and other related detrimental environmental impacts. It is essentially a means of creating a systematic framework for energy management activities, while it is based on the cyclical review of the plan-do-check-act (PDCA) process.

The introduction and continuous operation of the standard is sponsored by a management representative (CFO), while the introduction is performed by the energy team, whose members comprise colleagues from Realty Services, Communication and CSR, Human Resources, Procurement, IT and Process Development. Colleagues appointed from Network Coordination and Realty Services support this team in their operational tasks. A bank employee responsible for energy management monitors energy management compliance with the standard, as an internal auditor, while operational decision preparations are undertaken by the members of the Energy Team.

PROCESS OF MONITORING RELEVANT CONSIDERATIONS

Ongoing compliance with environmental regulations and continuous application of commitments are monitored by the Realty Services, Human Resources and CSR departments, by way of the below procedures:

- by way of monitoring compliance with the Group-level Code of Ethics.
- compliance with international energy management system standard ISO 50001, audited by an independent third party;
- annual ISO 50001 certification in regards to every employee;
- by way of the sustainability report that encompasses the inclusion of stakeholders and identifies development goals and the related metrics.

MAIN INDICATORS (as at 31 December 2017)

- Total energy used (GJ):50,980
- Number of bicycle parking spots: 78
- Greenhouse gas emissions avoided through the use of solar collectors (tonnes, as carbon dioxide equivalent): 23
- CO_2 emissions from energy consumption per employee (t/person): 4,527
- Paper usage per employee - office A4, A3 - (kg/person): 95,422 kg/2034 persons =46.9 kg/person
- Electricity usage (kWh): 912,2124
- Other, renewable energy usage (kWh): 70,000

28 February 2018

Dr. Pál Simák
CEO and Chairman of the Board

Paolo Vivona
Deputy CEO and CFO

CIB Bank Ltd.