CIB BANK

CIB BANK LTD.
and its subsidiaries

Consolidated financial statements
prepared in accordance with
International Financial Reporting Standards
as adopted by EU
for the year ended 31 December 2019

with the report of the Independent Auditor

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Independent Auditors' Report

To the shareholder of CIB Bank Zrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 2019 consolidated financial statements of CIB Bank Zrt. (hereinafter referred to as "the Bank") and its subsidiaries (hereinafter referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, which shows total assets of MHUF 2,010,594, the consolidated statement of profit or loss and other comprehensive income, which shows profit for the year of MHUF 13,390, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter referred to as "EU IFRSs") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group for the purposes of our audit of the consolidated financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these, in the "Code of Ethics for Professional Accountants" issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

This is an English translation of the Independent Auditors' Report on the 2019 consolidated financial statements of the CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete consolidated financial statements it refers to.

KPMG

Valuation of loans to customers (net carrying amount: HUF 997,382 million, accumulated impairment: HUF 38,212 million)

Refer to note 21 to the consolidated financial statement.

The key audit matter	*How the matter was addressed in our audit*
The impairment on loans is considered to be a key audit matter owing to the significance of loans and advances to customers, and the high degree of complexity and judgment applied by the Group in determining impairment. Net carrying amount of loans and advances to customers represents 49.6% of the total assets of the Group, and the accumulated impairment loss amounts to HUF 38,212 millions as at 31 December 2019. Without having appropriate impairment assessment the carrying value of the loans and advances might be under or overstated. Impairment on individually significant, non-performing loans are based on the Group's judgment in estimating the present value of expected future cash flows and the probability of the estimated outcomes, which are inherently uncertain. The present value of expected future cash flows is influenced by amongst others the applied discount factor on the value of collateral, the length of the recovery process and the cost of liquidation or sale process. The estimation of these items is very difficult. This is challenging from an audit perspective as the forecast cash flows reflect future expectations and may vary depending on the possible scenarios. Collective impairment is determined either by a rating based approach at customer level, or segmenting the portfolio into pools with homogeneous risk profiles for retail loans. Based on the assigned rating or pool, an estimate of the probability of default and the potential loss given default is applied to determine the collective loss allowance. This is challenging from an audit perspective due to the use of complex models to predict probability of default and loss given default estimates and the application of the Group's judgment to the determination of the applied model parameters.	Our audit procedures included: We assessed the design and implementation, and tested operating effectiveness of key controls over impairment calculations and customer ratings, as well as the annual revisions and collateral recording. We performed a specific loan assessment for a sample of individually significant customer loans. The size of the sample was designed so that the conclusions reached based on the sample provide sufficient evidence for the entire population of individually significant loans. Our loan assessment included - among others – the examination of past due information, financial performance and industry benchmarks. In addition we inspected the latest correspondence with the borrower, the latest loss allowance estimates prepared by the Group's credit risk officers, the, latest available financial information, latest independent appraisals made on the collaterals, related committee minutes, and consideration of the resolution period estimated for the impaired loans. We challenged the assumptions based on our professional judgment and industry knowledge. We assessed the collateral values based on valuations made by valuation experts engaged by the Group. We also reperformed key calculations. With respect to collective impairment we independently assessed the Group's judgment in the application of model parameters by applying sensitivity tests to assumptions underlying these parameters, and evaluation current economic conditions. We involved our financial risk management specialists to evaluate whether the methodologies and models applied by the Group are appropriate in accordance with IFRS 9 impairment requirements.

	We assessed the completeness, accuracy and relevance of data used for estimates related to valuation of loans to customers. We evaluated the completeness, accuracy and relevance of disclosures required by IFRS 7 relating to impairment of loans.

Other Information

The other information comprises the 2019 consolidated business report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the consolidated financial statements expressed in the Opinion section of our report does not cover the consolidated business report.

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

Based on the Act on Accounting, we are also responsible for assessing whether the consolidated business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements and expressing an opinion on this and whether the consolidated business report is consistent with the consolidated financial statements.

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

In our opinion the 2019 consolidated business report of the Group is consistent, in all material respects, with the 2019 consolidated financial statements of the Group and the applicable provisions of the Act on Accounting.

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

We confirm that the information referred to in Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by members meeting on 5 April 2019 to audit the consolidated financial statements of the Group for the financial year ended 31 December 2019. Our total uninterrupted period of engagement is 8 years, covering the periods ending 31 December 2012 to 31 December 2019.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 24 February 2020;

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

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

Budapest, 25 February 2020

KPMG Hungária Kft.

Registration number: 000202

Mitták Zoltán
Director, Professional Accountant
Registration number: 007298

This is an English translation of the Independent Auditors' Report on the 2019 consolidated financial statements of the CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete consolidated financial statements it refers to.

Consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2019

(million HUF)

	Note	2019	2018
Interest income		32,335	25,892
a) interest income calculated using effective interest rate method		*34,367*	*27,199*
b) other interest income		*(2,032)*	*(1,307)*
Interest expense		(5,961)	(5,518)
Net interest income	**8**	**26,374**	**20,374**
Fee and commission income		36,537	34,309
Fee and commission expense		(8,885)	(7,537)
Net fee and commission income	**9**	**27,652**	**26,772**
Income from trading activities	10	6,804	9,952
Fair value adjustments in hedge accounting	10	(54)	156
Other operating income	11	784	2,962
Other operating expense	11	(1,451)	(1,652)
Net operating income		**60,109**	**58,564**
Impairment releases on loans	12	1,729	1,388
Other impairment releases and provisions	12	3,907	6,887
Operating expenses without bank tax	13	(46,862)	(46,841)
Profit/(loss) before bank tax and income taxes		**18,883**	**19,998**
Bank tax	14	(3,258)	(3,428)
Profit/(loss) before income taxes		**15,625**	**16,570**
Income tax expense	15	(2,235)	(2,832)
Net profit/(loss) for the year		**13,390**	**13,738**
Items that may be reclassified to profit or loss		3,435	(145)
Items that may not be reclassified to profit or loss		926	345
Other comprehensive income for the year (net of tax)	**17**	**4,361**	**200**
Total comprehensive income for the year		**17,751**	**13,938**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 11 to 75 are an integral part of these consolidated financial statements.

Consolidated statements of financial position
as at 31 December 2019

(million HUF)

	Note	31/12/2019	31/12/2018
Cash and current accounts with central banks	18	36,863	47,108
Financial assets measured at fair value through profit or loss		52,996	47,449
a) securities held for trading	*19*	*6,895*	*24,685*
b) trading derivatives	*19*	*20,153*	*15,479*
c) financial assets mandatorily measured at fair value	*21*	*25,948*	*7,285*
Financial assets measured at fair value through other comprehensive income	22	346,582	285,732
Financial assets measured at amortised cost		1,508,581	1,467,023
a) loans to banks	*20*	*440,911*	*544,355*
b) loans to customers	*21*	*997,382*	*869,801*
c) debt securities	*21*	*70,288*	*52,867*
Hedging derivatives	23	873	1,840
Fair value change of financial assets in hedged portfolios (+/-)	23	3,827	1,315
Property, land and equipment	25	23,978	15,045
Intangible assets	26	12,355	11,151
Repossessed properties	24	10,644	10,417
Tax assets	15	1,514	821
a) current		*1,214*	*524*
b) deferred		*300*	*297*
Non-current assets held for sale		90	2,768
Other assets	27	12,291	14,412
Total assets		**2,010,594**	**1,905,081**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

(million HUF)

	Note	31/12/2019	31/12/2018
Financial liabilities measured at amortised cost		1,701,206	1,614,589
a) deposits from banks	*28*	*279,919*	*252,181*
b) deposits from customers	*29*	*1,421,287*	*1,362,408*
Trading derivatives	19	16,181	9,488
Hedging derivatives	23	8,906	2,768
Tax liabilities	15	781	300
a) current		*43*	*19*
b) deferred		*738*	*281*
Other liabilities	30	26,388	23,609
Provisions		7,371	12,588
a) for commitments and contingencies	*31,36*	*987*	*1,280*
b) for other risk and charges	*31*	*6,384*	*11,308*
Subordinated debts	32	9,922	9,652
Total liabilities		**1,770,755**	**1,672,994**
Share capital	33	50,000	50,000
Reserves	34	83,807	76,990
Retained earnings		106,032	105,097
Total shareholder's equity		**239,839**	**232,087**
Total liabilities and shareholder's equity		**2,010,594**	**1,905,081**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

Statement of changes in equity
for the year ended 31 December 2019

(million HUF)

	Note	Ordinary shares	Retained earnings	Capital reserve	First time adoption reserve	Revaluation reserve	General reserve	Other reserve	Total
2017. december 31-i egyenleg		**50.000**	**(34,016)**	**143,028**	**-**	**3,902**	**2,992**	**53,301**	**219,207**
IFRS 9 first time adoption		-	-	-	(1,057)	244[(1)]	-	-	(813)
Balance at 1 January 2018		**50,000**	**(34,016)**	**143,028**	**(1,057)**	**4,146**	**2,992**	**53,301**	**218,394**
Other comprehensive income (OCI)	17	-	-	-	-	(44)[(1)]	-	-	**(44)**
Decrease of capital reserve	34	-	126,803	(126,803)	-	-	-	-	**-**
General reserve	34	-	(1,426)	-	-	-	1,426	-	**-**
Net profit / (loss) for the period		-	13,738	-	-	-	-	-	**13,738**
Rounding difference		-	(2)	-	-	-	-	1	**(1)**
Balance at 31 December 2018		**50,000**	**105,097**	**16,225**	**(1,057)**	**4,102**	**4,418**	**53,302**	**232,087**
Other comprehensive income (OCI)	17	-	-	-	-	4,361	-	-	**4,361**
General reserve	34	-	(1,399)	-	-	-	1,399	-	**-**
Dividend paid	16	-	(10,000)	-	-	-	-	-	**(10,000)**
IFRS 9 FTA settlement reclassification		-	(1,057)	-	1,057	-	-	-	**-**
Net profit / (loss) for the period		-	13,390	-	-	-	-	-	**13,390**
Rounding difference		-	1	-	-	-	-	-	**1**
Balance at 31 December 2019		**50,000**	**106,032**	**16,225**	**-**	**8,463**	**5,817**	**53,302**	**239,839**

(1) The effect of the IFRS 9 first time adoption on 01 January 2018 and the change in other comprehensive income for 2018 is HUF 200 million.

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 11 to 75 are an integral part of these consolidated financial statements.

Consolidated statements of cash flows
as at 31 December 2019

(million HUF)

	Note	2019	2018
Operating activities			
Net profit/(loss) before income taxes		15,625	16,570
Depreciation and amortization	25	4,904	3,739
Fair value adjustment on PPE		-	(2)
Net unrealized (gain) / loss on financial instruments		2,590	(4,657)
Increase / (decrease) in impairment loss on loans		(1,564)	3,004
Increase / (decrease) in allowance for repossessed properties, own properties and intangible assets		131	1,504
Working capital changes			
Decrease / (increase) in loans to banks	20	(37,348)	(124,681)
Decrease / (increase) in financial assets at fair value through profit and loss	19	17,783	36,450
Decrease / (increase) in loans to customers	21	(143,679)	(118,402)
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)	27	1,549	(3,819)
Increase / (decrease) in deposits from banks	28	27,738	41,934
Increase / (decrease) in deposits from customers and liabilities from issued securities	29	58,590	168,432
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	30	(11,560)	7,008
Income tax charged	15	(2,128)	(2,803)
Cash flows used in operating activities		**(67,369)**	**24,277**
Investing activities			
Purchase of financial investments		(84,014)	(163,394)
Proceeds from sale of financial investments		3,065	108,640
Acquisitions to intangible and tangible assets		(6,279)	(4,743)
Decrease / (increase) in ROU assets	35	253	-
Acquisitions to repossessed properties		(11)	(329)
Disposals of repossessed properties		2,344	11,134
Cash flows used in investing activities		**(84,642)**	**(48,692)**
Financing activities			
Dividend paid	16	(10,000)	-
Cash flows used in investing activities		**(10,000)**	**-**
Net increase / (decrease) in cash and cash equivalents		**(162,011)**	**(24,415)**
Cash and cash equivalents at the beginning of year	43	414,706	437,860
Effect of exchange revaluation		298	1,261
Cash and cash equivalents at the end of year		**252,993**	**414,706**

The notes on pages 11 to 75 are an integral part of these consolidated financial statements.

Additional information for cash flows from operating activities

(million HUF)

	2019	2018
Interest received	33,522	24,773
Interest paid	7,421	6,725
Dividend received	35	44
Income tax paid	2,128	3,018

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	31/12/2019	31/12/2018
Cash and current accounts with central bank	18	36,863	47,108
Financial assets at fair value through profit or loss	19	-	200
Loans to banks	20	216,130	356,922
Financial assets at fair value through other comprehensive income	22	-	10,476
Cash and cash equivalents at the year end		**252,993**	**414,706**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

Notes to the consolidated financial statements

Part A Accounting policies

(1) Corporate information

The sole owner and ultimate parent company of CIB Bank Ltd. (“the Bank”) is Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that holds 100% of the shares of the Bank as at 31 December 2019.

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.

Persons authorized to sign the consolidated financial statement are Dr. Pál Simák Chief Executive Officer, Chairman of the Board and Dario Massimo Grassani Chief Financial Officer and Deputy Chief Executive Officer.

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

The Bank and its subsidiaries (“the Group”) engaged KPMG Hungary Ltd. (1134 Budapest, Váci út 31.; Chamber of Hungarian Auditors reg. no.: 000202) to perform the statutory audit of the business year 2019. The individual responsible for the auditing is Zoltán Mitták, member of the Chamber of Auditors (MKVK registration number: 007298). The Group paid HUF 102.5 million plus VAT for audit, the fee includes the statutory audit fees of CIB Bank and its subsidiaries and group reporting to the auditor of the parent and HUF 2.4 million plus VAT for other assurance services to the auditor company in 2019.

The average number of active employees of the Group was 2,145 in 2019 and 2,123 in 2018, respectively.

As at 31 December 2019 the Bank had the following subsidiaries:

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 Insurance Broker Ltd.	100%	Hungary	Insurance agency services
CIB Factor Ltd. „u.w.”	100%	Hungary	Factoring financing services
Recovery Ltd.	100%	Hungary	Real estate management

The Bank took over CIB Factor’s activity and its financial assets as of 1st January 2017, because of it CIB Factor’s activity ceased and the liquidation procedure of CIB Factor commenced on 27th December 2017 and was completed on 26th December 2019.

CIB Factor Ltd. “u.w.” is currently under winding-up procedure at the Hungarian Court of Company Registration.

(2) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union.

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Management Board on 24th February 2020.

These consolidated financial statements are prepared for statutory filing purposes.

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

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

(3) Basis of measurement and consolidation

The consolidated financial statements of the Group have been prepared on a historical cost basis except for financial instruments which are measured at fair value, thus financial instruments measured at fair value through other comprehensive income, derivative financial instruments, other financial assets and liabilities held for trading. 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.

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).

(4) Changes in accounting policies and disclosures

The Group applied the new IFRS 16 leasing standard for the first time on 1 January 2019 for every contract whether a contract contains, or is a lease. The Standard introduced new or modified approaches and requirements for the recognition, measurement, presentation, and for the disclosures of the leases.

The Group is using the modified retrospective approach and therefore the comparative information has not been restated, furthermore the Group does not recognise transition difference in the retained earnings.

For more details on the new leasing standard, see chapter 5.17.

IFRS 16 Leases - changes

In January 2016 IASB published IFRS 16 – Leasing standard, which replaces IAS 17 – Lease, IFRIC 4 – Determining whether an arrangement contains a lease, SIC 15 – Operating leases, and SIC 27 – Evaluating the substance of transactions in the legal form of a lease incentives

The disclosure changes of the leases

Under IFRS 16, a contract contains a lease if the lessee has the right to control the use of and identified asset for a period in exchange for consideration. According to the standard, the lessee recognises a right-of-use ("RoU") asset and a lease liability. Recognition of ROU assets was not a requirement of the previous standards.

According to IFRS 16.3(e) an entity shall not apply the standard to the rights a lessee holds relating to licence contracts that apply to leases of intangible assets that fall within the scope of IAS 38 – Intangible Assets. Based on the requirements, the Bank has decided to exclude software from the scope of IFRS 16.

(5) Significant accounting policies

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

5.1 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 the Group at the spot exchange rates at the date of transactions. Spot rate is the official rate of exchange quoted by the Hungarian Central Bank. At 31 December 2019 the euro was EUR 1 = HUF 330.52 (2018: EUR 1 = HUF 321.51).

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.

5.2 Financial instruments

The Group has applied IFRS 9 requirements since 1 January 2018, except for the hedge accounting items, which is still evaluated according to IAS 39 until the dynamic risk management standard of IASB will be available.

5.2.1 Date of recognition

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

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

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

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

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

In 2013 the National Bank of Hungary launched its program called Funding for Growth Scheme (FGS). Under the program the National Bank granted refinancing funds for Hungarian credit institution with 0% interest rate mainly in order to finance small- and medium businesses (SMB) by providing loans with discount rate and exchange foreign currency loans to HUF loans. The program had three phases. The maximum interest rate of loans granted was 2.5% which, in case of the first two phases, was lower than the interest rate of similar loans available in the market. The difference between the fair value and gross book value of loans (granted and given as well) was recognized as operating income and expenses. The discount factor used for determining the fair value of loans was swap yield curve that belongs to the currency of the loan, increased by the risk premium of the partner group.

The Group recognises settlements mentioned above in accordance with the accounting principles set out in paragraph 5.20.

5.2.2. Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 5. All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost and other adjustment at initial recognition is amortized using the effective interest rate method.

(5) Significant accounting policies (continued)

5.2.3 Measurement categories of financial assets and liabilities

The Group classifies its financial assets based on the business model for managing the assets and its contractual terms. Financial assets are measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

5.2.4 Business model assessment

The Group determines its business model reflecting its intention to generate cash flows, that is, whether the Group's objective is solely to collect contractual cash flows from the instruments or is to collect both the contractual cash flows arising from sale. If none of these is suitable, then the financial instrument is measured at FVPL.

Business model assessment is based on reasonably expected scenarios, considering the following factors:

- Frequency, volume and timing of the sales in prior periods, the reason for such sales and the expectation about the future sales activity considered as an overall assessment on how the cash flows were collected.
- Main purpose of holding securities
- Evaluation of the instrument's performance and it's reporting to the management
- Risk assessment of the financial instrument and strategy for managing those risks

5.2.5 The SPPI test

In case, when the business model is to hold financial instruments to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payment of principle and interest (the SPPI test), so that the interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms represent exposure to risk or volatility that are unrelated to a basic lending arrangement, so they do not give rise to solely payment of principle and interest, the financial instrument is measured at FVPL.

Assessing whether the contractual terms of the instrument are SPPI, the Group considers the following factors:

- leverage features;
- prepayment and extension terms;
- conditions that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans)
- convertible options;
- condition regarding contractually linked instruments

A relevant question when assessing the SPPI Test features for a financial instrument is whether the time value of money is modified. In cases, when the time value of money is modified, benchmark cash flow test is performed in order to determine how different the contractual cash flows of such instrument could be in respect of the cash flows that would arise had the "time value of money" element not been modified.

Assessing benchmark cash flow test the following factors are considered:

- Currency
- Refixing period of the interest rate;
- Frequency of interest payment;
- Tenor of the interest rate (underlying rate);
- Maturity

5.2.6 Fair value

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.

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:

- Level 1: inputs are the (unadjusted) quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs are inputs other than quoted prices included within Level 1 that are directly or indirectly observable for the asset or liability to be measured;
- Level 3: inputs are unobservable inputs for the asset or liability.

(5) Significant accounting policies (continued)

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

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

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

Classification is based on a hierarchy that reflects the significance of unobservable inputs used in the measurement. In case of changes occurred in the inputs or the weights when evaluating the fair values of assets, the assets could be reclassified in the fair value hierarchy.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 42.

5.2.7 Loans to banks

Loans to banks include financial assets with fixed or determinable payments that are not quoted in an active market.

Measurement of loans to banks is driven by business model and the result of the SPPI test.

For Expected Credit Loss (ECL) calculation please refer to Note 5.2.16.

5.2.8 Loans to customers

Loans to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

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.

Measurement of loans to customers is driven by business model and the result of the SPPI test.

For ECL calculation please refer to Note 5.2.16.

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. The Management continuously monitors renegotiated or restructured loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to an individual or collective impairment assessment.

The Group provides commercial factoring services in order to finance its partners' business activity. There are two main types of factoring deals: deal with recourse and non-recourse. The Group classifies the financed receivables depending on whether all the risks and rewards has been transferred, or not. Accordingly:

- in case of non-recourse factoring deals the Group acquires all risks and rewards of the receivable and therefore the total amount of the receivable is recognised in its books irrespectively of paying the total amount, or not;
- in case of recourse factoring deals the Group does not acquire all risks and rewards of the receivable therefore only the paid amount is recognised in its books as loan advance to customers.

Receivables from factoring transactions are initially recognised at fair value which is the invoiced amount less purchase discount. After initial recognition receivables from factoring are measured at amortised cost using the effective interest rate method less allowance for impairment. In case of non-recourse factoring deals the Group applies net presentation: if the total amount of the acquired receivable is not paid, any related liability is deducted from the carrying amount of the receivable. The Group does not apply the simplified provisioning method when determining the allowance of impairment. Receivables from factoring transactions are not represented separately but disclosed within loans and advances to customers.

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.

(5) Significant accounting policies (continued)

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 (i.e. non-performing exposure exceeding HUF 75 million or EUR 250,000 at the customer level) and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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 Group classifies exposures as default exposure when the exposure is more than 90 day past due or it is unlikely that the Group can collect the contractual cash flows, and the past due amount is higher than the 1% of the total on-balance sheet exposure, and higher than EUR 100 for retail loans and EUR 500 for non-retail loans, in line with CRR 178 paragraph. Loan exposures shall continue to be disclosed as non-performing loans up to at least 3 months from when they no longer meet conditions to be classified as such.

Credit impaired assets are part of those financial assets whose estimated cash-flows have been negatively impacted (impaired) by one or more events that have occurred. The impairment of financial assets may not necessarily be associated with specific event but may instead result from combination of factors. Some of the most common circumstances where objective evidence of impairment can be identified are listed below:

- Significant financial difficulty of the borrower
- Breach of contract, such as default or missed due date
- Economic or contractual reasons relating to the borrower's financial difficulty
- Probability of bankruptcy or another financial reorganisation of the debtor
- The disappearance of an active market
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Positions classified as non-performing loans must continue to be recognised as credit impaired loans until at least 3 months (90 days) have elapsed since they no longer meet the conditions to be classified as such. It may can be concluded, that all credit-impaired instruments must be assigned to Stage 3.

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.

5.2.9 Derivatives 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 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. Hedged instruments are identified both on individual and portfolio level. Fair value change of financial assets hedged in portfolio is presented as a separate line in the statement of financial position.

The method of recognising fair value gain or loss depends on whether the derivative is designated as a hedging instrument or not. 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.

(5) Significant accounting policies (continued)

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. Interest income and interest expense recognized on hedging derivative instruments are presented as interest income and interest expense in the statement of comprehensive income together with the interest income and interest expense recognized on hedged items. Change in fair value of hedging derivatives are presented in the income from trading activities in the statement of comprehensive income together with the change in fair value of the hedged instrument attributable to the hedged risk.

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

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

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

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

Notes 23 and 46 provide further details regarding derivative financial instruments and hedge accounting.

5.2.10 Debt securities at fair value through other comprehensive income (FVOCI)

The Group classifies debt instruments measures at FVOCI when both of the following conditions are met:

- The objective of the business model is to collect contractual cash flow and sell the debt instrument
- The contractual terms of the instrument meet the SPPI test

These instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

For ECL calculation of debt instruments at FVOCI please refer to Note 5.2.16.3.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss.

5.2.11 Equity instruments at fair value through other comprehensive income (FVOCI)

The Group occasionally classifies equity instruments at FVOCI, such classification is irrevocable and is made on an instrument-by-instrument basis. Equity instruments can be classified as equity instruments at FVOCI when they meet the definition of equity under IAS 32 and are not held for trading.

Changes is fair value of these instruments are recognized in OCI and are never recycled to profit or loss, even if the asset is sold. Accumulated gain or loss is transferred to retained earning upon derecognition.

Equity instruments at FVOCI are not subject to an impairment assessment and no impairment is recognised on them.

5.2.12 Deposits from bank and 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 with the interest expense booked to profit or loss with effective interest method.

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.

(5) Significant accounting policies (continued)

5.2.13 Financial assets at fair value through profit or loss (FVPL)

Financial assets included in this category are debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term or held as part of a portfolio that is managed together for short-term profit or position taking. These instruments are initially recognised at fair value, with no transaction costs taken into consideration.

FVPL assets are subsequently recognised at fair value; changes in the fair value are presented in profit and loss. These instruments are not assessed in the ECL calculation.

5.2.14 Financial assets measured mandatorily at fair value through profit or loss

The Group classifies loans as financial assets measured mandatorily at fair value through profit or loss, where the contractual characteristics does not meet the criteria of SPPI test.

The Group has exposures generated by the Housing Subsidy Scheme for Families (CSOK). Interest of these mortgage loans are subsidized until a certain term of the loan, where the subsidy amount depends on family conditions. Regarding this product (CSOK), the interest subsidy is calculated on the basis of 130% of the Government Debt Management Agency reference yield, while the transaction interest rate is fixed at 3%. Due to the different conditions in the transaction, the product is placed in the SPPI failed category and is measured at fair value through profit or loss.

The Group has exposures generated by the program of Hungarian Development Bank for small and medium businesses. There is a mismatch regarding the interest characteristics of these special loans, as the interest reference rate is not line with the disbursed currency, therefore the criteria of the SPPI test is not met and these loans are also meaure at fair value through profit or loss.

In 2019, the Group issued a so-called „babaváró” family support loan under the „Family Protection Plan”, which has an interest that could not be higher than the 130% plus 200 bp of the weighted arithmetic average of the 5-year government bond's average yields established at auctions during the 3-month period before the disclosure. The Group evaluate the loans at fair value, at level 3 of the fair value hierarchy, because the loan's cash-flow have not just capital and interest components. The Group uses the discounted cash-flows for evaluating the fair value of the loans. The discount rate is the average interest of disbursed loans updated monthly.

5.2.15 Derecognition of financial instruments

5.2.15.1 Derecognition due to substantial modification of terms and conditions

When a contractual clauses are modified during the life of an instrument, it must be verified whether the original asset must continue to be recognised in the balance sheet or whether, on contrary, the original instrument has to be eliminated from the balance sheet (derecognition) and a new financial instrument has to be recognised. The Group derecognises a financial asset, when the terms and conditions are renegotiated to the extent that, substantially, it becomes a new loan. An assessment of the "substantial nature" of the modification shall be made, both in regard to qualitative and to quantitative elements. The qualitative and quantitative analyses designed to determine the "substantial nature" of the contractual modifications made to a financial asset will have to consider:

- the purposes for which modifications were made for example renegotiation of contract for commercial reasons and concessions made in response to economic problems faced by the counterparty.
- the presence of specific objective elements ("triggers") that affect the characteristics and/or the contractual cash flows of the financial instrument

Assessing the derecognition of a financial asset, the Group considers the following changes as significant change in cash flow:

- Change in currency
- Change in counterparty
- Conversion of debt exposure into equity;
- If the modification results in an instrument that would no longer meet SPPI test
- Other cases of a substantial change in the nature of the contract (i.e. the introduction of contractual clauses which expose the debtor to new and other risk components, such as returns tied to equity or commodity components, leverage effects or similar clauses.

The difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

Where the modification does not indicate significant change in cash flows, the modification does not result in derecognition. In this case the EIR is not modified and the relating gain or loss is recognised in the statement of comprehensive income as other operating expense or income.

(5) Significant accounting policies (continued)

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.

5.2.15.2 Derecognition other than for substantial modification

The Group qualifies a financial asset for derecognition where:

- The rights to receive cash flows form the asset expire
- The Group transfers its contractual rights to receive cash flows from the asset or if the Group retains the rights to the cash flows, but has assumed to pay the received cash flows in full without delay to a third party
- The Group has transferred substantially all the risks and rewards of the asset, or if the Group retains the risk and rewards of the asset, but has transferred control of the asset

Financial liability is derecognised when the obligation is cancelled or expires.

5.2.16 Impairment of financial assets

From 1 January 2018, the Group applies the expected credit loss model for all financial assets measured at amortized cost or FVOCI, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The Group's ECL calculations are outputs of complex models, elements of the ECL models that are considered accounting judgements and estimated include:

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time expected credit loss (LTECL)
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs.
- Selection of forward-looking macroeconomic information included in the calculation of ECL.

Loans 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 become insolvent (probability of default is 100%) or there is a material delinquency in interest or principal payments (more than 90 days material past due amount) 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.

Non-performing loans are considered as credit-impaired assets.

Exposure are fully written-off, when it can be supported by documents that all recovery options (including legal procedures against the debtor and the guarantor for the guarantor) are exhausted and no further recovery is expected. Exposures can also be written-off partially, when considering the supporting documents, usually at a late stage of legal proceedings, that part of the exposure to the debtor is unlikely to be recoverable.

5.2.16.1 Overview of Expected Credit Loss principles

Expected credit loss allowance is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date.

The Group has significant amount of low credit risk financial assets. These are mainly intercompany items (receivables from related parties) related to account of loans to banks and loans to customers.

For some exposures (clearly identified and performing government debt securities measured at fair value through other comprehensive income), the IFRS 9 low credit risk exemption is adopted, according to which exposures that, at the date of transition to the new Standard, are rated as investment grade, or above (and similar) is recognized as bearing low credit risk and treated as Stage 1. Investment grade can be allocated only to exposures with pd lower than 2% or to exposures that has "Investment grade" published by external financial rating company.

Simplified method of impairment requirements is applied on financial assets subject to IFRS 15 (trade receivables) based on IFRS 9.

(5) Significant accounting policies (continued)

The Group classifies its financial assets into Stage 1, Stage 2, Stage 3 and POCI as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on the 12mECLs.
- Stage 2: When a loan has a significant increase in credit risk determined by a comparison of the Probability of Default art first recognition and that at reporting date.

  The following criteria is used to classify exposures to Stage 2:

  - Performing exposures with more than 30 days past due over the materiality threshold
  - Forborne exposures
  - Performing exposures with early warning signals
  - Performing exposures with significant increase in PD or other risk indicators similar to PD which can be used to assess the increase in credit risk
- Stage 3: Credit impaired assets are classified to Stage 3 during staging.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired assets on initial recognition. POCI assets are recorded at fair value at original recognition.

5.2.16.2. The calculation of ECLs

The mechanism of ECL calculation considers the following key elements:

- *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 Group adjusted by a credit conversion factor (CCF) to convert off-balance sheet exposure into an on-balance sheet equivalent and is added to the actual on-balance sheet exposure. The credit conversion factor is defined at the level of loan facilities and is calculated using the simplified statistical methods adopted for Internal Capital Adequacy Assessment (ICAAP) purposes. In case of financial instruments classified as stage 2, EAD is determined on a yearly basis.
- *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 Group is using a separate, segment-specific model for the calculation of PDs and internal ratings. The models were developed with the point-in-time method.
- *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 Group 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 Group uses the results of a simplified statistical method that was approved for Internal Capital Adequacy Assessment (ICAAP) purposes with downturn adjustments. The Advanced Internal Rating Based approach (AIRB) compliant LGD models are finalized.
- Including forward-looking information in the calculation of Expected Credit Losses (ECL), also connected to changes in the macro-economic scenario. Macro-economic inputs comprise both EU and domestic data, e.g. GDP, unemployment data.

When estimating the ECLs, the Group considers three scenarios: a best case, a worst case, a most likely. Each of these is associated with different risk parameters. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

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 policies (continued)

For the portfolio segments with insufficient homogeneous set of data for statistical assessment of loss, the Group uses risk parameters provided by ISP group calculated on the whole ISP group portfolio 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.

5.2.16.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at fair value through OCI do not reduce the carrying amount of these financial assets, it remains at fair value. The amount equal to the allowance is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss in recognised in OCI is recycled to the profit and loss upon derecognition.

Financial assets included in this category are largely those had previously been classified as financial investments available-for- sale under IAS 39.

5.2.16.4 Purchased originated credit impaired financial assets (POCI)

The Group considers the change in currency of the contract and the change in customer as significant change in the contractual cash flows. If this change is due to financial difficulties, the exposure is classified as purchased originated credit impaired financial asset. Credit impaired financial assets can also be purchased, occasionally.

The Group only recognises the cumulative changes in LTECL since initial recognition in loss allowance.

Interest income is recognised using a credit-adjusted effective interest rate.

5.2.17 Offsetting financial assets and liabilities

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

5.3 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 is carried at amortized cost in the statement of financial position.

5.4 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.

5.5 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 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 statement of financial position. Amounts paid under these agreements are included in deposits from banks. The difference between purchase and resale price is treated as interest income in the respective period.

(5) Significant accounting policies (continued)

5.6 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 for an amount equalizing 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.

5.7 Intangible assets, property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Cost incurred after initial recognition are capitalized, except for tangible assets measured at fair value.

At subsequent measurement the assets – except for owner-occupied properties - are measured at cost, net of accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful lives of all property, plant and equipment, except operational buildings.

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises – head quarters	3%	30% of gross value
Premises – branches	5%	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

Owner-occupied premises are subsequently carried at the revalued amount. The market trends which can affect the values of the properties, are inspected on an annual basis, and in every 3 years an independent valuation is performed. If the inspections show that there is a major difference between the carrying amount and the market value, the properties are revalued.

When an owner-occupied property is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the asset is included in profit or loss 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.

(5) Significant accounting policies (continued)

5.8 Goodwill

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

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

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

5.9 Repossessed properties

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

The 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 or 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.

Reclassification from/to repossessed properties are only possible when there is a change in use. If a repossessed property is reclassified as a property for own use, the reclassification is carried out at the fair value of the property at the time of reclassification.

5.10 Other assets

Other assets' initial recognition is assessed on an individual basis, based on the type of the asset. The balance of other assets includes those balances which have not been disclosed separately in the statement of financial position. After initial recognition they are measured at the lower of cost and net realizable value.

Receivables are initially measured at fair value and subsequently measured at amortised cost. For the impairment of the receivables the Group uses the simplified impairment model.

5.11 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.

5.12 Revenue recognition

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018, which replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

A contract with a customer recognised as financial instrument which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in scope of the IFRS 9 and then applies IFRS 15 to the residual.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with costumers and the related assets and liabilities recognized by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

A five-step model is applied to determine when to recognise revenue, and at what amount. The revenue is recognised when the Group transfers goods or services to a customer, measured at the amount at which the Group expects to be entitled.

The Group earns fee and commission income from a diverse range of services it provides to its customers.

(5) Significant accounting policies (continued)

The following fee types are not integral part of the effective interest rate of the financial pursuant to IFRS 9 and, consequently have to be recognised in compliance with IFRS 15:

- The fees charged for loan service
- The commitment fees to originate a loan when the loan disbursement commitment is not designated at fair value through profit or loss and it is unlikely that specific loan agreement will be made
- The loan syndication fees received by the bank making a loan and does not keep any part of the loan for itself.

Fees earned for providing services - such as servicing fee, account turnover fee, card fee, investment services fee, documentary fee and cash management fee - are recognised over time. 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 profit or loss when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

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

5.13 Taxation

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

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

Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

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.

The carrying amount of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 items are measured using tax rates that are probable in the period in which the temporary differences reverse, based on tax laws that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax items are recognised in profit or loss as income tax expense.

Deferred tax asset and deferred tax liabilities are offset if legally enforceable rights exist 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 2019 the basis and rates are defined with reference to statutory reported financial data of the reporting entity for the period ended 31 December 2017. For 2018 the basis and rates are defined with reference to statutory reported financial data of the reporting entity for the period ended 31 December 2016.

