CIB BANK Ltd.
and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2016
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

Contents

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Consolidated Statements of Comprehensive Income
for the year ended 31 December 2016
(million HUF)

	Note	2016	2015
Interest income	7	35,943	47,007
Interest expense	7	(9,879)	(17,488)
Net interest income		**26,064**	**29,519**
Fee and commission income	8	32,780	32,260
Fee and commission expense	8	(4,821)	(4,474)
Net fee and commission income		**27,959**	**27,786**
Income from trading activities	9	9,790	(3,397)
Other operating income	10	5,464	5,854
Net banking income		**69,277**	**59,762**
Impairment losses on loans	11	4,864	(35,910)
Net loan losses and provision according to Settlement Law	11	-	5,231
Other impairment losses and provisions	11	(3,225)	(564)
Operating expenses without bank tax	12	(50,590)	(53,810)
Profit/(loss) before bank tax and income taxes		**20,326**	**(25,291)**
Bank tax	13	(4,897)	(11,903)
Profit/(loss) before income taxes		**15,429**	**(37,194)**
Income tax expense	14	(3,471)	(3,030)
Net profit/(loss) for the year		**11,958**	**(40,224)**

20 February 2017

Dr. Pál Simák
CEO and Chairman of the Board

Andrea De Michelis
Deputy CEO and CFO

CIB Bank Ltd.

The accompanying notes on pages 12 to 78 form part of these Consolidated Financial Statements.

Consolidated Statements of Financial Position
as at 31 December 2016
(million HUF)

	Note	2016	2015
Net profit/ (loss) for the year		**11,958**	**(40,224)**
Items that may not be reclassified to profit or loss		**-**	**-**
Items that may be reclassified to profit or loss		**(1,876)**	**3,284**
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)		(1,876)	3,284
Other comprehensive income for the year (net of taxes)	**16**	**(1,876)**	**3,284**
Total comprehensive income for the year		**10,082**	**(36,940)**
Attributable to Equity holders of the parent		**10,082**	**(36,940)**

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Consolidated Statements of Financial Position
as at 31 December 2016
(million HUF)

Assets	**Note**	**31 December 2016**	**31 December 2015**
Cash and current accounts with central bank	17	15,010	23,259
Due from banks	18	520,854	479,385
Financial assets at fair value through profit or loss excluding derivatives	19	38,514	59,622
Derivative financial assets		12,298	15,371
Loans and advances to customers	*20*	*876,177*	*1,093,801*
Allowance for loan losses	*20*	*(116,404)*	*(183,597)*
Net loans and advances to customers		759,773	910,204
Financial investments – Available-for-sale	22	202,693	78,899
Non-current assets held for sale	16	641	4,024
Current tax assets	14	4,974	6,160
Deferred tax assets	14	79	201
Other assets	21	5,304	5,256
Repossessed properties	23	47,720	67,750
Intangible assets	24	8,178	8,504
Property and equipment	25	13,912	17,072
Total assets		**1,629,950**	**1,675,707**

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Consolidated Statements of Financial Position
as at 31 December 2016
(million HUF)

Liabilities and Shareholders' Equity	**Note**	**31 December 2016**	**31 December 2015**
Deposits from banks	26	195,784	225,029
Derivative financial liabilities		12,446	12,709
Deposits from customers	27	1,167,595	1,179,706
Liabilities from issued securities	28	6,331	28,162
Current tax liabilities		3,475	3,776
Deferred tax liabilities	14	482	817
Other liabilities	29	14,515	15,610
Provisions	30	6,868	5,637
Subordinated debt	31	9,332	56,421
Total liabilities		**1,416,828**	**1,527,867**
Shareholders' equity			
Share capital	32	50,000	50,000
Reserves	33	485,351	431,276
Retained earnings		(322,229)	(333,436)
Total shareholders' equity		**213,122**	**147,840**
Total liabilities and shareholders' equity		**1,629,950**	**1,675,707**

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Consolidated Statement of Changes in Equity
for the year ended 31 December 2016
(million HUF)

	Note	Ordinary shares	Retained earnings	Capital reserve	Revaluation reserve	General reserve	Other reserve	Total
Balance at 31 December 2014		**145,000**	**(293,212)**	**243,719**	**(28)**	**-**	**89,301**	**184,780**
Other comprehensive income (OCI)	16	-	-	-	3,284	-	-	**3,284**
Decrease of share capital	32	(95,000)	-	95,000	-	-	-	**-**
Net loss for 2015		-	(40,224)	-	-	-	**-**	**(40,224)**
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 for 2016		-	11,958	-	-	-	**-**	**11,958**
Balance at 31 December 2016		**50,000**	**(322,229)**	**393,919**	**1,380**	**751**	**89,301**	**213,122**

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Consolidated Statements of Cash Flow
for the year ended 31 December 2016
(million HUF)

	Note	2016	2015
Operating activities			
Profit (loss) before tax		15,429	(37,194)
Depreciation	12	3,815	4,534
Net unrealized (gain) / loss on financial instruments		2,040	(1,135)
Increase in allowance for loan losses		(1,687)	35,229
Increase in allowance for repossessed properties and own properties and intangible assets		6,312	4,059
Working capital changes:			
Decrease / (increase) in due from banks		(144,276)	-
Decrease / (increase) in financial assets at fair value through profit or loss	19	26,477	(44,326)
Decrease / (increase) in loans and advances to customers	20	151,846	115,818
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)	21	1,354	898
Increase / (decrease) in deposits from banks	26	(29,245)	11,374
Increase / (decrease) in deposits from customers and liabilities from issued securities	27 28	(33,537)	1,925
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	29 30	(163)	(27,273)
Income tax charged	14	(3,684)	(3,199)
Cash flows used in operating activites		**(5,319)**	**60,710**
Investing activities			
Purchase of financial investments		(137,824)	(78,671)
Proceeds from sale of financial investments		16,394	144,918
Acquisitions to intangible and tangible assets		(3,728)	(3,749)
Acquisitions to repossessed properties	23	(1,051)	(10,775)
Disposals of intangible and tangible assets		2,623	177
Disposals of repossessed properties		15,545	25,666
Cash flows used in investing activites		**(108,041)**	**77,566**
Financing activities			
Repayment of subordinated debt	31	(47,089)	(319)
Issue of shares	32	9,000	-
Other equity contribution		46,200	**-**
Cash flows from financing activites		**8,111**	**(319)**
Net increase / (decrease) in cash and cash equivalents	**41**	**(105,249)**	**137,957**
Cash and cash equivalents at the beginning of year	41	505,334	367,981
Effect of exchange rate fluctuations on cash and equivalents held		(507)	(604)
Cash and cash equivalents at the end of year	**41**	**399,578**	**505,334**

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(million HUF)

Additional information for cash flows from operating activities

	2016	2015
Interest received	37,818	50,620
Interest paid	14,634	17,931
Dividend received	23	4
Income tax paid	3,861	3,544

Cash and cash equivalents presents the following balance sheet categories

	2016	2015
Cash and current accounts with central bank	15,010	23,259
Due from banks	376,577	479,385
Financial assets at fair value through profit or loss	7,991	2,690
Cash and cash equivalents at the year end	**399,578**	**505,334**

Notes to the Consolidated Financial Statements

Part A – Accounting policies

(1) Corporate information

The sole owner and ultimate parent company of CIB Bank Ltd. became 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 2016, due to the reason that Intesa Sanpaolo S.p.A acquired CIB Bank Ltd's ownership from Intesa Sanpaolo Holding International S.A. effective on 1 November 2016.

The majority owner of CIB Bank Ltd. ("the Bank") was Intesa Sanpaolo Holding International S.A. /LU 1724 Luxembourg, Boulevard du Prince Henri 35./ which held 67.6905% of the total ordinary shares of the Bank outstanding at year end as at 31 December 2015. The ultimate parent company of the Bank was Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that held 32.3095% of the shares of the Bank as at 31 December 2015.

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. The average number of active employees of the Bank and its subsidiaries was 2,193 in 2016 and 2,530 in 2015, 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
CIB Car Ltd.	100%	Hungary	Car trading services
Brivon Hungary Ltd.	100%	Hungary	Property development and maintenance services
CIB Property Management Ltd.	100%	Hungary	Property management 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 Bank took over the activity of CIB Factor, as it was merged into the Bank as of 31 December 2016.

The Consolidated Financial Statements for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Management Board on 20 February 2017.

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.

(2) Statement of compliance

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 preparation

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 2016 the euro was EUR 1 = HUF 311.02 (2015: EUR 1 = HUF 313.12) and Swiss Franc was CHF 1 = HUF 289.41 (2015: CHF 1 = HUF 289.38).

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.

(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 add it 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 assumptions 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 2015 and 2016. 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 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.

(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.

(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

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.

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.

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.

(6) Significant accounting policies (continued)

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.

Included in this category 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.

6.7 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.

(6) Significant accounting policies (continued)

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.

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.

(6) Significant accounting policies (continued)

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.

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) Significant accounting policies (continued)

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.

6.13 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.

(6) Significant accounting policies (continued)

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 Statement 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 and equipment

All items of property and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all property and equipment, other than freehold land which is deemed to have an indefinite useful life.

The following depreciation rates and residual values are applied:

	Depreciation rate	**Residual value**
Premises	2%	30% of gross value
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 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. Lands are not subject to depreciation.

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.

(6) Significant accounting policies (continued)

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.

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) Significant accounting policies (continued)

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 Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

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 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.

(6) Significant accounting policies (continued)

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.

Bank tax

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

The tax rates are different for the types of financial institutions: e.g. for credit institutions the tax rates were 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 and 0.53% had been applied for the amount exceeds HUF 50 billion for 2015, 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 Financial Statements.

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 Financial Statements 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) Significant accounting policies (continued)

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.

6.28 Operating profit

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

6.29 Employee benefits – Share based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights is recognised as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognised as personnel expenses in Consolidated Statement of Comprehensive Income.

For share-based payment awards with non-vesting conditions the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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 the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9, therefore the Group is not yet able to exaclty quantify the expected impact that the application will have on its IFRS statements. The IFRS9 project is in the IT model integration phase. In parallel the Group is working on the adoption of accounting rules, setting up organizational and governance framework and defining the operating model.

Short description of the key IFRS 9 concepts, where the Group is in an assessment phase currently:

- Classification of financial instruments is ongoing, cases/products are examined from an SPPI point of view to check how they will need to be treated under IFRS9. Special unclear cases are under deep analysis.
- The current provisioning system is being developed to be able to calculate provision on an expected loss basis. The project is still in progress and takes a significant amount of time and resources.

Transition method has been elected regarding IFRS 9, policy changes will be submitted along the project. Effects on regulatory capital is unknown yet, premilinary assessments will be done by Risk Management.

(6) Significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, now 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 2017.

IAS 1 Presentation of financial statements

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

IFRS 16 Leases

The Group does not expect that the new Standard, when initially applied, will have material impact on the financial statements.

Part B – Information on the Consolidated Statement of Comprehensive Income

(7) Interest income and interest expense

(million HUF)	2016	2015
Interest from customers	30,514	40,153
Interest income from financial investments – Available-for-sale	1,970	1,437
Interest from banks	2,604	4,317
Subtotal	**35,088**	**45,907**
Interest from financial assets at fair value through profit or loss	855	1,100
Total interest income	**35,943**	**47,007**

Low demand for new financing over the past years caused the continuous erosion of the Group's customer loan portfolio, while the fair bank law had a negative impact on consumer loan spreads. This together with high proportion of Non Performing Loans resulted in a drop of interest income.

(million HUF)	2016	2015
Interest paid to customers	7,715	12,753
Interest paid to banks	1,584	2,820
Interest paid on issued securities	580	1,915
Total interest expenses	**9,879**	**17,488**

Interest expense related to financial liabilities not carried at fair value through profit and loss amounts HUF 9,521 million as at 31 December 2016 and HUF 17,234 million in 2015, respectively.

(8) Fee and commission income and expense

(million HUF)	2016	2015
Servicing fee income for loans	4,720	5,432
Account turnover fee income	10,865	10,582
Card fee income	5,099	4,902
Investment services fee income	6,811	5,202
Documentary fee income	1,425	1,224
Cash management fee income	1,397	1,545
Agent fee income	611	698
Other fee income	1,852	2,675
Total fee and commission income	**32,780**	**32,260**

(8) Fee and commission income and expense (continued)

(million HUF)	2016	2015
Card fee expense	2,566	2,466
Account turnover fee expense	652	582
Investment services fee expense	240	207
Documentary fee expense	428	313
Servicing fee expenses for loans	34	32
Agent fee expense	42	39
Other fee expense	859	835
Total fee and commission expenses	**4,821**	**4,474**

(9) Income from trading activities

(million HUF)	2016	2015
Net revaluation gain/(loss) from derivatives and trading with foreign currencies	6,289	(7,132)
Net realised gain/(loss) from derivatives	3,222	3,515
Net revaluation gain/(loss) on hedging instruments	19	(9)
Net revaluation gain/(loss) from trading with financial assets through profit or loss	63	85
Net realised gain/(loss) from trading with financial assets through profit or loss	197	125
Net gain from financial investments – Available-for-sale	-	19
Total	**9,790**	**(3,397)**

Better trading income was the consequence of higher income on derivatives, thanks to favourable change in market conditions.

(10) Other operating income and expense

(million HUF)	2016	2015
Net gain / (loss) from selling of tangible and intangible assets	1,426	(5)
Dividend and similar income	23	4
Result on disposal of inventories	(11)	78
Income from property management	1,252	1,679
Net result on non-current asset held for sale	1,716	1,827
Additional income on loan portfolio	-	1,522
Other operating income / (expenditures)	1,058	749
Total	**5,464**	**5,854**

(11) Impairment losses, provisions and net loan losses

(million HUF)	2016	2015
Individual impairment expense/(reversal) for loan losses	(214)	32,673
Collective impairment expense/(reversal) for loan losses	(4,650)	3,237
Impairment expense/(reversal) for ***losses on loans subtotal***	***(4,864)***	***35,910***
Net loan losses/(gains) and provision according to the Loan Settlement Law	-	(5,231)
Net loan losses and provision according to the Loan Settlement Law subtotal	***-***	***(5,231)***
Provision expense/(reversal) for financial guarantees	(325)	(955)
Provision expense/(reversal) for other commitments and contingencies	(446)	(2,872)
Net losses/(gain) on sale of loans	2,128	(568)
Net losses/(gain) on repossessed properties	(38)	2,921
Other impairment expense/(reversal) for other receivables	165	19
Other provision expense/(reversal)	1,741	2,019
Other impairment losses and provisions	***3,225***	***564***
Total	**1,639**	**31,243**

The positive result was mainly the effect of lower impairment need of the corporate (especially real-estate finance) portfolio.