The tax rates for credit institutions were 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.2% had been applied for the amount exceeding HUF 50 billion for 2019.

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

(5) Significant accounting policies (continued)

Financial transaction duty

Financial transaction duty is presented as operating expense in profit or loss.

5.14 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 the statement of financial position.

5.15 Financial guarantees

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

Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the loss allowance in accordance with IFRS 9 and the amount initially recognised (before 1 January 2018 at the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee). Any change in the liability relating to financial guarantees is recorded in profit or loss.

5.16 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 profit or loss net of any reimbursement.

For details please refer to Note 31.

5.17 Leases

The Group has applied IFRS 16 leasing standard from 1 January 2019 for every contract whether a contract is or contains a lease. The standard should be applied for every lease contract: A contract contains a lease if the lessee has the right to control the use of and identified asset for a period in exchange for consideration. According to the standard, the lessee recognises a right-of-use asset and a lease liability. An identified asset may be a single asset or a capacity portion of an asset. A capacity or other portion of an asset that is not physically distinct is not an identified asset according to IFRS 16.

The contract needs to contain that the lessee has the right to obtain substantially all the economic benefits from use of the asset, and the right to decide on the use of the identified asset. The customer may obtain the economic benefits of use of the asset directly or indirectly in different ways.

If a contract is a lease, or it has a lease part, the Group as a lessee recognises a right-of-use asset, a lease liability, a depreciation, and an interest expense from the commencement date. The "right of use" represents a lessee's right to use the underlying asset. After the commencement date, the lessee shall re-evaluate the lease liability to take into account the changes in the lease terms, or in the conditions.

The Group uses the following exemptions permitted under IFRS 16 for all the asset groups:

- For the low-value assets the Group does not recognise right-of-use asset. The lease payments are associated with these leases as an expense. The threshold for the low-value assets are EUR 5.000.
- The leases which have a lease term of 12 months or less are classified as short-term leases, and still recognised as expenses.
- It is applicable to use the IFRS 16 standard for intangible assets, however the Group choses not to use IFRS 16 standard for intangible asset leases (e.g. software).

A lease contract can contain non-lease components as well. The purpose of IFRS 16 is to modify the accounting of leases not the accounting of services, so the standard requires the lessor and the lessee to separate the lease and non-lease components in a contract. The standard does not define the separation of these components for the lessee when measuring the lease if the non-leasing component is not significant comparing to the lease component. This exemption can be used for asset classes/groups – according to this, the Group uses this exemption for the vehicle leases. Neither deductible nor non-deductible VAT is taken into account when measuring the lease liability.

(5) Significant accounting policies (continued)

When determining the lease liability, the Group takes into account every fix-payments, variable lease payments that depend on an index or a rate, and every option (purchase, renewal, extension, early termination, guaranteed residual value, etc.) that the Group is reasonably certain to exercise. For leases where the lease payment changes are not tied to market rate changes (e.g. payments tied to quantitative indicators), the Group still recognizes the lease as an expense.

The lease liability measured at the present value of the lease payments discounted using the Intesa Group interbank borrowing rate as a discount rate. The applied interest rate is revised annually.

The discount is used for the lease period stated in the lease contracts. When a contract has an indefinite maturity, the Group uses assumptions considering the option to extend the lease if the lessee is reasonably certain to exercise that option. With reference to property leases, the Group has decided to consider for all new contracts only the first period of renewal as reasonably certain, unless there are particular contract clauses, facts, or circumstance that lead to the consideration of additional renewals.

In case of changes in the lease contract conditions, or the discount rates, the lease liability is needed to be remeasured. The remeasurement difference is recognised in the underlying asset use rights. If the core contents of the lease contract changes, the current right-of-use asset, and the lease liability is derecognised, and new right-of-use asset and lease liability will be recognised.

5.18 Net operating income

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

5.19 Employee benefits

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

Short term employee benefits are recognized as a current expense in the period when employees render their services. These include wages, social security contributions, bonuses, paid holidays and other fringe benefits and the tax charges thereon.

Payments to defined contribution pension and other welfare plans are recognized as an expense in the period in which they are earned by the employees.

There are no long-term employee benefits at the Group.

5.20 Government grants

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

5.21 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.

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

Changes and amendments by the European Union

- IFRS standard conceptual framework supplement (published: 29 March 2018)
- IFRS 3 Business Combinations standard supplement (published: 11 October 2018)
- IAS 1 and IAS 8 supplement, definiton of materiality (publised 31 October 2018)

Changes and amendments but not yet endorsed by by the European Union

- IFRS 17 Insurance contracts (published: 18 May 2017)

IBOR reform

- Intesa San Paolo decided to early apply the changes in IAS 39, IFRS 9 and IFRS 7 to address uncertainties related to benchmark rate reforms ('IBOR Reform'). The Bank has exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative. The operational, risk management and accounting impacts are in the process of analysis.

(6) Significant accounting estimates and judgements

In preparing these annual financial statements the Management has made judgements, 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.

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,
- 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 losses on financial assets,
- the measurement of provisions,
- the measurement of impairment on repossessed assets.

Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all such cases, the Group would disclose the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

6.1 Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. For details please refer to Note 42.

6.2 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 2019 and 2018. Due to the current market and economic conditions the management considered whether the Group will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets.

6.3 Impairment on non-financial assets

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

Impairment losses are recognised in profit or loss. An impairment loss for non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6.4 Impairment on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment

(6) Significant accounting estimates and judgements (continued)

- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Collective impairment is calculated with 3 main segments:

1. The first segmentation applied by the Bank when allocating a PD transaction, segregating the customer groups based on the customer rating and CRR compliant customer.
2. When calculating LGD, groups shall be formed on the basis of current transaction and collateral data.
3. When calculating CCF, it shall be classified according to the trade and its callability.

6.5 Provisions for risk and charges

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

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

The Group is involved in ongoing legal disputes; provision is made based on the best estimate of the expenditure required to settle the obligation. The Group is committed to close branches; provision is made based on the landlord's agreement for the obligation to be settled.

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

For details please refer to Note 31.

6.6 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.

(7) Transition disclosures

IFRS 16

The Group applies IFRS 16 Lease standard from 1 January 2019.

The new standard replaces the existing guidelines referring to lease contracts, including IAS 17 – Lease, IFRIC 4 – Determining whether an arrangement contains a lease, SIC 15 – Operating leases, and SIC 27 – Evaluating the substance of transactions in the legal form of a lease incentives. The new standard is relevant for the business year starting from 1 January 2019.

The new standard introduces a balance sheet-based, individual valuation model for the leases. According to the standard, the lessee recognises a right-of-use asset and a lease liability, which represent a future lease payment. The Bank has revised all supplier contracts to determine whether they are within the scope of IFRS 16.

As at 31 December 2018, the minimum lease payments related to non-cancellable operating leases amounted to HUF 9.428 million, which the Group recognised as a lease liability for the following types of assets:

- Real estates
- IT equipment
- Motor vehicles
- Other

The Group applied the modified retrospective approach during the implementation. The Group does not recognise transition difference in the reserve capital regarding the IFRS 16 transition.

The standard does not affect the lease receivable items, which are still treated under the current incentives.

Part B Information on the consolidated statement of comprehensive income

(8) Interest income and interest expense

(million HUF)

Interest income	2019	2018
Loans to customers	27,027	23,338
Financial assets measured at fair value through other comprehensive income	4,957	2,790
Loans to banks	1,240	448
Debt securities measured at amortised cost	950	511
Financial liabilities	193	112
Interest income calculated using effective interest rate method	***34,367***	***27,199***
Securities held for trading	410	565
Financial assets mandatorily measured at fair value	201	171
Hedging derivatives	(2,643)	(2,043)
Other interest income	***(2,032)***	***(1,307)***
Total	**32,335**	**25,892**

Interest regarding hedging derivatives are presented as other interest income, causing a negative balance in the profit or loss and other comprehensive income.

Interest income on financial assets classified as stage 3 is HUF 1,244 million during 2019, and HUF 1,371 million during 2018.

(million HUF)

Interest expenses	2019	2018
Deposits from customers	3,787	3,846
Deposits from banks	1,603	855
Issued securities	-	114
Financial assets	871	1,181
Lease liabilities	93	-
Hedging derivatives	(393)	(478)
Total	**5,961**	**5,518**

The Group's interest expense increased slightly in 2019, mainly due to higher interest rates paid on bank liabilities, mainly due to mortgage refinancing sources to meet the JMM ratio. The interest rates on customer deposits did not materially change due to the still low market yield environment.

(9) Fee and commission income and expense

(million HUF)

Fee and commission income	2019	2018
Account turnover fee income	12,740	12,163
Investment services fee income	7,209	6,496
Card fee income	7,308	6,186
Servicing fee income from loans	2,936	3,595
Cash management fee income	1,344	1,335
Documentary fee income	1,308	1,277
Agent fee income	881	913
Other fee income	2,811	2,344
Total	**36,537**	**34,309**

(million HUF)

Fee and commission expense	2019	2018
Card fee expense	4,553	3,750
Account turnover fee expense	2,063	1,782
Investment services fee expense	283	278
Documentary fee expense	633	567
Servicing fee expenses for loans	56	50
Agent fee expense	320	194
Other fee expense	977	916
Total	**8,885**	**7,537**

Commission income increased mainly due to higher transaction activity, while strong demand for the new Hungarian Government Securities Plus had a positive impact on investment service fees. Commission expenses also increased with transactional turnover.

(10) Income from trading activities and fair value adjustments in hedge accounting

(million HUF)

Income from trading activities	2019	2018
Net gains/(losses) from trading derivatives and trading with foreign currencies	6,535	10,528
Net gains/(losses) from financial assets measured FVOCI	(500)	(845)
Net gains/(losses) from securities held for trading	811	269
Fair value adjustments from financial assets measured mandatory at fair value through profit or loss	(42)	*
Total	**6,804**	**9,952**

* Due to the classification revision made by the Group during the year, from 2019 the net result from revaluation of financial assets measured mandatorily at fair value through profit or loss, is reclassified to income from trading activities financial statement line item from other operating income and expense.

Slightly decrease in trading income mainly due to lower gain on trading derivatives, especially on IRS deals.

(10) Income from trading activities and fair value adjustments in hedge accounting (continued)

(million HUF)

Fair value adjustments in hedge accounting	2019	2018
Income from hedging	**9,756**	**6,368**
a) fair value hedge derivatives	2,033	4,313
b) hedged debt securities	3,711	24
c) hedged loans	3,548	1,089
d) hedged financial liabilities	464	942
Expenses from hedging	**(9,810)**	**(6,212)**
a) fair value hedge derivatives	(7,776)	(2,526)
b) hedged debt securities	(177)	(2,870)
c) hedged loans	(451)	(73)
d) hedged financial liabilities	(1,406)	(743)
Total	**(54)**	**156**

(11) Other operating income and expense

(million HUF)

Other operating income	2019	2018
Gain from selling of tangible and intangible assets	6	49
Dividend and similar income	35	44
Change of inventory	24	20
Gain on non-current asset held for sale	13	46
Fair value adjustment on premises	-	2
Other income	706	2,801
Total	**784**	**2,962**

(million HUF)

Other operating expense	2019	2018
Loss from selling of tangible and intangible assets	4	10
Change of inventory	6	16
Loss on non-current asset held for sale	9	1
Telecommunication expenses related to business activities [(1)]	517	-
Loss on revaluation of financial assets measured at mandatorily fair value through profit or loss [(2)]	-	634
Subsidies/grants paid, fines	64	59
Other expenses	851	932
Total	**1,451**	**1,652**

[(1)] The telecommunication expenses connected to SMS service related to business activities were disclosed among Operating expenses in the prior years, however the other SMS service fees are included in operating revenue, so the Bank decided to reclassify in 2019 the first to other operating expenses as well.

[(2)] Due to the classification revision made by the Bank during the year, from 2019 the result from revaluation of financial assets measured mandatorily at fair value through profit or loss, is reclassified to income from trading activities financial statement line item from other operating income and expense.

(12) Impairment losses, provisions and net loan losses

(million HUF)

	2019	2018
Individual impairment (expense)/reversal for loan losses	1,303	(415)
Collective impairment (expense)/reversal for loan losses	426	1,803
Impairment (expense)/reversal for losses on loans subtotal	**1,729**	**1,388**
Impairment (expense)/reversal for losses on securities	131	(181)
Provision (expense)/reversal for financial guarantees	38	252
Provision (expense)/reversal for other commitments and contingencies	300	(201)
Net (losses)/gain on sale of loans	474	7,780
Net (losses)/gain on repossessed properties	2,129	1,369
Other impairment (expense)/reversal for other receivables	(355)	(9)
Other provision (expense)/reversal	1,190	(2,123)
Other impairment losses and provisions subtotal	**3,907**	**6,887**
Total	**5,636**	**8,275**

In the reporting year, the Group recognized HUF 541 million individual impairment expense and HUF 1,661 million collective impairment reversal on loans to customers.

Reversals for loan losses were lower than last year, as the Bank sold several large corporate non-performing loans in 2018 with larger profits.

The reason for the collective impairment loss reduction is that the Stage 1 group and the Stage 2 loans are at a constant performing level. Changes in collective impairment parameters, and new PD and LGD model were recorded as well.

Net losses/(gain) on repossessed properties comprises impairment and result on sales. The result on sales was HUF 637 million during 2019 and HUF 2,838 million during 2018, respectively.

Impairment, and impairment reversal relating to POCI assets are detailed in the 21. note.

(13) Operating expenses without bank tax

(million HUF)

	2019	2018
Personnel expenses	22,157	21,235
of which salaries	*16,335*	*15,415*
of other benefits	*1,753*	*1,865*
of social contributions	*4,069*	*3,955*
Depreciation and amortisation	5,036	3,739
Office and information technology maintenance	6,762	5,956
Financial transaction duty	4,248	4,325
Other taxes and obligatory fees	3,177	3,658
Material expenses	1,462	1,337
Rent and leasing	665	1,919
Communications	862	1,417
Advertising	696	656
Legal fees	512	643
Expert fees	112	284
Other expenses	1,173	1,672
Total	**46,862**	**46,841**

Detailed information about lease payments can be found in Note 35.

(14) Bank tax

(million HUF)

	2019	2018
CIB Bank Ltd.	3,099	3,166
CIB Leasing Co. Ltd.	159	262
Total	**3,258**	**3,428**

The change in the basis of bank tax is presented in the 5.13 Taxation section of the significant accounting judgements and estimates.

(15) Income taxes

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

The applicable corporate income tax rate for the Group is 9% for the years 2019 and 2018.

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)

Amounts recognised in profit or loss	2019	2018
Current income tax charge	2,128	2,803
of which corporate income tax	*445*	*651*
of which local business tax	*1,464*	*1,874*
of which innovation contribution	*219*	*278*
Deferred income tax	107	29
of which origination and reversal of temporary differences	*107*	*29*
Total	**2,235**	**2,832**

Reconciliation of income tax expense to profit before tax	2019		2018	
	million HUF	%	million HUF	%
Profit before tax	15,625		16,570	
Consolidation amending amount	1,804		(3)	
Theoretical income tax expense at the statutory rate	1,569	9	1,491	9.00
Tax base amending items according to the local regulations	(1,075)	(6.88)	(704)	(4.25)
of which use of deferred losses	*(402)*	(2.57)	*(587)*	*(3.55)*
of which non-deductible provision	*(10)*	(0.06)	*87*	*0.52*
of which non-deductible expenditure	*(250)*	(1.60)	*180*	*1.09*
of which IFRS conversion effect	*(413)*	(2.65)	*(384)*	*(2.32)*
Change on not recognised tax asset	61	0.39	(138)	(0.83)
Recognised tax assets	(3)	(0.02)	31	0.19
Other income type taxes	1,683	10.77	2,152	12.99
Income tax at effective tax rate	**2,235**	**13.29**	**2,832**	**17.09**

(15) Income taxes (continued)

(million HUF)

Deferred tax assets and liabilities comprise	2019 Assets	2019 Liabilities	2018 Assets	2018 Liabilities
Carry forward losses	300	-	297	-
Properties	-	320	-	209
Total deferred tax to profit or loss	**300**	**320**	**297**	**209**
Financial assets measured at other comprehensive income	-	418	-	72
Total deferred tax through OCI	**-**	**418**	**-**	**72**
Total	**300**	**738**	**297**	**281**

The management assess whether sufficient taxable profit will be available at the Group to allow the benefit of all deferred tax asset to be utilized. The management decided to recognize deferred tax asset as at 31 December 2018 based on the budget plan.

In 2019 the bank used 4,468 million HUF accrued loss, the balance of carry forward unused tax losses was HUF 410,549 million as at 31 December 2019 and HUF 415,062 million as at 31 December 2018. From the remaining amount the Bank set a deferred tax asset of HUF 300 million for 2020 income tax.

(16) Dividend paid

During 2020, HUF 7,000 million dividend is proposed to be paid to the Sole Shareholder based on the 2019 year’s result.

Based on the 2018 year’s result, a dividend of HUF 10,000 million was paid in 2019.

(17) Other comprehensive income

(million HUF)

	2019	2018
IFRS 9 FTA	-	244
Net gain/(loss) from changes in fair value on investments in debt instruments	8,497	(3,277)
of which credit risk changes	*(31)*	*2*
Amortization of debt securities measured at fair value through OCI	(51)	-
Hedge accounting adjustment on debt securities measured at fair value through OCI	(3,710)	2,871
Reclassification adjustment to profit or loss	(955)	-
Deferred tax	(346)	17
Items that may be reclassified to profit or loss	**3,435**	**(145)**
Net gain/(loss) from changes in fair value on investments in equity instruments	926	352
Fair value adjustment on premises	-	(7)
Items that may not be reclassified to profit or loss	**926**	**345**
Total (net of tax)	**4,361**	**200**

Further information about hedge accounting is presented in Note 23.

Fair value adjustment on premises is the valuation difference of the owner-occupied properties.

Part C Information on the consolidated statement of financial position

(18) 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.

(million HUF)

	31/12/2019	31/12/2018
Cash	17,742	21,347
Current HUF account with the National Bank of Hungary	19,121	25,761
Total	**36,863**	**47,108**
of which included in cash and cash equivalents	*36,863*	*47,108*

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

Securities held for trading

(million HUF)

	31/12/2019	31/12/2018
Hungarian Government securities – HUF	6,436	24,169
of which included in cash and cash equivalents	-	*200*
Hungarian Government securities – NON-HUF	60	134
Bank and corporate bonds – HUF	16	16
Shares listed on stock exchange – HUF	19	365
Other securities– NON-HUF	364	1
Total	**6,895**	**24,685**

Income on investments and other non-fix yield assets are recognized in income from trading activities.

Financial derivatives designated as held for trading: breakdown by product

(million HUF)

31/12/2019	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	16,225	450,946	12,291	367,397
Currencies	1,923	270,656	1,885	233,469
Equities and stock indexes	2,005	59,623	2,005	59,623
Total	**20,153**	**781,225**	**16,181**	**660,489**

(million HUF)

31/12/2018	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	9,692	1,041,403	5,977	762,487
Currencies	4,507	322,205	2,216	191,921
Equities and stock indexes	1,280	90,070	1,295	76,708
Total	**15,479**	**1,453,678**	**9,488**	**1,031,116**

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

Financial assets mandatorily measured at fair value

Financial assets mandatorily measured at fair value comprises loans to customers, which do not meet the criteria of SPPI test. Presentation of financial assets mandatorily measured at fair value is included in Note 21.

(20) Loans to banks

(million HUF)

	31/12/2019	31/12/2018
Nostro accounts	9,131	16,903
of which included in cash and cash equivalents	*9,131*	*16,903*
Due from banks	431,780	527,452
of which compulsory reserve	*13,029*	*12,199*
of which included in cash and cash equivalents	*206,999*	*259,424*
of which loans to banks in Intesa Sanpaolo Group	*217,317*	*265,709*
of which loans to Hungarian banks	*212,179*	*356,922*
Total	**440,911**	**544,355**

Both in 2019 and 2018, the Bank is required to maintain with a National Bank of Hungary 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.

The majority of the exposures of loans to banks are classified as Stage 1 in the ECL module for impairment calculation.

(21) Loans to customers measured at amortised cost and at fair value through profit or loss

Analysis by sector

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

Sector	31/12/2019		31/12/2018	
	million HUF	%	million HUF	%
Private customers	367,560	34.63	314,072	34.11
Heavy industry	152,981	14.41	111,677	12.13
Other, mostly service industries	105,976	9.98	108,169	11.74
Light industry	113,935	10.73	69,557	7.55
Real estate investments	61,429	5.79	64,698	7.03
Financial activities	32,946	3.10	50,025	5.43
Trading	77,682	7.32	69,420	7.54
Transportation and communication	59,208	5.58	54,291	5.90
Food processing	43,364	4.09	40,224	4.37
Agriculture	42,414	4.00	34,040	3.70
Chemicals and pharmaceuticals	4,047	0.38	4,580	0.50
Total	**1,061,542**	**100.00**	**920,753**	**100.00**

Loans and advances to customers comprise also the transactions related to factoring activities as the Bank took over CIB Factor's activity as of 1 January 2017.

Neither as at 31 December 2019, nor as at 31 December 2018 the Bank had no active repurchase agreement.

(21) Loans to customers measured at amortised cost and at fair value through profit or loss (continued)

Analysis by segment and staging

(million HUF)

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
General government	36,388	6,079	-	-	-	**42,467**
Corporate	540,104	54,446	24,066	4,227	205	**623,048**
Retail	323,846	28,397	9,596	8,445	25,743	**396,027**
Total	**900,338**	**88,922**	**33,662**	**12,672**	**25,948**	**1,061,542**

(million HUF)

ECL allowance	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
General government	(182)	(1,570)	-	-	-	**(1,752)**
Corporate	(3,748)	(2,068)	(13,547)	(703)	-	**(20,066)**
Retail	(1,668)	(2,939)	(8,897)	(2,903)	-	**(16,407)**
Total	**(5,598)**	**(6,577)**	**(22,444)**	**(3,606)**	**-**	**(38,225)**

Analysis of impairment allowance for loans to customers as at 31 December 2019

(million HUF)

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2019	**749,851**	**107,292**	**41,860**	**14,466**	**7,284**	**920,753**
Increase	1,673,192	101,136	11,707	2,324	23,101	**1,811,460**
Decrease	(1,517,073)	(129,128)	(22,044)	(4,031)	(4,437)	**(1,676,713)**
Transfers to Stage 1	-	15,328	(1,093)	-	-	**14,235**
Transfers to Stage 2	(15,328)	-	7,022	-	-	**(8,306)**
Transfers to Stage 3	1,093	(7,022)	-	-	-	**(5,929)**
Amounts recover	(33)	(33)	(4,324)	(87)	-	**(4,477)**
FX adjustments	8,636	1,349	534	-	-	**10,519**
Other adjustments	-	-	-	-	-	**-**
Balance at 31/12/2019	**900,338**	**88,922**	**33,662**	**12,672**	**25,948**	**1,061,542**

(million HUF)

ECL allowance	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2019	**(5,889)**	**(6,474)**	**(27,257)**	**(4,048)**	**-**	**(43,668)**
Increase	(4,090)	(4,159)	(6,884)	(1,309)	-	**(16,442)**
Decrease	3,326	3,837	8,269	2,130	-	**17,562**
Transfers to Stage 1	-	(184)	147	-	-	**(37)**
Transfers to Stage 2	184	-	(470)	-	-	**(286)**
Transfers to Stage 3	(147)	470	-	-	-	**323**
Amounts recover	-	5	4,323	37	-	**4,365**
FX adjustments	(69)	(30)	(134)	-	-	**(233)**
Other adjustments	1,087	(42)	(438)	(416)	-	**191**
Balance at 31/12/2019	**(5,598)**	**(6,577)**	**(22,444)**	**(3,606)**	**-**	**(38,225)**

(21) Loans to customers measured at amortised cost and at fair value through profit or loss (continued)

During 2019, the significant HUF 150,487 million increase in the Stage 1 loan portfolio is mainly attributable to the large corporate segment, where the loan portfolio increased by nearly HUF 100,000 million. The retail loan portfolio also grew by more than HUF 50,000 million due to strong demand for mortgages and personal loans.

The decrease of the Stage 2 category by HUF 18,370 million was due to the amortization of the loan portfolio here and to the clients transferred to Stage 3. At the same time, HUF 15,328 million of loans deteriorated from Stage 1 to Stage 2, mainly in the corporate segment.

Stage 3 loans fell by HUF 8,198 million, due to the sale and write-off of receivables and due to customer repayments. The Stage 3 portfolio decreased mostly in the large corporate segment, while the SME segment showed a slight increase.

The significant increase in the SPPI test failed category is mainly due to the so called „Babaváró" loan launched in 2019.

Expected credit losses decreased by HUF 5,443 million in 2019, mainly due to the decrease in the Stage 3 portfolio, which also reduced the proportion of impairments on non-performing loans. There was no material change in the other categories.

(million HUF)

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2018	**620,751**	**109,886**	**81,089**	**8,661**	**5,253**	**825,640**
FTA	-	-	-	-	(88)	**(88)**
Increase	305,833	126,308	20,416	8,788	4,990	**466,335**
Decrease	(104,383)	(137,897)	(18,590)	-	(2,871)	**(263,741)**
Transfers to Stage 1	-	20,671	328	-	-	**20,999**
Transfers to Stage 2	(20,671)	-	1,133	-	-	**(19,538)**
Transfers to Stage 3	(328)	(1,133)	-	-	-	**(1,461)**
Amounts recover	(67)	(24)	(14,627)	(127)	-	**(14,845)**
FX adjustments	11,855	1,571	1,309	151	-	**14,886**
Other adjustments	(63,139)	(12,090)	(29,198)	(3,007)	-	**(107,434)**
Balance at 31/12/2018	**749,851**	**107,292**	**41,860**	**14,466**	**7,284**	**920,753**

(million HUF)

ECL allowance	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2018	**(7,344)**	**(6,527)**	**(46,884)**	**(2,616)**	**-**	**(63,371)**
FTA	2,056	(2,437)	(285)	-	-	**(666)**
Increase	(3,002)	(731)	(10,008)	-	-	**(13,741)**
Decrease	2,651	3,088	10,330	540	-	**16,609**
Transfers to Stage 1	-	(96)	75	-	-	**(171)**
Transfers to Stage 2	202	-	(77)	-	-	**125**
Transfers to Stage 3	75	77	-	-	-	**152**
Amounts recover	78	26	22,152	-	-	**22,256**
FX adjustments	(163)	(187)	(943)	-	-	**(1,293)**
Other adjustments	(442)	313	(1,467)	(1,972)	-	**(3,568)**
Balance at 31/12/2018	**(6,474)**	**(6,641)**	**(27,257)**	**(4,048)**	**-**	**(43,668)**

The non-discounted values of the POCI assets amounted to HUF 16,872 million at 31 December 2019, and HUF 19,349 million at 31 December 2018.

The Group do not have write-off assets under active work-out management.

The revaluation gains on loans specified as hedged items is presented in Note 23.

The liquidation value of collateral that the Bank holds relating to loans at 31 December 2019 amounts to HUF 943,112 million and HUF 864,589 million as at 31 December 2018, respectively.

(21) Loans to customers at amortised cost and at fair value through profit or loss (continued)

Analysis of leasing sector

The leasing subsidiary of the Bank operates in the domestic leasing market and provide finance lease products to customers. The term of the leasing contracts is usually between 3 months and 10 years.

The following tables indicate the key amounts of this activity for the receivables not past due.

(million HUF)

Future minimum lease payments	31/12/2019	31/12/2018
Within one year	24,195	21,732
One to five years	51,624	44,233
More than five years	8,573	10,068
Total	**84,392**	**76,033**

(million HUF)

The present value of minimum lease payment receivables comprises	31/12/2019	31/12/2018
Within one year	22,152	19,511
One to five years	48,336	40,786
More than five years	7,658	8,892
Total	**78,146**	**69,189**
Unearned finance lease income	6,246	6,844
Accumulated allowance for uncollectible minimum lease payments receivable	(3,406)	(2,967)

(22) Financial investments

Financial assets measured at fair value through other comprehensive income comprises

(million HUF)

	31/12/2019	31/12/2018
Hungarian government securities – HUF	321,180	281,286
of which included in cash and cash equivalents	-	*10,476*
Hungarian government securities – NON-HUF	19,394	-
Foreign government securities – NON-HUF	1,451	-
Bank and corporate bonds – HUF	1,912	2,663
Shares listed on stock exchange – NON-HUF	2,538	1,699
Shares not listed - HUF	107	84
Total	**346,582**	**285,732**

All of the FVOCI financial assets are classified as Stage 1.

The FVOCI assets' credit risks are detailed in Note 45.

Financial assets measured at amortized cost / Debt securities

(million HUF)

	31/12/2019	31/12/2018
Bank and corporate bonds – HUF	48,864	46,408
Bank and corporate bonds – other currency	21,424	6,459
Total	**70,288**	**52,867**

All of the financial assets measured at amortized cost are classified as Stage 1.

(23) Hedging derivatives

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

(million HUF)

31/12/2019	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate derivatives - hedge of debt securities	507	23,474	4,533	175,624
Interest rate derivatives - hedge of loans	200	19,026	3,876	49,555
Interest rate derivatives - hedge of financial liabilities	166	14,332	497	25,298
Total	**873**	**56,832**	**8,906**	**250,477**

(million HUF)

31/12/2018	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate derivatives - hedge of debt securities	656	81,175	1,167	83,030
Interest rate derivatives - hedge of loans	335	21,345	1,355	27,938
Interest rate derivatives - hedge of financial liabilities	849	36,205	246	24,108
Total	**1,840**	**138,725**	**2,768**	**135,076**

Accumulated change of fair value of hedged instruments

(million HUF)

	31/12/2019	31/12/2018
Debt securities	3,744	233
Loans	3,831	1,317
Financial liabilities	542	180

Accumulated amount of fair value hedge adjustment is included in the carrying amount in case of loans and financial liabilities. In case of debt securities the fair value adjustment is recognised in profit or loss.

(24) Repossessed properties

(million HUF)

Net book value	31/12/2019	31/12/2018
Opening balance	**10,417**	**25,261**
Additions	260	329
Sale	(4,101)	(11,134)
Reclassification	2,560	(2,560)
Net (losses) / gain from impairment charges	1,508	(1,479)
Closing balance	**10,644**	**10,417**

(million HUF)

	Gross value		Impairment	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Building	5,702	12,091	(6,162)	(7,279)
Land	12,369	11,083	(1,274)	(5,478)
Total	**18,071**	**23,174**	**(7,436)**	**(12,757)**

(24) Repossessed properties

Repossessed properties are located in several regions in Hungary. The closing balance includes HUF 7,426 million properties located in Budapest as at 31 December 2019, while it was HUF 6,656 million as at 31 December 2018.

(25) Property, plant and equipment

(million HUF)

	Land, premises	Leasehold improvements	Electronic equipment, office furniture	IT equipment	Motor vehicles	Other	Total
Cost							
Balance at 01/01/2018	**20,153**	**4,783**	**9,283**	**7,778**	**363**	**118**	**42,478**
Additions	91	20	292	241	-	-	**644**
Disposals	(260)	(422)	(879)	(219)	(106)	-	**(1,886)**
Balance at 31/12/2018	**19,984**	**4,381**	**8,696**	**7,800**	**257**	**118**	**41,236**
IFRS 16 – ROU assets disposals	9,423	-	60	103	212	-	**9,798**
Additions	106	129	229	200	-	-	**664**
Disposals	(6,404)	(293)	(245)	(130)	(77)	-	**(7,149)**
Balance at 31/12/2019	**23,109**	**4,217**	**8,740**	**7,973**	**392**	**118**	**44,549**
Accumulated depreciation and impairment losses							
Balance at 01/01/2018	**6,291**	**4,347**	**8,538**	**7,431**	**269**	**-**	**26,876**
Depreciation for the year	338	197	170	219	19	-	**943**
Disposals	(44)	(422)	(860)	(217)	(85)	-	**(1,628)**
Balance at 31/12/2018	**6,585**	**4,122**	**7,848**	**7,433**	**203**	**118**	**26,191**
Depreciation of IFRS 16 – ROU assets disposals	845	-	8	11	41	-	**905**
Depreciation for the year	276	99	184	179	2	-	**740**
Disposals	(6,397)	(314)	(273)	(221)	(61)	-	**(7,266)**
Balance at 31/12/2019	**1,309**	**3,907**	**7,767**	**7,402**	**185**	**-**	**20,570**
Net book value							
Balance at 31/12/2018	**13,399**	**259**	**848**	**367**	**54**	**118**	**15,045**
Balance at 31/12/2019	**21,800**	**310**	**973**	**571**	**207**	**118**	**23,979**

Leasehold improvements include improvements on leased branches.

In 2019 HUF no impairment was recognized on property, plant and equipment, while in 2018 HUF 24 million.

No impairment loss was reversed in either 2019 or 2018.

Information about right-of-use-assets are presented in Note 35.

There was no significant change in the fair value of the owner-occupied premises in either 2019 or 2018, accordingly no additional fair value adjustment was recognized.

Owner-occupied premises are classified in Level 3 of the fair value measurement hierarchy.

For owner-occupied premises, the carrying amount without revaluation method would have been HUF 12,199 million in 2019 and HUF 12,448 million in 2018.

(26) Intangible assets

(million HUF)

	Software licenses and develop-ment	Other	Total
Cost			
Balance at 01/01/2018	**44,687**	**382**	**45,069**
Acquisition	4,345	-	**4,345**
Disposals	(20)	(54)	**(74)**
Balance at 31/12/2018	**49,012**	**328**	**49,340**
Additions	4,550	103	**4,653**
Disposals	-71	-22	**-93**
Balance at 31/12/2019	**53,491**	**409**	**53,900**
Accumulated depreciation and impairment losses			
Balance at 01/01/2018	**35,143**	**306**	**35,449**
Depreciation for the year	2,759	36	**2,795**
Disposals	(1)	(54)	**(55)**
Balance at 31/12/2018	**37,901**	**288**	**38,189**
Depreciation for the year	3,237	119	**3,356**
Disposals	22	(22)	**-**
Balance at 31/12/2019	**41,160**	**385**	**41,545**
Net book value			
Balance at 31/12/2018	**11,111**	**40**	**11,151**
Balance at 31/12/2019	**12,331**	**24**	**12,355**

The net book value of internally developed software is HUF 6,985 million as at 31 December 2019, and HUF 5,144 million as at 31 December 2018, respectively.

(27) Other assets

(million HUF)

	31/12/2019	31/12/2018
Accrued assets	1,901	2,328
Non-income tax receivables	4,412	1,783
Items in transit (stock)	444	291
Trade receivables	457	1,533
Inventories	104	262
Other items	4,973	8,215
Total	**12,291**	**14,412**

Other items include the balance of settlement accounts which contains those cash in transit which are unsettled as at period end. As at 31 December, 2018 other items contains settlement account related to value date differences on branch account with an amount of HUF 4,899 million. The account does not have a significant balance at 31 December 2019.

(28) Deposits from banks

(million HUF)

	31/12/2019	31/12/2018
Deposits from National Bank of Hungary	48,642	40,106
Deposits from other banks in Hungary	93,446	91,616
Deposits from banks in other countries	137,831	120,459
Total	**279,919**	**252,181**
of which related party items	*118,628*	*99,570*

(29) Deposits from customers

(million HUF)

	31/12/2019	31/12/2018
Deposits from customers in Hungary	1,390,357	1,325,475
Deposits from customers in other countries	30,930	36,933
Total	**1,421,287**	**1,362,408**
of which related party	*173*	*375*

The revaluation gains on deposits specified as hedged items is presented in Note 23.

(30) Other liabilities

(million HUF)

	31/12/2019	31/12/2018
Lease liabilities IFRS 16	9,146	-
Accrued liabilities	7,219	6,204
Suppliers	2,153	3,957
Non-income tax liability	3,478	3,353
Items in transit	422	283
Financial guarantees	215	253
Deferred government grant (HIRS)	-	98
Other items	3,755	9,461
Total	**26,388**	**23,609**

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

Other items contain settlement account related card account with an amount of HUF 3,907 million as at 31 December 2018.

Further information about lease liabilities is presented in Note 35.

(million HUF)

Financial guarantees comprise	31/12/2019	31/12/2018
Opening balance	**253**	**538**
IFRS 9 first time adoption	-	(33)
Increase during the year	72	192
Decrease during the year	(110)	(444)
Closing balance	**215**	**253**

Concerning financial guarantees see Note 36 on Commitments and contingencies.

(31) Provisions

(million HUF)

	Commit-ments and contingen-cies	Other	Total
Balance at 01/01/2018	**1,343**	**9,219**	**10,562**
IFRS 9 first time adoption effect on loan commitment provision	(278)	-	**(278)**
Increase of provision during the year	852	3,927	**4,779**
Decrease of provision during the year	(637)	(1,838)	**(2,475)**
Balance at 31/12/2018	**1,280**	**11,308**	**12,588**
Increase of provision during the year	682	1,039	**1,721**
Decrease of provision during the year	(975)	(5,963)	**(6,938)**
Balance at 31/12/2019	**987**	**6,384**	**7,371**

Provisions for commitment and contingences were created for future credit obligations (see also Note 36 on Commitments and contingencies). For all booked provisions, the Bank expects out-flows / payments in a period longer than 1 year from reporting date.

Other provisions are 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 provisions include litigation provision with an amount of HUF 3,558 million as of 31 December 2019 and HUF 8,260 million as of 31 December 2018, respectively.

Other provisions include 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.

The discount effect on provisions is not material.

The decrease of other provisions during the year includes utilization of HUF 2,816 million.

(32) Subordinated debts

(million HUF)

	31/12/2019	31/12/2018
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%.	9,922	9,652
Total	**9,922**	**9,652**

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.

(33) Share capital

During 2019 there was no change regarding the share capital.

At 31 December 2019 the fully paid share capital consisted of 50,000,000,003 ordinary shares of HUF 1 each.

(34) Reserves

Capital reserve

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

In the first half of 2018, the negative retained earnings of the Bank was reclassified to capital reserve, with an amount of HUF 46,103 million.

During December of 2018, the negative retained earnings of the Recovery was reclassified to capital reserve, with an amount of HUF 80,700 million.

(34) Reserves (continued)

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.

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

Other reserve

Other reserve comprises the Bank's income from transaction under common control in the amount of HUF 4,164 million. Income from transaction under common control contains the income from the sale of CIB Investment Fund Ltd during 2013.

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. This equity contribution increased the other reserves during 2014.

General reserve

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

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

Reserves classified as capital reserve, revaluation reserve, other reserve and general reserve can not be paid as dividend. The Group expects not to recognise any adjustment in the opening balance of retained earnings as the cumulative effect of adopting IFRS 16.

(35) Leases (Group as a lessee)

The Bank classified the right-of-use assets to property, land and equipment in the statement of financial position. Breakdown of the leases which are recognised as right-of-use assets:

(million HUF)

ROU assets	Premises (branch)	IT equip-ment	Vehicles	Other	Total
Cost					
IFRS 16 implementation 01/01/2019	**9,125**	**81**	**138**	**59**	**9,403**
Additions	383	22	74	1	**480**
Disposals	(85)	-	-	-	**(85)**
Balance at 31/12/2019	**9,423**	**103**	**212**	**60**	**9,798**
Accumulated depreciation					
IFRS 16 implementation 01/01/2019	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	880	11	41	8	**940**
Disposals	(35)	-	-	-	**(35)**
Balance at 31/12/2019	**845**	**11**	**41**	**8**	**905**
Net book value					
Balance at 31/12/2019	**8,578**	**92**	**171**	**52**	**8,893**

The real estate right-of-use assets are mainly lease of branches. The duration of these contracts are mostly 5 years, with an option for extension. The Group also has several contracts with indefinite maturity. In addition to the extension and termination options, the Group use a business estimate based on its branch maintenance strategy for each contract. There is no purchase option in the terms of these contracts. At the date of the first time adoption, the weighted average incremental borrowing rate recognized in the statement of financial position is 1.13%.

The vehicle lease contracts mainly have a 5 years duration. When determining the right-of-use, the Group excludes the extension and the purchase option, because the Group do not have an intention to use either of them.

(35) Leases (Group as a lessee) (continued)

The IT right-of-use assets are typically leased line and server leases. When evaluating the right of use asset, the Group takes into account both the extension and the cancellation options. These contracts do not contain purchase options. The Group uses a business estimate based on the IT maintenance, when determining the duration.

Breakdown of the lease liabilities:

(million HUF)

	31/12/2019			01/01/2019		
	Present value	**Interest**	**Minimum lease payment**	**Present value**	**Interest**	**Minimum lease payment**
Maturity with less than 1	1,016	77	1,093	273	93	966
Maturity between 1 and 5 years	4,080	228	3,969	4,338	312	3,877
Maturity over 5 years	4,059	120	4,515	4,817	199	5,204
Total	**9,155**	**425**	**9,577**	**9,428**	**604**	**10,047**

Profit or loss items of the lease contracts:

(million HUF)

	2019
Lease liability interest expense	93
Lease payment fees	578
from which short-term lease payments	*182*
from which low-value asset lease payments	*4*
from which variable lease payments	*392*

The lease payments in the profit or loss are classified as operating expenses.

The short-term lease payment ledger contains IT maintenance related asset leases, which were closed in 2019 due to the IT maintenance centralisation. The short-term leases are also vehicle leases, which were closed in current year as well. The new vehicle leases are recognised as right-of-use assets and lease liabilities.

The short-term leases do not contain contracts where the maturity is in 2020.

Leases related to the leasing of low-value assets include the leasing payments for assets required for banking operations.

A portion of the variable lease payment are IT maintenance related, the rest of the contracts are banking and office operation related leasing.

The value of the future expected liabilities related to leases that are not recognized under lease liabilities is shown in the table below:

(million HUF)

	31/12/2019	**01/01/2019**
Future liabilities related to short-term lease contracts	55	59
Future liabilities related to variable lease payments	322	714

(35) Leases (Group as a lessee) (continued)

The cash-flow contains the following outflows from lease payments:

(million HUF)

	2019
Cash outflows from lease liabilities	1,030
Interest expense related to lease liabilities	93
Other lease payments	576
from which short-term lease payments	*180*
from which low-value asset lease payments	*4*
from which variable lease payments	*392*

The transition difference relating to IFRS 16 is shown in the table below:

(million HUF)

Operating lease commitments at 31/12/2018	10,626
Variable leasing fees	392
Short-term leases	180
Low-value assets	4
Discounting	622
Lease liabilities recognised at 01/01/2019	**9,428**

(36) Commitments and contingencies

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

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

The amount of long-term financial guarantees and commitments with a remaining maturity over one year is HUF 101,654 million as at 31 December 2019 and HUF 22,862 million as at 31 December 2018, respectively.

The amount of the securities in custody is HUF 1,071,809 million at 31 December 2019 and HUF 1,063,431 million at 31 December 2018, respectively.

(million HUF)

31/12/2019	Gross amount	Other liability	Provision
Guarantees	39,207	(209)	-
Letters of credit	4,833	(6)	-
Total financial guarantees	**44,040**	**(215)**	**-**
Commitments	383,400	-	(987)
Total	**427,440**	**(215)**	**(987)**

(36) Commitments and contingencies (continued)

(million HUF)

31/12/2018	Gross amount	Other liability	Provision
Guarantees	37,825	(243)	-
Letters of credit	5,605	(9)	-
Total financial guarantees	**43,430**	**(252)**	**-**
Commitments	399,848	-	(1,280)
Total	**443,278**	**(252)**	**(1,280)**

The following tables set out information about the gross carrying amount and the corresponding ECLs in relation to financial guarantees and commitments

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**439,552**	**3,226**	**500**	**443,278**
Increase	1,484,905	76,995	4,652	**1,566,552**
Decrease	(1,497,362)	(72,243)	(4,920)	**(1,576,525)**
Transfers to Stage 1	-	2,632	1	**2,633**
Transfers to Stage 2	(2,632)	-	177	**(2,455)**
Transfers to Stage 3	(1)	(177)	-	**(178)**
Other adjustments	(5,786)	(77)	(2)	**(5,865)**
Balance at 31/12/2019	**418,676**	**8,356**	**408**	**427,440**

(million HUF)

ECLs	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**(1,096)**	**(51)**	**(386)**	**(1,533)**
Increase	(566)	(88)	(103)	**(757)**
Decrease	722	160	221	**1,103**
Transfers to Stage 1	-	(119)	-	**(119)**
Transfers to Stage 2	118	-	(3)	**115**
Transfers to Stage 3	-	4	-	**4**
Other adjustment	(14)	(1)	-	**(15)**
Balance at 31/12/2019	**(836)**	**(95)**	**(271)**	**(1,202)**

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2018	**407,006**	**3,209**	**1,335**	**411,550**
FTA	-	-	-	**-**
Increase	1,329,737	88,187	8,648	**1,426,572**
Decrease	(1,285,129)	(91,540)	(9,701)	**(1,386,370)**
Transfers to Stage 1	-	3,537	171	**3,708**
Transfers to Stage 2	(3,537)	-	50	**(3,487)**
Transfers to Stage 3	(171)	(50)	-	**(221)**
Other adjustments	(8,354)	(117)	(3)	**(8,474)**
Balance at 31/12/2018	**439,552**	**3,226**	**500**	**443,278**

(36) Commitments and contingencies (continued)

(million HUF)

ECLs	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2018	**(1,165)**	**(140)**	**(577)**	**(1,882)**
FTA	298	2	12	**312**
Increase	(687)	(7)	(311)	**(1,005)**
Decrease	463	93	487	**1,043**
Transfers to Stage 1	-	1	2	**3**
Transfers to Stage 2	(2)	-	1	**(1)**
Transfers to Stage 3	(1)	1	-	**-**
Other adjustment	(2)	(1)	-	**(3)**
Balance at 31/12/2018	**(1,096)**	**(51)**	**(386)**	**(1,533)**

(37.a) Carrying amount of financial assets and liabilities at 31 December 2019 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	19,121	-	-	-	-	-	17,742	**36,863**
Effective interest rates	*0.90*	-	-	-	-	-	-	***0.47***
Securities held for trading	-	1,686	2,084	2,440	223	79	383	**6,895**
Effective interest rates	-	*0.00*	*0.04*	*(0.57)*	*2.09*	*1.75*	-	***(0.10)***
Derivative financial assets	-	6,991	5,985	5,975	1,700	375	-	**21,026**
Financial assets measured at fair value through OCI	-	60,193	46,162	40,952	190,461	6,169	2,645	**346,582**
Effective interest rates	-	*0.62*	*0.15*	*0.07*	*0.57*	*1.15*	*0.00*	***0.47***
Loans to banks	9,132	404,928	26,851	-	-	-	-	**440,911**
Effective interest rates	-	*0.10*	*0.67*	-	-	-	-	***0.13***
Loans to customers at amortised cost and at fair value through profit or loss [(1)]	58,473	249,831	294,532	151,692	195,423	77,206	-	**1,027,157**
Effective interest rates	*3.17*	*1.51*	*1.71*	*2.54*	*3.67*	*4.37*	-	***2.44***
Debt securities at amortised cost	-	46,583	-	6,622	-	17,083	-	**70,288**
Effective interest rates	-	*0.87*	-	-	-	*4.04*	-	***1.56***
Liabilities								
Deposits from banks	2,322	181,493	24,983	15,791	43,509	11,821	-	**279,919**
Effective interest rates	-	*0.32*	*0.83*	*0.07*	*0.12*	*0.02*	-	***0.30***
Deposits from customers	1,116,453	55,078	165,838	50,403	33,159	356	-	**1,421,287**
Effective interest rates	-	*1.12*	*1.03*	*1.32*	*1.24*	-	-	***0.24***
Derivative financial liabilities	-	6,633	8,994	7,310	1,579	571	-	**25,087**
Subordinated debts	-	-	-	9,922	-	-	-	**9,922**
Effective interest rates	-	-	-	*0.63*	-	-	-	***0.63***
Net repricing gap	**(1,032,049)**	**527,008**	**175,799**	**124,255**	**309,560**	**88,164**	**20,770**	**213,507**

[(1)] *Including portfolio hedge adjustment*

(37.b) Carrying amount of financial assets and liabilities at 31 December 2018 by earlier of contractual repricing or maturity date

(million HUF)

	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	25,762	-	-	-	-	-	21,346	**47,108**
Effective interest rates	*0.90*	-	-	-	-	-	-	***0.49***
Securities held for trading	-	1,044	2,069	20,840	226	141	365	**24,685**
Effective interest rates	-	*0.82*	*0.13*	*0.07*	*1.41*	*3.11*	-	***0.13***
Derivative financial assets	-	4,688	5,082	6,952	597	-	-	**17,319**
Financial assets measured at fair value through OCI	-	49,566	46,607	33,640	138,901	15,235	1,783	**285,732**
Effective interest rates	-	*1.70*	*1.15*	*0.11*	*1.23*	*2.44*	-	***1.22***
Loans to banks	17,023	447,630	78,702	1,000	-	-	-	**544,355**
Effective interest rates	-	*0.08*	*0.40*	-	-	-	-	***0.12***
Loans to customers at amortised cost and at fair value through profit or loss [(1)]	44,260	286,112	244,308	185,074	79,502	39,145	-	**878,401**
Effective interest rates	*3.95*	*1.77*	*2.18*	*3.39*	*2.80*	*3.68*	-	***2.51***
Debt securities at amortised cost	-	46,408	-	-	-	6,459	-	**52,867**
Effective interest rates	-	*2.31*	-	-	-	*6.90*	-	***2.87***
Liabilities								
Deposits from banks	1,749	165,363	9,499	19,367	44,437	11,766	-	**252,181**
Effective interest rates	-	*0.45*	*0.14*	*0.12*	*0.16*	*0.02*	-	***0.34***
Deposits from customers	1,049,502	18,111	33,353	55,717	175,733	29,992	-	**1,362,408**
Effective interest rates	-	*0.28*	*1.26*	*1.02*	*1.23*	-	-	***0.23***
Derivative financial liabilities	-	1,972	3,848	5,931	505	-	-	**12,256**
Subordinated debts	-	-	-	9,652	-	-	-	**9,652**
Effective interest rates	-	-	-	*0.71*	-	-	-	***0.71***
Net repricing gap	**(946,206)**	**650,002**	**330,068**	**156,839**	**(1,449)**	**19,222**	**23,494**	**213,970**

(1) Including portfolio hedge adjustment

(38.a) Carrying amount of assets and liabilities by maturity date as at 31 December 2019

(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]	36,863	-	-	-	-	**36,863**
Securities held for trading	1,655	1,729	2,049	976	486	**6,895**
Trading and hedging derivatives	1,520	191	1,252	7,741	10,322	**21,026**
Financial assets measured at fair value through OCI	8,242	21,078	40,952	267,495	8,815	**346,582**
Loans to banks [1]	261,332	78,270	86,316	-	14,993	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss [2]	98,144	94,316	204,553	396,129	234,015	**1,027,157**
Debt securities at amortised cost	-	-	-	46,584	23,704	**70,288**
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	46,977	-	**46,977**
Tax assets	-	-	-	1,514	-	**1,514**
Non-current asset held for sale	-	-	90	-	-	**90**
Other assets	1,901	-	548	9,842	-	**12,291**
Total assets	**409,657**	**195,584**	**335,760**	**777,258**	**292,335**	**2,010,594**
Liabilities						
Deposits from banks	7,616	4,914	18,212	215,127	34,050	**279,919**
Deposits from customers	1,137,573	26,856	58,029	183,579	15,250	**1,421,287**
Trading and hedging derivatives	1,310	264	1,341	11,036	11,136	**25,087**
Tax liabilities	-	-	-	781	-	**781**
Other liabilities	7,219	-	422	18,747	-	**26,388**
Provisions for risk and charges	-	-	-	7,371	-	**7,371**
Subordinated debts	-	-	6	9,916	-	**9,922**
Total liabilities	**1,153,718**	**32,034**	**78,010**	**446,557**	**60,436**	**1,770,755**
Net position	**(744,061)**	**163,550**	**257,750**	**330,701**	**231,899**	**239,839**

[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 (20).

[2] Including portfolio hedge adjustment

(38.b) Carrying amount of assets and liabilities by maturity date as at 31 December 2018

(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	47,108	-	-	-	-	**47,108**
Securities held for trading	980	1,657	20,846	972	230	**24,685**
Trading and hedging derivatives	3,788	1,416	2,281	4,106	5,728	**17,319**
Financial assets measured at fair value through OCI	9,320	2,855	42,974	212,601	17,982	**285,732**
Loans to banks (1)	349,550	28,861	115,968	49,976	-	**544,355**
Loans to customers at amortised cost and at fair value through profit or loss (2)	76,975	65,555	176,685	350,214	208,972	**878,401**
Debt securities at amortised cost	-	-	-	-	52,867	**52,867**
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	36,613	-	**36,613**
Tax assets	-	-	-	821	-	**821**
Non-current asset held for sale	-	-	2,768	-	-	**2,768**
Other assets	2,328	-	429	11,655	-	**14,412**
Total assets	**490,049**	**100,344**	**361,951**	**666,958**	**285,779**	**1,905,081**
Liabilities						
Deposits from banks	9,441	4,425	21,989	196,258	20,068	**252,181**
Deposits from customers	1,067,221	32,997	56,059	176,086	30,045	**1,362,408**
Trading and hedging derivatives	547	2,042	2,190	2,741	4,736	**12,256**
Tax liabilities	-	-	-	300	-	**300**
Other liabilities	6,204	-	283	17,122	-	**23,609**
Provisions for risk and charges	-	-	-	12,588	-	**12,588**
Subordinated debts	-	-	7	9,645	-	**9,652**
Total liabilities	**1,083,413**	**39,464**	**80,528**	**414,740**	**54,849**	**1,672,994**
Net position	**(593,364)**	**60,880**	**281,423**	**252,218**	**230,930**	**232,087**

(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 (20).

(2) Including portfolio hedge adjustment

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

The following table summarize the maturity profile the Bank's financial liabilities' gross contractual cash flows – together with future interest income - as at 31 December 2019 and 2018. 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 38.

(million HUF)

31/12/2019	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	7,664	5,060	18,850	218,041	34,266	**283,881**
Deposits from customers	1,137,611	27,104	59,859	184,549	15,250	**1,424,373**
Trading and hedging financial derivative instruments	1,310	264	1,341	11,036	11,136	**25,087**
Subordinated debts	-	-	64	9,979	-	**10,043**
Financial guarantees	1,781	10,361	15,933	15,390	575	**44,040**
Total undiscounted financial liabilities	**1,148,366**	**42,789**	**96,047**	**438,995**	**61,227**	**1,787,424**

(million HUF)

31/12/2018	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	9,487	4,559	22,589	197,947	20,165	**254,747**
Deposits from customers	1,067,254	33,294	57,941	177,027	30,045	**1,365,561**
Trading and hedging financial derivative instruments	547	2,041	2,190	2,741	4,736	**12,255**
Subordinated debts	-	-	71	9,788	-	**9,859**
Financial guarantees	3,888	8,532	15,656	9,810	5,545	**43,431**
Total undiscounted financial liabilities	**1,081,176**	**48,426**	**98,447**	**397,313**	**60,491**	**1,685,853**

Part D Additional information

(40) Related party transactions

Companies (Intesa Sanpaolo Group)

For the purpose of the consolidated 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 Group.

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

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

(million HUF)

		31/12/2019			31/12/2018	
	Parent	ISP Group Compa-nies	Total	Parent	ISP Group Compa-nies	Total
Assets						
Due from banks and due from customers	206,135	13,299	**219,434**	244,306	50,418	**294,724**
Financial investments	364	-	**364**	276	-	**276**
Derivative financial assets	82	17,312	**17,394**	293	9,064	**9,357**
Other assets	35	325	**360**	-	16	**16**
Liabilities						
Due to banks and due to customers	117,371	1,430	**118,801**	97,420	2,525	**99,945**
Subordinated debts	-	9,922	**9,922**	-	9,652	**9,652**
Derivative financial liabilities	195	17,524	**17,719**	64	7,158	**7,222**
Other liabilities	2	-	**2**	-	-	**-**
Commitments						
Guarantees	70	13	**83**	-	2,432	**2,432**
Loan commitments	59,994	16,526	**76,520**	59,994	22,505	**82,499**
Interest rate derivatives	-	993,628	**993,628**	4,000	1,885,685	**1,889,685**
Currency derivatives	35,858	2,850	**38,708**	58,192	-	**58,192**
Equity derivatives	-	15,276	**15,276**	-	29,507	**29,507**
Net interest income/(expense)	**442**	**(2,015)**	**(1,573)**	**(482)**	**(1,388)**	**(1,870)**
Trading and hedge income/(expenses)	**499**	**1,959**	**2,458**	**792**	**3,456**	**4,248**
Other operating income/(expense)	**(185)**	**57**	**(128)**	**75**	**56**	**131**
Operating expense	**(1,011)**	**(40)**	**(1,051)**	**5**	**(353)**	**(348)**

All transaction with companies in the Intesa Sanpaolo Group are priced on an arm's length basis and are to be settled in cash.

(40) Related party transactions (continued)

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.

(million HUF)

Exposures to / from Boards members	31/12/2019	31/12/2018
Assets		
Loans	50	63
Equity instruments	143	79
Liabilities		
Current accounts and deposits	926	141
Commitments		
Loans and overdraft facilities not disbursed	6	1
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	927	878

There is no termination benefit or other long-term employee benefit in place.

There were changes in the Bank's key management members during 2019 and 2018.

(41) 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)

31/12/2019	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	11,833	0.00
Securities held for trading	22,885	1.78
Financial assets measured at fair value through OCI	401,945	1.23
Loans to banks	437,129	0.21
Loans to customers measured at amortised cost and at fair value through profit or loss	950,199	2.87
Debt securities measured at amortised cost	46,613	0.78
Financial liabilities		
Deposits from banks	256,271	0.59
Deposits from customers	1,398,760	0.26
Lease liabilities	8,585	1.09
Subordinated debts	9,778	0.72

(41) Average balances (continued)

(million HUF)

31/12/2018	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	12,836	0.00
Securities held for trading	69,794	0.77
Financial assets measured at fair value through OCI	303,551	0.94
Loans to banks	491,459	(0.11)
Loans to customers measured at amortised cost and at fair value through profit or loss	822,359	2.82
Debt securities measured at amortised cost	39,105	1.25
Financial liabilities		
Deposits from banks	251,183	0.30
Deposits from customers	1,282,059	0.30
Securities issued	2,616	4.38
Subordinated debts	9,584	0.71

(42) 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 consolidated statement of financial position.

(million HUF)

31/12/2019	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks	220,957	218,503	219,954	220,041
Loans to customers	786,876	797,838	210,506	209,474
Debt securities at amortised cost	70,288	70,986	-	-
Financial liabilities				
Deposits from banks	202,791	206,952	77,128	76,315
Deposits from customers	1,317,170	1,316,690	104,117	104,612
Subordinated debts	9,922	10,108	-	-

(million HUF)

31/12/2018	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks	167,193	164,750	377,162	377,379
Loans to customers	706,968	718,286	162,833	161,564
Debt securities at amortised cost	52,867	51,713	-	-
Financial liabilities				
Deposits from banks	174,110	176,864	78,071	77,072
Deposits from customers	1,050,456	1,050,457	311,952	308,420
Subordinated debts	9,652	9,928	-	-

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

Where available, the fair value of loans to banks and loans to customers 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 Bank discounts the cash-flows using the exchange rate swap yield curve, and adds a client/deal level risk premium. The discounting is based on the cash-flows assembled by the deal conditions.

For financial assets measured at amortised cost, fair value is the market price or quoted exchange rate at the reporting date.

The fair value of deposits on demand is the amount payable at the reporting date.

The fair value of deposits from banks and customers is 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:

(million HUF)

31/12/2019	Level 1	Level 2	Level 3	Total
Financial assets				
Securities held for trading	834	6.061	-	**6.895**
Trading derivative financial instruments	-	20.153	-	**20.153**
Financial assets mandatorily measured at fair value	-	-	25.948	**25.948**
Financial assets measured at fair value through OCI	236.558	109.917	107	**346.582**
Hedging derivative financial instruments	-	873	-	**873**
Financial liabilities				
Trading derivative financial instruments	-	16.181	-	**16.181**
Hedging derivative financial instruments	-	8.906	-	**8.906**

(million HUF)

31/12/2018	Level 1	Level 2	Level 3	Total
Financial assets				
Securities held for trading	24,684	1	-	**24,685**
Trading derivative financial instruments	-	15,479	-	**15,479**
Financial assets mandatorily measured at fair value	-	-	7,285	**7,285**
Financial assets measured at fair value through OCI	283,949	1,783	-	**285,732**
Hedging derivative financial instruments	-	1,840	-	**1,840**
Financial liabilities				
Trading derivative financial instruments	-	9,488	-	**9,488**
Hedging derivative financial instruments	-	2,768	-	**2,768**

During the reporting period ending 31 December 2019 and 2018 there were no transfers between Level 1 and Level 2 fair value measurements or any transfers into Level 3 fair value measurement.

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

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

(million HUF)

31/12/2019	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	36,863	-	-	**36,863**	**36,863**
Loans to banks	-	-	438,544	**438,544**	**440,911**
Loans to customers at amortised cost	-	-	1,007,312	**1,007,312**	**997,382**
Debt securities at amortised cost	13,983	57,003	-	**70,986**	**70,288**
Financial liabilities					
Deposits from banks	-	-	283,267	**283,267**	**279,919**
Deposits from customers	-	-	1,421,302	**1,421,302**	**1,421,287**
Subordinated debts	-	-	10,108	**10,108**	**9,922**

(million HUF)

31/12/2018	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	47,108	-	-	**47,108**	**47,108**
Loans to banks	-	-	542,129	**542,129**	**544,355**
Loans to customers at amortised cost			879,850	**879,850**	**869,801**
Debt securities at amortised cost	57,713	-	-	**57,713**	**52,867**
Financial liabilities					
Deposits from banks	-	-	253,936	**253,936**	**252,181**
Deposits from customers	-	-	1,358,877	**1,358,877**	**1,362,408**
Subordinated debts	-	-	9,928	**9,928**	**9,652**

(43) Business combinations

There was no business combination in 2019 nor in 2018.

(44) Events after the reporting period

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

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 is responsible to define risk management strategies in line with the expectations of the international and local Supervisory Authorities and regulatory framework and Intesa Sanpaolo S.p.A. The Management Committees of the Bank implement the execution of these policies. Independent Risk Assumption and Risk Management Committee provides independent risk supervision over the internal risk controls and management information systems.

Credit policies department within the Chief Risk Officer area is responsible for implementing and maintaining risk related procedures to ensure an independent control process. Bank Treasury is responsible for managing the Group'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 Asset-Liability Management decisions are made by Assets and Liabilities 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 behaviour 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 derivative transactions to hedge financial risk to manage interest rate, foreign exchange risk and other risk transfer methodologies to minimise the loss on credit risks and other unforeseen operational and market events. 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 the Group. It arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk on loans and receivables is managed by the Management Board through the Credit Committee, the Credit Risk Governance Committee 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 Assets and Liabilities Committee. The Group maintains strict control on open net positions, i.e. the difference between purchase and sale contracts, by both amount and term.

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 transfers of financial assets between the stages are „symmetrical". This means that just as in the presence of a significant increase in credit risk, an asset must be transferred to stage 2, if subsequently its credit quality returns to being no longer significantly worse than measured at the time of initial recognition of the asset, the financial instrument can be transferred back to stage 1. The metrics used by the Group that determine „improvements" – i.e. transitions from stage 2 to stage 1 – must be the same (in terms both of variables observed and of change in the variables chosen) identified to determine „worsening".

(45) Risk management (continued)

Any occurrence of a „significant increase in credit risk" (and hence transfer to stage 2) must be measured not by reference to the overall debtor, but to each individual exposure pertaining to the same counterparty.

Determination of the expected credit loss is always performed after measurement of the risk level with respect to initial recognition of the instrument. The Group compares the risk of default occurring on the financial instrument as at the reporting date with the risk of default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information. The drivers to identify the actual occurrence of a significant increase in credit risk on a performing exposure are the following:

- Increase in the lifetime probabilities of default
- The existence of the past due position of more than 30 days
- The granting of forbearance measures to the performing debtor

According to IFRS 9, the concept of "low credit risk" can include exposures having investment grade rating, without being limited to them. For an instrument to have "low credit risk" it is not necessary to have received an external rating. The instrument may be rated by means of the Group's internal rating methodologies, provided its assessment in line with the generally accepted definition of "low credit risk". The Group decided not to make a general use of the "low credit risk" exemption, i.e. simplification that permits to assume that instruments with "low credit risk" have not undergone a significant increase in credit risk since origination and thus can automatically be included in Stage 1.

In relation to non-performing exposures, a component linked to the most-likely and downside scenarios expected over the period of the next three years is considered in addition to a component linked to current economic conditions. In fact, as required by IFRS 9, the effects of the forward looking scenario on LGD estimates pegged to the current conditions must also be considered. The forward looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most likely scenario. It is based on the methodological framework that it is used for performing loans, but ignores the upside scenario from prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Credit claim may be partially or fully written off and removed from on balance sheet, even without waving entirely the claim, as long as legal proceedings have not been completed and even very low possibility of recovery remains. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value. In order to accelerate the write-off of loans whose possibility of recovery is deemed marginal, on a periodic basis (at least every six month) portfolios of bad loans are defined to be subject to total or partial write-offs if bearing the following macro-characteristics:

- Percentage coverage >95%
- Vintage (understood as the period of time in "bad loan" status) > 5 years or >8 years, respectively, for non-mortgage and mortgage loans.

The methodological framework for estimating the risk parameters used to calculate ECL is based on the reference framework for the development of AIRB international models and the other risk metrics used for management purposes. The internal rating systems provide the basis for development of the IFRS 9 models. These internal systems have been adapted to align them with the requirement of the Standard. Indeed, determination of the risk parameters is based on point in time approach able to incorporate all available information, including forward-looking data. The methodology applied to develop the EAD model is based on a fixed time lag of 12 months in order to estimate the share of available margins that will be used in case of default.

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.

(45) Risk management (continued)

(million HUF)

31/12/2019	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	36,863	36,863
Securities held for trading	6,895	6,895
Trading derivatives	20,153	20,153
Financial assets measured at fair value through OCI	346,582	346,582
Loans to banks	441,129	440,911
Loans to customers at amortised cost and at fair value through profit or loss	1,061,542	1,023,330
Debt securities measured at amortised cost	70,439	70,288
Hedging derivatives	873	873
Other assets	11,866	9,842
Financial guarantees	44,040	43,825
Commitments	383,400	382,413
Total maximum exposure	**2,423,782**	**2,381,975**

(million HUF)

31/12/2018	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	47,129	47,108
Securities held for trading	24,685	24,685
Trading derivatives	15,479	15,479
Financial assets measured at fair value through OCI	285,732	285,732
Loans to banks	544,709	544,355
Loans to customers at amortised cost and at fair value through profit or loss	920,753	877,086
Debt securities measured at amortised cost	53,114	52,867
Hedging derivatives	1,840	1,840
Other assets	12,313	11,531
Financial guarantees	43,430	43,178
Commitments	399,848	398,568
Total maximum exposure	**2,349,032**	**2,302,429**

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.

Contingent and future liabilities also includes financial guarantee contracts.

The following table presents the Group's loans and advances to customers before taking into account any collateral held or other credit enhancement broken down by the relevant geographical areas:

(million HUF)

	31/12/2019	31/12/2018
Hungary	953,712	822,165
Euro Zone countries	23,173	28,041
EU - non-Euro Zone countries	84,473	69,865
Other regions	184	682
Total	**1,061,542**	**920,753**

(45) Risk management (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements is provided in Note 21.

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 pledges 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 obtained during its review of the adequacy of the allowance for impairment losses and requests if necessary additional collateral in accordance with the underlying agreement.

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

(million HUF)

	31/12/2019	**31/12/2018**
Financial collateral	(31,855)	(37,887)
Guarantees	(90,010)	(53,186)
Total	**(121,865)**	**(91,073)**

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)

Gross carrying amount 31/12/2019	**Stage 1 Collec-tive**	**Stage 2 Collec-tive**	**Stage 3 Indi-vidual**	**Stage 3 Collec-tive**	**POCI assets**	**SPPI failed**	**Total**
Performing loans							
A – Excellent	128,059	1,321	-	-	-	544	**129,924**
B – Stable	361,488	5,517	-	-	2,361	18,287	**387,653**
C – Acceptable	315,640	35,937	-	-	2,524	4,919	**359,020**
D – High Risk	88,021	34,024	-	-	310	800	**123,155**
Other	7,133	6,895	-	-	31	1,399	**15,458**
Total performing loans	**900,341**	**83,694**	**-**	**-**	**5,225**	**25,949**	**1,015,210**
Non-performing loans							
Corporate loans	-	-	19,801	4,356	2,201	-	**26,358**
Retail loan	-	-	677	14,053	5,244	-	**19,974**
Total non-performing loans	**-**	**-**	**20,478**	**18,409**	**7,445**	**-**	**46,332**

(45) Risk management (continued)

(million HUF)

Gross carrying amount 31/12/2018	Stage 1 Collec-tive	Stage 2 Collec-tive	Stage 3 Indi-vidual	Stage 3 Collec-tive	POCI assets	SPPI failed	Total
Performing loans							
A – Excellent	47,517	10,545	-	-	-	135	**58,197**
B – Stable	203,214	8,267	-	-	282	2,604	**214,376**
C – Acceptable	406,867	34,365	-	-	1,663	3,703	**446,598**
D – High Risk	86,915	47,270	-	-	1,672	743	**136,600**
Other	5,341	1,608	-	-	2,196	100	**9,245**
Total performing loans	**749,854**	**102,064**	**-**	**-**	**5,813**	**7,285**	**865,016**
Non-performing loans							
Corporate loans	-	-	24,605	4,956	2,888	-	**32,424**
Retail loan	-	-	719	17,334	5,260	-	**23,313**
Total non-performing loans	**-**	**-**	**25,324**	**22,265**	**8,148**	**-**	**55,737**

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 held to collect or sell, as the majority of the held to collect or sell portfolio consisted of government bonds.

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

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

(million HUF)

	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+/ BB-	B+/ B-	Less than B-	Not rated	Total
31/12/2019	754	1,994	222,334	598	27	-	215,204	**440,911**
31/12/2018	396	22,834	272,043	66	315	-	248,701	**544,355**

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

(million HUF)

31/12/2019	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	4,876	436	86	52	**5,450**
Retail loan	8,263	1,182	302	146	**9,893**
Total	**13,139**	**1,618**	**388**	**198**	**15,343**

(million HUF)

31/12/2018	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	3,150	451	145	83	**3,829**
Retail loan	9,668	1,013	250	183	**11,114**
Total	**12,818**	**1,464**	**395**	**266**	**14,943**

(45) Risk management (continued)

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 2019 is HUF 16,498 million and HUF 14,941 million as at 31 December 2018.

(b) Liquidity risk

Liquidity risk is defined as the risk that the Group 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 an adequate level of liquidity and for defining control policies and management processes relating to the specific risk profile. Assets & Liabilities Management 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 ALM is responsible for implementing the liquidity strategy and maintaining adequate liquidity within the limits described below. The Financial and Market Risk Management Department measures and monitors the liquidity position and controls liquidity limits on a daily basis, and is also in charge of reporting to the management bodies and to the Parent Company liquidity positions and compliance with limits.