(12) Operating expenses without bank tax

(million HUF)	2016	2015
Personnel expenses	22,807	23,835
a, Salaries	*14,562*	*16,562*
b, Other benefits	*2,345*	*1,493*
c, Social contributions	*5,900*	*5,780*
Depreciation	3,815	4,534
Office and Information Technology maintenance	5,266	5,872
Financial transaction duty	4,139	4,288
Other taxes and obligatory fees	4,453	4,258
Material expenses	1,653	1,852
Rent and leasing	2,348	2,979
Communications	1,480	1,820
Advertising	1,205	1,232
Expert fees	449	174
Other expenses	2,975	2,966
Total	**50,590**	**53,810**

(13) Bank tax

The following table illustrates the bank tax obligation of the Group in 2016 and in 2015.

Company (million HUF)	**2016**	**2015**
CIB Bank Ltd.	4,797	11,384
CIB Leasing Co. Ltd.	-	420
CIB Real Estate Leasing Ltd.	52	51
CIB Faktor Ltd.	48	48
Total	**4,897**	**11,903**

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.

(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 accounting and taxation rules.

The corporate income tax rate of 19% applicable to all Group companies but dependent from the level of profitability the tax rate has been reduced to rate of 10% of the amount of profit before tax. 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 this amount the corporate income tax rate is 19% for the part of the profit above HUF 500 million.

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)	**2016**	**2015**
Current income tax charge	(3,684)	(3,199)
A, Corporate Income tax	*(805)*	*(130)*
B, Local business tax	*(1,922)*	*(2,664)*
C, Innovation contribution	*(289)*	*(405)*
D, Investment services tax	*(668)*	-
Deferred income tax	213	169
Total income tax benefit / (expense)	**(3,471)**	**(3,030)**

(million HUF)	**2016**	**2015**
Origination and reversal of temporary differences	213	169
Total deferred income tax	**213**	**169**

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

Reconciliation of income tax expense to profit before tax	2016 (million HUF)	2016 %	2015 (million HUF)	2015 %
Profit before tax	15,429		(37,194)	
Theoretical income tax expense at the statutory rate	2,932	19.00%	(7,067)	19.00%
Tax base amending items according to the local regulations	(1,095)	(7.10%)	(11,352)	31%
Use of deferred losses	*(1,959)*	*(12.70%)*	*(115)*	*0.31%*
Non-deductible provision	*71*	*0.46%*	*84*	*(0.23%)*
Non-deductible expenditure	*793*	*5.14%*	*(11,321)*	*30.44%*
Tax allowances	(1,032)	(6.69%)	-	-
Effect of applying tax rate of 10%	(180)	(1.17%)	90	(0.24%)
Not recognised tax asset	237	1.54%	18,290	(49.17%)
Effect of change in deferred tax rate	(270)	(1.75%)	-	-
Other income type taxes	2,879	18.66%	3,069	(8.25%)
Income tax at effective tax rate	**3,471**	**22.50%**	**3,030**	**(8.15%)**

Deferred tax assets and liabilities comprise (million HUF)	2016 Assets	2016 Liabilities	2015 Assets	2015 Liabilities
Loans	25	167	26	167
Leasing	54	54	166	158
Properties	-	249	-	412
Securities at fair value	-	12	-	28
Other assets and liabilities	-	-	9	52
Total deferred tax to profit or loss	**79**	**482**	**201**	**817**
Total	**79**	**482**	**201**	**817**

The management assessed whether sufficient taxable profit will be available at some of the entities in the Group to allow the benefit of all deferred tax asset to be utilised and decided to derecognize the deferred tax asset as at 31 December 2016 at those companies where the profitability of the entity in the near foreseeable future is doubtful or uncertain.

Deferred tax asset is not recognized on the balance of carry forward unused tax losses; which amount was HUF 458,211 million as at 31 December 2016 and HUF 359,507 million as at 31 December 2015.

(15) Dividend paid

There were no dividends, declared or paid in either 2016 or 2015.

(16) Other comprehensive income

Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes) and income from transaction under common control are as follows:

(million HUF)	2016	2015
Net gains/(losses) from changes in fair value	(802)	3,276
Amortization of AFS securities	15	8
Hedge accounting adjustment on AFS securities	(1,089)	-
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)	**(1,876)**	**3,284**
Total	**(1,876)**	**3,284**

Share classified as non-current assets held for sale were valued at fair value as at 31 December 2015, which resulted the recognition of HUF 3,166 million non realized gains through other comprehensive income. This fair value adjustment is based on the price offer received for the transfer of the shares.

Share classified as non-current asset held for sale as at 31 December 2015, was sold during 2016.

The Group designated AFS securities as hedged items during 2016, which resulted the classification of HUF 1,089 million fair value adjustment from Other comprehensive income to Income from trading activities.

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 2016 and 2% in 2015 respectively.

(million HUF)	**2016**	**2015**
Cash	10,359	9,663
Current HUF account with the National Bank of Hungary	4,651	13,596
Total (included cash and cash equivalents Note 41)	**15,010**	**23,259**
Compulsory reserve set by the National Bank of Hungary	9,082	18,683

(18) Due from banks

(million HUF)	**2016**	**2015**
Foreign currency nostro accounts	10,827	9,504
of which included in cash and cash equivalents (Note 41)	**10,827**	**9,504**
Due from banks	510,027	469,881
of which included in cash and cash equivalents (Note 41)	**365,750**	**469,881**
Total	**520,854**	**479,385**

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

(million HUF)	**2016**	**2015**
Hungarian Government securities – HUF	38,288	59,350
of which included in cash and cash equivalents (Note 41)	**7,991**	**2,690**
Hungarian Government securities – NON-HUF	175	177
Bank and corporate bonds – HUF	2	11
Shares listed on stock exchange – HUF	48	83
Other securities– NON-HUF	1	1
Total	**38,514**	**59,622**

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 assets at fair value through profit or loss (continued)

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

(20) Loans and advances to customers

Analysis by sector

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

Sector	2016 (million HUF)	2016 %	2015 (million HUF)	2015 %
Private customers	323,497	36.92	334,918	30.62
Real estate investments	146,913	16.77	240,385	21.98
Other, mostly service industries	112,496	12.84	189,787	17.35
Trading	68,000	7.76	67,768	6.20
Transportation and communication	51,982	5.93	45,935	4.20
Financial activities	14,487	1.65	28,532	2.61
Agriculture	33,007	3.77	49,848	4.56
Light industry	45,454	5.19	39,183	3.58
Heavy industry	45,276	5.17	32,278	2.95
Food processing	27,606	3.15	44,098	4.03
Chemicals and pharmaceuticals	7,459	0.85	21,069	1.93
Total	**876,177**	**100.00**	**1,093,801**	**100.00**

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)	2016	2015
Future minimum lease payments:		
Within one year	10,877	33,629
One to five years	45,859	51,589
More than five years	34,044	21,787
Total	**90,780**	**107,005**

(20) Loans and advances to customers (continued)

The present value of minimum lease payments receivables comprise (million HUF)	**2016**	**2015**
Within one year	7,744	29,474
One to five years	40,802	45,226
More than five years	31,706	18,590
Total	**80,252**	**93,290**
Unearned finance lease income	10,528	13,715
Accumulated allowance for uncollectible minimum lease payments receivable	**6,402**	**8,270**

The term of the leasing contracts are usually between 3 months and 10 years except in the case of some machinery contracts and property leasing contracts where the duration may reach 35 years or in some cases more.

Analysis of allowances

Allowance for loan losses comprise (million HUF)	**2016**	**2015**
Opening balance	183,597	277,758
Increase of allowance during the year	59,381	73,013
Decrease of allowance during the year	(61,068)	(37,783)
Write-off	(65,506)	(129,391)
Closing balance	**116,404**	**183,597**

Allowance for loan losses comprise (million HUF)	**2016**	**2015**
Individual allowance	98,044	162,409
Collective allowance	18,360	21,188
Total	**116,404**	**183,597**

The revaluation gain on loans specified as hedged items was HUF 9 million as at 31 December 2016, while the revaluation gain on loans specified as hedged item was HUF 312 million as at 31 December 2015, respectively. The liquidation value of collateral that the Group holds relating to loans at 31 December 2016 amounts to HUF 866,700 million and HUF 902,862 million as at 31 December 2015 respectively.

As at 31 December 2016 the Group has an active repurchase agreement with an amount of 2,030 million HUF. As at 31 December 2015 the Group had an active repurchase agreement with an amount of 2,273 million HUF.

(21) Other assets

(million HUF)	2016	2015
Accrued incomes, costs and expenses	1,210	782
Settlement accounts	179	235
Trade receivables	1,695	1,670
Inventories	822	1,912
Other assets	1,398	657
Total	**5,304**	**5,256**

(22) Financial investments - Available-for-sale

(million HUF)	2016	2015
Government securities – HUF	-	-
Included in cash and cash equivalents (Note 41)	**-**	**-**
Government securities – HUF	201,194	78,386
Shares listed on stock exchange – NON-HUF	1,426	490
Equity investment – HUF	73	23
Total	**202,693**	**78,899**

(23) Repossessed properties

(million HUF)	2016	2015
Opening balance	67,750	86,199
Additions	1,051	10,775
Sales	(15,545)	(25,666)
Net loss from impairment charges	(5,536)	(3,558)
Closing balance	**47,720**	**67,750**

Repossessed properties are located in several regions in Hungary, the closing balance includes HUF 20,052 million properties located in Budapest as at 31 December 2016, while it was HUF 28,973 million as at 31 December 2015.

(million HUF)	Gross value of Repossessed properties		Impairment of Repossessed properties	
	2016	**2015**	**2016**	**2015**
Building	62,002	81,623	(26,290)	(31,050)
Land	22,299	25,378	(10,291)	(8,201)
Total	**84,301**	**107,001**	**(36,581)**	**(39,251)**

(24) Intangibel asset and goodwill

At 31 December 2016 and 2015 intangible assets and the related accumulated depreciation comprised the following

(million HUF)	Cost of intangible assets				
	2016	Other changes	Disposals	Additions	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)	Depreciation / Impairment of intangible assets				
	2016	Other changes	Disposals	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**

(million HUF)	Cost of intangible assets				
	2015	Other changes	Disposals	Additions	2014
Software licenses and development	41,573	17	-	3,143	38,413
Goodwill	833	-	-	-	833
Other	712	-	1	-	713
Total	**43,118**	**17**	**1**	**3,143**	**39,959**

(million HUF)	Depreciation / Impairment of intangible assets				
	2015	Other changes	Disposals	Increase	2014
Software licenses and development	33,903	(20)	1	1,976	31,948
Goodwill	56	-	-	-	56
Other	655	-	1	7	649
Total	**34,614**	**(20)**	**2**	**1,983**	**32,653**

(24) Intangibel asset and goodwill (continued)

Net book value of intangible assets (million HUF)	2016	2015
Software licenses and development	8,087	7,670
Goodwill	-	777
Other	91	57
Total	**8,178**	**8,504**

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 3,774 million as at 31 December 2016 and HUF 2,910 million as at 31 December 2015, respectively.

(25) Property and equipment

At 31 December 2016 and 2015 property and equipment and the related accumulated depreciation comprised the following:

(million HUF)	Cost of property 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**

(million HUF)	Depreciation of property 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**

(25) Property and equipment (continued)

(million HUF)	Cost of property and equipment				
	2015	Other changes	Disposals	Additions	2014
Land, premises	20,811	(1,492)	219	67	22,455
Leasehold improvements	6,308	-	654	36	6,926
Electronic equipment and office furniture	9,815	(197)	829	286	10,555
Computer equipment	7,572	42	1,367	215	8,682
Motor vehicles	500	-	88	-	588
Other	121	-	-	-	121
Total	**45,127**	**(1,647)**	**3,157**	**604**	**49,327**

(million HUF)	Depreciation of property and equipment				
	2015	Other changes	Disposals	Increase	2014
Land, premises	6,623	(984)	114	847	6,874
Leasehold improvements	5,289	(2)	654	583	5,362
Electronic equipment and office furniture	8,928	(104)	774	475	9,331
Computer equipment	6,886	3	1,366	594	7,655
Motor vehicles	329	2	71	26	372
Other	-	-	-	-	-
Total	**28,055**	**(1,085)**	**2,979**	**2,525**	**29,594**

Net book value of property and equipment (million HUF)	2016	2015
Land, premises	11,784	14,188
Leasehold improvements	665	1,019
Electronic equipment and office furniture	794	887
Computer equipment	426	686
Motor vehicles	123	171
Other	120	121
Total	**13,912**	**17,072**

(26) Deposits from banks

(million HUF)	2016	2015
Deposits from National Bank of Hungary	75,341	65,907
Deposits from other banks in Hungary	44,755	64,992
Deposits from banks in other countries	75,688	94,129
Total	**195,784**	**225,029**
- *from which related party*	*15,878*	*18,299*

(27) Deposits from customers

(million HUF)	2016	2015
Deposits from customers in Hungary	1,132,372	1,151,583
Deposits from customers in other countries	35,223	28,123
Total	**1,167,595**	**1,179,706**
- *from which related party*	*932*	*59*

The revaluation gain on deposits specified as hedged items was HUF 401 million as at 31 December 2016 and the revaluation loss on deposits specified as hedged items was HUF 0.5 million as at 31 December 2015, respectively.

(28) Liabilities from issued securities

(million HUF)	2016	2015
Gross amount of issued securities	23,670	62,413
Repurchased amount of issued securities	(17,771)	(35,068)
Accrued interest payable from the net amount of issued securities	432	817
Net amount of liabilities from issued securities	**6,331**	**28,162**

The result from repurchase of issued securities was HUF 24 million gain as at 31 December 2016 and HUF 66 million gain as at 31 December 2015 respectively.