The key elements of the Group's liquidity strategy are as follows:

- continuous respect of regulatory liquidity ratios;
- improve Structural Liquidity Position through matched funding (from shareholder or market driven);
- focused approach to short-term, medium-term, long-term product definitions in each business line.

Through active participation in monetary and financial markets, the Treasury and ALM ensures integrated management of the Bank'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 ALM 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 Department, promoting 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 where the strategies for addressing liquidity shortfalls in emergency situations are defined, together with 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 account balances, 30-days interbank position and bonds with maximum 30 day remaining maturity, which are categorized by the National Bank of Hungary as eligible for its repo facility.

In addition to the liquid assets of the liquidity ratio, the Group also has an EUR 700 million equivalent short-term (below 18 month) uncommitted multi currency credit line with the Parent Company.

The liquidity ratio during the year was as follows:

Liquidity ratio [(1)]	31/12/2019	31/12/2018
31 December	27.9%	35.1%
Daily average during the period	25.6%	36.4%
Highest	36.8%	47.5%
Lowest	17.9%	28.5%

[(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 2019 is presented in Note 39.

(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. 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.

(45) Risk management (continued)

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

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under – or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

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

(million HUF)

VaR 2019 [1]	Foreign exchange	Interest rate	Equity	Correla-tion effect	Total
31 December	6	2	0	3	**11**
Daily average during the period	17	33	0	-11	**39**
Highest	46	85	17	-63	**85**
Lowest	3	2	0	3	**8**

(million HUF)

VaR 2018 [1]	Foreign exchange	Interest rate	Equity	Correla-tion effect	Total
31 December	12	27	0	(14)	**25**
Daily average during the period	21	36	0	(13)	**44**
Highest	53	80	2	(41)	**94**
Lowest	6	6	0	2	**14**

[1] *As the market risk trading book is managed at the Bank level, the tables include 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 Bank'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 of the statement of profit or loss and other comprehensive income to a reasonable possible change in interest rates, with all other variables held constant.

The sensitivity of equity economic value is calculated on the changes of the net present value (NPV) of all non-trading financial assets, liabilities and derivatives on 31 December 2019 on the basis of the effects of standard shock scenarios.

The sensitivity of the net interest income is the effect of the standard shock scenarios on the net interest income within one-year time horizon, based on the floating and fixed rate non-trading financial assets and financial liabilities and derivative instruments as of 31 December 2019. The Group uses for the sensitivity calculations NPV calculations with admitting negative value on interest rates for the year 2019.

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.

(million HUF)

2019	Shock scenarios in basis points (+)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	+100	**6,931**	(744)	159	364	(720)	**(941)**
EUR	+100	**961**	(286)	139	392	358	**603**
USD	+100	**(37)**	(30)	0	18	18	**6**
CHF	+100	**31**	(10)	20	(14)	(27)	**(31)**
Other	+100	**(8)**	1	1	2	3	**7**

(million HUF)

2019	Shock scenarios in basis points (-)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(100)	**(6,728)**	744	(159)	(364)	720	**941**
EUR	(100)	**(1,004)**	286	(139)	(392)	(358)	**(603)**
USD	(100)	**37**	30	-	(18)	(18)	**(6)**
CHF	(100)	**(8)**	10	(20)	14	27	**31**
Other	(100)	**8**	(1)	(1)	(2)	(3)	**(7)**

(million HUF)

2018	Shock scenarios in basis points (+)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	+100	**4,150**	(681)	(388)	1,043	714	**688**
EUR	+100	**803**	(195)	(160)	228	569	**442**
USD	+100	**8**	(10)	36	27	20	**73**
CHF	+100	**(10)**	(33)	41	180	(8)	**180**
Other	+100	**29**	1	1	3	3	**8**

(45) Risk management (continued)

(million HUF)

2018	Shock scenarios in basis points (-)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(100)	**(2,527)**	169	390	(392)	(809)	**(642)**
EUR	(100)	**(1)**	(40)	(190)	(65)	(595)	**(890)**
USD	(100)	**(8)**	11	(37)	(27)	(25)	**(78)**
CHF	(100)	**0**	(30)	20	73	(64)	**(1)**
Other	(100)	**(28)**	(1)	(1)	(3)	(4)	**(9)**

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 statement of comprehensive income to reasonable possible changes in exchange rates, with all other variables held constant:

(million HUF)

2019	Sensitivity of net income			
	EUR	USD	CHF	Total
5% strengthening of currencies vs. HUF	103	15	(9)	**109**
5% weakening of currencies vs. HUF	(103)	(15)	9	**(109)**

(million HUF)

2018	Sensitivity of net income			
	EUR	USD	CHF	Total
5% strengthening of currencies vs. HUF	1,799	(163)	(127)	**1,509**
5% weakening of currencies vs. HUF	(1,799)	163	127	**(1,509)**

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

(45) Risk management (continued)

The currency structure of the Group's financial assets, liabilities as follows:

(currency equivalents in million HUF)

31/12/2019	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	35,553	949	50	209	102	**36,863**
Securities held for trading	6,471	364	-	60	-	**6,895**
Financial assets measured at fair value through OCI	323,200	-	-	23,382	-	**346,582**
Loans to banks	307,528	129,706	125	2,660	892	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss	654,709	321,632	11,744	35,196	49	**1,023,330**
Debt securities at amortised cost	48,864	21,424	-	-	-	**70,288**
Total financial assets	**1,376,325**	**474,075**	**11,919**	**61,507**	**1,043**	**1,924,869**
Deposits from banks	131,112	132,986	15,485	336	-	**279,919**
Deposits from customers	1,119,814	248,373	3,758	43,179	6,163	**1,421,287**
Subordinated debts	-	9,922	-	-	-	**9,922**
Total financial liabilities	**1,250,926**	**391,281**	**19,243**	**43,515**	**6,163**	**1,711,128**
Net on-statement of financial position	**125,399**	**82,794**	**(7,324)**	**17,992**	**(5,120)**	**213,741**
FX position of derivatives	**78,950**	**(73,688)**	**7,245**	**(16,870)**	**3,847**	
Off-balance	***311,934***	***107,827***	***3***	***6,474***	***-***	***426,238***
Guaranteed	*25,714*	*13,284*	*-*	*-*	*-*	***38,998***
Letters of credit	*-*	*4,476*	*-*	*351*	*-*	***4,827***
Commitments	*286,220*	*90,067*	*3*	*6,123*	*-*	***382,413***

(45) Risk management (continued)

(currency equivalents in million HUF)

31/12/2018	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	45,602	1,082	25	305	94	**47,108**
Securities held for trading	24,274	276	-	135	-	**24,685**
Financial assets measured at fair value through OCI	284,033	-	-	1,699	-	**285,732**
Loans to banks	340,270	179,799	209	18,415	5,662	**544,355**
Loans to customers at amortised cost and at fair value through profit or loss	548,533	281,249	13,914	33,389	1	**877,086**
Debt securities at amortised cost	46,408	6,459	-	-	-	**52,867**
Total financial assets	**1,289,120**	**468,865**	**14,148**	**53,943**	**5,757**	**1,831,833**
Deposits from banks	110,737	123,908	16,667	720	149	**252,181**
Deposits from customers	1,077,965	228,660	4,020	40,540	11,223	**1,362,408**
Subordinated debts	-	9,652	-	-	-	**9,652**
Total financial liabilities	**1,188,702**	**362,220**	**20,687**	**41,260**	**11,372**	**1,624,241**
Net on-statement of financial positon	**100,418**	**106,645**	**(6,539)**	**12,683**	**(5,615)**	**207,592**
FX position of derivatives	**103,514**	**(101,389)**	**5,380**	**(12,698)**	**7,244**	
Off-balance						
Guaranteed	*26,955*	*10,459*	*-*	*44*	*124*	***37,582***
Letters of credit	*-*	*5,263*	*-*	*333*	*-*	***5,596***
Commitments	*283,784*	*107,469*	*94*	*7,221*	*-*	***398,568***

(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;
- conduct risk, defined as the risk of incurring judicial or administrative sanctions, material financial losses or reputational harms as a result of behaviours unfair towards customers, jeopardising the integrity and orderly functioning of financial markets, constituting an infringement of regulations in financial crimes area (e.g. anti-money laundering, counter terrorism, embargoes, anti-corruption, tax crimes, cyber crimes);
- 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. (IT security risk is part of the ICT risk);
- cyber risk is the risk of disruption to business processes and/or financial loss and/or damage to reputation deriving from improper use and/or dissemination of digital data and information, any actual or attempted unauthorised access to the Bank's ICT or to the digital data and information contained therein and any malicious or involuntary activity that compromises or uses it inappropriately, jeopardising business processes and/or supporting critical infrastructures;
- information Security risk, defined as the risk of sustaining economic loss, or reputational harm, including those arising from the failure to comply with rules as a result of the loss of confidentiality, integrity and/or availability of corporate information favoured or caused by the use of technology or related to it.

(45) Risk management (continued)

- financial reporting risk, defined as the possibility that quantitative or qualitative accounting or financial information contained in company communications disclosed to the public is not true, correct or complete due to the inadequacy of administrative processes or the ICT applications used to produce it.

Strategic and reputational risks are excluded.

In the Group, Operational Risk Management measures and monitors the exposure to operational risk and reports thereon to the corporate bodies of the Bank, such as the Management Board, Supervisory Board, Audit Committee, Risk Assumption and Risk Management Committee and Operational Risk Committee. Operational Risk Management is also responsible for the consistent application and operation of the Intesa Sanpaolo Group's operational risk management framework, also taking into account the local idiosyncrasies.

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

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

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

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

In 2019, the Group detected and recorded in its internal loss database 436 operational risk events which caused HUF 445 million effective operational loss (excluding losses boundary with credit risk and specific provisions). In 2018, the corresponding numbers were 614 events with HUF 1,624 million loss.

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

Part F Information on capital

(46) Capital and capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximise 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 global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The rules have been being applied from 1 January 2014. The framework aims at making institutions in the EU more solid and strengthening their capacity to adequately manage the risks linked to their activities and creating capital bases adequate to absorb any losses they may incur in doing business, with special focus on the liquidity risk management tools and the capital requirements.

The Bank has entirely complied with the regulatory capital requirements in 2019 as well as in 2018.

The Bank quantifies the regulatory and ICAAP capital requirements. Both the risk management processes and the capital requirement comprehensively cover the Bank.

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 Group continuously focusing on the following risks:

Credit Risk

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

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Market Risk

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

Residual Risk

The risk that arises from the recognized risk measurement and mitigation techniques used by the credit institution proves less effective than expected.

Model Risk

Model risk is the risk of losses relating to the development, implementation or improper use of any other models by the institution for decision-making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits, etc.)

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.

(46) Capital and capital management (continued)

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 Group'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 Group 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 (MNB) requirement the Bank identifies the portfolio meeting the criteria defined by the MNB for high risk portfolios and allocates additional capital for such portfolios. Repossessed assets are forming part of the high-risk portfolios.

Applied methodologies

Under Pillar 1 the Group applies Standardized Methodologies (STA) for quantifying the regulatory capital requirement of Credit risk, Operational risk and Market risk. Under Pillar 2 the Bank implemented and use advanced methodologies for ICAAP purposes.

Capital management

The Group's regulator, National Bank of Hungary sets and monitors capital requirements for the Group in the so called SREP - supervisory review and evaluation process.

The Group'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, OCI, reserves and deductions for intangible assets and deferred tax other than temporary differences
- Tier 2 capital, which includes qualifying subordinated liabilities

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

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

(46) Capital and capital management (continued)

(million HUF)

Regulatory capital	31/12/2019	31/12/2018
Share capital	50,000	50,000
Reserves	176,449	168,349
Current year's profit after deduction dividend payment	6,390	3,738
Total shareholder's equity	**232,839**	**222,087**
Deduction item: intangible assets	(12,355)	(11,151)
Deduction item: prudential valuation	(420)	(344)
Tier 1 capital	**220,064**	**210,592**
Subordinated capital	3,785	5,610
Tier 2 capital	**3,785**	**5,610**
Total capital	**223,849**	**216,202**
Risk weighted assets for Credit risks	966,081	896,032
Risk weighted assets for Market risks	13,302	21,487
Risk weighted assets for Operating risks	108,830	111,296
Credit Valuation Adjustment	3,490	1,652
Risk weighted assets	**1,091,703**	**1,030,467**
Tier 1 capital ratio (%)	**20.16%**	**20.44%**
Total capital ratio (%)	**20.50%**	**20.98%**

Current year's profit for 2019 includes the proposed dividend payment with an amount of HUF 7,000 million.

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

SREP requirements for 2020 are already available, and the Group estimates to meet the relating requirements based on current and projected financial position.

CIB BANK LTD.
and its subsidiaries

Business and management report
based on the audited consolidated financial statements
for the year ended 31 December 2019
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

I. Macro and microeconomic environment

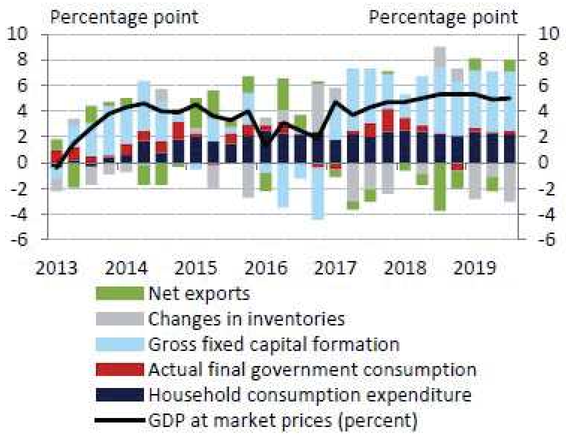
1. GDP

In 2019 the Hungarian economy showed a strong growth momentum, similar to the dynamics of 2018. Following an annual GDP growth of 5.1% (2018), the growth rate was around 4.8-5.0% in 2019 based on the statistical data of Q1-Q3 and the expected growth rate of Q4. Regarding quarterly data, GDP growth probably peaked in Q1 2019, reaching a multi-year record of 5.3% (unadjusted year-on-year data).

The speed of the revival of the Hungarian economy exceeded expectations. The market consensus for the projected full-year 2019 GDP figure had been increasing essentially throughout the entire year. GDP growth in Q1 2019 was at 5.3% year-on-year, while Q2 and Q3 delivered 4.9% and 5.0% year-on-year respectively. The better-than-expected rise to multi-year record levels was boosted primarily by domestic demand, which lifted services too and was supported by wages surging at a double-digit growth rate. Detailed data of Q4 will probably show some modest signs of decelaration, which will continue with a more marked deceleration in 2020. For the whole of 2020 the National Bank of Hungary projected a GDP growth by 3.7%, while most market participants project a moderately more pronounced slowdown to 3.2-3.3%.

During 2019 EU-funded projects kept giving a strong boost to the economy, investment dynamics became more broad-based. While private investments were still relatively weaker, investments in construction, machinery and equipment rose significantly. On the production side, the primary contributors to economic growth were market-based services. The automotive industry recorded a relatively weaker performance, while all sectors accounting for a more significant weight within the manufacturing sector showed solid growth. From the absoprtion side households' demand was a key factor in growth, supported by double-digit wage increase. Fiscal policy also provided some support to growth.

Contribution to annual changes in GDP



Source: MNB, KSH

2. Budget and external balance

The 2019 fiscal performance was twin-faced, especially due to the effect of the domestic pre-financing of EU-funded projects and programmes. While proceeds from the EU reached HUF 1,469bn, expenditures related to EU-projects was nearly HUF 100bn higher (HUF 1,557 billion). Last year's annual data showed that the overall state budget produced an annual cash-based deficit of HUF 1,219 billion, above the plan, but below the 2018 gap. The jump was primarily driven by a strong wave of EU-financed programs and their pre-financing without sufficient inflow of the related EU financing. However, the ESA-based balance (calculated in accordance with the EU-methodology) is likely to come close to the plan of -1.8% of GDP, with the final data to arrive later in 2020. The balance was supported by larger-than-expected tax proceeds, with an especially strong performance from the side of VAT. In addition to strong GDP growth and high wage growth, the tax income boom was also supported by the enhanced efficiency of tax collection. The above-plan cash-based deficit naturally created a jump in state financing needs, but the favorable interest rate environment provided new bond releases with low yields, close to zero in the case of in-year maturities.

I. Macro and microeconomic environment (continued)

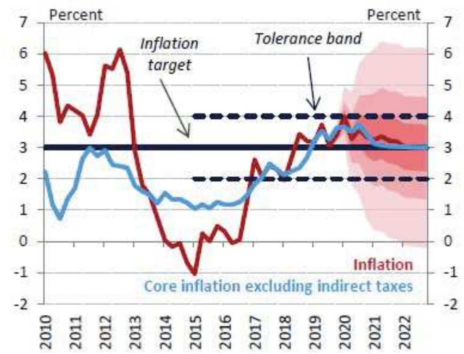
External balance indicators showed a stillfavourable development in 2019 as the gradual melting of the preceding years' huge trade surpluses came to a halt in the middle of the year. As a result, the cumulated year-to-date surplus (up to November) approached EUR 5bn, not far off the 6bn full-year stock in 2018. Import growth was faster than the growth of exports both in forint and euro terms. The C/A balance has already become negative and reached EUR -230m by Q3 2019. These developments still indicated a relatively strong financing capacity but a diminishing support to the forint's exchange rate.

3. Inflation

The December 2019 inflation figure came above market expectations at 4.0% y/y, up by more than 1pp in November and December combined primarily due to the strong base effect of fuel prices. The outcome implied an annual average CPI of 3.4% for 2019, up from 2.8% in 2018. During the course of 2019, inflation fluctuated in a relatively wide range of 2.7%-4.0%. Regarding the whole of 2019, of the main price categories alcohol and tobacco prices, car fuel prices and food prices were showing significant, above-average rise. Additionally, apartment rent prices were also rapidly rising.

Core inflation also showed rising trend, with annual average of 3.8%, up from 2.5% in the preceding year. Tax-adjusted core inflation index calculated by the MNB showed an annual average rise of 3.4%. The intensification of domestic demand and the effect of wage increases played a role in inflation trends. For 2020-21, the central bank projects both headline and core inflation to return to the vicinity of 3%.

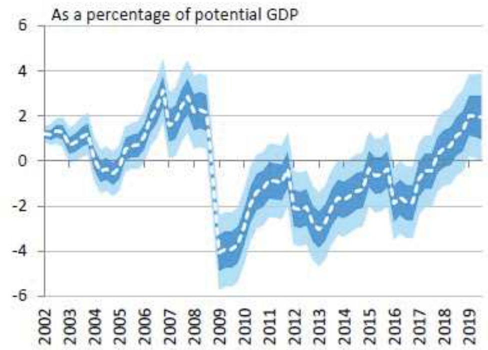
Inflation history and the inflation forecast of the MNB



Note: Based on seasonally unadjusted data.

Source: MNB, KSH

Output gap and its uncertainty band



Source: MNB

4. Labour market

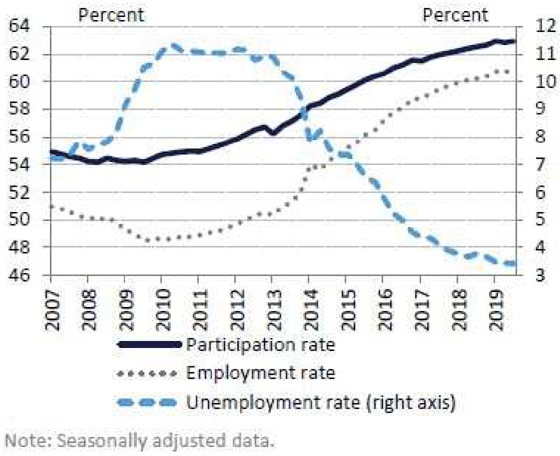
Following the drop of the unemployment rate to below 4% in Q4 2017, the labour market maintained sub-4% levels throughout 2019, similar to the preceding year. Unemployment reached its lowest rate at 3.3% in the middle of the year and returned to 3.5% by December 2019. At the same time the number of the employed rose slower in 2019 and it stabilised close to 4.5 million in Q4 2019. This path was characteristic of both the private and the state sector. However, the number of employees in the public employment programme dropped further by nearly 20 thousand compared to one year ago.

Such stability of low unemployment was supported by the maintaining of relatively high level of employment coupled with some rise of the activity rate. However, this remained strongly affected by employees working abroad and to a smaller extent by state subsidized employment. Structural inequilibrium has remained in place, with reports of labour shortages in essentially all areas of the economy. 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.

Wage rise has remained in double-digit territory in 2019 as did in 2018. Up to October 2019, the dynamics reached 11.6%, showing no sign of significant slowdown. There was also a trend of dynamic growth regarding real wages despite the latest rise of inflation.

I. Macro and microeconomic environment (continued)

LABOUR MARKET

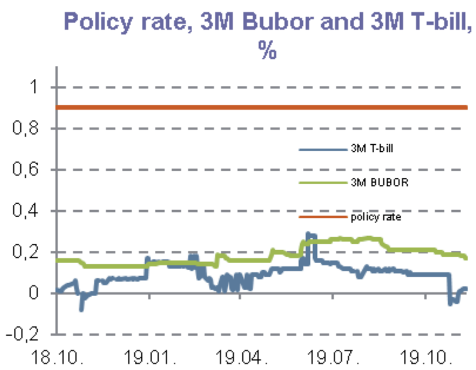


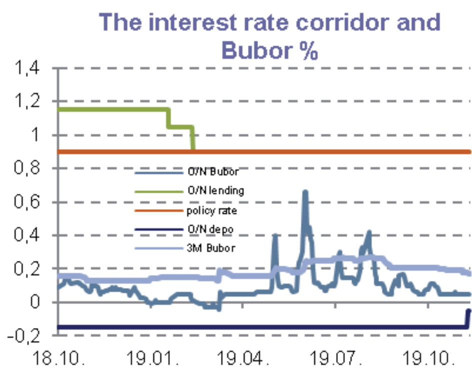
Source: MNB, KSH

5. Monetary policy

The Central Bank's main policy rate was unchanged at 0.90% throughout the entire last year. However, the Monetary Council remained active in applying non-conventional measures to extend monetary easing. Also, the focus of interest rate policy remained the O/N rate rather than the official policy rate (i.e. the 3M depo rate).

At the beginning of 2019 the central bank released repeated communication preparing markets for the normalisation of monetary policy. However, with the dovish turn in the policy of the ECB and the Fed, the MNB also changed its communication and claimed that the hike of the O/N depo rate to -0,05% (by 10bps in March) was a one-off move and not the start of a tightening cycle. The NBH kept interest rates unchanged despite their own upward shift of CPI and GDP forecasts for 2020 in September and December. Accomodative policy remained in place as the central bank sees balanced risks to inflation and a return to 3% at the end of 2020, but also still closely watching tax-adjusted core inflation. Fed and ECB policy shift lends support to ongoing loose policy, no hike is foreseen in 2020. Throughout 2019 the central bank's FX swaps were applied as a major policy tool to fine-tune liquidity conditions.





Source: NBH, Reuters

While solid GDP-growth and the relatively slower deterioration of external balances and decreasing debt rates in terms of GDP provided a solid fundamental background to the forint's exchange rate, fresh macro data in 2019 were not delivering major positive surprises that could counterbalance the impact of the low interest rate environment. Hence the forint showed a trend of depreciation against the euro in 2019, with the EUR/HUF cross exchange rate rising from the 315-320 range to above 330 in December. In November, the EUR/HUF rate briefly moved above the 336 level too. The annual average EUR/HUF level was 325.

I. Macro and microeconomic environment (continued)

The forint's nearly 3% depreciation against the euro and the annual FX market trend was strongly driven by the low interest rate environment, with the policy rates and market rates showing a barely changed minimal difference versus the euro area and showing a deeply negative interest rate differential versus our major CEE counterparties. Also, this environment implied a deeply negative real interest rate level for the forint.

Regarding foreign demand for Hungarian (forint denominated) government bonds in 2019, the stock of non-residents' holdings rose above HUF 4,000 billion in January and approached the HUF 4,500 billion level by July. This was followed by a moderate decreasing trend leading to an end-2019 level of HUF 4,168 billion. Yields on government bonds remained relatively low with the 10Y yield below 2% during most of Q4 2019.

Data source: Reuters

6. Banking environment

The Hungarian banking sector was characterised by solid profitability and solvency in 2019 as well. Customer loan volume continued its dynamic grow, while the liquidity and capital position of the banks is solid.

Operating environment for the domestic banking sector improved further. Rising consumption and investment demand is generating steadily increasing credit demand in both the corporate and household sectors.

Corporate lending increased by 14,8% in 2019, supported by the new Funding for Growth fix scheme. The growing trend of new loan disbursements continued also in the household sector, mortgages and personal loans were the main drivers, in addition to the new Babaváró loan product that started in the second half of 2019. Double digit growth of the prices on housing market and the continued rise in real wages increased credit demand, which was strongly supported by the low interest rate environment.

Besides the increase in new loan volumes, year 2019 was also characterized by further improvement in loan portfolio quality, thanks to portfolio cleaning (sale and write-off) and recovery.

Profitability of the banking sector remained at the same level as in the previous year, supported less and less by the reversal of previously recognized loan impairments, but shrinking interest margins require further improvement in efficiency.

Total assets, liabilities, and equity

Based on the most recent available figures (as of November, 2019) the banking sector's overall total assets increased by 10.6% compared to prior year-end and amounted to HUF 43,439 billion.

The gross loan portfolio increased by 16.1% (HUF 24,199 billion) compared to December 2018 (+14.8% excluding the foreign exchange effect). The lending capacity of Hungarian banks remained under pressure due to market liquidity constraints and low profitability.

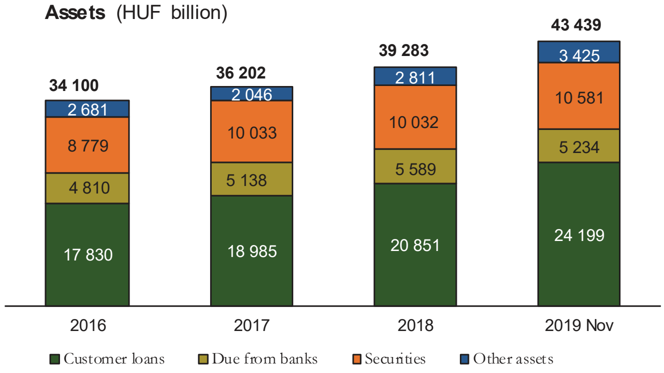
The decline in loans outstanding to households stopped since the new disbursements more than offset the volume of repayments, thus pushing retail loans up by +14,3% compared to the end of the previous year. Demand for new loans was at very low level in the years following the financial crisis, however from 2015, there was a turnaround with growth of over 30% in recent years and this tendency continued in 2019.

There was 42.8% increase in retail new disbursements as of November 2019 compared to the same period last year. The volume of foreign currency loans significantly decreased from 58.1% as of December 2014 to 34.4% as of November 2019, largely due to the conversion of the foreign currency mortgage portfolio.

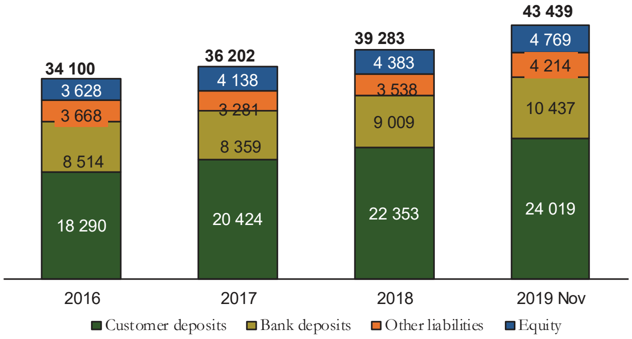
I. Macro and microeconomic environment (continued)

The volume of deposits from customers increased by 7.4% compared to the end of 2018, reaching HUF 24,019 billion at the end of November 2019. Retail deposits increased by 5.7%, while corporate deposit showed 7.2% increase compared to December 2018. At the same time the net asset value of investment funds totalled HUF 5,404 billion at the end of November 2019. While government bond portfolio of consumer customers increased by 27.73% as of October 2019 from the beginning of the year.

Assets (HUF billion)



Liabilities (HUF billion)



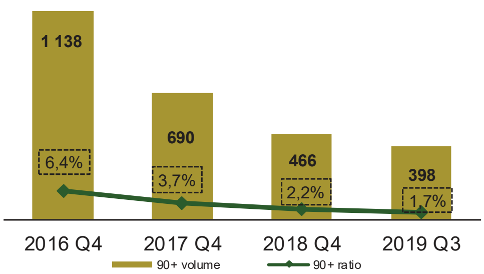
Data source: NBH, IFRS

Credit quality

90+ past due loan ratio (non-performing loans) decreased significantly to 1.7% as of September 2019 thanks to the portfolio cleaning.

Volume of corporate loans with more than 90 days past due within total loan showed a significant decrease and the 90+ ratio in this segment was 2.2% at the end of September 2019. The retail segment's portfolio quality has also improved with a 90+ ratio decreased to 3.0% as of Q3 2019, which is further 1.5% point improvement compared to the 2018 year-end.

90+ DPD ratio and volume (HUF billion)



Data source: NBH; IFRS, Q4 2019 data is not available

I. Macro and microeconomic environment (continued)

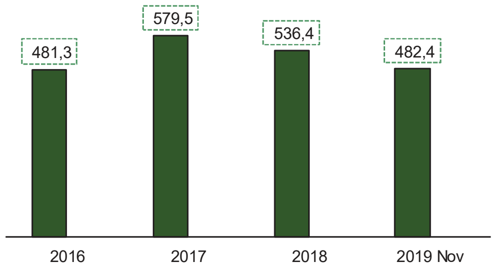
Profitability

The profitability of the banking sector was able to remain at the level of the same period of last year as of November 2019, despite significantly lower provision release in 2019.

The increased Net Operating Margin was further strengthened by lower Operating Cost. The banking sector's profit after tax totalled to HUF 482 billion as of November 2019.

Net Interest Income decreased by 1.1%, Net Commission income increased by 10.2%, Profit from Trading Activities decreased by 8.1% and Other Income / Expense decreased by 67.1% compared to the same period last year. The cost / income ratio was 55.0% at the end of November 2019.

Profit after tax (HUF Bn)



Data source: NBH; IFRS

Liquidity and Capital

The amount of liquid assets (securities and interbank receivables) increased by HUF 194 billion (+1.2%) while the sector's loan to deposit ratio (net customer loan / customer deposits) increased by 8.0% points (98.5% as of November 2019).

The capital position of the banking sector is adequate, with a Capital Adequacy Ratio (CAR) at 20.4% as of September 2019 (includes Co-operative credit institutions).

II. Business strategy and priorities

In 2018, CIB Bank, hand in hand with its parent company, Intesa Sanpaolo, established the fundamental strategic directions and objectives of the period until 2021. In line with this, as a universal service provider, CIB will continue to operate serving all customer segments in the coming years by substantially improving its operational efficiency, while holding on to long-term profitable operation, through increased business volumes, digitalisation covering the full spectrum of banking operations and the optimisation of sales channels.

The pillars of the strategy – in line with the key strategic objectives of Intesa Sanpaolo Group 2018-2021 business plan – are as follows:

- The implementation of the **digital transition** permeating the whole of the bank parallel to the transformation of the role and tasks of the physical network.
- **Increasing revenues** in an increasingly competitive environment in the interest of sustainably profitable operation, by ensuring that an increasing proportion of revenues is derived from the fees and commissions of additional services provided to customers.
- **Improving cost efficiency** by way of digitalisation and the optimisation of sales channels. In this context, process transformations related to digitalisation, the increasing of the ratio of online sales, the simplification of sales activities and certain other activities supporting sales through the increased involvement of third partners and agents, as well as the directing of released capacities to the performance of greater added-value activities will be implemented.
- The conclusion of the process aimed at **reducing the portfolio of non-performing loans**, and maintaining loan quality.

In its growth strategy, CIB has set itself the goal of being the primary bank for its customers. The main component in this approach is to simplify bank processes, improve customer satisfaction, and digitalisation, which is set to have a crucial role in sales and the service model.

In the retail segment, the Bank aims at boosting the volume of loan disbursement by introducing new processes and developing its commercial channels, in particular the mobile application and the online bank.

II. Business strategy and priorities (continued)

In terms of savings products, CIB places a strong emphasis on offering alternative savings solutions in the extremely low interest environment. In respect of premium banking services, the objective is to continuously expand the range on offer, and to provide high-standard asset management and insurance products and excellent, standardised banking services through electronic channels and the branch network. Serving the millennial generation is a primary focus of the strategy, were CIB is looking to increase its activity by developing new digital products and services and through cooperation with institutions of higher education.

CIB's business strategy also comprises the reinforcement of its corporate market position through customer acquisitions and increased business volumes. Through the renewal of the corporate online bank and front-end system and the simplification of processes, the bank's objective is to ensure that SME and large corporate customers execute an increased ratio of their transactional, deposit and foreign exchange turnover at CIB. The strengthening of treasury services is also assigned significant emphasis. Beyond the above, in the years ahead CIB would like to take even greater advantage of the synergies that exist with its parent company, Intesa Sanpaolo, with a view to strengthening its presence in the multinational corporate sector.

As part of the strategy, CIB Group - together with VUB Bank, the Slovakian subsidiary of Intesa Sanpaolo Bank Group - has launched a new strategic cooperation called "Central European Hub" which aims at utilising cross-border synergies by sharing best practices, increasing operational efficiency and by exploiting the banks' complementary strengths. The objective of the initiative is ultimately to improve the financial performance and enhance the business performance of the two banks, and to solidify their respective market positions by way of the better utilisation of business opportunities pertaining to common corporate customers.

III. Outlook for the banking sector

Increasing lending activity

Growing economy and increasing demand for bank financing will provide favourable conditions for lending. Retail loans will continue to increase further, although the growth on the housing market and consequently in mortgages will be slower than in 2019. Demand for personal loans will be lower, however the still popular Babaváró loan will mitigate this effect. Corporate lending will grow as well, driven by investments and favourable interest rates. The Funding for Growth fix facility of MNB will also support lending to SME-s.

Margins remain under pressure

Fear of economic recession and decreasing inflation led the most important central banks to cut rates in 2019 and interest rates are expected to remain on the current extreme low level in 2020. Margins will be under pressure both on the active and on the passive side. Negative interest rate on short term placement will cause further losses. Growing lending and transactional activity could mitigate the negative effect, however strong competition and digitalization will drive the fees down.

Improvement in credit quality

As a result of continuous portfolio cleaning and decreasing new NPL inflows (thanks to solid underwriting processes and preventive credit risk assessment methodologies), the NPL portfolio of the sector and of CIB show a declining tendency. However, the high ratio of distressed household mortgage and project-finance loans continues to be a risk in the financial system. NPL ratios can decrease further in 2020 supported by the increased performing loan portfolio.

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

Assets

The balance sheet total of CIB Group amounted to HUF 2,010,594 million (+5.5% compared to December 2018) as of December, 2019. The higher total assets was primarily a consequence of the increase in customer loans.

Customer loans

At the end of December, 2019 CIB Group's consolidated gross loan portfolio was HUF 1,065,370 million (+15.5%), with an annual improvement that is even higher if we take into consideration the decrease of non-performing portfolio recorded during the year. Within the total portfolio the proportion of consumer loans (mortgage, car financing and others) levelled at 34.8% by the end of December (-0.1%). The share of large corporate loans grew by 1.4%, to 45.2%, while that of SME and Small Business financing slightly decreased by 0.7% and 0.5% respectively. Demand for new financing increased compared to the same period of 2018, especially in the retail mortgage and unsecured markets, where new disbursements rose by 39% and 28%, in addition to the huge demand for the new Babaváró product.

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

Loan portfolio quality

The credit quality of CIB Group's loan portfolio improved in 2019, and the share of 90 days past due loans decreased to 1.8% (-0.6%) thanks to limited new inflow and portfolio cleaning activities. The improvement is connected mainly to SME (-1.0%), thanks to the sale and write-off of non-performing loans, but there was improvement in all of the segments. Improving portfolio quality also reflected in the reversal of HUF 2,241 million loan impairment over the year.

Securities

The Group held securities portfolio of HUF 423,765 million by December, 2019 (+16.6%) of which trading portfolio amounted to HUF 6,895 million; held to collect and sell portfolio reached HUF 346,582 million, while held to collect investments amounted to HUF 70,288 million. Most of the security portfolio (82% of total securities held) consisted of domestic government bonds.

Interbank receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 477,774 million (-19.2%) by the end of December 2019. 45.9% of interbank receivables was placed within Intesa Sanpaolo Group, while 48.7% was short term placement at MNB.

Repossessed properties, tangible, and intangible assets

Net book value of repossessed, fixed, and intangible assets was HUF 46,977 million (+28,3% compared to December 2018), the increase was mainly the consequence of the introduction of IFRS 16. The net book value of repossessed assets closed at HUF 10,644 million.

Liabilities

Customer Deposits

Total customer deposits amounted to HUF 1,421,287 million (+4.3%) by the end of December, 2019. All business segments contributed to the growth.

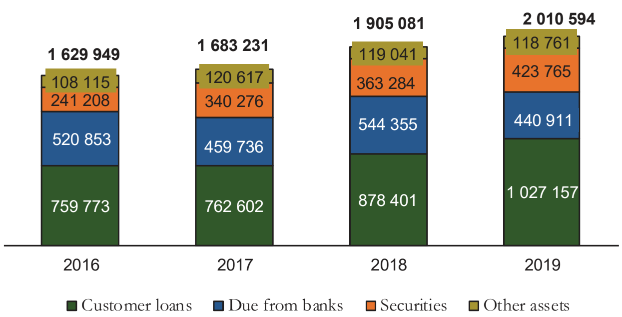
Deposit from banks

Interbank funds – including subordinated deposits – totalled to HUF 289,841 million (+10.7%) as of December 2019. Part of the funds came from the Group's parent company, accounting for 42.6% of the total of interbank deposits, while the remaining part was received from supranational financial institutions, mortgage banks and from the central bank.

Equity

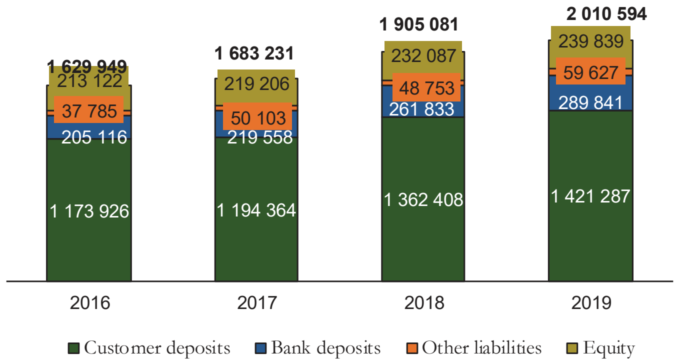
CIB Group's total shareholders' equity was HUF 239,839 million, 3.3% higher than in 2018 mainly thanks to the the profit for the current year.

Assets (HUF million)



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

Liabilities & Equity (HUF million)



Data source: CIB Group, IFRS

Profit and loss

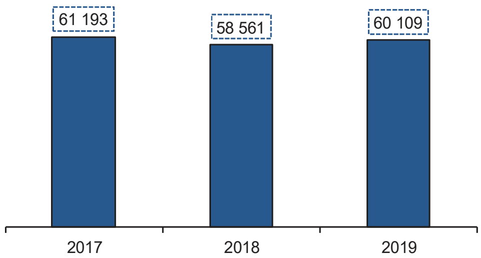
The Group closed year 2019 with a profit of HUF 13,390 million.

Revenues

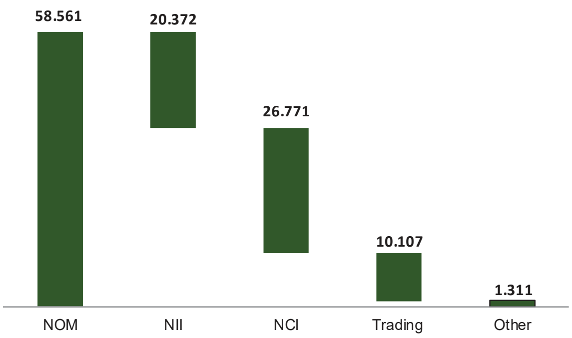
Total revenue of CIB Group amounted to HUF 60,109 million (+2.6% compared to the same period of 2018), out of which Net Interest Income was HUF 26,374 million (+29.5%). Net Commission Income was HUF 27,652 million (+3.3%), while Trading and Hedging Income totalled to HUF 6,750 million (-33.2%), Other operating income reached HUF -667 million (-151.0%).

Revenues increased compared to 2018, thanks to growing business activity. Trading results were less, due to lower gain on the derivative portfolio in 2019.

Revenues (HUF Mln)

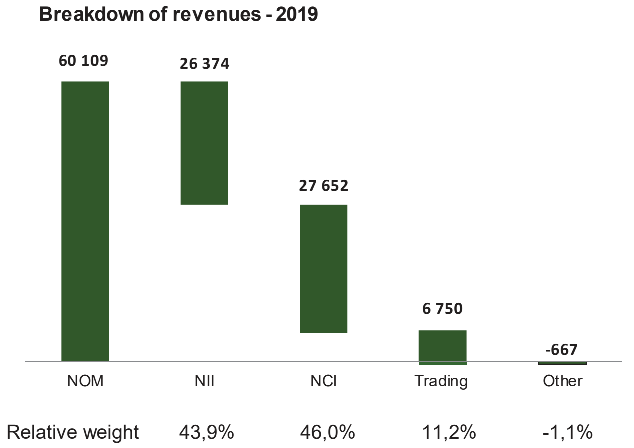


Breakdown of revenues - 2018



Relative weight	34.8%	45.7%	17.3%	2.2%

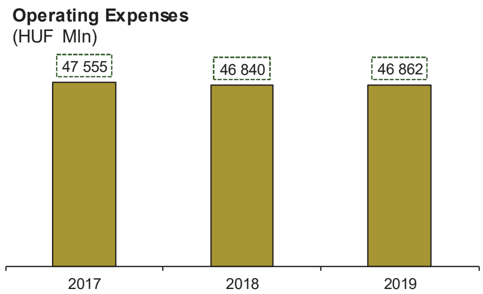
IV. Evaluation on the performance of CIB Group including net assets, financial and earning position (continued)



Data source: CIB Group, IFRS

Operating Expenses

Total operating expenses remained on the previous year's level and amounted to HUF 46,862 million without the bank tax. The effect of rising personnel expenses as a result of wage pressure was offset by strong control on the bank's other administrative expenses.



Data source: CIB Group, IFRS

Banking sector tax

Total extraordinary bank tax of the Group amounted to HUF 3,258 million in 2019.

Allowances and impairments

The cumulated amount of new allowances, impairments and provisions showed a reversal of HUF 5,636 million. Out of the total, loan impairment reversal amounted to HUF 2,241 million. The positive result was mainly the effect of the improving rating of corporate customers and releases from sale of corporate exposures.

Net result on repossessed real estates was also positive, HUF +2,129 million, thanks to the gain on real estate sales and write-back of previous impairment.

V. Operations of the subsidiaries in 2019

The Group structure was the following at each 31 December:

(number of companies)	**2019**	**2018**
Companies for providing services and products to Group's customers	3	3
Companies responsible for the management of repossessed assets	1	1
Companies under unwinding procedure	1	1
Total	**5**	**5**

Companies for providing services and products to Group's customers

CIB Leasing Ltd.

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 Ltd, CIB Property Ltd, and CIB Residential Property Ltd merged into CIB Leasing Ltd making the company the only entity in CIB Group providing financial leasing services. Continuing the simplification of the Group structure at the end of 2017 CIB Real Estate Leasing Ltd. merged to CIB Leasing Ltd, who records a market share of 4.5% as of September 2019. The total assets of the company in December 2019 were HUF 93,790 million. Net results for year 2019 was HUF -647 million.

CIB Rent Ltd.

The company is specialized in operative leasing transactions. The total assets of the company at the end of 2019 were HUF 442 million, while annual result was a loss of HUF 33 million.

CIB Insurance Broker Ltd.

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2019 total assets of CIB Insurance Broker Ltd. amounted to HUF 1,390 million, while its profit after tax was HUF 463 million.

Company responsible for the management of repossessed assets

Recovery Ltd.

Recovery Ltd. (previously Expert Ltd.) is the main vehicle for the repossession of real estates. On 31 December 2011 CIB REAL Ltd. (a company dealing with the management of Group's operating premises) merged with Recovery Ltd. The sole legal successor of the merged entities is Recovery Ltd. Total assets of the company closed the year at HUF 18,124 million. The company closed the year with a profit of HUF 1,400 million.

Company under unwinding procedure

CIB Factor Ltd.

The company became part of CIB Group in 2004. Its main activity is the factoring of receivables and the cross-selling of products with the SME division of the Bank. CIB Factor merged its business activities into the Bank as of 31. December 2016, its activity has been terminated and the liquidation procedure of CIB Factor commenced on 27th December 2017 and was completed on 26th December 2019. CIB Factor Ltd. "u.w." is currenty under dismemberment procedure at the Hungarian Court of Company Registration.

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

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

VII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of liquid financial instruments.

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

VII. Utilisation of financial instruments in the Group (continued)

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

VIII. Risk-management and hedging policy of the Group

ISP Group's regulations pertaining to the various significant types of risk are approved, and reviewed at least once a year, by the Management Board of the mother company. The Group has credit risk management, market risk management, liquidity and liquidity crisis management, interestrate risk, country risk - counterparty 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 financial portfolio policy includes the guiding principles related to currency and interest risk, the regulations containing methodology of sensitivity analyses and value-at-risk calculations, as well as the limits for the risk exposures.

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

The Group applies hedge accounting to some specific assets hedged by interest rate swaps in order to mitigate the interest rate risk in the Banking Book. The Group in accordance with IFRS and Intesa Sanpaolo Group policies designates certain derivatives also 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 P&L calculation method depends on the purpose of the transaction wether trading or hedging. The effect of the changes in the fair value is immediately recognized on the income statement in case of the derivative transactions for trading purposes.

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

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

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

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

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

Lending process is managed along structured principles in its entire complexity from customer request via credit approval, disbursement, 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.

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

In the frame of the core business activity the Group is actively managing the interest rate risk by defining the maximum accepted level of interest rate risk exposure held in the banking book and the expected net interest income. Each year, the Management Board, under the supervision of the Supervisory Board and in line 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 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 liquidity and disponibility and ensuring the safety of customer deposits constantly.

Among the various price risks, the Group is predominantly exposed to the changes of currency exchange rates, as well as as well as the changes of the market values of securities. The Group aims to hedge its FX positions in the frame of the trading book activities performed by the Treasury.

X. Research and development

In 2019 and 2018 the Group had no own research and development and did participate in the financing of any research projects.

XI. Employment policy

The focus of Human Resources Management in 2019 was strengthening employee satisfaction and loyalty. To support this, the Group developed an HR value proposition for each stage of the CIB employee experience journey, and implemented programs along these lines throughout the year.

In-house employee engagement programs known as “CIB Spirit” continued in 2019. Most prominent among these were family-friendly initiatives, such as financial support for summer camp for colleagues' children, the Santa Claus Event, the Family Picnic and the CIB Children’s Club - which included childcare for staff's children during the spring and fall school holidays. These are coupled with “Womentoring” initiative, which aims to support female career path and the return after maternity leave to the workplace. The Group managed to significantly increased the number of mothers returning to CIB by 2019 and won the Family Friendly Company title, thanks to above mentioned programs. To promote work-life balance, CIB also launched a “service in the office” initiative in the headquarters: in addition to seasonal tire changing and car washing, colleagues now have access to on-site laundry and ironing services.

In 2019, the award portfolio got extended, rewarding and celebrating TOP sales and TOP support colleagues. The Retaining Leaders, Golden Teams of the Year and CIB jubilee staff members with 20-25-30 years tenure were acknowledged by the Board of Directors at a year-end award ceremony. The “CIMBI” Buddy Program for new hires was launched, with more than 80 volunteering buddies supporting newcomers to make them feel part of the community as soon as possible.

2019 was a special year since CIB celebrated the 40th anniversary of the foundation of the Central European International Bank, the predecessor of CIB Bank. With relation to this, numerous exciting activities and surprises were arranged: re-launching of the Sabbatical Program, which this time allowed 40 colleagues to recharge. Lot of photos regarding the major milestones in the history of the Bank were collected along the photo contest; and in September the 40th birthday of the Bank at the CIB Spirit Day was celebrated.

Great emphasis continues to be put on talent identification and talent management within the organization. In 2019, 42 employees completed successfully the Expert Talent Program. During the 2-year-program, a number of options were available to support participants’ professional development, such as mentoring, coaching, a premium education package, an individual education budget, and a Bank Simulation Program. In addition, a new talent program was designed, which will be launched with the name of “Talent University” in 2020 with the participation of more than 60 colleagues.

Throughout the year 2019, numerous training and development programs were set up for the development of employees: product and system trainings renewed skill development portfolio in addition to continuing English training courses. More than 1000 colleagues participated in "Digital Galaxy" learning program, an online edugame, covering today's technological innovations and essentials of digitalization in a playful way, as well as the latest developments that make everyday life easier, and the latest CIB innovations. The Bank re-designed the leadership development program and launched a communication campaign towards managers regarding employee retention. The year was closed with an internal management conference, where managers heard presentations about improving employee experience, generational differences, and the importance of mindfulness in order to enhance their role in retention.

XI. Employment policy (continued)

As of 2019 a new, more flexible and user-friendly performance evaluation IT system, called NewPat supports head office managers in setting goals for their colleagues and evaluating their performance and the competencies.

XII. Sites of operation

The Banks head office is located at 1027 Budapest, Medve u. 4-14.

XIII. Corporate governance policy

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

Consistent professional governance within CIB Group takes place in accordance with the "Principles of the professional governance and operation of CIB Group" policy, which defines also the guidelines for the running the organisation.

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

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

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

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

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

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

The **Remuneration Committee** operates based on the Constitution and upon 117. § (6) of Act CCXXXVII of 2013 also known as the Hungarian Banking Act (Hpt.). Remuneration Committee's members and rules of procedure are decided by the Supervisory Board. The Committee's duties include overseeing and preparing decisions regarding the remuneration of the members of the management board, Key People (as defined in the Remuneration Policy) performing internal control functions in compliance with the relevant legislation, supervisory guidance and Intesa Sanpaolo Group Remuneration Policies and preparing decisions regarding the remunerations and the Remuneration Policy.

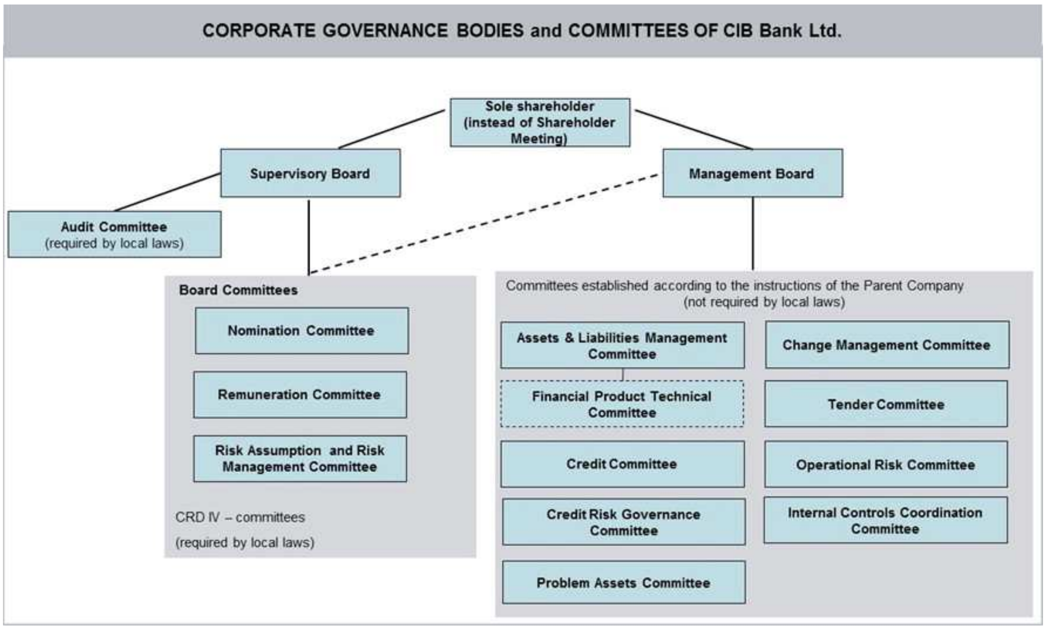
The **Nomination Committee** operates based on the Constitution and upon 112. § of the Hungarian Banking Act (Hpt.). The Committee's duties include recommending the appointments of the members of the Management Board and the Supervisory Board to the Sole Shareholder and also the re-assessment of the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

XIII. Corporate governance policy (continued)

The **Risk Assumption and Risk Management Committee** operates based on the Constitution and upon 110. § of the Hungarian Banking Act (Hpt.). The Committee's duties include supporting the Management Board and the Supervisory Board to define the risk appetite framework and the risk strategy of the Group and in the implementation of the approved risk strategy.

Other governance committees are established on the basis of the resolution of the Management Board (in line with the Bank's Statutes). The scope of authority and the operating procedures of these committees must be stipulated by a Policy that is approved by the Management Board. Governance Committees are the individual decision-making initiating, proposing and opining bodies depending on the responsibilities assigned by the Management Board. Governance Committees may operate along with Subcommittees and sections.

The members, operation and decision making competencies of governance committees are regulated in a separate policy.



Currently CIB does not have a policy on diversity within the management body of the Bank. Pursuant to the legal requirement, the Nomination Committee discussed the target ratio for the representation of the underrepresented gender in the management body of the Bank. The Parent Company's standard approach applicable to foreign subsidiary banks of ISBD is in the process of elaboration, therefore the Committee decided to revisit the issue subject to the availability of such standard approach.

Internal Audit

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

Mission:

- To ensure a continuous and independent supervision over the conduct of business and the processes, in order to prevent or detect any irregular practices or risky behaviors / situations;
- To ensure the efficient and effective management of the Group's processes, the safeguard of assets and protection against losses, reliability and integrity of the accounting and operational information, the compliance of operations with the policies established by corporate governance bodies and internal and external regulations;

XIII. Corporate governance policy (continued)

- To provide consulting support to the Group functions, with the aim of adding value and improving the effectiveness of control, risk management and governance processes of the organization;
- To ensure the supervision over the Internal Control System of subsidiaries, including governance and guidance activities for the relevant Internal Auditing Functions;

XIV. Non-financial statement

The CIB Group consists of CIB Bank and its subsidiaries, where CIB Bank plays a crucial role. Consequently, the numerical information in this section are more relevant to CIB Bank's own operations.

Our sustainability principles, reporting

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

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

With solid support from our parent bank, the main points of focus continue to include our efforts to be a bank that provides highly discerning retail and corporate customers with services that always stand out from the crowd. We believe that long-term sustainable growth can only be achieved through the fulfilment of these objectives.

In the course of our operation last year, we continued our projects aimed at retaining our staff and supporting the professional development of exceptionally skilled employees and aligned our corporate culture with our business objectives. We made significant efforts to strengthen our staff's commitment and motivation and we sought to involve them not only in the implementation of strategy, but also in the social and environmental protection programs and energy saving initiatives of the Bank Group. Through a variety of direct and indirect initiatives, which have been running for many years, we have assisted approximately 70,000 people in need by holding numerous volunteering programmes and as a result of projects organised with the help of our civil-sector partners.

Our sustainability reports have been prepared in compliance with the international guidelines of the Global Reporting Initiative (GRI). The report, which is published during the year as a stand-alone publication, contains the essential topics, examining them primarily from the point of view of our main stakeholder and our report's target group, the customers. For the 9th year running, our report also describes the fulfilment of the principles set out in the UN Global Compact.

Business model

CIB Bank became 40 years old in 2019. As a universal financial institution, CIB Bank offers the full range of commercial banking and investment services, supplemented by products and solutions offered by its subsidiaries. In addition to offering standard commercial services to about 416 thousand customers through its nation-wide branch network, CIB continues to seek innovative solutions tailored to customer needs. Its services are available to businesses, institutions, municipalities and sole traders, besides retail customers. In addition to the bank's branches, customers also have a wide variety of electronic channels to choose from, to manage their finances quickly and conveniently, such as the revamped official website - where a fully online end-to-end account opening is available - CIB Online, CIB Internet Bank, CIB Mobile Application or eBroker, the Bank's information and securities trading system.

Based on the four-year strategy set out for CIB Group in 2018, our objective is to become the primary financial service provider of larger base of customers. At the centre of the strategy is the simplification of banking processes, the increase of customer satisfaction and the digitalization which becomes core in the future sales and service model.

Ethical norms, rules of conduct

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

As a company that operates in compliance with strict ethical norms, we have put in place a number of mechanisms that reveal risks previously undetected, due to their nature including ethical risks. The purpose of these procedural rules is to enable victims in ethics cases to ask for help, to consult and request advice, before taking action if needs be, and to do so in an anonymous manner.

XIV. Non-financial statement (continued)

An Ethics Committee operates at the CIB Group, and its chairperson, who also functions as the ethics ombudsman, is the Bank's CSR head. The Code of Conduct is a means of articulating, in the form of regulations, the values enshrined in the Code of Ethics. The rules ensuring ethical conduct, with a special focus on corruption-free and discrimination-free operation, are incorporated into the Bank Group's regulatory system in the form of a policy, the breaching of which may have consequences under labour law. The key areas of our responsible corporate governance also include the efforts to combat money laundering and financing of terrorism, the avoidance of conflicts of interests, risk management and internal auditing, all of which are overseen by named responsible persons.

More details about responsible corporate governance, the operation and diversity of the ethics system, and past complaints can be found on our website.

Stakeholder dialogue

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

Human rights

HIGHLIGHTS

- We have made a commitment to protect human rights in accordance with the 1948 Universal Declaration on Human Rights of the UN. We expect all of our Hungarian and foreign partners to do the same.
- In the course of its operation our Bank fully respects the Fundamental Law of Hungary and all other general domestic and international conventions on human rights and ethics.
- We treat protecting the personal data of our customers as a key priority; we investigate complaints related to data handling, and take steps to reduce the number of complaints to a minimum.
- We provide our employees with fair and satisfactory working conditions and pay, as well as a wide range of other benefits. The average starting monthly wage is nearly double the statutory minimum wage.
- In 2019, we continued with the implementation of the Code of Ethics and Rules of Conduct based thereon, and continued operations based on the acceptance of procedures and the system.
- We are committed to eliminating all forms of discrimination from our conduct and to respecting differences in gender, age, race, religion, political and trade-union alignment, and language, and to respecting the rights of those with disabilities.
- We joined the “Nyitottak vagyunk” (We're open) initiative: we consider it a fundamental value that we judge our employees and partners solely on the basis of their actions and performance. Our success is also due to our openness to new ideas, unusual solutions, each other and the world.
- Our branches have either full or partial accessibility for disabled persons.

Relevant considerations and their detailed explanation

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

- it is committed to helping safeguard human rights in accordance with the principles of the Universal Declaration of 1948 and in subsequent international conventions on civil and political rights and on economic, social and cultural rights;

XIV. Non-financial statement (continued)

- it recognises the principles set out in the ILO (International Labour Organisation) fundamental conventions, particularly the right of association and collective bargaining, the ban on forced and child labour and the elimination of discrimination at work;
- it contributes to the fight against corruption, supporting the OECD (Organisation for Economic Cooperation and Development) guidelines and the anti-corruption principles issued by the United Nations in 2003, including through a "zero tolerance" approach to any cases of corruption.

The same human rights policy was adopted in CIB Bank during 2018.

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

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

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

Process of monitoring relevant considerations

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

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

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

Main indicators as at 31 December 2019

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

	male	female
manager	55.4% (2018: 54.1%)	44.6% (2018: 45.9%)
specialist	49.4% (2018: 47.9%)	50.6% (2018: 52.1%)
colleague	26.0% (2018: 26.8%)	74.0% (2018: 73.2%)

- Workplace accidents and the number of working days lost as a result (days): 13 accidents and 62 days (2018: 10, 318)
- Number of ethics complaints made due to violations of human rights: 1 *(*)* (2018: 0)
- Donations made to vulnerable and underprivileged groups (Hungarian forints): HUF 14 million (2018: HUF 14.4 million)

XIV. Non-financial statement (continued)

- Child financial literacy education activities: Pénz7 (Money Week), World Savings Day (child financial literacy education programme week) (2018: same)

(*) Following the investigation, no proof of human rights' breach has been found.

Social and labour affairs

HIGHLIGHTS

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

Relevant considerations and their detailed explanation

Equal treatment and diversity

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

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

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

Remuneration and Pay

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

The wide-ranging system of fringe benefits is an important part of our remuneration strategy. The sum of the benefits package provided under the Cafeteria system has not changed in 2019. Part-time workers continued to be entitled to Cafeteria benefits on a pro-rata basis.

Trade Unions

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

XIV. Non-financial statement (continued)

Health at Work

Participation in all the periodic vocational and professional suitability and fitness tests prescribed by law continued to be compulsory for all of our staff in 2019. In keeping with the practice of previous years, for managers above a certain grade we continued to provide executive medical screening as part of the annual occupational health examination, due to the higher-risk environment.

In response to the need of a further standardization at international level in relation to Occupational Health and Safety, CIB Bank has adopted the Rules for Occupational Health and Safety Management Systems extended to all the International Subsidiary Banks of Intesa Sanpaolo Group.

The definition of a OH&S referent in the Bank has been the first step towards a new framework for enforcing the management system of all activities related to the matter, in coherency with the Parent company's strategy on Occupational Health and Safety and with the ultimate goal of fulfilling with the ISO 450001 international standard.

Performance Assessment

Starting in 2019, a new, even more flexible and user-friendly performance evaluation system called NewPat supports our executives working in the central and/or support areas in setting goals for their colleagues and evaluating their achievement and the competencies that help their work. For those working in the business area, a uniform sales incentives system (GPS) has been in place since 2014 to provide support for the performance management processes.

During the performance assessment period, a series of panel discussions held throughout the organisation ensure the consistency of the evaluations between the management levels and the individual divisions. Every employee in the Bank is given an assessment of their performance and an overview of their career opportunities.

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

Process of monitoring relevant considerations

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

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

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

Main indicators as at 31 December 2019

- Number of employees of the CIB Group, per level of seniority (persons):

colleague	1,264	(2018: 1,211)
specialist	545	(2018: 537)
manager	193	(2018: 196)
Total	**2,002**	**(2018: 1,944)**

XIV. Non-financial statement (continued)

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

	male	female
colleague	105.3% (2018: 99.1%)	102.2% (2018: 97.0%)
specialist	95.4% (2018: 90.5%)	92.4% (2018: 88.7%)
manager	87.7% (2018: 82.6%)	87.9% (2018: 83.8%)

- Average number of training hours (hour/person) 47.63 (2018: 56.57)
- Ratio of part-time employees (%): 6.5% (2018: 4.3%)
- Percentage ratio of trade union member employees (%): 7.1% (2018: 7.9%)
- Number of workplace accidents (number): 13 (3 accidents at work and 10 traffic accidents) (2018: 10, 2, 8)

Anti-corruption, conflict of interest

HIGHLIGHTS

- Our Bank regularly reviews and keeps up to date its Code of Ethics and code of conduct, which specifically addresses the prohibition of corruption.
- Our conflict of interest regulations are stricter than the national requirements.
- All employees of the CIB Group regularly receive training in the prevention of money laundering, financing of terrorism, anticorruption and conflicts of interests, through the e-learning interface (MultiLearn) accessible via the internal network.

Relevant considerations and their detailed explanation

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

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

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

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

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

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

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

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

XIV. Non-financial statement (continued)

Process of monitoring relevant considerations

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

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

Main indicators as at 31 December 2019

- Percentage of employees that have attended and got certified through distance learning courses one prevention of money laundering topics (compared to total Group population): 83% (2018: 91%)
- Total number of employees who attended in-person training courses on the prevention of money laundering: 438 (2018: 97 persons)
- Number of ethics violation reports related to suspected corruption: 0 (2018: 0)

Enviromental protection

HIGHLIGHTS

- For the first time, we have completely carbon-neutralized our international corporate conference (Novathon #withCIB).
- At the end of 2019, the ISO 50001 certificate was revised and the bank successfully renewed the certificate. In 2018, the standard was significantly modified by the international committee, which was adopted by the Hungarian committee for standardization in 2019. This year, CIB Bank will also start working to prepare for the revised standard, the first audit of which will take place at the end of 2020.
- We continue to perform the energy efficiency objectives. (installing LED lights in the bank branches, UPS optimisation, server cooling setting, replacement of heaters and air conditioners).
- Riding a bike to work remained popular, and our bicycle storage facilities were used to their full capacity last year as well.
- When preparing and implementing the training programs we take special care to respect the values of our natural, economic and social environment, and make an effort to manage our resources responsibly and without waste. To this end we give preference to electronic communication (e.g. in the process of sending out invitations, information or training materials), and where paper-based documentation is absolutely necessary we produce this economically, with double-sided printing.
- At our headquarters, waste is collected selectively. Every year, the volume of hazardous waste is reduced, and most of it is reused (restaurant fats are recycled).
- We are planning to build recharging points for electric cars.
- We continue to use the GreenGo carsharing service using electric cars in order to significantly reduce our environmental footprint resulting from the use of taxi services.
- CIB Group first joined Earth Hour 9 years ago, WWF’s international climate protection initiative in 2010. In 2019 we again committed to turning off lights wherever it was technically feasible in our central buildings during Earth Hour, highlighting the importance of climate and environmental protection.

XIV. Non-financial statement (continued)

Relevant considerations and their detailed explanation

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

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

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

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

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

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

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

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

Process of monitoring relevant considerations

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

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

XIV. Non-financial statement (continued)

Main indicators as at 31 December 2019

- Total energy used (GJ):52,755 (2018: 56,324)
- Number of bicycle parking spots: 78 (2018: 78)
- Greenhouse gas emissions avoided through the use of solar collectors (tonnes, as carbon dioxide equivalent): 1.15 (2018: 23)
- CO2 emission (t) resulting from energy utilisation: 5,460 (2018: 5,839)
- Paper usage per employee - office A4, A3 - (kg/person): 115,864 kg/1990 persons =58,2 kg/person (2018: 108,739 kg/1980 person =54,9 kg/person)
- Electricity usage (kWh): 9,739,875 (2018: 10,008,122)
- Other, renewable energy usage (kWh): 15,278 (2018: 70,000)
- CO2 savings originating from e-car sharing service instead of taxi services since January 2019 app. 636 kg
- Carbon-neutralisation of corporate events: Planting 516 native fruit trees to offset 121.65 tonnes worth of carbon footprint.

24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

CIB BANK

CIB BANK LTD.

Separate financial statements
prepared in accordance with
International Financial Reporting Standards
as adopted by EU
for the year ended 31 December 2019

with the report of the Independent Auditor

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Contents (continued)

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Independent Auditors' Report

To the shareholder of CIB Bank Zrt.

Report on the Audit of the Financial Statements

Opinion

We have audited the 2019 financial statements of CIB Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the statement of financial position as at 31 December 2019, which shows total assets of MHUF 2,009,416, the statement of profit or loss and other comprehensive income, which shows profit for the year of MHUF 13,981, and the statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter referred to as "EU IFRSs") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank for the purposes of our audit of the financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these, in the "Code of Ethics for Professional Accountants" issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

This is an English translation of the Independent Auditors' Report on the 2019 financial statements of the CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete financial statements it refers to.

Valuation of loans to customers (net carrying amount: HUF 1,013,131 million, accumulated impairment: HUF 28,496 million)

Refer to note 22 to the separate financial statement.

The key audit matter	*How the matter was addressed in our audit*
The impairment on loans is considered to be a key audit matter owing to the significance of loans and advances to customers, and the high degree of complexity and judgment applied by the Bank in determining impairment. Net carrying amount of loans and advances to customers represents 50.4% of the total assets of the Bank, and the accumulated impairment loss amounts to HUF 28,496 millions as at 31 December 2019. Without having appropriate impairment assessment the carrying value of the loans and advances might be under or overstated. Impairment on individually significant, non-performing loans are based on the Bank's judgment in estimating the present value of expected future cash flows and the probability of the estimated outcomes, which are inherently uncertain. The present value of expected future cash flows is influenced by amongst others the applied discount factor on the value of collateral, the length of the recovery process and the cost of liquidation or sale process. The estimation of these items is very difficult. This is challenging from an audit perspective as the forecast cash flows reflect future expectations and may vary depending on the possible scenarios. Collective impairment is determined either by a rating based approach at customer level, or segmenting the portfolio into pools with homogeneous risk profiles for retail loans. Based on the assigned rating or pool, an estimate of the probability of default and the potential loss given default is applied to determine the collective loss allowance. This is challenging from an audit perspective due to the use of complex models to predict probability of default and loss given default estimates and the application of the Bank's judgment to the determination of the applied model parameters.	Our audit procedures included: We assessed the design and implementation, and tested operating effectiveness of key controls over impairment calculations and customer ratings, as well as the annual revisions and collateral recording. We performed a specific loan assessment for a sample of individually significant customer loans. The size of the sample was designed so that the conclusions reached based on the sample provide sufficient evidence for the entire population of individually significant loans. Our loan assessment included - among others – the examination of past due information, financial performance and industry benchmarks. In addition we inspected the latest correspondence with the borrower, the latest loss allowance estimates prepared by the Bank's credit risk officers, the, latest available financial information, latest independent appraisals made on the collaterals, related committee minutes, and consideration of the resolution period estimated for the impaired loans. We challenged the assumptions based on our professional judgment and industry knowledge. We assessed the collateral values based on valuations made by valuation experts engaged by the Bank. We also reperformed key calculations. With respect to collective impairment we independently assessed the Bank's judgment in the application of model parameters by applying sensitivity tests to assumptions underlying these parameters, and evaluation current economic conditions. We involved our financial risk management specialists to evaluate whether the methodologies and models applied by the Bank are appropriate in accordance with IFRS 9 impairment requirements.

	We assessed the completeness, accuracy and relevance of data used for estimates related to valuation of loans to customers. We evaluated the completeness, accuracy and relevance of disclosures required by IFRS 7 relating to impairment of loans.

Other Information

The other information comprises the 2019 business report of the Bank. Management is responsible for the preparation of the business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the financial statements expressed in the Opinion section of our report does not cover the business report.

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

Based on the Act on Accounting, we are also responsible for assessing whether the business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements and expressing an opinion on this and whether the business report is consistent with the financial statements.

With respect to the business report, based on the Act on Accounting, we are also responsible for checking that the information referred to in Section 95/C of the Act on Accounting has been provided in the business report.

In our opinion the 2019 business report of the Bank is consistent, in all material respects, with the 2019 financial statements of the Bank and the applicable provisions of the Act on Accounting.

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

We confirm that the information referred to in Section 95/C of the Act on Accounting has been provided in the business report.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by members meeting on 5 April 2019 to audit the financial statements of the Bank for the financial year ended 31 December 2019. Our total uninterrupted period of engagement is 8 years, covering the periods ending 31 December 2012 to 31 December 2019.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank dated 24 February 2020;

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

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

Budapest, 25 February 2020

KPMG Hungária Kft.

Registration number: 000202

Mitták Zoltán
Director, Professional Accountant
Registration number: 007298

This is an English translation of the Independent Auditors' Report on the 2019 financial statements of the CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete financial statements it refers to.