(28) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities (million HUF)	**2016**	**2015**
CIB CLE 2016/A bonds were issued in EUR since 7 May 2013 and matured on 9 May 2016. The bonds bear interest at 6 month EURIBOR plus 220 basis points with half-yearly interest payment.	-	7,843
CIB EFIX 16/A bonds were issued in EUR since 25 October 2013 and matured on 25 October 2016. The bonds pay fix interest of 2.75% annually.	-	5,777
CIB FIX 16/B bonds were issued in HUF since 8 August 2013 and matured on 30 December 2016. The bonds pay fix interest of 16% at maturity.	-	4,380
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.	2,580	2,436
CIB CL 2016/A bonds were issued in HUF since 6 June 2014 and matured on 7 June 2016. The bonds bear interest at 3 month BUBOR plus 30 basis points.	-	3,282
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	1,598
CIB E 2FIX 16/A bonds were issued in EUR since 18 July 2014 and matured on 18 July 2016. The bonds pay fix interest of 1.5% annually.	-	1,801
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	1,037
CIB Kincsem bonds	8	8
Total	**6,331**	**28,162**

(29) Other liabilities

(million HUF)	**2016**	**2015**
Accrued liabilities	5,328	7,923
Settlement accounts	122	1,695
Suppliers	3,984	3,321
Financial guarantees	575	889
Other liabilities	4,506	1,782
Total	**14,515**	**15,610**

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

(29) Other liabilities (continued)

Financial guarantees comprise (million HUF)	**2016**	**2015**
Opening balance	889	1,836
Increase during the year	233	269
Decrease during the year	(547)	(1,216)
Closing balance	**575**	**889**

Concerning Financial guarantees see Note 34 on Commitments and contingencies.

(30) Provision

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**

2015 (million HUF)	**Commit-ments and contingen-cies**	**Other**	**Total**
Opening balance	4,583	32,631	**37,214**
Increase of provision during the year	1,414	9,685	**11,099**
Decrease of provision during the year	(4,276)	(38,400)	**(42,676)**
Closing balance	**1,721**	**3,916**	**5,637**

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 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)	2016	2015
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%.	9,332	9,397
From Intesa Sanpaolo S.P.A for 150 million EUR. The original expiry date is 23 December 2019 with interest payable at 3 months EURIBOR plus 4.06%.	-	47,024
Total	**9,332**	**56,421**

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.

In the first half of 2016 Intesa Sanpaolo S.p.A. converted HUF 46,200 million subordinated loan into equity. Please refer to Note 33.

(32) Share capital

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.

During 2015 the authorized share capital was decreased by HUF 95,000,000,008 for the purpose to increase the Capital reserve.

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

At 31 December 2015 the fully paid share capital consisted of 50,000,000,000 ordinary shares of HUF 1 each.

There were no significant incremental costs directly attributable to the issue of shares 2016 and 2015.

(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 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.

During 2015 Capital reserve was increased by HUF 95,000,000,008 as a result of the share capital decrease.

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.

(33) Reserves

Other reserve

Other reserve comprises the additional payment by shareholders to cover financial losses in the amount of HUF 36,000 million as at 31 December 2013.

Based on the National Bank of Hungary's resolution the Group will have to reclassify the additional payment made by the shareholders from equity to liabilities in 2017. However there is a high degree of complexity on the judgement required to determine the appropriate classification of the additional payment, should the reclassification have been made as of 31 December 2016 the equity position as well as the capital adequacy ratio would also meet relevant legal and regulatory requirements.

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 as per the Bank's Hungarian statutory accounts must be transferred to a non-distributable general reserve. This general reserve may be created by credit institutions only from taxed profits. 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.

(34) Commitments and contingencies

The Bank had the following commitments and contingent liabilities as at 31 December

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)**

2015 (million HUF)	**Gross amount**	**Other liability**	**Provision**
Guarantees	33,530	(868)	-
Letters of credit	4,322	(21)	-
Total financial guarantees	**37,852**	**(889)**	-
Commitments	265,797	-	(1,721)
Total	**303,649**	**(889)**	**(1,721)**

(34) Commitments and contingencies (continued)

Letters of credit, guarantees (including standby letters of credit) commit the Bank 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 commitments with a remaining maturity over one year is HUF 30,476 million as at 31 December 2016 and HUF 15,710 million as at 31 December 2015, respectively.

The amount of the securities in custody is HUF 885,413 million at 31 December 2016 and HUF 868,034 million at 31 December 2015, respectively.

(35. a) 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**

(35. a) Carrying amount of assets and liabilities at 31 December 2015 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	13,595	-	-	-	-	-	9,664	**23,259**
Effective interest rates	*1.35*	-	-	-	-	-	-	***0.79***
Due from banks	9,502	368,904	100,979	-	-	-	-	**479,385**
Effective interest rates	-	*0.64*	*1.13*	-	-	-	-	***0.73***
Financial assets at fair value through profit or loss excluded derivatives	-	5,643	5,000	48,022	574	298	85	**59,622**
Effective interest rates	-	*1.20*	*1.98*	*0.85*	*2.13*	*3.05*	-	***1.00***
Derivative financial assets	-	2,741	5,467	3,303	3,860	-	-	**15,371**
Loans and advances to customers	56,408	317,917	321,372	117,998	74,473	22,036	-	**910,204**
Effective interest rates	*3.73*	*2.41*	*2.4*	*3.84*	*2.9*	*5.16*	-	***2.78***
Financial investments	-	24,553	43,607	10,226	-	-	3,679	**82,065**
Effective interest rates	-	*1.60*	*1.44*	*2.1*	-	-	-	***1.5***
Other assets	-	-	-	-	-	-	105,801	**105,801**
Liabilities								
Deposits from banks	3,144	63,672	15,185	62,306	70,575	10,147	-	**225,029**
Effective interest rates		*0.27*	*0.14*	*0.07*	*0.28*	*0.00*	-	***0.19***
Derivative financial liabilities	-	3,341	3,413	2,088	3,867	-	-	**12,709**
Deposits from customers	627,091	228,665	190,059	70,739	63,152	-	-	**1,179,706**
Effective interest rates	*0.07*	*1.11*	*1.65*	*1.70*	*3.05*	-	-	***0.78***
Liabilities from issued securities	-	4,328	19,800	4,034	-	-	-	**28,162**
Effective interest rates	-	*1.48*	*1.92*	*2.20*	-	-	-	***1.92***
Subordinated debt	-	-	47,024	9,397	-	-	-	**56,421**
Effective interest rates	-	-	*3.92*	*0.34*	-	-	-	***3.33***
Other liabilities	-	-	-	-	-	-	25,840	**25,840**
Net repricing gap	**(550,730)**	**419,752**	**200,944**	**30,985**	**(58,687)**	**12,187**	**93,389**	**147,840**

(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 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).

(36. b) Carrying amount of assets and liabilities by maturity date as at 31 December 2015

(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)	23,259	-	-	-	-	23,259
Due from banks	378,406	100,979	-	-	-	479,385
Financial assets at fair value through profit or loss	2,845	652	47,852	3,772	4,501	59,622
Derivative financial assets	1,243	3,770	2,604	7,440	314	15,371
Loans and advances to customers	123,439	49,436	121,906	326,310	289,113	910,204
Financial investments	490	1,998	76,388	-	23	78,899
Non-current assets held for sale	3,166	-	858	-	-	4,024
Tax assets	-	-	-	6,361	-	6,361
Other assets	782	-	315	4,159	-	5,256
Intangible assets, property and equipment, repossessed properties	-	-	-	93,326	-	93,326
Total assets	**533,630**	**156,835**	**249,923**	**441,368**	**293,951**	**1,675,707**
Liabilities						
Deposits from banks	27,360	5,421	29,524	110,831	51,893	225,029
Derivative financial liabilities	1,892	1,671	1,881	6,885	380	12,709
Deposits from customers	825,760	68,259	72,991	144,465	68,231	1,179,706
Liabilities from issued securities	8	-	18,703	9,451	-	28,162
Tax liabilities	-	-	-	4,593	-	4,593
Other liabilities	7,923	-	1,693	5,994	-	15,610
Provisions	-	-	-	5,637	-	5,637
Subordinated debt	-	56	3	46,968	9,394	56,421
Total liabilities	**862,943**	**75,407**	**124,795**	**334,824**	**129,898**	**1,527,867**
Net position	**(329,313)**	**81,428**	**125,128**	**106,544**	**164,053**	**147,840**

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 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**

31 December 2015 (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	25,094	5,487	29,868	113,035	54,286	**227,770**
Derivative instruments	1,892	1,671	1,881	6,885	380	**12,709**
Deposits from customers	825,817	68,722	76,205	159,979	69,156	**1,199,879**
Liabilities from issued securities	-	20	23,515	5,453	-	**28,988**
Subordinated debt	-	466	1,441	53,532	9,545	**64,984**
Financial guarantees	3,125	7,558	12,627	11,704	2,838	**37,852**
Total undiscounted financial liabilities	**855,928**	**83,924**	**145,537**	**350,588**	**136,205**	**1,572,182**

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 rates.

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)**

(38) Related Party transactions (continued)

2015 (million HUF)	**Parent**	**ISP Group Companies**	**Total**
Assets			
Cash and current accounts	4,750	2,380	**7,130**
Loans and advances to customers / Due from banks	164,300	1,160	**165,460**
Financial investments	490	-	**490**
Derivative financial assets	1,757	4,933	**6,690**
Other assets	-	985	**985**
Liabilities			
Current accounts	113	47	**160**
Deposits from customers / banks	14,930	3,268	**18,198**
Subordinated debt	47,024	9,397	**56,421**
Derivative financial liabilities	792	1,431	**2,223**
Other liabilities	-	33	**33**
Commitments			
Guarantees	126	8	**134**
Loan commitments	60,000	2	**60,002**
Interest rate derivatives	52,844	132,732	**185,576**
Currency derivatives	387,960	1,356	**389,316**
Equity derivatives	-	58,580	**58,580**
Net interest income	**(1,911)**	**(286)**	**(2,197)**

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).

(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.

(38) Related Party transactions (continued)

Members of the Bank's Management Board as at 31 December 2016:

Dr. Pál Simák (CEO and Chairman of the Board) – CIB Bank Ltd.
Giorgio Gavioli – CIB Bank Ltd.
Andrea De Michelis – 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 2016:

Ezio Salvai (Chairman) – Intesa Sanpaolo Group
Christophe Velle – Intesa Sanpaolo Group
Giampiero Trevisan – Intesa Sanpaolo Group
Francesco Del Genio – Intesa Sanpaolo Group
Ciro Vittoria – Intesa Sanpaolo Group

Exposures to / from Board members (million HUF)	**2016**	**2015**
Assets		
Loans	73	113
Shares	27	27
Liabilities		
Current accounts	2	-
Deposits	-	-
Commitments		
Loans and overdraft facilities not disbursed	8	7
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	929	1,228

There were changes in the Group's key management members during 2016 and 2015.

(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)	2016 Average carrying amount	2016 Average interest rate (%)	2015 Average carrying amount	2015 Average interest rate (%)
Financial assets				
Cash	8,375	0.00	8,085	0.00
Deposit with banks and subordinated loans	452,818	0.45	396,382	1.08
Financial assets at fair value through profit or loss	44,887	1.49	53,655	1.51
Loans and advances to customers	1,007,728	3.59	1,241,086	3.24
Financial investments	139,132	1.39	101,140	1.40
Other assets	623,193	-	527,379	-
Financial liabilities				
Deposits from banks	222,787	0.17	219,998	0.22
Deposits from customers	1,099,786	0.70	1,152,852	1.08
Liabilities from issued securities	19,746	2.94	60,632	4.28
Subordinated debt	12,381	2.10	55,956	3.45
Other liabilities	265,702	-	277,177	-

(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 2016 (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	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	-	-

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

31 December 2015 (million HUF)	Variable rate instruments Book value	Fair value	Fixed rate instruments Book value	Fair value
Financial assets				
Due from banks	28,278	28,280	451,107	451,132
Loans and advances to customers	770,253	772,519	139,951	133,063
Financial liabilities				
Deposits from banks	101,213	99,366	123,816	120,258
Deposits from customers	790,314	794,532	389,392	392,375
Liabilities from issued securities	12,163	12,162	15,999	16,302
Subordinated debt	56,421	58,343	-	-

The methods of the fair value calculations are detailed in the following paragraphs.

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 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**

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

31 December 2015 (million HUF)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	15,371	-	**15,371**
Financial assets at fair value through profit or loss	59,621	1	-	**59,622**
Financial investments - Available-for-sale	78,876	-	-	**78,876**
Financial liabilities				
Derivative financial liabilities	-	12,709	-	**12,709**

During the reporting period ending 31 December 2016 and 2015 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 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

31 December 2015 (million HUF)	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current accounts with central bank	23,259	-	-	23,259	23,259
Deposits with banks	-	-	479,412	479,412	479,385
Loans and advances to customers	-	-	905,582	905,582	910,204
Financial liabilities					
Deposits from banks	-	-	219,624	219,624	225,029
Deposits from customers	-	-	1,186,907	1,186,907	1,179,706
Liabilities from issued securities	-	28,464	-	28,464	28,162
Subordinated deposits	-	-	58,343	58,343	56,421

(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	2016	2015
Cash and cash equivalents	17	15,010	23,259
Due from banks	18	376,577	479,385
Financial assets at fair value through profit or loss	19	7,991	2,690
Total		**399,578**	**505,334**

(42) Business combinations and transactions under common control

There was no business combination and transaction under common control in 2016 nor in 2015.

(43) Events after the reporting period

From the begining of the financial year 2017, the stand alone accounting will be maintained and Financial Statements of CIB Bank Ltd., CIB Leasing Co. Ltd. and CIB Real Estate Leasing Ltd. will be prepared in accordance with Internation 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.

(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.

(44) Segment report (continued)

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.

31 December 2016 (million HUF)	Retail banking	Corporate 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
Deposit with 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**

(44) Segment report (continued)

31 December 2015 (million HUF)	**Retail banking**	**Corpo-rate banking**	**Treasury/ Bank**	**Other**	**Total**
Net interest income	17,497	11,684	(2,941)	3,279	29,519
Net commission income	20,717	7,069	-	-	27,786
Trading income	-	-	(3,397)	-	(3,397)
Other operating income	-	-	-	5,854	5,854
Net banking income	**38,214**	**18,753**	**(6,338)**	**9,133**	**59,762**
Impairment losses, provisions and net loan losses	(19,474)	(12,269)	-	500	(31,243)
Segment result	**18,740**	**6,484**	**(6,338)**	**9,633**	**28,519**
Unallocated cost	-	-	-	-	(65,713)
Profit before tax	-	-	-	-	(37,194)
Income tax	-	-	-	-	(3,030)
Profit for the year	-	-	-	-	(40,224)
Segment assets					
Loan and advances to customers	342,973	567,231	-	-	910,204
Deposit with banks	-	-	479,385	-	479,385
Securities	-	-	138,498	23	138,521
Derivative financial assets	-	-	15,371	-	15,371
Other assets	-	-	-	132,025	132,025
Deferred tax assets	-	-	-	201	201
Total asset	**342,973**	**567,231**	**633,254**	**132,249**	**1,675,707**
Segment liabilities					
Deposit from customers and liabilities from issued securities	510,726	697,142	-	-	1,207,868
Deposit from banks and subordinated debt	-	-	281,450	-	281,450
Derivative financial liabilities	-	-	12,709	-	12,709
Other	-	-	-	25,023	25,023
Deferred tax liabilities	-	-	-	817	817
Total liabilities	**510,726**	**697,142**	**294,159**	**25,840**	**1,527,867**

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.