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2019

(million HUF)

	Note	2019	2018
Interest income		30,688	24,142
a) Interest income calculated using effective interest rate method		*32,720*	*25,449*
b) Other interest income		*(2,032)*	*(1,307)*
Interest expense		(5,943)	(5,416)
Net interest income	**9**	**24,745**	**18,726**
Fee and commission income		35,618	33,390
Fee and commission expense		(8,885)	(7,530)
Net fee and commission income	**10**	**26,733**	**25,860**
Income from trading activities	11	8,588	9,914
Fair value adjustments in hedge accounting	11	(54)	156
Other operating income	12	2,804	4,490
Other operating expense	12	(1,301)	(1,542)
Net operating income		**61,515**	**57,604**
Impairment release on loans	13	1,969	633
Other impairment release and provisions	13	1,608	6,813
Operating expenses without bank tax	14	(46,049)	(45,161)
Profit/(loss) before bank tax and income taxes		**19,043**	**19,889**
Bank tax	15	(3,100)	(3,166)
Profit/(loss) before income taxes		**15,943**	**16,723**
Income tax expense	16	(1,962)	(2,458)
Net profit/(loss) for the year		**13,981**	**14,265**
Items that may be reclassified to profit or loss		3,435	(145)
Items that may not be reclassified to profit or loss		926	345
Other comprehensive income for the year (net of tax)	**18**	**4,361**	**200**
Total comprehensive income for the year		**18,342**	**14,465**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 11 to 77 are an integral part of these separate financial statements.

**Statement of financial position
as at 31 December 2019**

(million HUF)

	Note	31/12/2019	31/12/2018
Cash and current accounts with central banks	19	36,863	47,108
Financial assets measured at fair value through profit or loss		52,996	47,449
a) securities held for trading	*20*	*6,895*	*24,685*
b) trading derivatives	*20*	*20,153*	*15,479*
c) financial assets mandatorily measured at fair value	*22*	*25,948*	*7,285*
Financial assets measured at fair value through other comprehensive income	23	346,582	285,732
Financial assets measured at amortised cost		1,524,330	1,485,992
a) loans to banks	*21*	*440,911*	*544,355*
b) loans to customers	*22*	*1,013,131*	*888,770*
c) debt securities	*23*	*70,288*	*52,867*
Hedging derivatives	24	873	1,840
Fair value change of financial assets in hedged portfolios (+/-)		3,827	1,315
Investments in subsidiaries	25	2,467	650
Property, land and equipment	26	17,724	8,734
Intangible assets	27	12,323	11,103
Tax assets	16	1,105	405
a) current		*805*	*108*
b) deferred		*300*	*297*
Other assets	28	10,326	12,022
Total assets		**2,009,416**	**1,902,350**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

Statement of financial position
as at 31 December 2019

(million HUF)

	Note	31/12/2019	31/12/2018
Financial liabilities measured at amortised cost		1,715,594	1,630,096
a) deposits from banks	*29*	*279,919*	*252,181*
b) deposits from customers	*30*	*1,435,675*	*1,377,915*
Trading derivatives	20	16,181	9,488
Hedging derivatives	24	8,906	2,768
Tax liabilities	16	693	300
a) current		-	*19*
b) deferred		*693*	*281*
Other liabilities	32	24,110	20,256
Provisions		4,924	9,046
a) for commitments and contingencies	*33,37*	*990*	*1,285*
b) for other risk and charges	*33*	*3,934*	*7,761*
Subordinated debts	34	9,922	9,652
Total liabilities		**1,780,330**	**1,681,606**
Share capital	35	50,000	50,000
Reserves	36	163,579	157,905
Retained earnings		15,507	12,839
Total shareholder's equity		**229,086**	**220,744**
Total liabilities and shareholder's equity		**2,009,416**	**1,902,350**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 11 to 77 are an integral part of these separate financial statements.

Statement of changes in equity
for the year ended 31 December 2019

(million HUF)

	Note	Ordinary shares	Retained earnings	Capital reserve	First time adoption reserve	Revaluation reserve	General reserve	Other reserve	Total
Balance at 31 December 2017		**50,000**	**(46,103)**	**143,028**	**-**	**2,322**	**2,992**	**53,954**	**206,193**
IFRS 9 FTA	7	-	-	-	86	244[(1)]	-	-	**330**
Balance at 1 January 2018		**50,000**	**(46,103)**	**143,028**	**86**	**2,566**	**2,992**	**53,954**	**206,523**
Other comprehensive income (OCI)	18	-	-	-	-	(44)[(1)]	-	-	**(44)**
Decrease of capital reserve	36	-	46,103	(46,103)	-	-	-	-	**-**
General reserve	36	-	(1,426)	-	-	-	1,426	-	**-**
Net profit / (loss) for the period		-	14,265	-	-	-	-	-	**14,265**
Balance at 31 December 2018		**50,000**	**12,839**	**96,925**	**86**	**2,522**	**4,418**	**53,954**	**220,744**
Other comprehensive income (OCI)	18	-	-	-	-	4,361	-	-	**4,361**
General reserve	35	-	(1,399)	-	-	-	1 399	-	**-**
Dividend paid	17	-	(10,000)	-	-	-	-	-	**(10,000)**
IFRS 9 FTA settlement reclassification		-	86	-	(86)	-	-	-	**-**
Net profit / (loss) for the period		-	13,981	-	-	-	-	-	**13,981**
Balance at 31 December 2019		**50,000**	**15,507**	**96,925**	**-**	**6,883**	**5,817**	**53,954**	**229,086**

[(1)] *The effect of the IFRS 9 first time adoption on 01 January 2018 and the change in other comprehensive income for 2018 is HUF 200 million.*

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

The notes on pages 11 to 77 are an integral part of these separate financial statements.

Statement of cash flows
as at 31 December 2019

(million HUF)

	Note	2019	2018
Operating activities			
Net profit/(loss) before income taxes		15,943	16,723
Depreciation and amortization	14	4,751	3,554
Fair value adjustment on PPE		-	35
Net unrealized (gain) / loss on financial instruments		2,589	(4,654)
Increase / (decrease) in impairment loss on loans		(851)	3,332
Increase / (decrease) in allowance for repossessed properties, own properties and intangible assets		131	25
Working capital changes			
Decrease / (increase) in loans to banks	21	(37,349)	(124,681)
Decrease / (increase) in FVPL financial assets	20	17,783	36,450
Decrease / (increase) in loans and advances to customers	22	(141,170)	(107,528)
Decrease / (increase) in other assets	28	988	(4,255)
Increase / (decrease) in deposits from banks	29	27,738	41,935
Increase / (decrease) in deposits from customers and liabilities from issued securities	30	57,471	170,170
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	32	(9,433)	6,332
Income tax charged	16	(1,900)	(2,429)
Cash flows used in operating activities		**(63,309)**	**35,009**
Investing activities			
Purchase of financial investments		(83,991)	(163,330)
Proceeds from sale of financial investments		3,065	108,640
Acquisitions to intangible and tangible assets		(6,200)	(4,735)
Decrease / (increase) in ROU assets	36	253	-
Decrease / (increase) in repossessed assets		(11)	(11)
Disposals of repossessed properties		22	67
Change in investment in subsidiaries		(1,840)	(55)
Cash flows used in investing activities		**(88,702)**	**(59,424)**
Financing activities			
Dividend paid	17	(10,000)	-
Cash flows used in investing activities		**(10,000)**	-
Net increase / (decrease) in cash and cash equivalents		**(162,011)**	**(24,415)**
Cash and cash equivalents at the beginning of year		414,706	437,860
Effect of exchange revaluation		298	1,261
Cash and cash equivalents at the end of year		**252,993**	**414,706**

The notes on pages 11 to 77 are an integral part of these separate financial statements.

Additional information for cash flows from operating activities

(million HUF)

	2019	2018
Interest received	31,875	23,208
Interest paid	7,403	6,623
Dividend received	35	44
Income tax paid	1,900	2,400

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	31/12/2019	31/12/2018
Cash and current accounts with central bank	19	36,863	47,108
Financial assets at fair value through profit or loss	20	-	200
Loans to banks	21	216,130	356,922
Financial assets at fair value through other comprehensive income	23	-	10,476
Cash and cash equivalents at the year end		**252,993**	**414,706**

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.

Notes to the separate financial statements

Part A Accounting policies

(1) Corporate information

The sole owner and ultimate parent company of CIB Bank Ltd. (hereinafter: the "Bank") is Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that holds 100% of the shares of the Bank as at 31 December 2019.

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.

Persons authorized to sign the financial statement are Dr. Pál Simák Chief Executive Officer, Chairman of the Board and Dario Massimo Grassani Chief Financial Officer and Deputy Chief Executive Officer.

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

The Bank engaged KPMG Hungary Ltd. (1134 Budapest, Váci út 31.; Chamber of Hungarian Auditors reg. no.: 000202) to perform the statutory audit of the business year 2019. The individual responsible for the auditing is Zoltán Mitták, member of the Chamber of Auditors (MKVK registration number: 007298). The Bank paid HUF 79.7 million plus VAT for audit, the fee includes the statutory audit fees of CIB Bank and group reporting to the auditor of the parent, and HUF 2.4 million plus VAT for other assurance services to the auditor company in 2019.

The average number of active employees of the Group was 2,097 in 2019 and 2,073 in 2018, respectively.

As at 31 December 2019 the Bank had the following subsidiaries:

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 Insurance Broker Ltd.	100%	Hungary	Insurance agency services
CIB Factor Ltd. „u.w."	100%	Hungary	Factoring financing services
Recovery Ltd.	100%	Hungary	Real Estate Management

The Bank took over CIB Factor's activity and its financial assets as of 1st January 2017, because of it CIB Factor's activity ceased and the liquidation procedure of CIB Factor commenced on 27th December 2017 and was completed on 26th December 2019.

CIB Factor Ltd. "u.w." is currently under winding-up procedure at the Hungarian Court of Company Registration.

(2) Statement of compliance

The separate annualfinancial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union and in accordance with the provisions applicable to entities preparing annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting. These separate financial statements are prepared for statutory filing purposes.

The financial statements for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Management Board on 24th February 2020.

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

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

(3) Basis of measurement

The annual financial statements of CIB Bank Ltd. have been prepared on a historical cost basis, except for financial instruments which are measured at fair value, thus financial instruments measured at fair value through other comprehensive income, derivative financial instrument and other financial assets and liabilities measured at fair value through profit or loss. 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.

(4) Changes in accounting policies and disclosures

The Bank applied the new IFRS 16 leasing standard for the first time on 1 January 2019 for every contract whether a contract contains, or is a lease. The Standard introduced new or modified approaches and requirements for the recognition, measurement, presentation, and for the disclosures of the leases.

The Bank is using the modified retrospective approach and therefore the comparative information has not been restated, furthermore the Bank does not recognise transition difference in the retained earnings.

For more details on the new leasing standard, see chapter 5.16.

IFRS 16 Leases - changes

In January 2016 IASB published IFRS 16 – Leasing standard, which replaces IAS 17 – Lease, IFRIC 4 – Determining whether an arrangement contains a lease, SIC 15 – Operating leases, and SIC 27 – Evaluating the substance of transactions in the legal form of a lease incentives

The disclosure changes of the leases

Under IFRS 16, a contract contains a lease if the lessee has the right to control the use of and identified asset for a period in exchange for consideration. According to the standard, the lessee recognises a right-of-use asset and a lease liability. Recognition of ROU assets was not a requirement of the previous standards.

According to IFRS 16.3(e) an entity shall not apply the standard to the rights a lessee holds relating to licence contracts that apply to leases of intangible assets that fall within the scope of IAS 38 – Intangible Assets. Based on the requirements, the Bank has decided to exclude software from the scope of IFRS 16.

(5) Significant accounting policies

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

5.1 Foreign currency transactions

The presentation currency of the Bank is the Hungarian Forint (HUF). Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of transactions. Spot rate is the official rate of exchange quoted by the Hungarian Central Bank. At 31 December 2019 the euro was EUR 1 = HUF 330.52 (2018: EUR 1 = HUF 321.51).

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.

5.2 Financial instruments

The Bank has applied IFRS 9 requirements since 1 January 2018, except for the hedge accounting items, which is still evaluated according to IAS 39 until the dynamic risk management standard of IASB will be available.

5.2.1 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 Bank commits itself to purchase or sell an asset.

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

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

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

In 2013 the National Bank of Hungary launched its program called Funding for Growth Scheme (FGS). Under the program the National Bank granted refinancing funds for Hungarian credit institution with 0% interest rate - mainly in order to finance smal l- and medium businesses (SMB) by providing loans with discount rate and exchange foreign currency loans to HUF loans.

The program had three phases. The maximum interest rate of loans granted was 2.5% which, in case of the first two phases, was lower than the interest rate of similar loans available in the market. The difference between the fair value and gross book value of loans (granted and given as well) was recognized as operating income and expenses. The discount factor used for determining the fair value of loans was swap yield curve that belongs to the currency of the loan, increased by the risk premium of the partner group.

The Bank recognises settlements mentioned above in accordance with the accounting principles set out in paragraph 5.19.

5.2.2. Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 5. All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost and other adjustment at initial recognition is amortized using the effective interest rate method.

(5) Significant accounting policies (continued)

5.2.3 Measurement categories of financial assets and liabilities

The Bank classifies its financial assets based on the business model for managing the assets and its contractual terms. Financial assets are measured at either:

- Amortised cost
- Fair vaule through other comprehensive income (FVOCI)
- Fair vaule through profit or loss (FVPL)

5.2.4 Business model assessment

The Bank determines its business model reflecting its intention to generate cash flows, that is, whether the Bank's objective is solely to collect contractual cash flows from the instruments or is to collect both the contractual cash flows arising from sale. If none of these is suitable, then the financial instrument is measured at FVPL.

Business model assessment is based on reasonably expected scenarios, considering the following factors:

- Frequency, volume and timing of the sales in prior periods, the reason for such sales and the expectation about the future sales activity considered as an overall assessment on how the cash flows were collected.
- Main purpose of holding securities
- Evaluation of the instrument's performance and it's reporting to the management
- Risk assessment of the financial instrument and strategy for managing those risks

5.2.5 The SPPI test

In case, when the business model is to hold financial instruments to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payment of principle and interest (the SPPI test), so that the interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms represent exposure to risk or volatility that are unrelated to a basic lending arrangement, so they do not give rise to solely payment of principle and interest, the financial instrument is measured at FVPL.

Assessing whether the contractual terms of the instrument are SPPI, the Bank considers the following factors:

- leverage features;
- prepayment and extension terms;
- conditions that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans)
- convertible options;
- condition regarding contractually linked instruments

A relevant question when assessing the SPPI Test features for a financial instrument is whether the time value of money is modified. In cases, when the time value of money is modified, benchmark cash flow test is performed in order to determine how different the contractual cash flows of such instrument could be in respect of the cash flows that would arise had the "time value of money" element not been modified.

Assessing benchmark cash flow test the following factors are considered:

- Currency
- Refixing period of the interest rate;
- Frequency of interest payment;
- Tenor of the interest rate (underlying rate);
- Maturity

5.2.6 Fair values

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.

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:

- Level 1: inputs are the (unadjusted) quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs are inputs other than quoted prices included within Level 1 that are directly or indirectly observable for the asset or liability to be measured;
- Level 3: inputs are unobservable inputs for the asset or liability.

(5) Significant accounting policies (continued)

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

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

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

Classification is based on a hierarchy that reflects the significance of unobservable inputs used in the measurement. In case of changes occurred in the inputs or the weights when evaluating the fair values of assets, the assets could be reclassified in the fair value hierarchy.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 43.

5.2.7 Loans to banks

Loans to banks include financial assets with fixed or determinable payments that are not quoted in an active market.

Measurement of loans to banks is driven by business model and the result of the SPPI test.

For Expected Credit Loss (ECL) calculation please refer to Note 5.2.16.

5.2.8 Loans to customers

Loans to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

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.

Measurement of loans to customers is driven by business model and the result of the SPPI test.

For ECL calculation please refer to Note 5.2.16.

Where possible the Bank 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. The Management continuously monitors renegotiated or restructured loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to an individual or collective impairment assessment.

The Bank provides commercial factoring services in order to finance its partners' business activity. There are two main types of factoring deals: deal with recourse and non-recourse. The Bank classifies the financed receivables depending on whether all the risks and rewards has been transferred, or not. Accordingly:

- in case of non-recourse factoring deals the Bank acquires all risks and rewards of the receivable and therefore the total amount of the receivable is recognised in its books irrespectively of paying the total amount, or not;
- in case of recourse factoring deals the Bank does not acquire all risks and rewards of the receivable therefore only the paid amount is recognised in its books as loan advance to customers.

Receivables from factoring transactions are initially recognised at fair value which is the invoiced amount less purchase discount. After initial recognition receivables from factoring are measured at amortised cost using the effective interest rate method less allowance for impairment. In case of non-recourse factoring deals the Bank applies net presentation: if the total amount of the acquired receivable is not paid, any related liability is deducted from the carrying amount of the receivable. The Bank does not apply the simplified provisioning method when determining the allowance of impairment. Receivables from factoring transactions are not represented separately but disclosed within loans and advances to customers.

Loans that are individually assessed for impairment (i.e. non-performing exposure exceeding HUF 75 million or EUR 250,000 at the customer level) and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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.

(5) Significant accounting policies (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank'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 Bank classifies exposures as default exposure when the exposure is more than 90 day past due or it is unlikely that the Bank can collect the contractual cash flows and the past due amount is higher than the 1% of the total on-balance sheet exposure, and higher than EUR 100 for retail loans and EUR 500 for non-retail loans, in line with CRR 178 paragraph. Loan exposures shall continue to be disclosed as non-performing loans up to at least 3 months from when they no longer meet conditions to be classified as such.

Credit impaired assets are part of those financial assets whose estimated cash-flows have been negatively impacted (impaired) by one or more events that have occurred. The impairment of financial assets may not necessarily be associated with specific event but may instead result from combination of factors. Some of the most common circumstances where objective evidence of impairment can be identified are listed below:

- Significant financial difficulty of the borrower
- Breach of contract, such as default or missed due date
- Economic or contractual reasons relating to the borrower's financial difficulty
- Probability of bankruptcy or another financial reorganisation of the debtor
- The disappearance of an active market
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Positions classified as non-performing loans must continue to be recognised as credit impaired loans until at least 3 months (90 days) have elapsed since they no longer meet the conditions to be classified as such. It may can be concluded, that all credit-impaired instruments must be assigned to Stage 3.

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 Bank. 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.

5.2.9 Derivatives 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 Bank 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. Hedged instruments are identified both on individual and portfolio level. Fair value change of financial assets hedged in portfolio is presented as a separate line in the statement of financial position.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument. The Bank, 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 Bank 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 Bank 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.

Interest income and interest expense recognized on hedging derivative instruments are presented as interest income and interest expense in the statement of comprehensive income together with the interest income and interest expense recognized on hedged items. Change in fair value of hedging derivatives are presented in the income from trading activities in the statement of comprehensive income together with the change in fair value of the hedged instrument attributable to the hedged risk.

(5) Significant accounting policies (continued)

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

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

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

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

Notes 24 and 47 provide further details regarding derivative financial instruments and hedge accounting.

5.2.10 Debt securities at fair value through other comprehensive income (FVOCI)

The Bank classifies debt instruments measures at FVOCI when both of the following conditions are met:

- The objective of the business model is to collect contractual cash flow and sell the debt instrument
- The contractual terms of the instrument meet the SPPI test

These instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

For ECL calculation of debt instruments at FVOCI please refer to Note 5.2.16.3.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss.

5.2.11 Equity instruments at fair value through other comprehensive income (FVOCI)

The Bank occasionally classifies equity instruments at FVOCI, such classification is irrevocable and is made on an instrument-by-instrument basis. Equity instruments can be classified as equity instruments at FVOCI when they meet the definition of equity under IAS 32 and are not held for trading.

Changes is fair value of these instruments are recognized in OCI and are never recycled to profit or loss, even if the asset is sold. Accumulated gain or loss is transferred to retained earning upon derecognition.

Equity instruments at FVOCI are not subject to an impairment assessment and no impairment is recognised on them.

5.2.12 Deposits from bank and 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 with the interest expense booked to profit or loss with effective interest method.

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.

5.2.13 Financial assets at fair value through profit or loss (FVPL)

Financial assets included in this category are debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term or held as part of a portfolio that is managed together for short-term profit or position taking. These instruments are initially recognised at fair value, with no transaction costs taken into consideration.

FVPL assets are subsequently recognised at fair value; changes in the fair value are presented in profit and loss. These instruments are not assessed in the ECL calculation.

(5) Significant accounting policies (continued)

5.2.14 Financial assets measured mandatorily at fair value through profit or loss

The Bank classifies loans as financial assets measured mandatorily at fair value through profit or loss, where the contractual characteristics does not meet the criteria of SPPI test.

The Bank has exposures generated by the Housing Subsidy Scheme for Families (CSOK). Interest of these mortgage loans are subsidized until a certain term of the loan, where the subsidy amount depends on family conditions. Regarding this product (CSOK), the interest subsidy is calculated on the basis of 130% of the Government Debt Management Agency reference yield, while the transaction interest rate is fixed at 3%. Due to the different conditions in the transaction, the product is placed in the SPPI failed category and is measured at fair value through profit or loss.

The Bank has exposures generated by the program of Hungarian Development Bank for small and medium businesses. There is a mismatch regarding the interest characteristics of these special loans, as the interest reference rate is not line with the disbursed currency, therefore the criteria of the SPPI test is not met and these loans are also meaure at fair value through profit or loss.

In 2019, the Bank issued a so-called „babaváró” family support loan under the „Family Protection Plan”, which has an interest that could not be higher than the 130% plus 200 bp of the weighted arithmetic average of the 5-year government bond’s average yields established at auctions during the 3-month period before the disclosure. The Bank evaluate the loans at fair value, at level 3 of the fair value hierarchy, because the loan’s cash-flow have not just capital and interest components. The Bank uses the discounted cash-flows for evaluating the fair value of the loans. The discount rate is the average interest of disbursed loans updated monthly.

5.2.15 Derecognition of financial instruments

5.2.15.1 Derecognition due to substantial modification of terms and conditions

When a contractual clauses are modified during the life of an instrument, it must be verified whether the original asset must continue to be recognised in the balance sheet or whether, on contrary, the original instrument has to be eliminated from the balance sheet (derecognition) and a new financial instrument has to be recognised.The Bank derecognises a financial asset, when the terms and conditions are renegotiated to the extent that, substantially, it becomes a new loan. An assessment of the “substantial nature” of the modification shall be made, both in regard to qualitative and to quantitative elements. The qualitative and quantitative analyses designed to determine the “substantial nature” of the contractual modifications made to a financial asset will have to consider:

- the purposes for which modifications were made for example renegotiation of contract for commercial reasons and concessions made in response to economic problems faced by the counterparty;
- the presence of specific objective elements (“triggers”) that affect the characteristics and/or the contractual cash flows of the financial instrument

Assessing the derecognition of a financial asset, the Bank considers the following changes as significant change is cash flow:

- Change in currency
- Change in counterparty
- Conversion of debt exposure into equity;
- If the modification results in an instrument that would no longer meet SPPI test
- Other cases of a substantial change in the nature of the contract (i.e. the introduction of contractual clauses which expose the debtor to new and other risk components, such as returns tied to equity or commodity components, leverage effects or similar clauses.

The difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

Where the modification does not indicate significant change in cash flows, the modification does not result in derecognition. In this case the EIR is not modified and the relating gain or loss is recognised in the statement of comprehensive income as other operating expense or income.

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.

(5) Significant accounting policies (continued)

5.2.15.2 Derecognition other than for substantial modification

The Bank qualifies a financial asset for derecognition where:

- The rights to receive cash flows form the asset expire
- The Bank transfers its contractual rights to receive cash flows from the asset or if the Bank retains the rights to the cash flows, but has assumed to pay the received cash flows in full without delay to a thrid party
- The Bank has transferred substantially all the risks and rewards of the asset, or if the Bank retains the risk and rewards of the asset, but has transferred control of the asset

Financial liability is derecognised when the obligation is cancelled or expires.

5.2.16 Impairment of financial assets

From 1 January 2018, the Bank applies the expected credit loss model for all financial assets measured at amortized cost or FVOCI, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The Bank's ECL calculations are outputs of complex models, elements of the ECL models that are considered accounting judgements and estimated include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time expected credit loss (LTECL)
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs.
- Selection of forward-looking macroeconomic information included in the calculation of ECL.

Loans 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 become insolvent (probability of default is 100%) or there is a material delinquency in interest or principal payments (more than 90 days material past due amount) 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 (47) on Risk Management.

Non-performing loans are considered as credit-impaired assets.

Exposure are fully written-off, when it can be supported by documents that all recovery options (including legal procedures against the debtor and the guarantor for the guarantor) are exhausted and no further recovery is expected. Exposures can also be written-off partially, when considering the supporting documents, usually at a late stage of legal proceedings, that part of the exposure to the debtor is unlikely to be recoverable.

5.2.16.1 Overview of Expected Credit Loss principles

Expected credit loss allowance is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The credit risk of a financial asset has not increased significantly if the asset has low credit risk at the reporting date.

The Bank has significant amount of low credit risk financial assets. These are mainly intercompany items (receivables from subsidiaries and related parties) related to account of loans to banks and loans to customers.

For some exposures (clearly identified and performing government debt securities measured at fair value through other comprehensive income), the IFRS 9 low credit risk exemption is adopted, according to which exposures that, at the date of transition to the new Standard, are rated as investment grade, or above (and similar) is recognized as bearing low credit risk and treated as Stage 1. Investment grade can be allocated only to exposures with pd lower than 2% or to exposures that has "Investment grade" published by external financial rating company.

Simplified method of impairment requirements is applied on financial assets subject to IFRS 15 (trade receivables) based on IFRS 9.

(5) Significant accounting policies (continued)

The Bank classifies its financial assets into Stage 1, Stage 2, Stage 3 and POCI as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on the 12mECLs.
- Stage 2: When a loan has a significant increase in credit risk determined by a comparison of the Probability of Default art first recognition and that at reporting date.

  The following criteria is used to classify exposures to Stage 2:

  - Performing exposures with more than 30 days past due over the materiality threshold
  - Forborne exposures
  - Performing exposures with early warning signals
  - Performing exposures with significant increase in PD or other risk indicators similar to PD which can be used to assess the increase in credit risk
- Stage 3: Credit impaired assets are classified to Stage 3 during staging.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired assets on initial recognition. POCI assets are recorded at fair value at original recognition.

5.2.16.2. The calculation of ECLs

The mechanism of ECL calculation considers the following key elements:

- *Exposure at default (EAD).* The exposure consists of on-balance sheet assets and off-balance sheet liabilities, where off-balance sheet exposure represents the amount of contingent off-balance sheet liabilities of the Bank adjusted by a credit conversion factor (CCF) to convert off-balance sheet exposure into an on-balance sheet equivalent and is added to the actual on-balance sheet exposure. The credit conversion factor is defined at the level of loan facilities and is calculated using the simplified statistical methods adopted for Internal Capital Adequacy Assessment (ICAAP) purposes. In case of financial instruments classified as stage 2, EAD is determined on a yearly basis.
- *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 point-in-time method.
- *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. The Advanced Internal Rating Based approach (AIRB) compliant LGD models are finalized.
- Including forward-looking information in the calculation of Expected Credit Losses (ECL), also connected to changes in the macro-economic scenario. Macro-economic inputs comprise both EU and domestic data, e.g. GDP, unemployment data.

When estimating the ECLs, the Bank considers three scenarios: a best case, a worst case, a most likely. Each of these is associated with different risk parameters. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

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.

(5) Significant accounting policies (continued)

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.

For the portfolio segments with insufficient homogeneous set of data for statistical assessment of loss, the Bank uses risk parameters provided by ISP group calculated on the whole ISP group portfolio 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.

5.2.16.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at fair value through OCI do not reduce the carrying amount of these financial assets, it remains at fair value. The amount equal to the allowance is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss in recognised in OCI is recycled to the profit and loss upon derecognition.

Financial assets included in this category are largely those had previously been classified as financial investments available-for- sale under IAS 39.

5.2.16.4 Purchased originated credit impaired financial assets (POCI)

The Bank considers the change in currency of the contract and the change in customer as significant change in the contractual cash flows. If this change is due to financial difficulties, the exposure is classified as purchased originated credit impaired financial asset. Credit impaired financial assets can also be purchased, occasionally.

The Bank only recognises the cumulative changes in LTECL since initial recognition in loss allowance.

Interest income is recognised using a credit-adjusted effective interest rate.

5.2.17 Offsetting financial assets and liabilities

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

5.3 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 Bank in the management of its short-term commitments.

Cash is carried at amortized cost in the statement of financial position.

5.4 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.

5.5 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 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.

(5) Significant accounting policies (continued)

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the statement of financial position. Amounts paid under these agreements are included in deposits from banks. The difference between purchase and resale price is treated as interest income in the respective period.

5.6 Investment in subsidiaries

Investment in subsidiaries are the investments which is controlled by the Bank based on a direct or indirect ownership. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investment in subsidiary is recognized initially according to the IAS 27 cost value model. Based on the subsequent measurement and the quarterly review, impairment is recognized, when the difference between the fair value and book value of the investment is durable and significant. The bank defines durability for one year and a significant percentage of 10%. For the purposes of determining the fair value of the Bank's subsidiaries, the values of the current equity of each subsidiary are to be taken into account unless a business and firm valuation- not older than one year - by an external expert is available.

If there is a change of power over an investee, or in other circumstances, the Bank reassesses whether it controls an investee on a continuous basis and discloses the information and the significant estimates which was used during the assessment.

5.7 Intangible assets, property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Cost incurred after initial recognition are capitalized, except for tangible assets measured at fair value.

At subsequent measurement the assets – except for owner-occupied properties - are measured at cost, net of accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful lives of all property, plant and equipment, except operational buildings.

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises – head quarters	3%	30% of gross value
Premises – branches	5%	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

Owner-occupied premises are subsequently carried at the revalued amount. The market trends which can affect the values of the properties, are inspected on an annual basis, and in every 3 years an independent valuation is c. If the inspections show that there is a major difference between the carrying amount and the market value, the properties are revalued.

When an owner-occupied property is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the asset is included in profit or loss 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.

(5) Significant accounting policies (continued)

5.8 Goodwill

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

The Bank 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.

5.9 Other assets

Other assets' initial recognition is assessed on an individual basis, based on the type of the asset. The balance of other assets includes those balances which have not been disclosed separately in the statement of financial position. After initial recognition they are measured at the lower of cost and net realizable value.

Receivables are initially measured at fair value and subsequently measured at amortised cost. For the impairment of the receivables the Bank uses the simplified impairment model.

5.10 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.

5.11 Revenue recognition

The Bank has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018, which replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

A contract with a customer recognised as financial instrument which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in scope of the IFRS 9 and then applies IFRS 15 to the residual.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with costumers and the related assets and liabilities recognized by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

A five-step model is applied to determine when to recognise revenue, and at what amount. The revenue is recognised when the Bank transfers goods or services to a customer, measured at the amount at which the Bank expects to be entitled.

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

The following fee types are not integral part of the effective interest rate of the financial pursuant to IFRS 9 and, consequently have to be recognised in compliance with IFRS 15:

- The fees charged for loan service
- The commitment fees to originate a loan when the loan disbursement commitment is not designated at fair value through profit or loss and it is unlikely that specific loan agreement will be made
- The loan syndication fees received by the bank making a loan and does not keep any part of the loan for itself.

Fees earned for providing services - such as servicing fee, account turnover fee, card fee, investment services fee, documentary fee and cash management fee - are recognised over time. 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 profit or loss 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 Bank's right to receive the payment is established.

(5) Significant accounting policies (continued)

5.12 Taxation

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

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

Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

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.

The carrying amount of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 items are measured using tax rates that are probable in the period in which the temporary differences reverse, based on tax laws that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax items are recognised in profit or loss as income tax expense.

Deferred tax asset and deferred tax liabilities are offset if legally enforceable rights exist 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 2019 the basis and rates are defined with reference to statutory reported financial data of the reporting entity for the period ended 31 December 2017. For 2018 the basis and rates are defined with reference to statutory reported financial data of the reporting entity for the period ended 31 December 2016.

The tax rates for credit institutions were 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.2% had been applied for the amount exceeding HUF 50 billion for 2019.

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

Financial transaction duty

Financial transaction duty is presented as operating expense in profit or loss.

5.13 Fiduciary assets

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

5.14 Financial guarantees

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

Subsequent to initial recognition, the Bank’s liabilities under such guarantees are each measured at the higher of the loss allowance in accordance with IFRS 9 and the amount initially recognised (before 1 January 2018 at the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee). Any change in the liability relating to financial guarantees is recorded in profit or loss.

(5) Significant accounting policies (continued)

5.15 Provisions

Provisions are recognized when the Bank 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 Bank 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 profit or loss net of any reimbursement.

For details please refer to Note 32.

5.16 Leases

The Bank has applied IFRS 16 leasing standard from 1 January 2019 for every contract whether a contract is or contains a lease. The standard should be applied for every lease contract: A contract contains a lease if the lessee has the right to control the use of and identified asset for a period in exchange for consideration. According to the standard, the lessee recognises a right-of-use („RoU") asset and a lease liability. An identified asset may be a single asset or a capacity portion of an asset. A capacity or other portion of an asset that is not physically distinct is not an identified asset according to IFRS 16.

The contract needs to contain that the lessee has the right to obtain substantially all the economic benefits from use of the asset, and the right to decide on the use of the identified asset. The customer may obtain the economic benefits of use of the asset directly or indirectly in different ways.

If a contract is a lease, or it has a lease part, the Bank as a lessee recognises a right-of-use asset, a lease liability, a depreciation, and an interest expense from the commencement date. The "right of use" represents a lessee's right to use the underlying asset. After the commencement date, the lessee shall re-evaluate the lease liability to take into account the changes in the lease terms, or in the conditions.

The Bank uses the following exemptions permitted under IFRS 16 for all the asset groups:

- For the low-value assets the Bank does not recognise right-of-use asset. The lease payments are associated with these leases as an expense. The threshold for the low-value assets are EUR 5.000.
- The leases which have a lease term of 12 months or less are classified as short-term leases, and still recognised as expenses.
- It is applicable to use the IFRS 16 standard for intangible assets, however the Bank choses not to use IFRS 16 standard for intangible asset leases (e.g. software).

A lease contract can contain non-lease components as well. The purpose of IFRS 16 is to modify the accounting of leases not the accounting of services, so the standard requires the lessor and the lessee to separate the lease and non-lease components in a contract. The standard does not define the separation of these components for the lessee when measuring the lease if the non-leasing component is not significant comparing to the lease component. This exemption can be used for asset classes/groups – according to this, the Bank uses this exemption for the vehicle leases. Neither deductible nor non-deductible VAT is taken into account when measuring the lease liability.

When determining the lease liability, the Bank takes into account every fix-payments, variable lease payments that depend on an index or a rate, and every option (purchase, renewal, extension, early termination, guaranteed residual value, etc.) that the Bank is reasonably certain to exercise. For leases where the lease payment changes are not tied to market rate changes (e.g. payments tied to quantitative indicators), the Bank still recognizes the lease as an expense

The lease liability measured at the present value of the lease payments discounted using the Intesa Group interbank borrowing rate as a discount rate. The applied interest rate is revised annually.

The discount is used for the lease period stated in the lease contracts. When a contract has an indefinite maturity, the Bank uses assumptions considering the option to extend the lease if the lessee is reasonably certain to exercise that option. With reference to property leases, the Bank has decided to consider for all new contracts only the first period of renewal as reasonably certain, unless there are particular contract clauses, facts, or circumstance that lead to the consideration of additional renewals.

In case of changes in the lease contract conditions, or the discount rates, the lease liability is needed to be remeasured. The remeasurement difference is recognised in the underlying asset use rights. If the core contents of the lease contract changes, the current right-of-use asset, and the lease liability is derecognised, and new right-of-use asset and lease liability will be recognised.

(5) Significant accounting policies (continued)

5.17 Net operating income

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

5.18 Employee benefits

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

Short term employee benefits are recognized as a current expense in the period when employees render their services. These include wages, social security contributions, bonuses, paid holidays and other fringe benefits and the tax charges thereon.

Payments to defined contribution pension and other welfare plans are recognized as an expense in the period in which they are earned by the employees.

There are no long-term employee benefits at the Bank.

5.19 Government grants

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

5.20 Standards issued but not yet effective

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

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

Changes and amendments by the European Union

- IFRS standard conceptual framework supplement (published: 29 March 2018)
- IFRS 3 Business Combinations standard supplement (published: 11 October 2018)
- IAS 1 and IAS 8 supplement, definiton of materiality (publised 31 October 2018)

Changes and amendments but not yet endorsed by by the European Union

- IFRS 17 Insurance contracts (published: 18 May 2017)

IBOR reform

- Intesa San Paolo decided to early apply the changes in IAS 39, IFRS 9 and IFRS 7 to address uncertainties related to benchmark rate reforms ('IBOR Reform'). The Bank has exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative. The operational, risk management and accounting impacts are in the process of analysis.

(6) Significant accounting estimates and judgements

In preparing these annual financial statements the Management has made judgements, estimates and assumptions that affect the application of the Bank'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.

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,
- 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 losses on financial assets,
- the measurement of provisions.

(6) Significant accounting estimates and judgements (continued)

Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all such cases, the Bank would disclose the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

6.1 Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. For details please refer to Note 43.

6.2 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 Bank had unused tax loss carry forwards as of 31 December 2019 and 2018. Due to the current market and economic conditions the management considered whether the Bank will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets.

6.3 Impairment on non-financial assets

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

Impairment losses are recognised in profit or loss. An impairment loss for non-financial assets is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6.4 Impairment on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank’s internal credit grading model, which assigns PDs to the individual grades
- The Bank’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Collective impairment is calculated with 3 main segments:

1. The first segmentation applied by the Bank when allocating a PD transaction, segregating the customer groups based on the customer rating and CRR compliant customer.
2. When calculating LGD, groups shall be formed on the basis of current transaction and collateral data.
3. When calculating CCF, it shall be classified according to the trade and its callability.

(6) Significant accounting estimates and judgements (continued)

6.5 Provisions for risk and charges

Provisions are recognised when the Bank 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 Bank considers whether a reliable estimate can be made of the amount of outflow of economic benefits.

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

The Bank is involved in ongoing legal disputes; provision is made based on the assessment the best estimate of the expenditure required to settle the obligation.

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

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

For details please refer to Note 32.

(7) Transition disclosures

IFRS 16

The Bank applies IFRS 16 Lease standard from 1 January 2019.

The new standard replaces the existing guidelines referring to lease contracts, incuding IAS 17 – Lease, IFRIC 4 – Determining whether an arrangement contains a lease, SIC 15 – Operating leases, and SIC 27 – Evaluating the substance of transactions in the legal form of a lease iincentives. The new standard is relevant for the business year starting from 1 January 2019.

The new standard introduces a balance sheet-based, individual valuation model for the leases. According to the standard, the lessee recognises a right-of-use asset and a lease liability, which represent a future lease payment. The Bank has revised all supplier contracts to determine whether they are within the scope of IFRS 16.

As at 31 December 2018, the minimum lease payments related to non-cancellable operating leases amounted to HUF 9.428 million, which the Bank recognised as a lease liability for the following types of assets:

- Real estates
- IT equipment
- Motor vehicles
- Other

The Bank applied the modified retrospective approach during the implementation. The Bank does not recognise transition difference in the reserve capital regarding the IFRS 16 transition.

The standard does not affect the lease receivable items, which are still treated under the currenct incentives.

(8) Equity correlation table

Equity correlation table is disclosed in line with the requirements stated in the Accounting Law, which contains shareholder's equity components according to IFRS.

(million HUF)

31/12/2019	Share capital under IFRS	Capital reserve	Retained earnings	Profit after tax	Revaluation reserve	Tied up reserve	Equity total
Share capital	50,000	-	-	-	-	-	**50,000**
Capital reserve	-	96,925	-	-	-	-	**96,925**
Retained earnings	-	-	1,526	13,981	-	-	**15,507**
General reserve	-	-	-	-	-	5,817	**5,817**
Other reserve	-	-	53,954	-	-	-	**53,954**
Financial assets measured at fair value through OCI	-	-	-	-	5,937	-	**5,937**
Fair value adjustment on premises	-	-	-	-	946	-	**946**
Equity in Hungarian Law on Accounting	**50,000**	**96,925**	**55,480**	**13,981**	**6,883**	**5,817**	**229,086**

Retained earnings are available free for dividend payment.

(million HUF)

31/12/2018	Share capital under IFRS	Capital reserve	Retained earnings	Profit after tax	Revaluation reserve	Tied up reserve	Equity total
Share capital	50,000	-	-	-	-	-	**50,000**
Capital reserve	-	96,925	-	-	-	-	**96,925**
Retained earnings	-	-	(1,426)	14,265	-	-	**12,839**
General reserve	-	-	-	-	-	4,418	**4,418**
Other reserve	-	-	53,954	-	-	-	**53,954**
IFRS 9 first time adoption reserve	-	86	-	-	-	-	**86**
Financial assets measured at fair value through OCI	-	-	-	-	1,568	-	**1,568**
Fair value adjustment on premises	-	-	-	-	954	-	**954**
Equity in Hungarian Law on Accounting	**50,000**	**97,011**	**52,528**	**14,265**	**2,522**	**4,418**	**220,744**

Part B Information on the statement of comprehensive income

(9) Interest income and interest expense

(million HUF)

Interest income	2019	2018
Loans to customers	25,364	21,588
Financial assets measured at fair value through other comprehensive income	4,957	2,790
Loans to banks	1,240	448
Debt securities measured at amortised cost	950	511
Financial liabilities	209	112
Interest income calculated using effective interest rate method	***32,720***	***25,449***
Securities held for trading	410	565
Financial assets mandatorily measured at fair value	201	171
Hedging derivatives	(2,643)	(2,043)
Other interest income	***(2,032)***	***(1,307)***
Total	**30,688**	**24,142**

Interest regarding hedging derivatives are presented as other interest income, causing a negative balance in the profit or loss and other comprehensive income.

Interest income on financial assets classified as stage 3 assets is HUF 1,244 million during 2019, and HUF 1,371 million during 2018.

(million HUF)

Interest expenses	2019	2018
Deposits from customers	3,790	3,846
Deposits from banks	1,603	855
Issued securities	-	114
Lease liabilities	93	-
Financial assets	850	1,079
Hedging derivatives	(393)	(478)
Total	**5,943**	**5,416**

The Bank's interest expense increased slightly in 2019, mainly due to higher interest rates paid on bank liabilities, mainly due to mortgage refinancing sources to meet the JMM ratio. The interest rates on customer deposits did not materially change due to the still low market yield environment.

(10) Fee and commission income and expense

(million HUF)

Fee and commission income	2019	2018
Account turnover fee income	12,745	12,171
Investment services fee income	7,209	6,496
Card fee income	7,308	6,185
Servicing fee income from loans	2,829	3,339
Cash management fee income	1,344	1,336
Documentary fee income	1,308	1,278
Agent fee income	60	233
Other fee income	2,815	2,352
Total	**35,618**	**33,390**

(million HUF)

Fee and commission expense	2019	2018
Card fee expense	4,553	3,750
Account turnover fee expense	2,063	1,782
Investment services fee expense	283	278
Documentary fee expense	633	567
Servicing fee expenses for loans	56	43
Agent fee expense	320	194
Other fee expense	977	916
Total	**8,885**	**7,530**

Commission income increased mainly due to higher transaction activity, while strong demand for the new Hungarian Government Securities Plus had a positive impact on investment service fees. Commission expenses also increased with transactional turnover.

(11) Income from trading activities and fair value adjustments in hedge accounting

(million HUF)

Income from trading activities	2019	2018
Net gains/(losses) from trading derivatives and trading with foreign currencies	6,503	10,497
Net gains/(losses) from financial assets measured FVOCI	1,316	(852)
Net gains/(losses) from securities held for trading	811	269
Fair value adjustments from financial assets measured mandatory at fair value through profit or loss	(42)	*
Total	**8,588**	**9,914**

* Due to the classification revision made by the Bank during the year, from 2019 the net result from revaluation of financial assets measured mandatorily at fair value through profit or loss, is reclassified to income from trading activities financial statement line item from other operating income and expense.

Slightly decrease in trading income mainly due to lower gain on trading derivatives, especially on IRS deals.

(11) Income from trading activities and fair value adjustments in hedge accounting (continued)

(million HUF)

Fair value adjustments in hedge accounting	2019	2018
Income from hedging	**9,756**	**6,368**
a) fair value hedge derivatives	2,033	4,313
b) hedged debt securities	3,711	24
c) hedged loans	3,548	1,089
d) hedged financial liabilities	464	942
Expenses from hedging	**(9,810)**	**(6,212)**
a) fair value hedge derivatives	(7,776)	(2,526)
b) hedged debt securities	(177)	(2,870)
c) hedged loans	(451)	(73)
d) hedged financial liabilities	(1,406)	(743)
Total	**(54)**	**156**

(12) Other operating income and expense

(million HUF)

Other operating income	2019	2018
Intragroup service income	2,265	2,521
Dividend and similar income	35	44
Gain from selling of tangible and intangible assets	21	47
Change of inventory	-	21
Gain on non-current asset held for sale	7	14
Fair value adjustment on premises	-	35
Other income	476	1,808
Total	**2,804**	**4,490**

(million HUF)

Other operating expense	2019	2018
Loss from selling of tangible and intangible assets	15	6
Change of inventory	-	12
Loss on non-current asset held for sale	10	8
Telecommunication expenses related to business activities (1)	517	-
Loss on revaluation of financial assets measured at mandatorily fair value through profit or loss (2)	-	634
Subsidies/grants paid, fines	62	59
Other expenses	697	823
Total	**1,301**	**1,542**

(1) The telecommunication expenses connected to SMS service related to business activities were disclosed among Operating expenses in the prior years, however the other SMS service fees are included in Other operating expenses, so the Bank decided to reclassify in 2019 the first to other operating expenses as well.

(2) Due to the classification revision made by the Bank during the year, from 2019 the result from revaluation of financial assets measured mandatorily at fair value through profit or loss, is reclassified to income from trading activities financial statement line item from other operating income and expense.

(13) Impairment losses, provisions and net loan losses

(million HUF)

	2019	2018
Individual impairment (expense)/reversal for loan losses	1,413	(1,083)
Collective impairment (expense)/reversal for loan losses	556	1,716
Impairment (expense)/reversal for losses on loans subtotal	**1,969**	**633**
Impairment (expense)/reversal for losses on securities	131	(181)
Provision (expense)/reversal for financial guarantees	38	253
Provision (expense)/reversal for other commitments and contingencies	302	(178)
Net (losses)/gain on sale of loans	430	7,717
Net (losses)/gain on repossessed properties	(3)	18
Other impairment (expense)/reversal for other receivables	(332)	-
Other provision (expense)/reversal	1,042	(816)
Other impairment losses and provisions subtotal	**1,608**	**6,813**
Total	**3,577**	**7,446**

In the reporting year, the Bank recognized HUF 108 million individual impairment expense and HUF 1,704 million collective impairment reversal on loans to customers.

Reversals for loan losses were lower than last year, as the Bank sold several large corporate non-performing loans in 2018 with larger profits.

The reason for the collective impairment loss reduction is that the Stage 1 group and the Stage 2 loans are at a constant performing level. Changes in collective impairment parameters, and new PD and LGD model were recorded as well.

Impairment, and impairment reversal relating to POCI assets are detailed in the 22. note.

(14) Operating expenses without bank tax

(million HUF)

	2019	2018
Personnel expenses	21,651	20,753
of which salaries	*15,970*	*15,059*
of other benefits	*1,696*	*1,820*
of social contributions	*3,985*	*3,874*
Depreciation and amortisation	4,882	3,579
Office and information technology maintenance	6,647	5,672
Financial transaction duty	4,248	4,325
Other taxes and obligatory fees	2,845	2,966
Material expenses	1,223	1,114
Rent and leasing	1,459	2,662
Communications	860	1,416
Advertising	671	621
Legal fees	476	540
Expert fees	103	189
Other expenses	984	1,324
Total	**46,049**	**45,161**

Detailed information about lease payments can be found in Note 36.

(15) Bank tax

The change in the basis of bank tax is presented in the 5.12 Taxation section of the Significant accounting judgements and estimates (Note 5).

(16) Income taxes

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

The applicable corporate income tax rate for the Bank is 9% for the years 2019 and 2018.

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

(million HUF)

Amounts recognised in profit or loss	**2019**	**2018**
Current income tax charge	1,899	2,429
of which corporate income tax	*329*	*604*
of which local business tax	*1,365*	*1,586*
of which innovation contribution	*205*	*239*
Deferred income tax	63	29
of which origination and reversal of temporary differences	*63*	*29*
Total	**1,962**	**2,458**

Reconciliation of income tax expense to profit before tax	**2019**		**2018**	
	million HUF	**%**	**million HUF**	**%**
Profit before tax	15,943		16,723	
Theoretical income tax expense at the statutory rate	1,435	9.00	1,505	9.00
Tax base amending items according to the local regulations	(963)	(6.04)	(768)	(4.60)
of which use of deferred losses	*(330)*	*(2.07)*	*(573)*	*(3.43)*
of which non-deductible provision	*(11)*	*(0.07)*	*-*	*(0.00)*
of which non-deductible expenditure	*(262)*	*(1.64)*	*135*	*0.81*
of which IFRS conversion effect	*(360)*	*(2.26)*	*(330)*	*(1.97)*
Change on not recognised tax asset	(81)	(0.50)	(103)	(0.62)
Other income type taxes	1,571	9.85	1,824	10.91
Income tax at effective tax rate	**1,962**	**12.31**	**2,458**	**14.70**

(million HUF)

Deferred tax assets and liabilities comprise	**2019**		**2018**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Carry forward losses	300	-	297	-
Properties	-	275	-	209
Total deferred tax to profit or loss	**300**	**275**	**297**	**209**
Financial assets measured at other comprehensive income	-	418	-	72
Total deferred tax through OCI	**-**	**418**	**-**	**72**
Total	**300**	**693**	**297**	**281**

(16) Income taxes (continued)

The management assess whether sufficient taxable profit will be available at the Bank to allow the benefit of all deferred tax asset to be utilized. The management decided to recognize deferred tax asset as at 31 December 2019 based on the budget plan.

In 2019 the Bank used 3,665 million HUF accrued loss, the balance of carry forward unused tax losses was HUF 237,821 million as at 31 December 2019 and HUF 241,476 million as at 31 December 2018. From the remaining amount the Bank set a deferred tax asset of HUF 300 million for 2020 income tax.

(17) Dividend paid

During 2020, HUF 7,000 million dividend is proposed to be paid to the Sole Shareholder based on the 2019 year's result.

Based on the 2018 year's result, a dividend of HUF 10,000 million was paid in 2019.

(18) Other comprehensive income

(million HUF)

	2019	2018
IFRS 9 FTA	-	244
Net gain/(loss) from changes in fair value on investments in debt instruments	8,497	(3,277)
of which credit risk changes	*(31)*	*2*
Amortization of debt securities measured at fair value through OCI	(51)	-
Hedge accounting adjustment on debt securities measured at fair value through OCI	(3,710)	2,871
Reclassification adjustment to profit or loss	(955)	-
Deferred tax	(346)	17
Items that may be reclassified to profit or loss	**(3,435)**	**(145)**
Net gain/(loss) from changes in fair value on investments in equity instruments	926	352
Fair value adjustment on premises	-	(7)
Items that may not be reclassified to profit or loss	**926**	**345**
Total (net of tax)	**4,361**	**200**

Further information about hedge accounting is presented in Note 24.

Fair value adjustment on premises is the valuation difference of the owner-occupied properties.

Part C Information on the statement of financial position

(19) 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.

(million HUF)

	31/12/2019	31/12/2018
Cash	17,742	21,347
Current HUF account with the National Bank of Hungary	19,121	25,761
Total	**36,863**	**47,108**
of which included in cash and cash equivalents	*36,863*	*47,108*

(20) Financial assets measured at fair value through profit or loss

Securities held for trading

(million HUF)

	31/12/2019	31/12/2018
Hungarian Government securities – HUF	6,436	24,169
of which included in cash and cash equivalents	-	*200*
Hungarian Government securities – NON-HUF	60	134
Bank and corporate bonds – HUF	16	16
Shares listed on stock exchange – HUF	19	365
Other securities– NON-HUF	364	1
Total	**6,895**	**24,685**

Income on investments and other non-fix yield assets are recognized in income from trading activities.

Financial derivatives designated as held for trading: breakdown by product

(million HUF)

31/12/2019	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	16,225	450,946	12,291	367,397
Currencies	1,923	270,656	1,885	233,469
Equities and stock indexes	2,005	59,623	2,005	59,623
Total	**20,153**	**781,225**	**16,181**	**660,489**

(million HUF)

31/12/2018	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rates	9,692	1,041,403	5,977	762,487
Currencies	4,507	322,205	2,216	191,921
Equities and stock indexes	1,280	90,070	1,295	76,708
Total	**15,479**	**1,453,678**	**9,488**	**1,031,116**

(20) Financial assets measured at fair value through profit or loss (continued)

Financial assets mandatorily measured at fair value

Financial assets mandatorily measured at fair value comprises loans to customers, which do not meet the criteria of SPPI test. Presentation of financial assets mandatorily measured at fair value is included in the Note 22.

(21) Loans to banks

(million HUF)

	31/12/2019	31/12/2018
Nostro accounts	9,131	16,903
of which included in cash and cash equivalents	*9,131*	*16,903*
Due from banks	431,780	527,452
of which compulsory reserve	*13,029*	*12,199*
of which included in cash and cash equivalents	*206,999*	*356,922*
of which loans to Hungarian banks	*217,317*	*259,424*
of which loans to banks in Intesa Sanpaolo Group	*212,179*	*265,709*
Total	**440,911**	**544,355**

Both in 2019 and 2018, the Bank is required to maintain with a National Bank of Hungary 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.

The majority of the exposures of loans to banks are classified as Stage 1 in the ECL module for impairment calculation.

(22) Loans to customers at amortised cost and at fair value through profit or loss

Analysis by sector

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

Sector	31/12/2019		31/12/2018	
	million HUF	%	million HUF	%
Private customers	354,421	33.20	299,438	32.22
Real estate investments	69,245	6.49	75,517	8.13
Financial activities	113,932	10.67	123,617	13.30
Other, mostly service industries	90,065	8.44	94,660	10.19
Heavy industry	150,460	14.09	108,920	11.72
Trading	66,827	6.26	59,400	6.39
Light industry	111,819	10.47	65,997	7.10
Transportation and communication	39,339	3.68	38,406	4.13
Food processing	41,467	3.88	38,420	4.14
Agriculture	26,282	2.46	20,643	2.22
Chemicals and pharmaceuticals	3,718	0.35	4,274	0.46
Total	**1,067,575**	**100.00**	**929,292**	**100.00**

Loans and advances to customers comprises also the transaction related to factoring activities as the Bank took over CIB Factor's activity as of 1st January 2017.

Neither as at 31 December 2019, nor as at 31 December 2018 the Bank had no active repurchase agreement.

(22) Loans to customers at amortised cost and at fair value through profit or loss (continued)

Analysis by segment and staging

(million HUF)

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
General government	36,373	-	-	-	-	**36,373**
Corporate	596,158	43,735	17,014	4,227	205	**661,339**
Retail	301,896	26,983	6,796	8,445	25,743	**369,863**
Total	**934,427**	**70,718**	**23,810**	**12,672**	**25,948**	**1,067,575**

(million HUF)

ECL allowance	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
General government	(182)	-	-	-	-	**(182)**
Corporate	(3,410)	(1,499)	(8,616)	(703)	-	**(14,228)**
Retail	(1,525)	(2,857)	(6,801)	(2,903)	-	**(14,086)**
Total	**(5,117)**	**(4,356)**	**(15,417)**	**(3,606)**	**-**	**(28,496)**

Analysis of impairment allowance for loans to customers

(million HUF)

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2019	**784,703**	**91,762**	**31,077**	**14,466**	**7,284**	**929,292**
Increase	1,754,193	97,202	11,163	2,324	23,101	**1,887,983**
Decrease	(1,606,637)	(120,503)	(20,300)	(4,031)	(4,437)	**(1,755,908)**
Transfers to Stage 1	-	7,229	(1,032)	-	-	**6,197**
Transfers to Stage 2	(7,229)	-	6,016	-	-	**(1,213)**
Transfers to Stage 3	1,032	(6,016)	-	-	-	**(4,984)**
Amounts recover	-	-	(3,414)	(87)	-	**(3,501)**
FX adjustmens	8,365	1,044	300	-	-	**9,709**
Other adjustmens	-	-	-	-	-	**-**
Balance at 31/12/2019	**934,427**	**70,718**	**23,810**	**12,672**	**25,948**	**1,067,575**

(million HUF)

ECL allowance	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2019	**(5,466)**	**(4,599)**	**(19,124)**	**(4,048)**	**-**	**(33,237)**
Increase	(3,547)	(3,138)	(6,353)	(1,309)	-	**(14,347)**
Decrease	3,338	3,181	7,294	2,130	-	**15,943**
Transfers to Stage 1	-	(125)	151	-	-	**26**
Transfers to Stage 2	125	-	(358)	-	-	**(233)**
Transfers to Stage 3	(151)	358	-	-	-	**207**
Amounts recover	-	-	3,400	-	-	**3,437**
FX adjustmens	(69)	(30)	(134)	-	-	**(233)**
Other adjustmens	653	(3)	(293)	(416)	-	**(59)**
Balance at 31/12/2019	**(5,117)**	**(4,356)**	**(15,417)**	**(3,606)**	**-**	**(28,496)**

(22) Loans to customers at amortised cost and at fair value through profit or loss (continued)

During 2019, the significant HUF 149,724 million increase in the Stage 1 loan portfolio is mainly attributable to the large corporate segment, where the loan portfolio increased by nearly HUF 100,000 million. The retail loan portfolio also grew by more than HUF 50,000 million due to strong demand for mortgages and personal loans.

The decrease of the Stage 2 category by HUF 21,044 million was due to the amortization of the loan portfolio here and to the clients transferred to Stage 3. At the same time, HUF 7,229 million of loans deteriorated from Stage 1 to Stage 2, mainly in the corporate segment.

Stage 3 loans fell by HUF 7,300 million, due to the sale and write-off of receivables and due to customer repayments. The Stage 3 portfolio decreased mostly in the large corporate segment, while the SME segment showed a slight increase.

The significant increase in the SPPI test failed category is mainly due to the so called „Babaváró” loan launched in 2019.

Expected credit losses decreased by HUF 4,741 million in 2019, mainly due to the decrease in the Stage 3 portfolio, which also reduced the proportion of impairments on non-performing loans. There was no material change in the other categories.

(million HUF)

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2018	**665,055**	**97,035**	**67,3410**	**8,661**	**5,253**	**843,344**
FTA	-	-	-	-	(88)	**(88)**
Increase	458,754	122,825	18,390	8,788	4,990	**613,423**
Decrease	(246,578)	(129,930)	(14,968)	-	(2,871)	**(393,872)**
Transfers to Stage 1	-	12,544	306	-	-	**12,850**
Transfers to Stage 2	(12,544)	-	776	-	-	**(11,768)**
Transfers to Stage 3	(306)	(776)	-	-	-	**(1,082)**
Amounts recover	-	(1)	(14,065)	(127)	-	**(14,193)**
FX adjustmens	11,317	1,183	1,191	151	-	**13,691**
Other adjustmens	(90,995)	(11,118)	(27,893)	(3,007)	-	**(133,013)**
Balance at 31/12/2018	**784,703**	**91,762**	**31,077**	**14,466**	**7,284**	**929,292**

(million HUF)

ECL allowance	Stage 1	Stage 2	Stage 3	POCI assets	SPPI failed	Total
Balance at 01/01/2018	**(6,505)**	**(5,829)**	**(39,096)**	**(2,616)**	**-**	**(52,046)**
FTA	1,790	(1,038)	(246)	-	-	**506**
Increase	(2,415)	(475)	(9,478)	540	-	**(12,368)**
Decrease	2,250	2,493	9,132	-	-	**14,415**
Transfers to Stage 1	-	(50)	(3)	-	-	**(53)**
Transfers to Stage 2	50	-	(68)	-	-	**(18)**
Transfers to Stage 3	3	68	-	-	-	**71**
Amounts recover	11	3	21,590	-	-	**21,604**
FX adjustmens	(156)	(116)	(798)	-	-	**(1,070)**
Other adjustmens	(494)	345	(2,157)	(1,972)	-	**(4,278)**
Balance at 31/12/2018	**(5,466)**	**(4,599)**	**(19,124)**	**(4,048)**	**-**	**(33,237)**

The non-discounted values of the POCI assets amounted to HUF 16,872 million at 31 December 2019, and HUF 19,349 million at 31 December 2018.

The Bank do not have write-off assets under active work-out management.

The revaluation gains on loans specified as hedged items is presented in Note 24.

The liquidation value of collateral that the Bank holds relating to loans at 31 December 2019 amounts to HUF 870,847 million and HUF 807,925 million as at 31 December 2018, respectively.

(23) Financial investments

Financial assets measured at fair value through other comprehensive income (FVOCI)

(million HUF)

	31/12/2019	31/12/2018
Hungarian government securities – HUF	321,180	281,286
of which included in cash and cash equivalents	-	*10,476*
Hungarian government securities – NON-HUF	19,394	-
Foreign government securities – NON-HUF	1,451	-
Bank and corporate bonds – HUF	1,912	2,663
Shares listed on stock exchange – NON-HUF	2,538	1,699
Shares not listed - HUF	107	84
Total	**346,582**	**285,732**

All of the FVOCI financial assets are classified as Stage 1.

The FVOCI assets' credit risks are detailed in Note 46.

Financial assets measured at amortized cost / Debt securities

(million HUF)

	31/12/2019	31/12/2018
Bank and corporate bonds – HUF	48,864	46,408
Bank and corporate bonds – other currency	21,424	6,459
Total	**70,288**	**52,867**

All of the financial assets measured at amortized cost are classified as Stage 1.

(24) Hedging derivatives

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

(million HUF)

31/12/2019	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate derivatives - hedge of debt securities	507	23,474	4,533	175,624
Interest rate derivatives - hedge of loans	200	19,026	3,876	49,555
Interest rate derivatives - hedge of financial liabilities	166	14,332	497	25,298
Total	**873**	**56,832**	**8,906**	**250,477**

(million HUF)

31/12/2018	Positive fair value		Negative fair value	
	Fair value	Notional value	Fair value	Notional value
Interest rate derivatives - hedge of debt securities	656	81,175	1,167	83,030
Interest rate derivatives - hedge of loans	335	21,345	1,355	27,938
Interest rate derivatives - hedge of financial liabilities	849	36,205	246	24,108
Total	**1,840**	**138,725**	**2,768**	**135,076**

(24) Hedging derivatives (continued)

Accumulated change of fair value of hedged instruments

(million HUF)

	31/12/2019	31/12/2018
Debts securities	3,744	233
Loans	3,831	1,317
Financial liabilities	542	180

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

(25) Investment in subsidiaries

(million HUF)

	31/12/2019			31/12/2018		
	Gross	Impairment	Net	Gross	Impairment	Net
CIB Leasing Co. Ltd.	3,751	(2,309)	1,442	3,751	(3,609)	142
CIB Rent Ltd.	1,047	(901)	146	1,047	(901)	146
CIB Insurance Broker Ltd.	598	-	598	598	(517)	81
CIB Factor Ltd. „u.w.”	100	(53)	47	100	(53)	47
Recovery Ltd.	86,544	(86,310)	234	86,544	(86,310)	234
Total	**92,040**	**(89,573)**	**2,467**	**92,040**	**(91,390)**	**650**

Current structure and change in investment in subsidiaries is disclosed in the (1) Corporate information part of the A. - Accounting policy.

(26) Property, plant and equipment

(million HUF)

	Land, premises	Leasehold improvements	Electronic equipment, office furniture	IT equipment	Motor vehicles	Other	Total
Cost							
Balance at 01/01/2018	**12,346**	**4,707**	**9,283**	**7,778**	**343**	**118**	**34,575**
Additions	79	20	292	241	-	-	**632**
Disposals	(260)	(422)	(879)	(219)	(95)	-	**(1,875)**
Balance at 31/12/2018	**12,165**	**4,305**	**8,696**	**7,800**	**248**	**118**	**33,332**
IFRS 16 – ROU assets disposals	9,423	-	60	103	212	-	**9,798**
Additions	106	129	229	200	-	-	**664**
Disposals	(4,909)	(292)	(245)	(130)	(74)	-	**(5,650)**
Balance at 31/12/2019	**16,785**	**4,142**	**8,740**	**7,973**	**386**	**118**	**38,144**
Accumulated depreciation and impairment losses							
Balance at 01/01/2018	**4,920**	**4,271**	**8,538**	**7,431**	**253**	**-**	**25,413**
Depreciation for the year	199	197	170	219	19	-	**804**
Disposals	(44)	(422)	(860)	(217)	(76)	-	**(1,619)**
Balance at 31/12/2018	**5,075**	**4,046**	**7,848**	**7,433**	**196**	**-**	**24,598**
Depreciation of IFRS 16 – ROU assets disposals	845	-	8	11	41	-	**905**
Depreciation for the year	139	99	184	178	2	-	**602**
Disposals	(4,820)	(313)	(273)	(220)	(59)	-	**(5,685)**
Balance at 31/12/2019	**1,239**	**3,832**	**7,767**	**7,402**	**180**	**-**	**20,420**
Net book value							
Balance at 31/12/2018	**7,090**	**259**	**848**	**367**	**52**	**118**	**8,734**
Balance at 31/12/2019	**15,546**	**310**	**973**	**571**	**206**	**118**	**17,724**

Leasehold improvements include improvements on leased branches.

No impairment loss was recognized on premises in 2019. In 2018 HUF 24 million impairment was recognized on premises.

No impairment loss was reversed in either 2019 or 2018.

Information about right-of-use-assets are presented in Note 36.

There was no significant change in the fair value of the owner-occupied premises in either 2019 or 2018, accordingly no additional fair value adjustment was recognized.

Owner-occupied premises are classified in Level 3 of the fair value measurement hierarchy.

For owner-occupied premises, the carrying amount without revaluation method would have been HUF 5,942 million in 2019 and HUF 6,199 million in 2018.

(27) Intangible assets

(million HUF)

	Software licenses and develop-ment	Other	Total
Cost			
Balance at 01/01/2018	**43,640**	**359**	**43,999**
Acquisition	4,335	-	**4,335**
Disposals	(21)	(54)	**(75)**
Balance at 31/12/2018	**47,954**	**305**	**48,259**
Additions	4,550	103	**4,653**
Disposals	(93)	-	**(93)**
Balance at 31/12/2019	**52,411**	**408**	**52,819**
Accumulated depreciation and impairment losses			
Balance at 01/01/2018	**34,153**	**284**	**34,437**
Depreciation for the year	2,739	36	**2,775**
Disposals	(1)	(55)	**(56)**
Balance at 31/12/2018	**36,891**	**265**	**37,156**
Depreciation for the year	3,221	119	**3,340**
Disposals	-	-	**-**
Balance at 31/12/2019	**40,112**	**384**	**40,496**
Net book value			
Balance at 31/12/2018	**11,063**	**40**	**11,103**
Balance at 31/12/2019	**12,299**	**24**	**12,323**

The net book value of internally developed software is HUF 6,980 million as at 31 December 2019, and HUF 5,144 million as at 31 December 2018, respectively.

(28) Other assets

(million HUF)

	31/12/2019	31/12/2018
Accrued assets	1,881	2,266
Non-income tax receivables	2,389	741
Items in transit (stock)	440	290
Trade receivables	560	388
Inventories	104	138
Other items	4,952	8,199
Total	**10,326**	**12,022**

Other items include the balance of settlement accounts which contains those cash in transit which are unsettled as at period end. As at 31 December, 2018 other items contains settlement account related to value date differences on branch account with an amount of HUF 4,899 million. The account does not have a significant balance at 31 December 2019.

(29) Deposits from banks

(million HUF)

	31/12/2019	31/12/2018
Deposits from National Bank of Hungary	48,642	40,106
Deposits from other banks in Hungary	93,446	91,616
Deposits from banks in other countries	137,831	120,459
Total	**279,919**	**252,181**
of which related party items	*118,628*	*99,570*

(30) Deposits from customers

(million HUF)

	31/12/2019	31/12/2018
Deposits from customers in Hungary	1,404,745	1,340,983
Deposits from customers in other countries	30,930	36,932
Total	**1,435,675**	**1,377,915**
of which related party	*14,561*	*15,882*

The revaluation gains on deposits specified as hedged items is presented in Note 24.

(31) Other liabilities

(million HUF)

	31/12/2019	31/12/2018
Lease liabilities IFRS 16	9,146	-
Accrued liabilities	6,752	5,584
Suppliers	2,100	3,292
Non-income tax liability	2,900	2,617
Items in transit	421	282
Financial guarantees	216	253
Deferred government grant (HIRS)	-	98
Other items	2,575	8,130
Total	**24,110**	**20,256**

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

As at 31 December 2018, other items contains settlement account related card account with an amount of HUF 3,907 million.

Further information about lease liabilities is presented in Note 36.

(31) Other liabilities (continued)

(million HUF)

Financial guarantees comprise	31/12/2019	31/12/2018
Opening balance	**253**	**538**
IFRS 9 first time adoption	-	(33)
Increase during the year	72	192
Decrease during the year	(109)	(444)
Closing balance	**216**	**253**

Concerning financial guarantees see Note 37 on Commitments and contingencies.

(32) Provisions

(million HUF)

	Commit-ments and contingen-cies	Other	Total
Balance at 01/01/2018	**1,344**	**6,978**	**8,322**
IFRS 9 first time adoption effect on loan commitment provision	(250)	-	**(250)**
Increase of provision during the year	828	2,431	**3,259**
Decrease of provision during the year	(637)	(1,648)	**(2,285)**
Balance at 31/12/2018	**1,285**	**7,761**	**9,046**
Increase of provision during the year	685	887	**1,572**
Decrease of provision during the year	(980)	(4,714)	**(5,694)**
Balance at 31/12/2019	**990**	**3,934**	**4,924**

Provisions for commitment and contingences were created for future credit obligations (see also Note 37 on Commitments and contingencies). For all booked provisions, the Bank expects out-flows / payments in a period longer than 1 year from reporting date.

Other provisions are established to cover the Bank'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 provisions include litigation provision with an amount of HUF 1,827 million as of 31 December 2019 and HUF 5,637 million as of 31 December 2018, respectively.

Other provisions include the Bank's future obligations relating to rationalising the branch network.

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

The discount effect on provisions is not material.

The decrease of other provisions during the year includes utilization of HUF 2,816 million.

(33) Subordinated debts

(million HUF)

	31/12/2019	31/12/2018
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%.	9,922	9,652
Total	**9,922**	**9,652**

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.

(34) Share capital

During 2019 there was no change regarding the share capital of the Bank.

At 31 December 2019 the fully paid share capital consisted of 50,000,000,003 ordinary shares of HUF 1 each.

(35) Reserves

Capital reserve

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

In the first half of 2018, the negative retained earnings of the Bank was reclassified to capital reserve, with an amount of HUF 46,103 million.

Revaluation reserve

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

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

Other reserve

Other reserve comprises the Bank's income from transaction under common control in the amount of HUF 4,164 million. Income from transaction under common control contains the income from the sale of CIB Investment Fund Ltd during 2013.

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. This equity contribution increased the other reserves during 2014.

General reserve

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

Reserves classified as capital reserve, revalution reserve, other reserve and general reserve can not be paid as dividend. The Bank expects not to recognise any adjustment in the opening balance of retained earnings as the cumulative effect of adopting IFRS 16.