(million HUF) 2016	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 maximum exposure	**2,005,034**	**1,884,789**

(million HUF) 2015	Maximum exposure	Maximum exposure to credit risk
Cash and balances with central bank	23,259	23,259
Due from banks	479,462	479,385
Financial assets at fair value through profit and loss	59,622	59,622
Derivative financial assets	15,371	15,371
Loans and advances to customers	1,093,801	910,204
Financial investments – Available-for-sale	78,899	78,899
Other assets	4,210	2,327
Financial guarantees	37,852	36,963
Commitments	265,797	264,076
Total	**2,058,273**	**1,870,106**

(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)	2016	2015
Hungary	852,898	1,046,793
Euro Zone countries	19,672	24,594
- of which PIGS countries	*306*	*419*
European but Non-Euro Zone countries	3,038	22,175
Other regions	569	239
Total	**876,177**	**1,093,801**

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 companies 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)	2016	2015
Financial collateral	(13,358)	(22,923)
Guarantees	(57,118)	(24,365)
Total	**(70,476)**	**(47,288)**

(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)	2016	2015
Performing loans		
A – Excellent	35,194	13,642
B – Stable	107,843	137,834
C – Acceptable	358,817	436,653
D – High Risk	154,874	160,733
Other	31,433	32,163
Total performing loans	**688,161**	**781,025**
Non-performing loans		
Corporate loans	111,840	224,554
Retail loan	76,176	88,222
Total non-performing loans	**188,016**	**312,776**

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-	Less than B	Not rated	Total
2016	25,484	1,939	483,658	922	1,701	7,150	**520,854**
2015	39,271	2,791	172,228	260,980	1,199	2,916	**479,385**

(45) Risk management (continued)

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

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**

2015 (million HUF)	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loan	5,530	718	134	840	**7,222**
Retail loans	8,816	2,306	636	432	**12,190**
Total	**14,346**	**3,024**	**770**	**1,272**	**19,412**

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 2016 HUF 19,222 million and was HUF 19,347 million as at 31 December 2015.

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)	2016	2015
Doubtful loans	**29,064**	**49,732**
Individually assessed	3,563	18,783
Collectively assessed	25,501	30,949
Unlikely to pay loans	**60,695**	**100,281**
Individually assessed	46,470	82,978
Collectively assessed	14,225	17,303
Past due loans	**213**	**357**
Individually assessed	60	-
Collectively assessed	153	357
Total	**89,972**	**150,370**

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.

(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 CIB 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 (%)	2016	2015
31 December	32.9	30.1
Daily average during the period	21.1	24.2
Highest	32.9	30.1
Lowest	15.5	19.1

(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 2016 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.

(45) Risk management (continued)

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 – 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**

VaR – 2015 (million HUF)	Foreign ex-change	Interest rate	Equity	Correla-tion effect	Total
31 December	21	37	1	(21)	**38**
Daily average during the period	31	66	2	(27)	**72**
Highest	87	115	4	(84)	**122**
Lowest	5	28	1	(5)	**29**

(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.

(45) Risk management (continued)

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 2016. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2016 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 2016 and applying zero floor on interest rates for the year 2015.

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.

The following table indicates the changes at the end of 2016.

2016 (million HUF)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
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				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
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	(25)	4	0	0	1	11	12

2015 (million HUF)	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	200	(1,016)	(130)	71	55	(939)	**(943)**
EUR	100	(267)	(87)	122	241	(397)	**(121)**
USD	25	(6)	(1)	4	0	68	**71**
CHF	25	0	28	1	(1)	(1)	**27**
Other	25	(3)	0	0	0	1	**1**

(45) Risk management (continued)

2015 (million HUF)	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	(200)	681	90	(50)	(5)	1,313	**1,348**
EUR	(100)	0	(9)	21	(9)	381	**384**
USD	(25)	6	0	(4)	0	(77)	**(58)**
CHF	(25)	0	22	0	0	0	**22**
Other	(25)	3	0	0	0	(1)	**(1)**

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:

2016 (million HUF)	Foreign exchange risk – Non-trading Sensitivity of net income		
	EUR	CHF	Total
5% strengthening of currencies vs. HUF	590	(68)	**522**
5% weakening of currencies vs. HUF	(590)	68	**(522)**

2015 (million HUF)	Foreign exchange risk – Non-trading Sensitivity of net income		
	EUR	CHF	Total
5% strengthening of currencies vs. HUF	129	(11)	**118**
5% weakening of currencies vs. HUF	(129)	11	**(118)**

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 at 31 December 2016 and 2015 is as follows (currency equivalents in million HUF)

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**
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 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 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	***236,088***	***82,831***	***30***	***13,614***	***-***	***332,563***
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)

2015 (million HUF)	HUF	EUR	CHF	USD	Other	Total
Cash and current accounts with central bank	22,366	615	23	196	59	**23,259**
Due from banks	282,658	187,301	452	1,442	7,532	**479,385**
Financial assets at fair value through profit or loss	59,444	38	-	130	10	**59,622**
Loans and advances to customers	542,249	318,615	45,996	1,972	1,372	**910,204**
Financial investments – Available-for-sale	78,409	490	-	-	-	**78,899**
Non-current assets held for sale	858	3,166	-	-	-	**4,024**
Other assets	786	1,448	64	25	4	**2,327**
Total assets	**986,770**	**511,673**	**46,535**	**3,765**	**8,977**	**1,557,720**
Deposits from banks	105,760	46,505	72,201	412	151	**225,029**
Deposits from customers	892,833	222,024	5,274	44,315	15,260	**1,179,706**
Liabilities from issued securities	10,107	18,055	-	-	-	**28,162**
Other liabilities	4,558	283	104	160	-	**5,105**
Subordinated debt	-	56,421	-	-	-	**56,421**
Total liabilities	**1,013,258**	**343,288**	**77,579**	**44,887**	**15,411**	**1,494,423**
Net on-Statement of Financial Position	**(26,488)**	**168,385**	**(31,044)**	**(41,122)**	**(6,434)**	**63,297**
FX position of derivatives	**87,580**	**(163,374)**	**30,384**	**41,793**	**3,617**	
Off-balance	***219,266***	***63,314***	***31***	***18,428***	***-***	***301,039***
Guarantees	*18,192*	*12,252*	*-*	*2,218*	*-*	***32,662***
Letters of credit	*-*	*3,797*	*-*	*504*	*-*	***4,301***
Commitments	*201,074*	*47,265*	*31*	*15,706*	*-*	***264,076***

(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 CIB 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 CIB 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 CIB Group's operational risk exposure, both qualitative and quantitative tools are being applied.

One of the qualitative tools is the annual operational 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 2016, CIB Group detected and recorded in its internal loss database 640 operational risk events which caused HUF 1,271 million effective operational loss (excluding losses boundary with credit risk and specific provisions). In 2015, the corresponding numbers were 698 events with HUF 1,439 milllion loss. (Please note that the above disclosed losses do not contain the losses arising from the governmental actions driven settlement of bid-offer spreads and unilateral price increases of consumer loans and the associated operating expenses of the settlement process. According to the National Bank of Hungary, these losses shall be classified as operational risk losses however they are considered to be extraordinary and one-off and shall not be taken into account in the capital requirement.)

Since January 2008 both the Bank on a stand-alone basis and the CIB 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, CIB 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 2016 as well as in 2015.

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:

<u>Credit Risk</u>

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

<u>Operational Risk</u>

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.

<u>Market Risk</u>

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.

<u>Residual Risk</u>

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.

(46) Capital and capital management (continued)

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

Applied methodologies

The Group applies Standardized Methodologies (STA) for managing Credit risks Operational risks and Market risks under the above defined Pillar 1.

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 advanced methodology that is reviewed and improved periodically.

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, among other 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)	**2016**	**2015**
Share capital	50,000	50,000
Reserves	151,164	135,333
Current year's profit or (loss)	11,958	(40,224)
Total shareholder's equity	**213,122**	**145,109**
Deduction items		
Intangible assets	(8,178)	(7,727)
Tier 1 Capital	**204,944**	**137,382**
Subordinated capital	9,152	46,788
Revaluation reserve	(1,380)	(1,302)
Deductions from Tier 2 Capital	1,380	1,302
Tier 2 Capital	**9,152**	**46,788**
Total Capital	**214,096**	**184,170**
Risk weighted assets for Credit risks	801,665	917,591
Risk weighted assets for Market risks	35,889	18,982
Risk weighted assets for Operating risks	140,555	163,185
Credit Valuation Adjustment	5,059	996
Risk weighted assets	**983,168**	**1,100,754**
Tier 1 capital ratio	20.85%	12.48%
Total capital ratio	21.78%	16.73%

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

SREP requirements for 2016 are already available, and the Group meets the relating requirements according to the expectations.

CIB BANK Ltd.
and its subsidiaries

BUSINESS AND MANAGEMENT REPORT
for 31 December 2016

based on the consolidated, audited
IFRS annual financial statements

I. Business environment

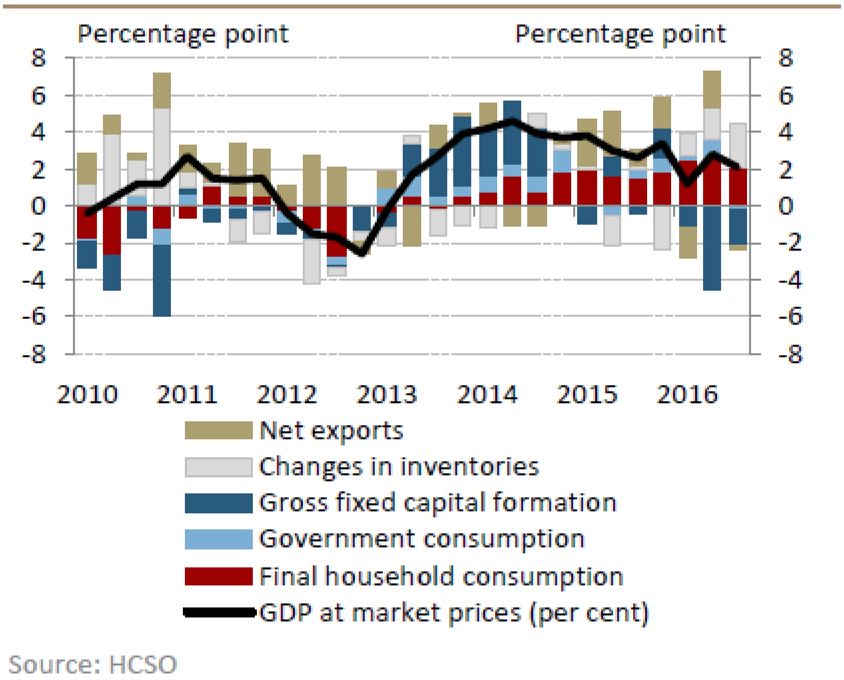
Macro and microeconomic environment

1. GDP

The Hungarian economic growth gained momentum to reach the fastest annual speed since the crisis in 2014 (3.7%). GDP growth started to slow down already from H2 2014. This was followed by further slowdown in 2015 (2.9%) and Q1 2016. In 2016 the economy's performance was fluctuating without a clear trend, but heading towards a weaker annual average growth rate compared to 2015. The actual (preliminary Central Statistical Office-release) 2.0% growth rate matched the consensus expectation.

The weaker performance reflected lower-than-expected industrial growth rate and the drop of EU funds (with the latter contributing to weak investment performance). Construction started to get lifted from multi-year lowes in 2016, but has remained generally weak as the ending of works financed by EU funds have not yet been compensated by private investments. Hence construction industry remained a drag in terms of GDP growth. At the same time agriculture contributed positively to the economic growth. From the absorption side domestic demand was boosted by rising real wages and delivered positive contribution through the improving service sector, but this was insufficient to maintain overall economic growth levels seen in 2015.

The fall of growth rate in the Hungarian economy is expected to stop in 2017, primarily on the back of further rising wages and the related boost of domestic demand. Consensus expectations for 2017 growth suggests an acceleration to 2.8-3.2%. The Central Bank (National Bank of Hungary, MNB) projects 3.6%.



Data source: NBH, Central Statistical Office (CSO)

2. Budget and external balance

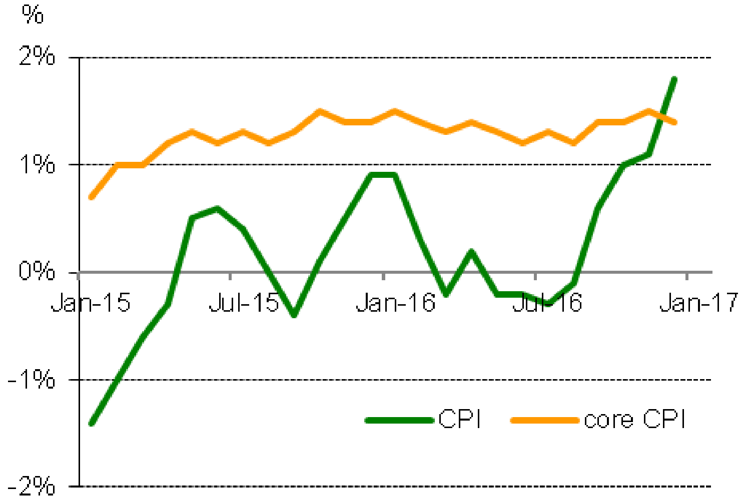
During most of 2016 the outperformance of the government's fiscal plans continued. Although the budget overrun in terms of the cash-based balance (resulting from hitches in EU financing in Q4 2015) had prolonged effects at the beginning of 2016, the fiscal performance was significantly boosted by stronger tax proceeds during most of 2016, partly supported by administrative changes. As the the Q1-Q3 fiscal position came clearly better-than-expected, the government reduced the full-year deficit target (of the ESA balance) from 2% to 1.7% of GDP. In Q3-Q4, the fiscal situation looked even better, with prospects for a balanced budget. The cumulated January-November balance even showed some (cashed-based) surplus. However, the government decided to execute significant spending measures in December, which amounted to around 2% of GDP. Hence, the actual ESA deficit will be closer to the original target, ending a trend of improving annual fiscal balances of the past years. At the same time the budget plan and its execution remained significantly affected by special sectoral crisis taxes including the bank tax.

External balance indicators showed a continued favourable development in 2016 (similar to 2015 and the preceding years), partly in tandem with the limited import impact of rising domestic demand (both from the state sector and from households) and also given the relatively strong export performance of the car industry. The current account balance in Q1-Q3 came at a surplus of EUR 4.2 bn in 2016, close to the full-year balance of 2015, suggesting a new historical record for 2016. Following already six full year surpluses in the time series between 2010 and 2015. The strong current account was primarily a result of the trade balance which showed a positive balance close to EUR 10 bn in 2016 (also a likely historical peak). These developments also indicated an ongoing improvement in the country's net financing capacity. External balances are set to remain positive in 2017.

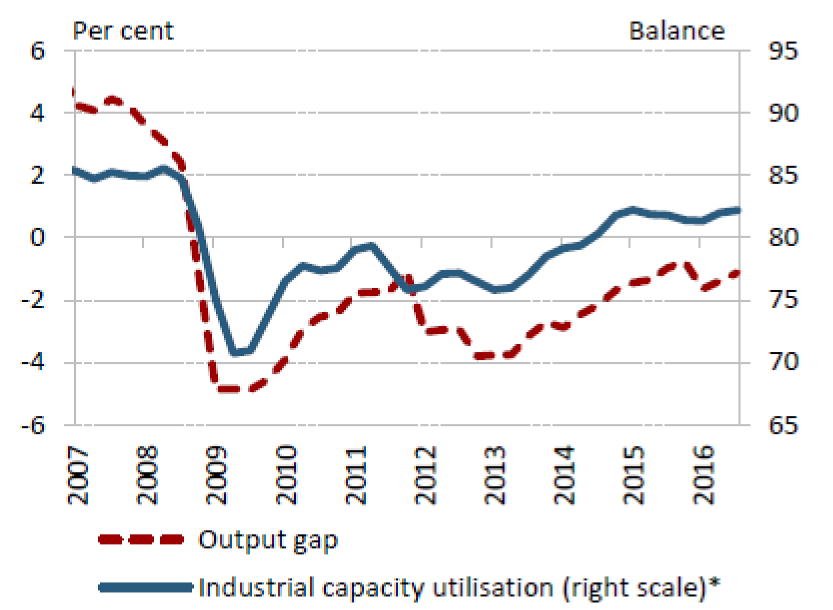
3. Inflation

Inflation as measured by average CPI was 0.4% in 2016, following two consecutive years posting negative annual average inflation. Despite inflation being in negative territory in three out six months in the first half of this year deflation had not been a real threat in the Hungarian economy. This is because the downward shift was not widespread in several price categories and it was not driven by a weakness of the demand side. Also, core inflation was hovering in positive territory (above 1% since February 2015) eventually hitting an annual average of 1.4% in 2016. Price movements were no longer significantly influenced by cuts in administrative prices in the last twelve months. In addition, lower fuel prices supported low domestic inflation only up to the autumn, when the OPEC agreement (and preceding expectations) eventually contributed to a halt in the downward trend. Nevertheless, the lack of imported inflationary pressures kept contributing to the low levels of headline CPI. Regarding the monthly year/year figures, headline inflation hit the lowest levels of the year in July (-0.3%) and climbed to a three-year peak in the autumn. The annual peak was hit in December (+1.8%). Despite the expected rise, inflation is set to remain below the central bank's unchanged target level of 3% even throughout most of 2017. The Central Bank projects an annual average CPI of 2.4% for 2017 and 3.0% for 2018.

INFLATION AND CORE INFLATION



INDICATORS OF OUTPUT GAP



Note: *Trend.

Source: MNB estimation, ESI survey

Data source: NBH

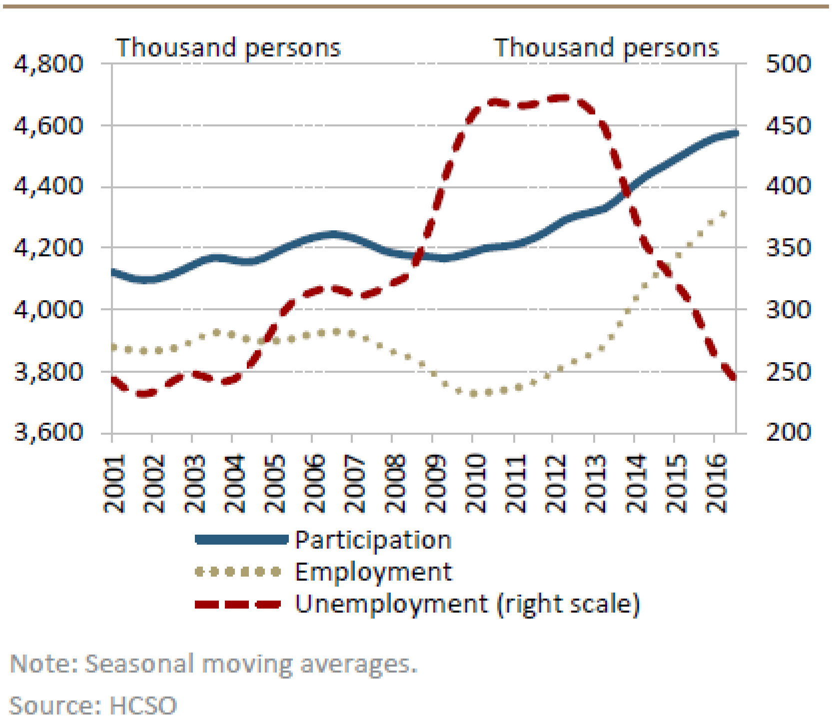
4. Labour market

Following the re-establishment of the decreasing trend of the unemployment rate at the end of 2015, the rate dived further to sub-6% levels in H1 2016 and even to below 5% in H2 2016. At the same time the number of the employed rose further in territories above 4 million and exceeded 4.4 million in the September-November period of 2016.

Such drop in unemployment (essentially since 2013) 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. Overall the labour market may still be considered as slack, though to a lesser extent than previously. Also, structural inequilibrium has been on the rise, with reports of labour shortages in several areas of the economy in throughout 2016. In addition to the state programme, labour market processes are still affected by earlier changes in pension rules and the introduction of stricter rules of unemployment benefits.

In the January-October period of 2016 gross wages rose by 6.0% compared to the same period of the preceding year. There was also a trend of growth regarding real wages in tandem with the essentially non-existent inflation in most of 2016.

LABOUR MARKET



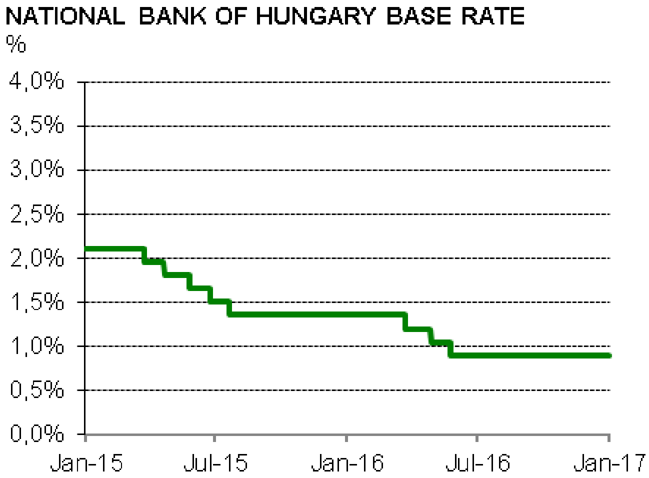
Data source: NBH, CSO

5. Monetary policy

The Central Bank's main policy rate was unchanged for a period of nearly three quarters (1.35%) up to March 2016, when the easing cycle was revived for the second time. The latest cycle comprised of only three cuts to 0.90% in May, when the end of the rate-cut cycle was declared again. However, the Monetary Council hinted that (new or revived) unconventional measures may be delivered later in 2016.

Low inflation (well below the MNB target), ongoing supportive inflation outlook and the relative resilience of local markets despite the swings in global sentiment and the ongoing QE (quantitative easing) programme by the European Central Bank (ECB) supported the maintainance of 1% base rate level and the extension of the series of unconventional easing measures.

The latest move in extending the package of existing non-conventional measures was the 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 are effective from August (fewer 3M auctions) and from October (cap on the amount of 3M deposit available).



Data source: NBH

The ECB's QE provided support to the Hungarian unit during most of 2016, and this support continued to augment the domestic fundamental support coming from the massive external (trade and current account) surplus. With this background even with the relatively low interest rate premium the Hungarian Forint's vulnerability to external shocks was limited in 2016, especially given earlier measures of eliminating most CHF-risk in 2014 and boosting the self-financing programme in 2015 and further in 2016.

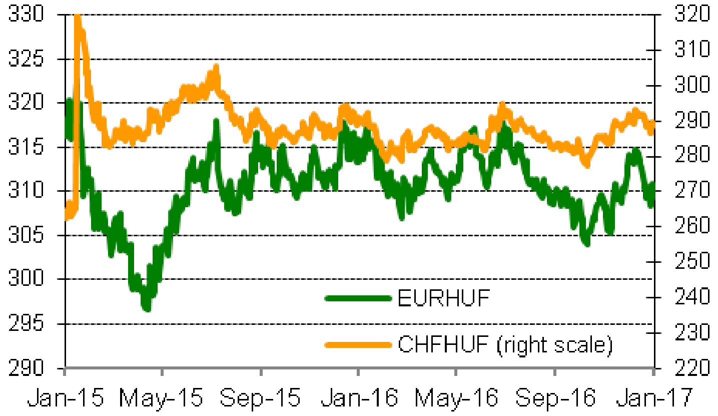
Still, pending geopolitical risks and a rising wave of global risk aversion (partly in connection with Brexit-related fears and uncertainties related to the Fed's move and to the new US economic policy after the presidential election) temporarily intensified the pressure on the Hungarian unit. Following a brief surge to below EUR/HUF 310 in February 2016, the Forint entered into a weakening wave from March through the end of H1, with EUR/HUF up to 316-318. The expected risk of the Fed's forthcoming tightening cycle was dampened by the ongoing shifts in expectations about the start of the cycle and by the expected slow momentum of the tighteneing cycle that kicked off in December 2015 and moved forward with a second hike in December 2016.

Amid these circumstances the EUR/HUF exchange rate entered into a wave of Forint appreciation in July-September and showed a negative correction during most of Q4. However, as measured by the difference between the 2015 year-end levels and levels at the end of 2016, the Forint showed more than 1.5% appreciation versus the euro. The average EUR/HUF exchange rate level was 311.4 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 billion by the end of 2016, down from above HUF 3,800 one year before. This shift was compensated by demand from households and the local banking sector.

Regarding the performance of the CHF/HUF cross exchange rate, it followed a mostly similar pattern as the EUR/HUF rate in terms of changes and directions during most of 2016. This was the result of the relative stability of the EUR/CHF rate that was only moderately influenced by central bank interventions since the decision of the Swiss Central Bank to abandon the 1.20 EUR/CHF limit in January 2015. An exception (deviation from EUR/HUF) was seen in Q4 2016, in tandem with the revived appreciation of the Swiss Franc versus the Euro. The CHF/HUF rate fluctuated mostly in the range of 280-295 in 2016. The average CHF/HUF level was 286 last year. With the FX-mortgage conversion in 2015 the exposure of the Hungary economy and markets to swings in the CHF/HUF rate had been massively reduced.

EUR/HUF, CHF/HUF DEVELOPMENT



Data source: Bloomberg

6. Banking Environment

The recovery of the Hungarian banking sector continued in 2016. Customer loan volume started to grow, while the liquidity and capital position of the banks is solid. However the banking sector still faces significant challenges, such as:

- restoring market-based corporate lending,
- resolving the non-performing portfolio,
- improvement in profitability.

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. Funds with favourable conditions remained available for SMEs in a more targeted form and lower volume in 2016, during the phase-out stage of the FGS. In addition to FGS, the instruments of the Growth Supporting Programme (GSP) may potentially result in a total of HUF 250-400 billion increase in corporate loans outstanding.

The share of non-performing loans in household mortgage and commercial real estate portfolios is still high. In relation to the quality of the corporate portfolio, nonperforming project loans continued to be the problem; the activities of MARK may help to resolve this problem in 2017. Several important steps have been taken already, and as a result, a debt manager functioning on a market basis and setting a European precedent.

Profitability of the banking sector returned to the positive territory in 2015, while 2016 was an extraordinary year due to the reversal of unnecessary loan impairments. Lower fiscal burdens (especially the decrease of the banking sector tax), expanding lending activity and improving cost efficiency could increase the profitability of the sector further in 2017.

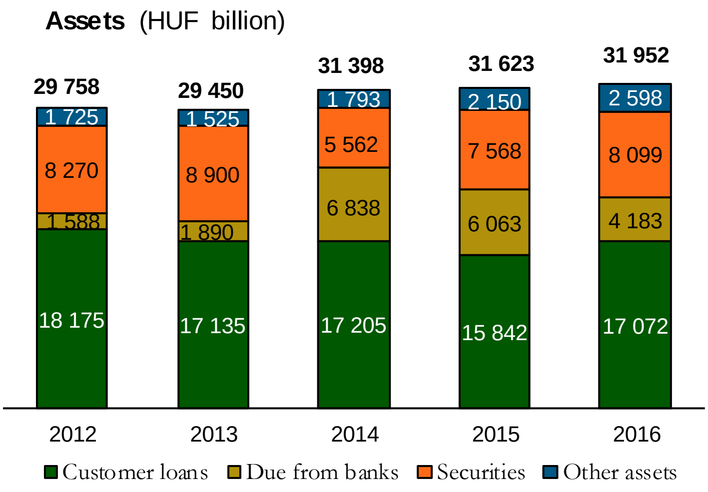
Total assets and liabilities

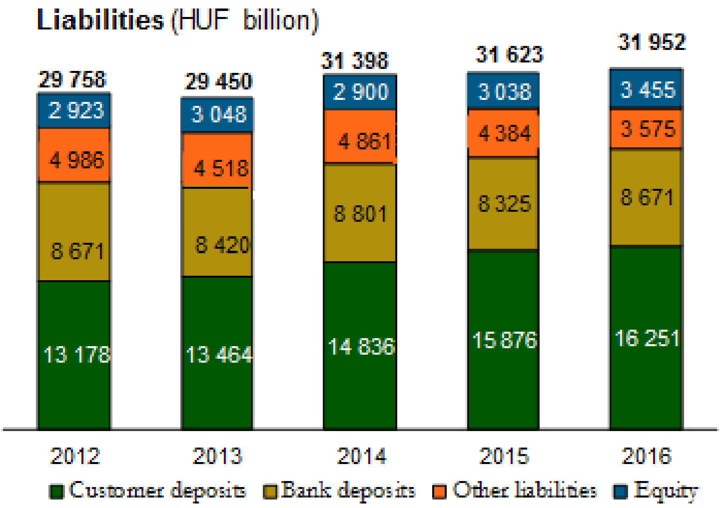
Based on the most recent available figures (as of November, 2016) the banking sector’s overall total assets increased by 1.0% and amounted to HUF 31,952 billion.

The gross loan portfolio increased by 7.8% (HUF 17,072 billion) compared to December 2015 (+7.6% excluding the foreign exchange effect). The lending capacity of Hungarian banks remained under pressure also because of low profitability.

Loans to households decreased continuously during the year by -3.8% as new disbursement is lower than the maturing volumes. Demand for new loans was at very low level during the recent years, however from 2015 tendency turned into increase again. There was 36.8% increase in retail new disbursements as of November 2016 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 34.7% as of November 2016.

The volume of deposits from customers increased by 2.4% compared to the end of 2015, amounted to HUF 16,251 billion at the end of November 2016. Retail deposits slightly increased (2.8%), while corporate deposit increased by 4.1% compared to December 2015. At the same time the net asset value of investment funds totaled to HUF 5,532 billion at the end of November 2016. While government bond portfolio of consumer customers increased by 27.0% as of October 2016 compared to 2015 December.

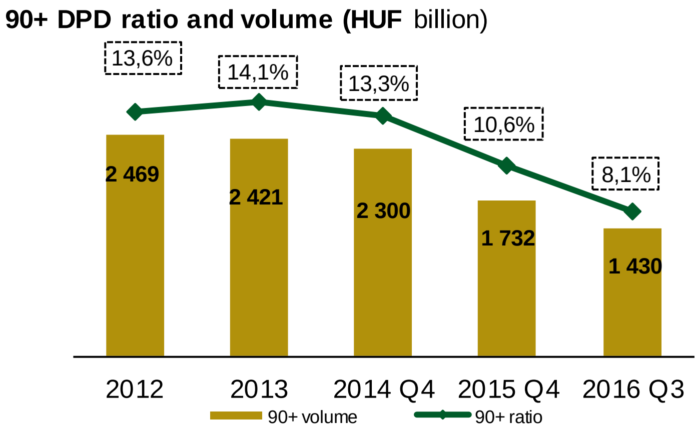


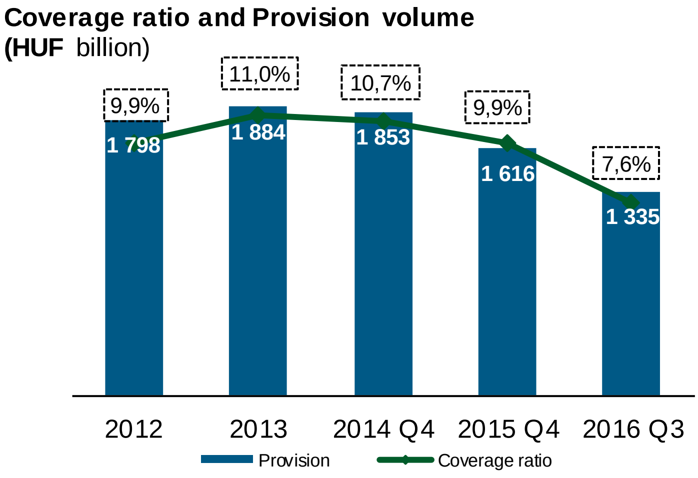


Data source: NBH, HAS

Credit quality

90+ past due loan ratio (non-performing loans) decreased to under 10%, and it was 8.1% as of September 2016. The coverage ratio (Loan loss provisions / Total loan volume) decreased by 2.3% points (7.6%). Volume of corporate loans with more than 90 days past due within total loan showed a significant decrease of 2.7% points and the 90+ ratio was 7.6% at the end of September 2016. The retail segment's portfolio quality has improved significantly in 2016 and 90+ ratio amounted to 15.8% as of September 2016, which is 1.9% point improvement compared to the 2015 year-end.



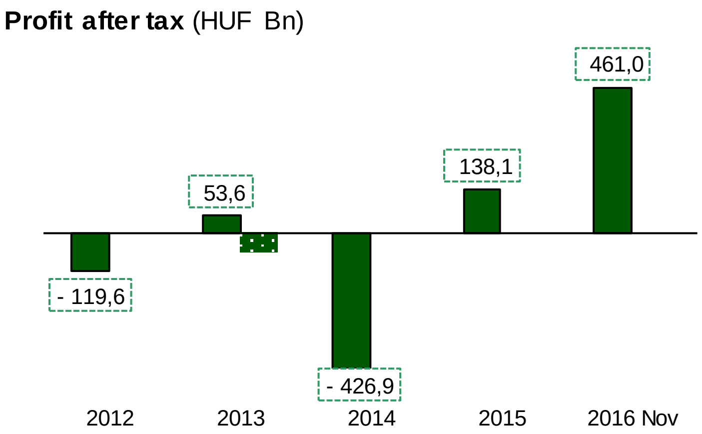


Data source: HFSA; HAS, Q4 2016 data is not available

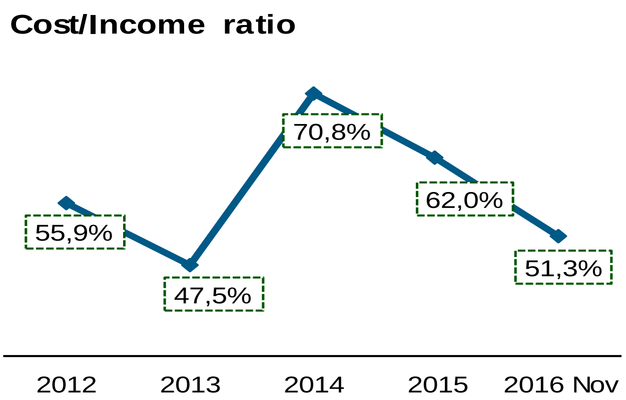
Profitability

The profitability of the banking sector increased as of November 2016 compared to the same period of last year, mainly due to the significant increase in Net operating margin which was enhanced the slightly lower Operating Cost and lower provision release. The banking sector's profit after tax under local GAAP totaled to HUF 461 billion as of November 2016. Net Interest Income increased by 5.8%, Net Commission income increased by 0.6%, Profit from Trading Activities increased by 4.4% and Other Income / Expense improved by 41.2% compared to the same period last year. The cost / income ratio was 51.3% at the end of November 2016.

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, furthermore the tax base will change from the adjusted total assets of year-end 2009 to the adjusted total assets of year-end 2015.



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



Data source: NBH, HAS

Liquidity and Capital

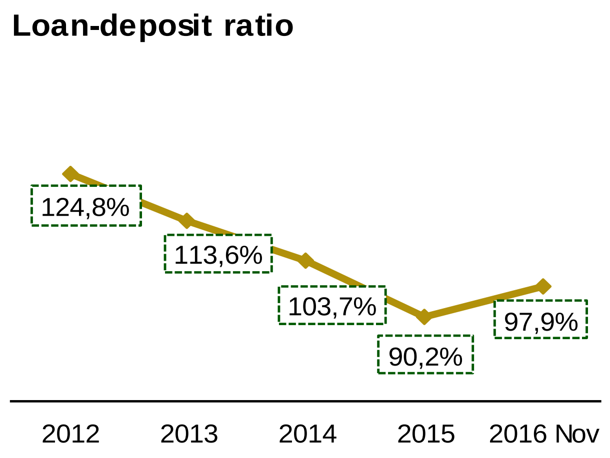
The amount of liquid assets (securities and interbank receivables) decreased by HUF 1,349 billion (-9.9%) while the sector's loan to deposit ratio (net customer loan / customer deposits) increased by 7.7% points (97.9% as of November 2016) due to the growth in the customer loans portfolio and lower increasing customer deposits.

The new liquidity measures were introduced by the Hungarian National Bank with the effect of October 2015, such as the Liquidity Coverage Ratio (LCR) limit increased up to 100% starting from April 2016, and more strict FFAR (DMM) ratio with a new limit of 100% from 2016 also facilitated improving liquidity.

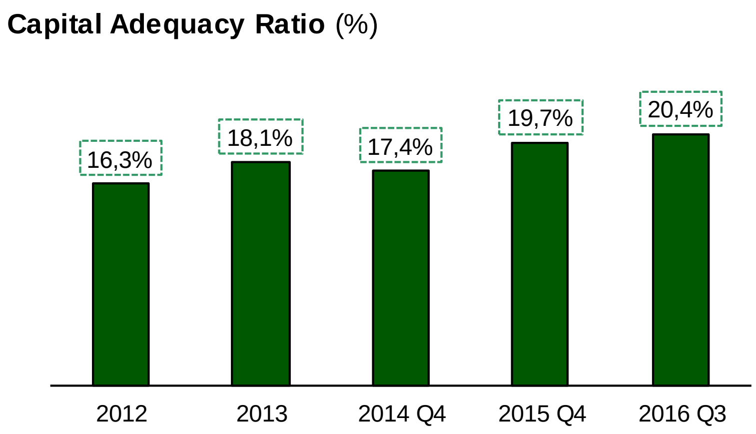
The capital position of the banking sector is adequate, the Capital Adequacy Ratio (CAR) was 20.4% as of September 2016 (includes Co-operative credit institutions).

In line with the ECB directives and due to the introduced new buffers the capital requirements will continuously increase from 2016. **Capital conservation buffer** was implemented from 2016 at a rate of 0.625% (increasing every year up to 2.5%). The Central Bank introduces the **Systemic Risk Buffer**

from January 2017 (0 to 2%) and it will be linked to the problematic non performing projectfinance portfolios and repossessed real estates. **Other Systemically Important Institution** (O-SII) buffer will be introduced from January 2017 with a maximum up to 2%. NBH identified 9 banks in Hungary as systemically important. Three groups were formed with a buffer of 0.5%, 1% and 2% and CIB Group is expected to meet the 0.5% buffer.
The **Counter Cyclical** conservation buffer can be introduced by NBH later based on various cyclical and vulnaerability indicator will be set in the future, which is currently set at 0%.



Data source: NBH, Hungarian Accounting Standards (HAS)



Data source: NBH, Banking sector incl. 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 that has been reconfirmed for the next years in 2015 again also in face new competitive and regulatory environment following the recent legislative measure in favour of the consumer clients: over the medium term, the Bank is focusing on growth in strategically important segments and products, while maintaining its market position in areas where growth itself is not the primary target. The most important objective of the strategy is to ensure that the Bank returns and continues to operate profitably by applying its efficient and effective operating model.

The strategic objectives of the plan are:

- to deliver excellent client service to ensure the Bank becomes the primary financial service provider for its customers;
- to ensure a sustainable and gradual return to profitability
- to enhance innovation in order to simplify everyday banking, enrich the customer experience and improve internal efficiency
- to wind down value eroding assets and business.

CIB is placing 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 key 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 and developing commercial channels through which can increase the number of loan placements. As regards saving products: there is a potential growth in investment funds and 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 preserving its position. Among other things, worth to mention is its activity in supporting its customers to apply for the 3rd phase of Funding for Growth program of the Hungarian National Bank and for EU funds. 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 - already among the market leaders - are examples of the enriched product catalogue offering and in addition the scope of cooperation with institutional guarantors is going to broaden. Beside these over the coming years it will make even better use of the synergies inherent in its relationship with its parent company, Intesa Sanpaolo, in order to help strengthen its presence in the multinational corporate sector.

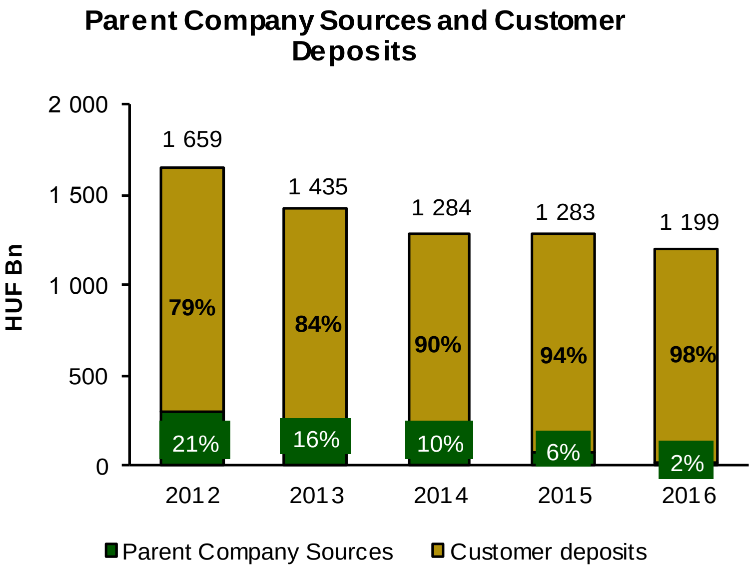
At the focus of CIB's business objectives are the areas that have long-term profit potential, and therefore the Bank will continue to manage separately its customers who have loan products that it no longer wishes to keep in its portfolio.

III. Strengths and potential risks of CIB Group

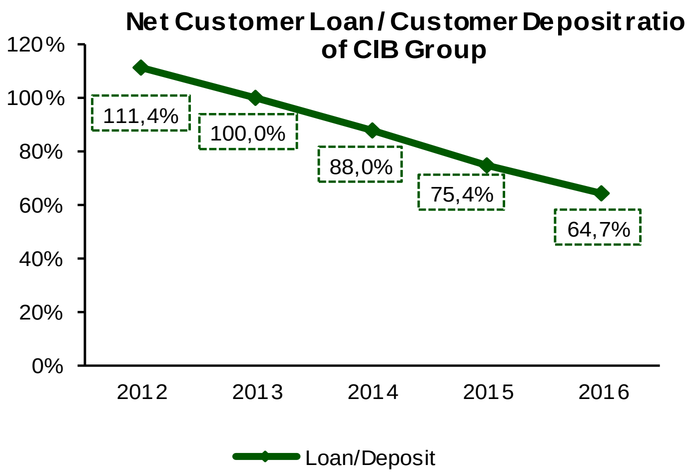
Main strengths

1. Solid liquidity position

CIB Group has a strong liquidity position, thanks to the solid customer deposit portfolio. The high degree dependency on Intesa Sanpaolo has begun to decrease over the past years as CIB has focused hard on enhancing its self funding capacity. As a consequence the share of Intesa Sanpaolo funding within the total deposit fell from 21% as of December 2012 to 2% as of December 2016. Efforts in the previous years to increase the customer deposit base and the deleveraging have improved the loan to deposit ratio of the CIB Group from 111.4 % in December 2012 to 64.7% in Decenber 2016.



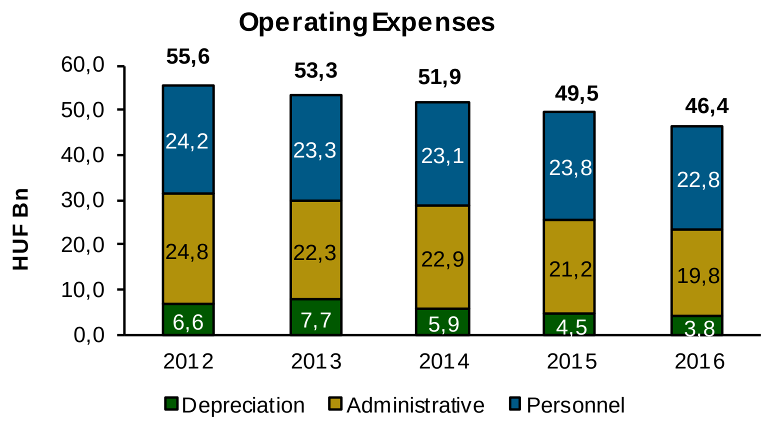
Data source: CIB Group, IFRS



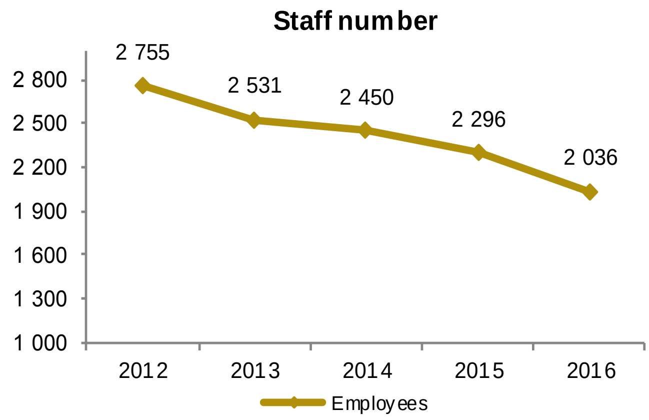
Data source: CIB Group, IFRS

2. Cost efficiency

The Group has initiated and begun the execution of a wide-ranging cost management program that resulted 26.1% decrease in staff number compared to 2012 (-11.3% compared to Dec 2015). Operating expenses are kept under strict control and declined continuously, despite the additional recovery unit expenses which were necessary to improve overall recovery rate on NPLs.



Data source: CIB Group, IFRS (excluding bank tax and transaction duty)

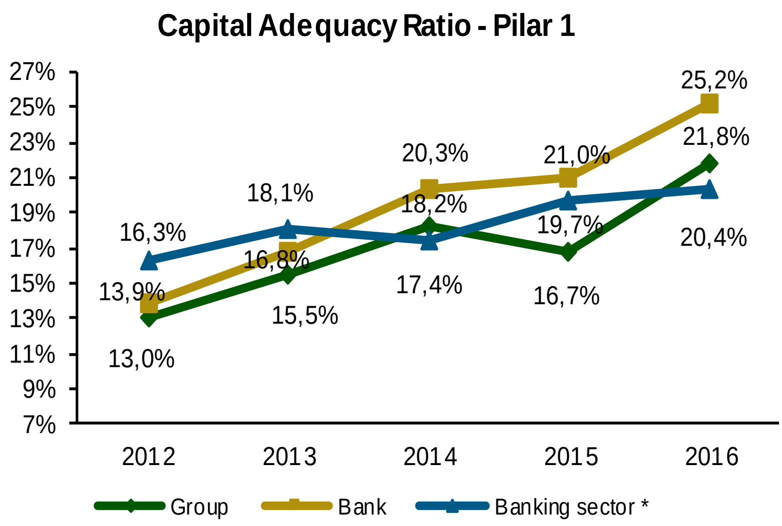


Data source: CIB Group, IFRS

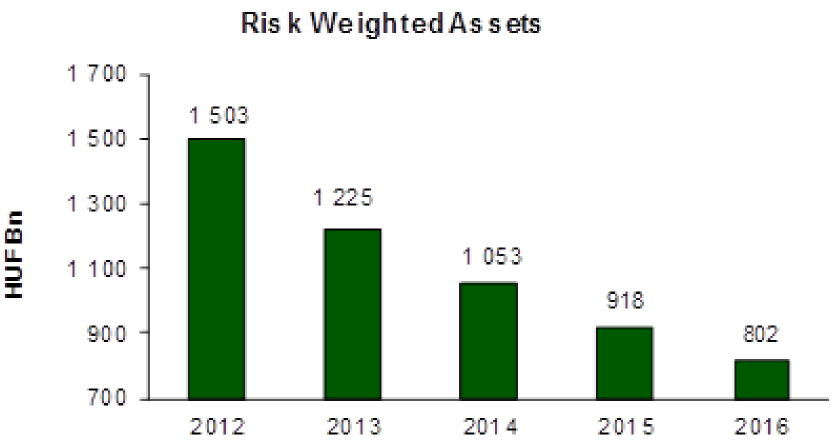
3. Capital adequacy

CIB Group has a solid capital position, the capital adequacy ratio of CIB Group under Pilar 1 totaled 21.78% in 2016. From 2014 the Group applies new Basel III. (CRR) regulations for capital adequacy calculation. Capital adequacy of the Group is based on IFRS consolidated figures.

The capital adequacy ratio of the Bank was 25.18% under Pilar 1 in 2016.



Data source: NBH, CIB Group, 2012-2013 HAS, 2014-2016 IFRS. Solvency capital / Risk Weighted Assets



Data source: CIB Group, 2012-2013 HAS; 2014-2016 IFRS

4. Strong market position

CIB Group has a solid client base across the country in all market segments including retail, local corporate, SME and micro businesses through its banking and leasing network.

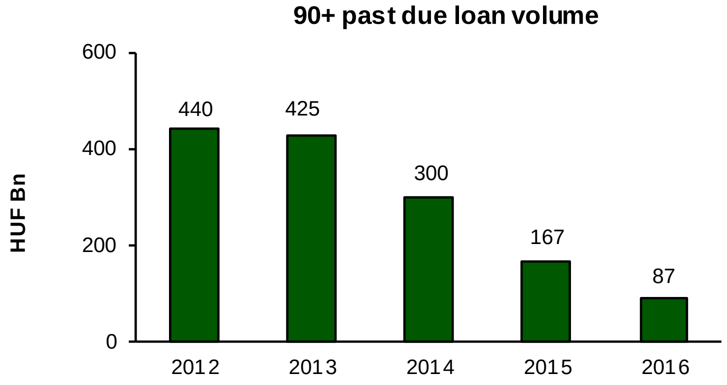
The customer base of the Group totaled to 438 thousand customers by the end of December 2016. The market share of CIB on the customer loans market was 5.7% (November 2016), and had 6.7% share on the customer deposit market.

The Group is one of the largest players in corporate lending where it had 7.1% market share according to the latest available data (November 2016).

Potential risks

1. Credit risk

The effects of the last years unfavorable economic environment have negatively impacted asset quality across all segments – and the related cost of risk. The Group applied prudent provisioning policy, which resulted in significant losses during the previous years. Thanks to portfolio cleaning efforts the credit quality of the portfolio started to improve in late 2014 and the positive tendency continued in 2015 and in 2016 too, which is reflected in declining NPL volumes and improving cost of risk.



Data source: CIB Group, IFRS

2. Interest income and expenses

Low demand for new financing over the past years caused the continuous erosion of the Group's customer loan portfolio, while the fair bank law had a negative impact on consumer loan spreads. This together with high proportion of Non Performing Loans resulted in a drop of interest income. On the liabilities side the spread on deposits decreased continuously due to the low interest rate environment.

3. Economic growth

GDP growth rate in 2016 was 2.0% year/year, worse than the previous quarter (2.9% year/year), mainly due to weaker industrial performance. GDP growth is still fragile and uneven, any negative development in the automotive sector or in EU funds could turn the economy into recession. In addition slowing down of China and the uncertainty caused by Brexit might have a negative impact on Hungarian economy.

IV. Outlook for the Bank Group

1. Sector profitability remains weak

The conversion of foreign currency loans into HUF coupled with the fair banking act keep loan spreads under pressure for a long time. In addition volume of non-performing loans will remain high in the near future, which significantly affects the profitability of the banking sector including CIB through possible further impairments, lower income generation and costs of recovery activities.

On the liabilities side the persisting very low interest rate environment erode the margin on customer deposits.

2. Slow recovery in banking sector

Although the Hungarian economy will continue to grow by around 3% in 2017, and the demand for new loans shows signs of improvement both on the corporate and on the retail market, the volume of customer loans is expected to stagnate next year, as new loan volume cannot compensate the amortization of the existing exposures and NPL portfolio cleaning. The residential real estate market shows signs of recovery, thanks to government support, but is still very far from the pre-crisis level. The commercial real-estate market still suffers from the excess capacities that were built in the pre-crisis years, which makes the banks remain cautious in financing new real estate projects.

3. Credit quality improvement

As a result of continuous portfolio cleaning efforts the NPL portfolio of the sector and of CIB representing declining tendency. However, the high ratio of distressed household mortgage loans continues to be a significant risk in the financial system. The expansion of National Asset Management Agency for mortgage loans and the recovering residential real estate market may help mitigate this risk by facilitating the resolution of the non-performing portfolio. Corporate portfolio cleaning and the wind down of NPL portfolio will keep going and it supported by the foundation of the MARK Zrt.

V. 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 1,630 billion (-2.7% compared to December 2015) as of December 2016. The lower balance was primarily a consequence of the light shrinking customer loan portfolio.

Customer Loans

At the end of December, 2016 CIB Group's consolidated gross loan portfolio was HUF 876 billion (-19.9%). Within the total portfolio the proportion of consumer loans (mortgage, car financing and others) increased to 37.6% (+5.8%) by the end of December, 2016 as a result of growing new loan demand in this segment, while real estate financing accounted for 25.1% (-3.3%) of the portfolio. The share of large corporate loans decreased by 5.0%, while that of SME and Small Business financing improved by 170 bps and 83 bps respectively, which shows that the loan poftfolio became less concentrated during the current period. Demand for new financing increased compared to the same period of 2015, especially in the retail unsecured market, where new disbursements rose by 65%.

Loan portfolio quality

The credit quality of CIB Group's loan portfolio improved in 2016, and the share of 90 days past due loans decreased to 9.4% (-5.9%) thanks to limited new inflow and portfolio cleaning activities. The improvement is connected mainly to corporate customers (-7.7%), but there was some improvement in retail as well (-3.2%). In case of corporate real estate finance, portfolio quality improved significantly, and the share of 90 days past due portfolio was 9.0% (-13.3%) by the end of December 2016. Improving portfolio quality also reflected in the reversal of HUF 2.7 bn loan impairment over the year.

Securities

The Group held securities portfolio of HUF 241.2 billion by December, 2016 (+74.2%) of which trading portfolio amounted to HUF 38.5 billion; available for sale portfolio reached HUF 202.7 billion, while there were no held to maturity investments. The majority of the security portfolio (99.3% of total securities held) consisted of government bonds.

Repossessed properties, Tangible and Intangible Assets

Net book value of fixed and intangible assets reached HUF 69.8 billion (-25.2% compared to December 2015) out of which the net book value of repossessed real estates was HUF 47.7 billion.

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 535.9 billion (+6.6%) by the end of December, of which 54.1% was placed within Intesa Sanpaolo Group.

Liabilities

Customer Deposits

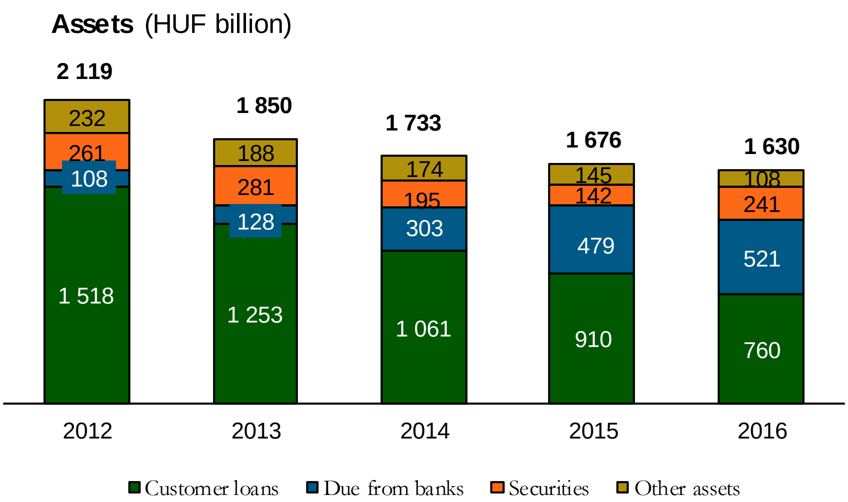
Total customer deposits, including issued bonds, amounted to HUF 1,173.9 billion (-2.8%) by the end of 2016. Investment fund deposits continued to increase during the year, while retail deposits decreased slightly, due to competition of government bonds and investment funds.

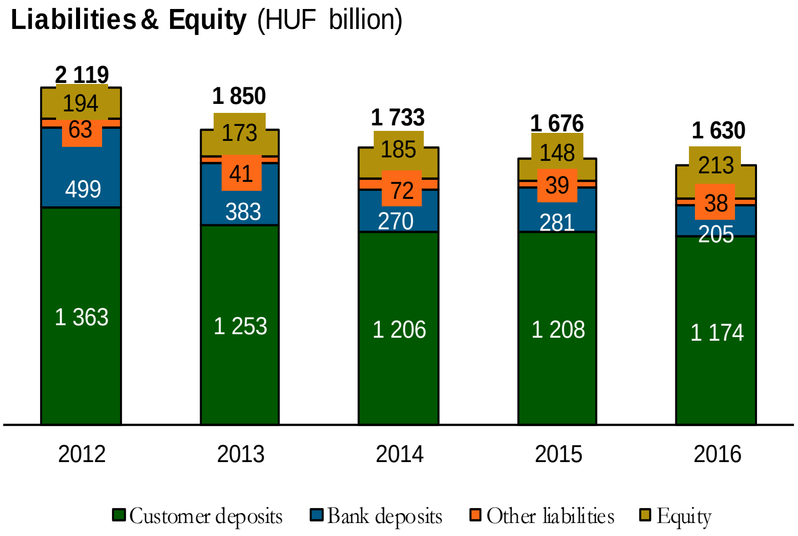
Deposit from banks

Interbank funds – including subordinated deposits – totaled to HUF 205.1 billion (-27.1%) as of December, 2016. Part of the funds came from the Group's parent company, accounting for 12.3% 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 213.1 billion (+44.1%), the reason for the increase were on the one hand the subordinated loan conversion (HUF 46.2 bn) and issue of shares (HUF 9 bn), and on the other hand the HUF 11.9 bn profit in the current year.





Data source: CIB Group, IFRS

Profit and loss

The Group closed the year with a profit of HUF 11.9 billion. The positive and sustainable tendency on profitability continued during 2016.

Revenues

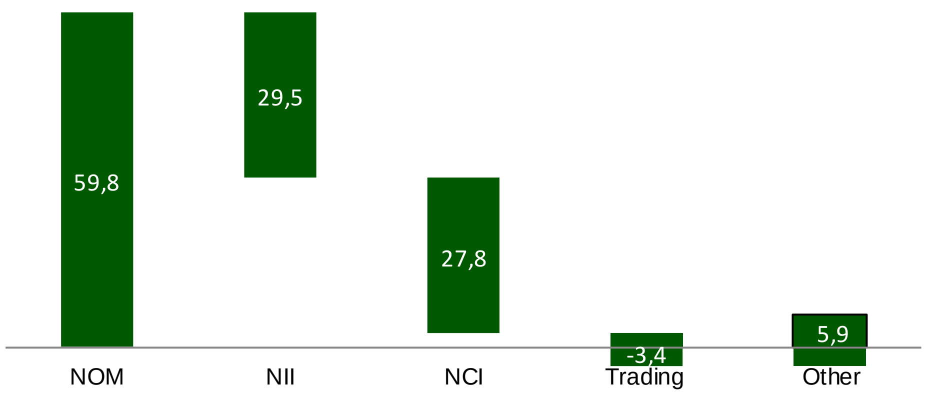
Total revenue of CIB Group amounted to HUF 69.3 billion (+15.8% compared to 2015), out of which Net Interest Income was HUF 26.1 billion (-11.7%). Net Commission Income was HUF 27.9 billion (+0.5%), while Trading Income totalled to HUF 9.8 billion (+388.4%), Other operating income reached HUF 5.5 bn (-6.7%).

Net interest income was lower than in 2015, due to the negative impact of the decrease in customer loan volume (HUF -1.4 bn), partly as a result of government measures connected to consumer loans. In addition, deposit spreads were under pressure, because of the base rate cuts of the central bank (HUF -1.4 bn).

Net commission income increased slightly, thanks to higher fee received for government bond and investment fund sales.

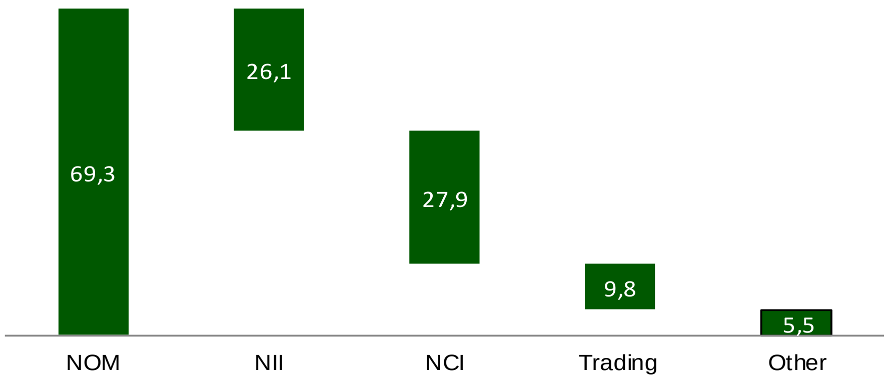
Better trading income was the consequence of higher income on derivatives, thanks to favourable change in market conditions.

Breakdown of revenues - 2015



Relative weight 49.3% 46.5% -5.7% 9.9%

Breakdown of revenues - 2016

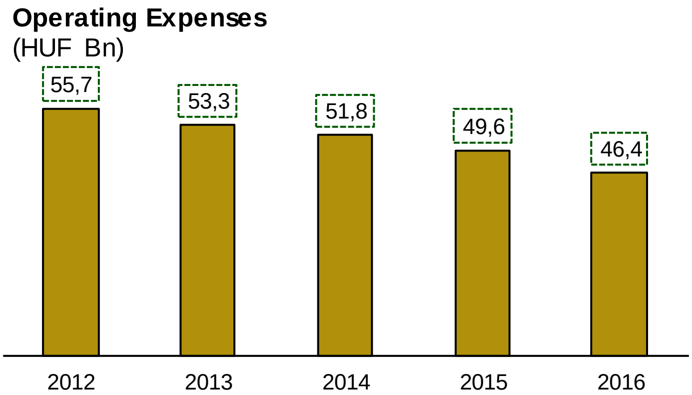


Relative weight 37.7% 40.3% 14.1% 7.9%

Data source: CIB Group, IFRS

Operating Expenses

Total operating expenses decreased by 6.5 % compared to 2015 and amounted to HUF 46.4 billion without the bank tax and transaction duty. Both personnel expenses as well as the bank's other administrative expenses reflected in cost savings.



Data source: CIB Group, IFRS

Banking Sector Taxes and Duties

Total extraordinary bank tax of the Group as of December 2016 amounted to HUF 4.9 billion. Transactional Duty expense for the year reached HUF 10.2 billion.

Allowances and impairments

The cumulated amount of new allowances, impairments and provisions showed a reversal of HUF 1.6 billion, an improvement of HUF 32.9 billion compared to 2015. Out of the total, loan impairment reversal amounted to HUF 2.7 bn (HUF 32.8 billion better than in 2015). The positive result was mainly the effect of lower impairment need of the corporate (especially real-estate project finance) portfolio.

Provision for future expenses amounted to HUF -1.8 bn (HUF 0.2 bn better than in 2015), which includes the expected loss of a legal case.

VI. Operations of the subsidiaries in 2016 [(1)]

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

(number of companies)	2016	2015
Companies for providing services and products to Group's customers	5	5
Companies responsible for the management of repossessed assets	1	3
Companies under unwinding procedure	3	0
Total	**9**	**8**

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. The operation of the company was significantly affected by the performance of the Leasing market. New volume on the market increased by 0.5% compared to 2015 and reached HUF 519 billion during the year. With a market share of 4.3% (as of December 2016) CIB Leasing subsidiaries were one of the key players on the market. The total assets of the company in December 2016 were HUF 105.1 billion. Net results for year 2016 was HUF 1.2 billion gain.

- **CIB Rent Zrt.**

The company is specialized in operative leasing transactions. The total assets of the company at the end of 2016 were HUF 1.5 billion, while profit after tax reached HUF 0.38 billion.

- **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 2016 total assets of CIB Real Estate Leasing Zrt. amounted to HUF 4.4 billion, while its net result was a profit of HUF 0.26 billion.

- **CIB Insurance Broker Kft.**

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2016 total assets of CIB Insurance Broker Kft. amounted to HUF 0.5 billion, while its profit after tax was HUF 0.27 billion.

- **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. At the end of 2016 total assets of the company reached HUF 18.0 billion, while profit after tax amounted to HUF 0.39 billion. CIB Factor merged into the Bank as of 1. January 2017.

(1) Financial Statements data are prepared in accordance with Hungarian Accounting Law

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 61.6 billion. Due to financing cost of the real estate portfolio and because of some impairment connected to the previously repossessed real estates, the company closed the year with a loss of HUF 5.7 billion.

Companies under unwinding procedure

- **CIB Car Kft.**

The company was founded in year 2006, to deal with vehicle trading. Total assets at the end of 2016 were HUF 30.7 million, while the annual result was a profit of HUF 6.7 million. Winding up procedure of CIB Car closed as of 31 December 2016.

- **Brivon Hungary Zrt.**

Brivon Hungary Ltd. was established in 2009 as an SPV, who holds a significant share in a residential project as the only asset. Total assets of the company were HUF 3.6 billion, while net result for 2016 amounted to HUF 35,6 million loss. Winding up procedure of Brivon started as of 1 January 2016.

- **CIB Property Management Zrt.**

The company was established in 2016 to own and manage operational and repossessed real estates of CIB Group, however no properties were transferred to the new company, so the Bank decided to unwind it.

VII. 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.

VIII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of liquid financial instruments. The purpose of the HUF 520 billion in 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 of a value of HUF 38.5 billion, serves several purposes at the same time: these investments (besides serving customers with securities) represent a short-term profit-earning opportunity for the Bank, while also serving as a secondary source of liquidity besides its cash-type assets. The majority of the securities portfolio that totals HUF 202.7 billion is available for sale (AFS), while there were no securities in the held-to-maturity portfolio. The Group holds a municipality bond with a notional value of HUF 1.6 billion treated as Loans and receivables.

The derivative transactions concluded by the Group cover the following derivatives: (1.) FX forward (stock-exchange and OTC) contracts (2.) FX swaps, (3.) FX options, (4.) interest rate swaps and (5.) 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 (with a few exceptions see below), but to reduce the bank's global FX and interest rate risk position.

IX. 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. 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 share-price risk, as well as 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 available means of and procedures for liquidity management. Beyond these, it also regulates the permissible extent of liquidity limits, as well as the means and the organizational framework for monitoring them. When elaborating the liquidity strategy, the bank's senior management takes into consideration the likely future development of business volumes, and the cost and other attributes of available funds. The liquidity policy includes the liquidity contingency policy, which specifies the procedures to be followed and the range of means that may be employed in an unexpected but possible crisis situation, and the order in which these may be applied depending on the causes and 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 its interest rate risk in the Banking Book. 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 IFRS and Intesa Sanpaolo Group policies designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). In the case of derivatives that do not qualify for hedge accounting, changes in the fair value of such derivative instrument are recognised immediately through profit and loss.

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.

X. 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.

XI. Research and development

In 2016 and 2015 the Group had no own research and development and not participated in the financing of any research projects.

XII. Employment policy of the Group

From the point of view of human resources management in 2016 as in the previous years there was still significant emphasis on the maintenance and further increase of the employee satisfaction and commitment, to which many new initiatives and events, moreover renewed training programs have contributed. However, the year 2016 was in large measure about the improvement of the cost-efficiency and on some areas the ensuring of the regulatory compliance as well.

The sustainable operation of the bank group required the cutting of personnel expenses in 2016, which among others, resulted in a 10% reduction on the base salary budget, mostly affecting central, supporting and administrative areas. The management of the Group decided to implement a downsizing within the frames of a collective redundancy program in Budapest headquarters, and initiated the termination of employment of almost 100 employees. These colleagues received a severance package above what is legally obliged (plus payments depending on tenure, discount on banking products for a year more, Cafeteria allowances for the whole year), and were offered an Outplacement program to provide active professional support in processing the change and to help job seeking (89% of the colleagues who participated in the program found a new job until the end of 2016.)

The Group modified its remuneration policy in 2016, within the framework of these changes made clearer, more transparent the support (non-business) areas’ bonus scheme as well, moreover continuing the practice of the previous years, strengthened the performance culture in the business areas, involving new jobs into the sales incentive system.

As an answer to recent changes on the labour market, we have diversified our recruitment portfolio, deepened our cooperation with higher education institutes, contracted with suppliers to provide us innovative job advertising services, and further strengthened our presence on the professional social media portal (LinkedIn). Parallel to these, focusing on the succession in the IT area, we have worked out a trainee program and started a cooperation with a firm specialized in the training and recruiting of IT developers.

In May 2016 the Works Council's election took place successfully and efficiently, and at the end of May the Works Council of CIB Bank was formed. The Employer immediately started to cooperate with the representatives of the employees, the framework of the cooperation will be specified in an agreement which has been prepared and is nearing signing.

It became of upmost importance to maintain the job satisfaction also in 2016 in the Bank. The layoff in the first half of the year indicated to implement a special 4-month program beside the known CIB Spirit employee program portfolio by the HR. The aim of the program was upholding and developing the employee engagement.

In the frame of this initiative named 'Shake it Up' more than 2200 colleagues participated in 34 events. There was the opportunity for the employees to recognize the daily life of 13 Bank clients, furthermore, books and bounty were collected for indigent children.

Moreover, for the first time in the history of CIB the CIB Spirit Day and the TOP Supporters Gala were organized and we have announced the sabbatical program and the Innovation Award. In addition, our colleagues could chat online with the Board Members and had the chance to visit co-workers in the branch network from the head offices participating the "See You in the Branch!" program.

On the closing ceremony of "Shake it Up!" 10 outstanding teams and 19 managers were prized for their prominent achievements.

In 2016 the third Leadership Talent Program was closed and the Expert Talent Program – launched in 2015 – was continued. This program targeted those colleagues who is determined to develop in their professions not in managerial skills.

Besides of all, we have implemented the planned Retail Banking Advisor's training series and organized a multimodal professional education program for business salesmen and analysts.

69,3% of our employees have participated in the Climate Survey launched in the last quarter of the year. Our employee satisfaction rate was 71% in November 2016 thus the rate of 2014 (67%) significantly increased.

XIII. Sites of operation

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

XIV. Environmental protection

As in the previous years, the Company continues to pay special attention to environmental protection and energy saving. The implementation of the energy management system standard allow us to widely enforce the energy awareness and energy saving aspects of our activities.
The steps of environmental protection and energy saving in 2016:

- In 2016 the group we have been successfully implemented the ISO 50001 energy management standard. The new energy management system enable us to involve the co-departments to the energy management process. With the implementation of the standard we comply with the ISP expectations, professional requirements and the new regulatory changes at the same time.
- Reviewed the UPS units in HQ BCM in Dunaújváros. During this process we reduced the number of UPS units. One unit was switched off, therefore we save 54 MWh energy loss and 18t of CO2 emission.
- Changed the refrigerant gases in our liquid chillers. The old type R22 gas was changed to an environment friendly gas type. The new gas is ozone friendly.
- We have prepared the conditions in HQ Petrezselyem building to start in 2017 the selective waste collection.

20 February 2017

Dr. Pál Simák	**Andrea De Michelis**
CEO and Chairman of the Board	Deputy CEO and CFO

CIB Bank Ltd.