(36) Leases (Bank as a lessee)

The Bank classified the right-of-use assets to property, land and equipment in the statement of financial position. The breakdown of the leases which are recognised as right-of-use assets:

(million HUF)

ROU assets	Premises (branch)	IT equip-ment	Vehicles	Other	Total
Cost					
IFRS 16 implementation 01/01/2019	**9,125**	**81**	**138**	**59**	**9,403**
Additions	383	22	74	1	**480**
Disposals	(85)	-	-	-	**(85)**
Balance at 31/12/2019	**9,423**	**103**	**212**	**60**	**9,798**
Accumulated depreciation					
IFRS 16 implementation 01/01/2019	**-**	**-**	**-**	**-**	**-**
Depreciation for the year	880	11	41	8	**940**
Disposals	(35)	-	-	-	**(35)**
Balance at 31/12/2019	**845**	**11**	**41**	**8**	**905**
Net book value					
Balance at 31/12/2019	**8,578**	**92**	**171**	**52**	**8,893**

(36) Leases (Bank as a lessee) (continued)

The real estate right-of-use assets are mainly lease of branches. The duration of these contracts are mostly 5 years, with an option for extension. The Bank also has several contracts with indefinite maturity. In addition to the extension and termination options, the Bank use a business estimate based on its branch maintenance strategy for each contract. There is no purchase option in the terms of these contracts. At the date of the first time adoption, the weighted average incremental borrowing rate recognized in the statement of financial position is 1.13%.

The vehicle lease contracts mainly have a 5 years duration. When determining the right-of-use, the Bank excludes the extension and the purchase option, because the Bank do not have an intention to use either of them.

The IT right-of-use assets are typically leased line and server leases. When evaluating the right of use asset, the Bank takes into account both the extension and the cancellation options. These contracts do not contain purchase options. The Bank uses a business estimate based on the IT maintenance, when determining the duration.

Breakdown of the lease liabilities:

(million HUF)

	31/12/2019			01/01/2019		
	Present value	Interest	Minimum lease payment	Present value	Interest	Minimum lease payment
Maturity with less than 1	1,016	77	1,093	273	93	966
Maturity between 1 and 5 years	4,080	228	3,969	4,338	312	3,877
Maturity over 5 years	4,059	120	4,515	4,817	199	5,204
Total	**9,155**	**425**	**9,577**	**9,428**	**604**	**10,047**

Profit or loss items of the lease contracts:

(million HUF)

	2019
Lease liability interest expense	93
Lease payment fees	578
from which short-term lease payments	*182*
from which low-value asset lease payments	*4*
from which variable lease payments	*392*

The lease payments in the profit or loss are classified as operating expenses.

The short-term lease payment ledger contains IT maintenance related asset leases, which were closed in 2019 due to the IT maintenance centralisation. The short-term leases are also vehicle leases, which were closed in current year as well. The new vehicle leases are recognised as right-of-use assets and lease liabilities.

The short-term leases do not contain contracts where the maturity is in 2020.

Leases related to the leasing of low-value assets include the leasing payments for assets required for banking operations.

A portion of the variable lease payment are IT maintenance related, the rest of the contracts are banking and office operation related leasing.

The value of the future expected liabilities related to leases that are not recognized under lease liabilities is shown in the table below:

(million HUF)

	31/12/2019	01/01/2019
Future liabilities related to short-term lease contracts	55	59
Future liabilities related to variable lease payments	322	714

(36) Leases (Bank as a lessee) (continued)

The cash-flow contains the following outflows from lease payments:

(million HUF)

	2019
Cash outflows from lease liabilities	1,030
Interest expense related to lease liabilities	93
Other lease payments	576
from which short-term lease payments	*180*
from which low-value asset lease payments	*4*
from which variable lease payments	*392*

The transition difference relating to IFRS 16 is shown in the table below:

(million HUF)

Operating lease commitments at 31/12/2018	10,626
Variable leasing fees	392
Short-term leases	180
Low-value assets	4
Discounting	622
Lease liabilities recognised at 01/01/2019	**9,428**

(37) Commitments and contingencies

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

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

The amount of long term financial guarantees and commitments with a remaining maturity over one year is HUF 125,085 million as at 31 December 2019 and HUF 26,144 million as at 31 December 2018, respectively.

The amount of the securities in custody is HUF 1,071,809 million at 31 December 2019 and HUF 1,063,431 million at 31 December 2018, respectively.

(million HUF)

31/12/2019	Gross amount	Other liability	Provision
Guarantees	42,582	(210)	-
Letters of credit	4,833	(6)	-
Total financial guarantees	**47,415**	**(216)**	**-**
Commitments	419,562	-	(990)
Total	**466,978**	**(216)**	**(990)**

(37) Commitments and contingencies (continued)

(million HUF)

31/12/2018	Gross amount	Other liability	Provision
Guarantees	41,107	(244)	-
Letters of credit	5,605	(9)	-
Total financial guarantees	**46,712**	**(253)**	**-**
Commitments	452,684	-	(1,285)
Total	**499,396**	**(253)**	**(1,285)**

The following tables set out information about the gross carrying amount and the corresponding ECLs in relation to financial guarantees and commitments

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**495,670**	**3,226**	**500**	**499,396**
Increase	1,532,882	76,995	4,652	**1,614,529**
Decrease	(1,561,224)	(74,243)	(4,920)	**(1,640,387)**
Transfers to Stage 1	-	2,632	1	**2,633**
Transfers to Stage 2	(2,632)	-	177	**(2,455)**
Transfers to Stage 3	(1)	(177)	-	**(178)**
Other adjustment	(6,481)	(77)	(2)	**(6,560)**
Balance at 31/12/2019	**458,214**	**8,356**	**408**	**466,978**

(million HUF)

ECLs	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2019	**(1,101)**	**(51)**	**(386)**	**(1,538)**
Increase	(566)	(88)	(103)	**(757)**
Decrease	725	160	221	**1,106**
Transfers to Stage 1	-	(119)	-	**(119)**
Transfers to Stage 2	118	-	(3)	**115**
Transfers to Stage 3	-	4	-	**4**
Other adjustment	(16)	(1)	-	**(17)**
Balance at 31/12/2019	**(840)**	**(95)**	**(271)**	**(1,206)**

(37) Commitments and contingencies (continued)

(million HUF)

Outstanding exposure	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2018	**538,302**	**3,209**	**1,335**	**542,846**
FTA	-	-	-	**-**
Increase	1,377,395	88,187	8,648	**1,474,230**
Decrease	(1,407,258)	(91,540)	(9,701)	**(1,508,499)**
Transfers to Stage 1	-	3,537	171	**3,708**
Transfers to Stage 2	(3,537)	-	50	**(3,487)**
Transfers to Stage 3	(171)	(50)	-	**(221)**
Other adjustment	(9,061)	(117)	(3)	**(9,181)**
Balance at 31/12/2018	**495,670**	**3,226**	**500**	**499,396**

(million HUF)

ECLs	Stage 1	Stage 2	Stage 3	Total
Balance at 01/01/2018	**(1,165)**	**(140)**	**(577)**	**(1,882)**
FTA	269	2	12	**283**
Increase	(687)	(7)	(311)	**(1,005)**
Decrease	502	93	487	**1,082**
Transfers to Stage 1	-	1	2	**3**
Transfers to Stage 2	(2)	-	1	**(1)**
Transfers to Stage 3	(1)	1	-	**-**
Other adjustment	(17)	(1)	-	**(18)**
Balance at 31/12/2018	**(1,101)**	**(51)**	**(386)**	**(1,538)**

(38.a) Carrying amount of financial assets and liabilities at 31 December 2019 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	19,121	-	-	-	-	-	17,742	**36,863**
Effective interest rates	*0,90*	-	-	-	-	-	-	***0,47***
Securities held for trading	-	1,686	2,084	2,440	223	79	383	**6,895**
Effective interest rates	-	*0,00*	*0,04*	*(0,57)*	*2,09*	*1,75*	-	***(0,10)***
Derivative financial assets	-	6,991	5,985	5,975	1,700	375	-	**21,026**
Financial assets measured at fair value through OCI	-	60,193	46,162	40,952	190,461	6,170	2,644	**346,582**
Effective interest rates	-	*0.62*	*0.15*	*0.07*	*0.57*	*1.15*	*0.00*	***0.47***
Loans to banks	9,132	404,928	26,851	-	-	-	-	**440,911**
Effective interest rates	-	*0.10*	*0.67*	-	-	-	-	***0.13***
Loans to customers at amortised cost and at fair value through profit or loss [(1)]	58,472	266,310	294,756	150,760	195,670	76,938	-	**1,042,906**
Effective interest rates	*3,17*	*1,34*	*1,51*	*2,41*	*3,44*	*4,36*	-	***2,26***
Debt securities at amortised cost	-	46,584	-	6,622	-	17,082	-	**70,288**
Effective interest rates	-	*0,87*	-	-	-	*4,04*	-	***1,56***
Investment is subsidiaries	-	-	-	-	-	-	2,467	**2,467**
Liabilities								
Deposits from banks	2,322	181,493	24,983	15,791	43,509	11,821	-	**279,919**
Effective interest rates	-	*0,32*	*0,83*	*0,07*	*0,12*	*0,02*	-	***0,30***
Deposits from customers	1,130,841	55,078	165,838	50,403	33,159	356	-	**1,435,675**
Effective interest rates	-	*1.12*	*1.03*	*1.32*	*1.24*	-	-	***0.24***
Derivative financial liabilities	-	6,633	8,994	7,310	1,579	571	-	**25,087**
Subordinated debts	-	-	-	9,922	-	-	-	**9,922**
Effective interest rates	-	-	-	*0.63*	-	-	-	***0.63***
Net repricing gap	**(1,046,438)**	**543,487**	**176,023**	**123,323**	**309,806**	**87,896**	**23,237**	**217,334**

[(1)] Including portfolio hedge adjustment

(38.b) Carrying amount of financial assets and liabilities at 31 December 2018 by earlier of contractual repricing or maturity date

(million HUF)

	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and current accounts with central bank	25,762	-	-	-	-	-	21,346	**47,108**
Effective interest rates	*0.09*	-	-	-	-	-	-	***0.49***
Securities held for trading	-	1,045	2,069	20,839	226	141	365	**24,685**
Effective interest rates	-	*0.82*	*0.13*	*0.07*	*1.41*	*3.11*	-	***0.13***
Derivative financial assets	-	4,688	5,082	6,952	597	-	-	**17,319**
Financial assets measured at fair value through OCI	-	49,566	46,607	33,640	138,901	15,235	1,783	**285,732**
Effective interest rates	-	*1.70*	*1.15*	*0.11*	*1.23*	*2.44*	-	***1.22***
Loans to banks	17,023	447,630	78,702	1,000	-	-	-	**544,355**
Effective interest rates	-	*0.08*	*0.40*	-	-	-	-	***0.12***
Loans to customers at amortised cost and at fair value through profit or loss [(1)]	44,260	283,065	255,293	187,230	88,002	39,520	-	**897,370**
Effective interest rates	*3.95*	*1.40*	*1.88*	*3.35*	*2.74*	*3.66*	-	***2.30***
Debt securities at amortised cost	-	46,408	-	-	-	6,459	-	**52,867**
Effective interest rates	-	*2.31*	-	-	-	*6.90*	-	***2.87***
Investments in subsidiaries	-	-	-	-	-	-	650	**650**
Liabilities								
Deposits from banks	1,749	165,363	9,499	19,367	44,437	11,766	-	**252,181**
Effective interest rates	-	*0.45*	*0.14*	*0.12*	*0.16*	*0.02*	-	***0.34***
Deposits from customers	1,065,009	18,111	33,353	55,717	175,733	29,992	-	**1,377,915**
Effective interest rates	-	*0.28*	*1.26*	*1.02*	*1.23*	-	-	***0.23***
Derivative financial liabilities	-	1,972	3,848	5,931	505	-	-	**12,256**
Subordinated debts	-	-	-	9,652	-	-	-	**9,652**
Effective interest rates	-	-	-	*0.71*	-	-	-	***0.71***
Net repricing gap	**(979,713)**	**646,956**	**341,053**	**158,994**	**7,051**	**19,597**	**24,144**	**218,082**

[(1)] Including portfolio hedge adjustment

(39.a) Carrying amount of assets and liabilities by maturity date as at 31 December 2019

(million HUF)

	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with central bank	36,863	-	-	-	-	**36,863**
Securities held for trading	1,655	1,729	2,049	976	486	**6,895**
Derivative financial assets	1,520	191	1,252	7,741	10,322	**21,026**
Financial assets measured at fair value through OCI	8,242	21,078	40,952	267,495	8,815	**346,582**
Loans to banks (1)	261,333	78,270	86,316	-	14,993	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss (1)	97,163	93,983	216,782	399,134	235,844	**1,042,906**
Debt securities at amortised cost	-	-	-	46,583	23,705	**70,288**
Investment in subsidiaries	-	-	-	-	2,467	**2,467**
Intangible assets, property, land and equipment	-	-	-	30,047	-	**30,047**
Tax assets	-	-	-	1,105	-	**1,105**
Other Assets	1,881	-	545	7,900	-	**10,326**
Total Assets	**408,656**	**195,251**	**347,896**	**760,981**	**296,632**	**2,009,416**
Liabilities						
Deposits from banks	7,616	4,914	18,212	215,127	34,050	**279,919**
Deposits from customers	1,151,962	26,856	58,029	183,578	15,250	**1,435,675**
Derivative financial liabilities	1,310	264	1,341	11,036	11,136	**25,087**
Tax liabilities	-	-	-	693	-	**693**
Other liabilities	6,752	-	421	16,937	-	**24,110**
Provisions	-	-	-	4,924	-	**4,924**
Subordinated debts	-	-	6	9,916	-	**9,922**
Total liabilities	**1,167,640**	**32,034**	**78,009**	**442,211**	**60,436**	**1,780,330**
Net repricing gap	**(758,984)**	**163,217**	**269,887**	**318,770**	**236,196**	**229,086**

(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 (21).

(2) Including portfolio hedge adjustment.

(39.b) Carrying amount of assets and liabilities by maturity date as at 31 December 2018

(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	47,108	-	-	-	-	**47,108**
Securities held for trading	980	1,657	20,846	972	230	**24,685**
Trading and heding derivatives	3,788	1,416	2,281	4,106	5,728	**17,319**
Financial assets measured at fair value through OCI	9,320	2,855	42,974	212,601	17,982	**285,732**
Loans to banks (1)	349,550	28,861	115,968	49,976	-	**544,355**
Loans to customers at amortised cost and at fair value through profit or loss (2)	76,079	65,262	193,783	357,501	204,745	**897,370**
Debt securities at amortised cost	-	-	-	-	52,867	**52,867**
Investment in subsidiaries	-	-	-	-	650	**650**
Intangible assets, property, plant and equipment	-	-	-	19,837	-	**19,837**
Tax assets	-	-	-	405	-	**405**
Other assets	2,266	-	428	9,328	-	**12,022**
Total assets	**489,091**	**100,051**	**376,280**	**654,726**	**282,202**	**1,902,350**
Liabilities						
Deposits from banks	9,441	4,425	21,989	196,258	20,068	**252,181**
Deposits from customers	1,082,728	32,997	56,059	176,086	30,045	**1,377,915**
Trading and hedging derivatives	547	2,042	2,190	2,741	4,736	**12,256**
Tax liabilities	-	-	-	300	-	**300**
Other liabilities	5,584	-	282	14,390	-	**20,256**
Provisions for risk and charges	-	-	-	9,046	-	**9,046**
Subordinated debts	-	-	7	9,645	-	**9,652**
Total liabilities	**1,098,300**	**39,464**	**80,527**	**408,466**	**54,849**	**1,681,606**
Net position	**(609,209)**	**60,587**	**295,753**	**246,260**	**227,353**	**220,744**

(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 (21).

(2) Including portfolio hedge adjustment

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

The following table summarize the maturity profile the Bank's financial liabilities' gross contractual cash flows – together with future interest income - as at 31 December 2019 and 2018. 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 38.

(million HUF)

31/12/2019	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	7,664	5,060	18,850	218,041	34,266	**283,881**
Deposits from customers	1,152,000	27,104	59,859	184,549	15,250	**1,438,762**
Trading and hedging financial derivative instruments	1,310	264	1,341	11,036	11,136	**25,087**
Subordinated debts	-	-	64	9,979	-	**10,043**
Financial guarantees	1,781	10,361	15,934	15,393	3,946	**47,415**
Total undiscounted financial liabilities	**1,162,755**	**42,789**	**96,048**	**438,998**	**64,598**	**1,805,188**

(million HUF)

31/12/2018	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	9,487	4,559	22,589	197,947	20,165	**254,747**
Deposits from customers	1,082,761	33,294	57,941	177,027	30,045	**1,381,068**
Trading and hedging financial derivative instruments	547	2,041	2,190	2,741	4,736	**12,255**
Subordinated debts	-	-	71	9,788	-	**9,859**
Financial guarantees	3,888	8,532	15,656	9,813	8,824	**46,713**
Total undiscounted financial liabilities	**1,096,683**	**48,426**	**98,447**	**397,316**	**63,770**	**1,701,642**

Part D Additional information

(41) Related party transactions

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

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

(million HUF)

31/12/2019	Parent	ISP Group Compa-nies	CIB Group Compa-nies	Total
Assets				
Due from banks and due from customers	206,135	13,299	95,452	**314,886**
Financial investments	364	-	-	**364**
Derivative financial assets	82	17,312	-	**17,394**
Other assets	35	325	214	**574**
Liabilities				
Due to banks and due to customers	117,371	1,430	14,388	**133,189**
Subordinated debts	-	9,922	-	**9,922**
Derivative financial liabilities	195	17,524	-	**17,719**
Other liabilities	2	-	119	**121**
Commitments				
Guarantees	70	13	3,374	**3,457**
Loan commitments	59,994	16,526	36,159	**112,679**
Interest rate derivatives	-	993,628	-	**993,628**
Currency derivatives	35,858	2,850	-	**38,708**
Equity derivatives	-	15,276	-	**15,276**
Net interest income/(expense)	**442**	**(2,015)**	**1,024**	**(549)**
Trading and hedge income/(expenses)	**499**	**1,959**	**-**	**2,458**
Other operating income/(expense)	**(185)**	**57**	**2,332**	**2,204**
Operating expense	**(1,011)**	**(40)**	**(559)**	**(1,610)**

(41) Related party transactions (continued)

(million HUF)

31/12/2018	Parent	ISP Group Companies	CIB Group Companies	Total
Assets				
Due from banks and due from customers	244,306	50,418	91,572	**386,296**
Financial investments	276	-	-	**276**
Derivative financial assets	293	9,064	-	**9,357**
Other assets	-	16	88	**104**
Liabilities				
Due to banks and due to customers	97,420	2,525	15,508	**115,453**
Subordinated debts	-	9,652	-	**9,652**
Derivative financial liabilities	64	7,158	-	**7,222**
Other liabilities	-	-	65	**65**
Commitments				
Guarantees	-	2,432	3,282	**5,714**
Loan commitments	59,994	22,505	52,831	**135,330**
Interest rate derivatives	4,000	1,885,685	-	**1,889,685**
Currency derivatives	58,192	-	-	**58,192**
Equity derivatives	-	29,507	-	**29,507**
Net interest income/(expense)	**(482)**	**(1,388)**	**1,217**	**(653)**
Trading and hedge income/(expenses)	**792**	**3,456**	**-**	**4,248**
Other operating income/(expense)	**75**	**56**	**(2,521)**	**(2,390)**
Operating expense	**5**	**(353)**	**586**	**238**

All transaction with companies in the Intesa Sanpaolo Group are priced on an arm's length basis and are to be settled in cash. None of the transactions is secured.

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 Bank.

(million HUF)

Exposures to / from Boards members	31/12/2019	31/12/2018
Assets		
Loans	5	63
Equity instruments	143	79
Liabilities		
Current accounts and deposits	900	141
Commitments		
Loans and overdraft facilities not disbursed	4	1
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	927	878

There is no termination benefit or other long-term employee benefit in place.

There were changes in the Bank's key management members during 2019 and 2018.

(42) 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)

31/12/2019	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	11,833	**0,00**
Securities held for trading	22,885	**1,78**
Financial assets measured at fair value through OCI	402,732	**1,23**
Loans to banks	437,133	**0,21**
Loans to customers measured at amortised cost and at fair value through profit or loss	968,328	**2,65**
Debt securities measured at amortised cost	46,613	**0,78**
Financial liabilities		
Deposits from banks	256,650	**0,59**
Deposits from customers	1,413,882	**0,25**
Lease liabilities	8,585	**1,09**
Subordinated debts	9,778	**0,72**

(million HUF)

31/12/2018	Average carrying amount	Average interest rate (%)
Financial assets		
Cash	12,836	0.00
Securities held for trading	69,794	0.77
Financial assets measured at fair value through OCI	303,551	0.94
Loans to banks	491,867	(0.11)
Loans to customers measured at amortised cost and at fair value through profit or loss	849,887	2.55
Debt securities measured at amortised cost	39,105	1.25
Financial liabilities		
Deposits from banks	251,530	0.30
Deposits from customers	1,297,619	0.29
Securities issued	2,616	4.38
Subordinated debts	9,584	0.71

(43) 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.

(million HUF)

31/12/2019	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks at amortised cost	220,957	218,503	219,954	220,041
Loans to customers at amortised cost	771,567	775,578	241,564	240,173
Debt securities at amortised cost	70,288	70,986	-	-
Financial liabilities				
Deposits from banks	202,791	206,952	77,128	76,315
Deposits from customers	1,331,558	1,331,078	104,117	104,612
Subordinated debts	9,922	10,108	-	-

(million HUF)

31/12/2018	Variable rate instruments		Fix rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Loans to banks at amortised cost	167,193	164,750	377,162	377,379
Loans to customers at amortised cost	715,798	719,015	172,972	171,714
Debt securities at amortised cost	52,867	51,713	-	-
Financial liabilities				
Deposits from banks	174,111	176,864	78,070	77,072
Deposits from customers	1,065,963	1,065,965	311,952	308,420
Subordinated debts	9,652	9,928	-	-

Where available, the fair value of loans to banks and loans to customers 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 Bank discounts the cash-flows using the exchange rate swap yield curve, and adds a client/deal level risk premium. The discounting is based on the cash-flows assembled by the deal conditions.

For financial assets measured at amortised cost, fair value is the market price or quoted exchange rate at the reporting date.

The fair value of deposits on demand is the amount payable at the reporting date.

The fair value of deposits from banks and customers is estimated using discounted cash flows.

The Bank 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.

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

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

(million HUF)

31/12/2019	Level 1	Level 2	Level 3	Total
Financial assets				
Securities held for trading	834	6,061	-	**6,895**
Trading derivative financial instruments	-	20,153	-	**20,153**
Financial assets mandatorily measured at fair value	-	-	25,948	**25,948**
Financial assets measured at fair value through OCI	236,558	109,917	107	**346,582**
Hedging derivative financial instruments	-	873	-	**873**
Financial liabilities				
Trading derivative financial instruments	-	16,181	-	**16,181**
Hedging derivative financial instruments	-	8,906	-	**8,906**

(million HUF)

31/12/2018	Level 1	Level 2	Level 3	Total
Financial assets				
Securities held for trading	24,684	1	-	**24,685**
Trading derivative financial instruments	-	15,479	-	**15,479**
Financial assets mandatorily measured at fair value	-	-	7,285	**7,285**
Financial assets measured at fair value through OCI	283,949	1,783	-	**285,732**
Hedging derivative financial instruments	-	1,840	-	**1,840**
Financial liabilities				
Trading derivative financial instruments	-	9,488	-	**9,488**
Hedging derivative financial instruments	-	2,768	-	**2,768**

During the reporting period ending 31 December 2019 and 2018 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:

(million HUF)

31/12/2019	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	36,863	-	-	**36,863**	**36,863**
Loans to banks	-	-	438,544	**438,544**	**440,911**
Loans to customers at amortised cost	-	-	1,015,751	**1,015,751**	**1,013,131**
Debt securities at amortised cost	13,983	57,003	-	**70,986**	**70,288**
Financial liabilities					
Deposits from banks	-	-	283,267	**283,267**	**279,919**
Deposits from customers	-	-	1,435,690	**1,435,690**	**1,435,675**
Subordinated debts	-	-	10,108	**10,108**	**9,922**

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

(million HUF)

31/12/2018	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current account with central banks	47,108	-	-	**47,108**	**47,108**
Loans to banks	-	-	542,129	**542,129**	**544,355**
Loans to customers at amortised cost	-	-	890,729	**890,729**	**888,770**
Debt securities at amortised cost	51,713	-	-	**51,713**	**52,867**
Financial liabilities					
Deposits from banks	-	-	253,936	**253,936**	**252,181**
Deposits from customers	-	-	1,374,385	**1,374,385**	**1,377,915**
Subordinated debts	-	-	9,928	**9,928**	**9,652**

(44) Business combinations

There was no business combination in 2019 nor in 2018.

(45) Events after the reporting period

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

E. Information on risks

(46) Risk management

Risk is inherent in the Bank'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 Bank 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 is responsible to define risk management strategies in line with the expectations of the international and local Supervisory Authorities and regulatory framework and Intesa Sanpaolo S.p.A. The Management Committees of the Bank implement the execution of these policies. Independent Risk Assumption and Risk Management Committee provides independent risk supervision over the internal risk controls and management information systems.

The Credit policies department within the Chief Risk Officer area 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 Asset-Liability Management decisions are made by Assets and Liabilities 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 Bank 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 Bank to assess the behaviour 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 Bank uses derivative transactions to hedge financial risk to manage interest rate, foreign exchange risk and other risk transfer methodologies to minimise the loss on credit risks and other unforeseen operational and market events. The Bank 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 the Bank. It arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk on loans and receivables is managed by the Management Board through the Credit Committee, the Credit Risk Governance Committee 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 Assets and Liabilities Committee. The Bank maintains strict control on open net positions, i.e. the difference between purchase and sale contracts, by both amount and term.

In order to avoid excessive concentrations of risk, the Bank'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 transfers of financial assets between the stages are „symmetrical”. This means that just as in the presence of a significant increase in credit risk, an asset must be transferred to stage 2, if subsequently its credit quality returns to being no longer significantly worse than measured at the time of initial recognition of the asset, the financial instrument can be transferred back to stage 1. The metrics used by the Bank that determine „improvements” – i.e. transitions from stage 2 to stage 1 – must be the same (in terms both of variables observed and of change in the variables chosen) identified to determine „worsening”.

(46) Risk management (continued)

Any occurrence of a „significant increase in credit risk" (and hence transfer to stage 2) must be measured not by reference to the overall debtor, but to each individual exposure pertaining to the same counterparty.

Determination of the expected credit loss is always performed after measurement of the risk level with respect to initial recognition of the instrument. The Bank compares the risk of default occurring on the financial instrument as at the reporting date with the risk of default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information. The drivers to identify the actual occurrence of a significant increase in credit risk on a performing exposure are the following:

- Increase in the lifetime probabilities of default
- The existence of the past due position of more than 30 days
- The granting of forbearance measures to the performing debtor

According to IFRS 9, the concept of "low credit risk" can include exposures having investment grade rating, without being limited to them. For an instrument to have "low credit risk" it is not necessary to have received an external rating. The instrument may be rated by means of the Group's internal rating methodologies, provided its assessment in line with the generally accepted definition of "low credit risk". The Group decided not to make a general use of the "low credit risk" exemption, i.e. simplification that permits to assume that instruments with "low credit risk" have not undergone a significant increase in credit risk since origination and thus can automatically be included in Stage 1.

In relation to non-performing exposures, a component linked to the most-likely and downside scenarios expected over the period of the next three years is considered in addition to a component linked to current economic conditions. In fact, as required by IFRS 9, the effects of the forward looking scenario on LGD estimates pegged to the current conditions must also be considered. The forward looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most likely scenario. It is based on the methodological framework that it is used for performing loans, but ignores the upside scenario from prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Credit claim may be partially or fully written off and removed from on balance sheet, even without waving entirely the claim, as long as legal proceedings have not been completed and even very low possibility of recovery remains. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value. In order to accelerate the write-off of loans whose possibility of recovery is deemed marginal, on a periodic basis (at least every six month) portfolios of bad loans are defined to be subject to total or partial write-offs if bearing the following macro-characteristics:

- Percentage coverage >95%,
- Vintage (understood as the period of time in "bad loan" status) > 5 years or >8 years, respectively, for non-mortgage and mortgage loans.

The methodological framework for estimating the risk parameters used to calculate ECL is based on the reference framework for the development of AIRB international models and the other risk metrics used for management purposes. The internal rating systems provide the basis for development of the IFRS 9 models. These internal systems have been adapted to align them with the requirement of the Standard. Indeed, determination of the risk parameters is based on point in time approach able to incorporate all available information, including forward-looking data. The methodology applied to develop the EAD model is based on a fixed time lag of 12 months in order to estimate the share of available margins that will be used in case of default.

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.

(46) Risk management (continued)

(million HUF)

31/12/2019	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	36,863	36,863
Securities held for trading	6,895	6,895
Trading derivatives	20,153	20,153
Financial assets measured at fair value through OCI	346,582	346,582
Loans to banks	441,129	440,911
Loans to customers at amortised cost and at fair value through profit or loss	1,067,575	1,039,079
Debt securities measured at amortised cost	70,439	70,288
Hedging derivatives	873	873
Other assets	8,283	7,901
Financial guarantees	47,415	47,199
Commitments	419,562	418,572
Total maximum exposure	**2,465,769**	**2,435,316**

(million HUF)

31/12/2018	Maximum exposure	Maximum exposure to credit risk
Cash and current account with central banks	47,129	47,108
Securities held for trading	24,685	24,685
Trading derivatives	15,479	15,479
Financial assets measured at fair value through OCI	285,732	285,732
Loans to banks	544,709	544,355
Loans to customers at amortised cost and at fair value through profit or loss	929,292	896,055
Debt securities measured at amortised cost	53,114	52,867
Hedging derivatives	1,840	1,840
Other assets	9,396	9,318
Financial guarantees	46,712	46,459
Commitments	452,684	451,399
Total maximum exposure	**2,410,772**	**2,375,297**

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.

Contingent and future liabilities also includes financial guarantee contracts.

The following table presents the Bank's loans and advances to customers before taking into account any collateral held or other credit enhancement broken down by the relevant geographical areas:

(million HUF)

	31/12/2019	31/12/2018
Hungary	959,783	830,736
Euro Zone countries	23,173	28,050
EU - non-Euro Zone countries	84,434	69,824
Other regions	184	682
Total	**1,067,574**	**929,292**

(46) Risk management (continued)

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements is provided in Note 22.

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 pledges over real estate properties, inventory and trade receivables

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

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

(million HUF)

	31/12/2019	31/12/2018
Financial collateral	(32,926)	(38,487)
Guarantees	(90,010)	(53,186)
Total	**(122,936)**	**(91,673)**

The Bank 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 to customers at amortised cost and fair value excluding allowances based on the Bank's credit rating system.

(million HUF)

Gross carrying amount 31/12/2019	Stage 1 Collective	Stage 2 Collective	Stage 3 Individual	Stage 3 Collective	POCI assets	SPPI failed	Total
Performing loans							
A – Excellent	127,839	1,318	-	-	-	544	**129,701**
B – Stable	353,722	5,396	-	-	2,360	18,287	**379,765**
C – Acceptable	360,958	28,488	-	-	2,524	4,919	**396,889**
D – High Risk	85,889	24,419	-	-	310	800	**111,418**
Other	6,021	5,869	-	-	31	1,346	**13,267**
Total performing loans	**934,429**	**65,490**			**5,225**	**25,896**	**1,031,040**
Non-performing loans							
Corporate loans	-	-	14,137	2,971	2,201	-	**19,309**
Retail loan	-	-	411	11,518	5,244	53	**17,226**
Total non-performing loans	**-**	**-**	**14,548**	**14,489**	**7,445**	**53**	**36,535**

(46) Risk management (continued)

(million HUF)

Gross carrying amount 31/12/2018	Stage 1 Collec-tive	Stage 2 Collec-tive	Stage 3 Indi-vidual	Stage 3 Collec-tive	POCI assets	SPPI failed	Total
Performing loans							
A – Excellent	47,424	10,545	-	-	-	135	**58,104**
B – Stable	197,226	8,163	-	-	282	2,604	**208,275**
C – Acceptable	456,232	32,362	-	-	1,663	3,703	**493,960**
D – High Risk	80,941	35,044	-	-	1,672	743	**118,400**
Other	2,880	421	-	-	2,196	100	**5,597**
Total performing loans	**784,703**	**86,535**	-	-	**5,813**	**7,285**	**884,336**
Non-performing loans							
Corporate loans	-	-	18,633	3,372	2,888	-	**24,893**
Retail loan	-	-	383	14,420	5,260	-	**20,063**
Total non-performing loans	**-**	**-**	**19,016**	**17,792**	**8,148**	**-**	**44,956**

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

It is the Bank'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 Bank does not recognize any credit risk in relation with available- for- sale investments, as the majority of the available- for- sale portfolio consisted of government bonds.

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

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

(million HUF)

	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+/ BB-	B+/ B-	Less than B-	Not rated	Total
31/12/2019	754	1,994	222,334	598	27	-	215,204	**440,911**
31/12/2018	396	22,834	272,043	66	315	-	248,701	**544,355**

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

(million HUF)

31/12/2019	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	4,876	436	86	52	**5,450**
Retail loan	8,263	1,182	302	146	**9,893**
Total	**13,139**	**1,618**	**388**	**198**	**15,343**

(million HUF)

31/12/2018	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	3,150	451	145	83	3,829
Retail loan	9,668	1,013	250	183	11,114
Total	**12,818**	**1,464**	**395**	**266**	**14,943**

(46) Risk management (continued)

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 Bank held as at 31 December 2019 is HUF 15,164 million, and HUF 11,794 million as at 31 December 2018.

(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 an adequate level of liquidity and for defining control policies and management processes relating to the specific risk profile. Assets & Liabilities Management 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 ALM is responsible for implementing the liquidity strategy and maintaining adequate liquidity within the limits described below. The Financial and Market Risk Management Department measures and monitors the liquidity position and controls liquidity limits on a daily basis, and is also in charge of reporting to the management bodies and to the Parent Company liquidity positions and compliance with limits.

The key elements of the Bank's liquidity strategy are as follows:

- continuous respect of regulatory liquidity ratios;
- improve Structural Liquidity Position through matched funding (from shareholder or market driven);
- focused approach to short-term, medium-term, long-term product definitions in each business line.

Through active participation in monetary and financial markets, the Treasury and ALM ensures integrated management of the Bank'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 ALM 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 Department, promoting 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 where the strategies for addressing liquidity shortfalls in emergency situations are defined, together with 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 account balances, 30-days interbank position and bonds with maximum 30 day remaining maturity, which are categorized by the National Bank of Hungary as eligible for its repo facility.

In addition to the liquid assets of the liquidity ratio, the Bank also has an EUR 700 million equivalent short-term (below 18 month) uncommitted multi currency credit line with the Parent Company.

The liquidity ratio during the year was as follows:

Liquidity ratio	31/12/2019	31/12/2018
31 December	27.9%	35.1%
Daily average during the period	25.6%	36.4%
Highest	36.8%	47.5%
Lowest	17.9%	28.5%

The maturity profile of the Bank's financial liabilities at 31 December 2019 is presented in Note 40.

(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 Bank 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. 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 Bank 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.

(46) Risk management (continued)

The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The factors of the distribution are calculated by using exponentially weighted historical data. The use of VaR has limitation because it is based on historical correlation and volatilities in market prices and assumes that future price movements will follow a statistical distribution.

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under – or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments.

Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

Since VaR is an integral part of the Bank'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.

(million HUF)

VaR 2019	Foreign exchange	Interest rate	Equity	Correla-tion effect	Total
31 December	6	2	0	3	**11**
Daily average during the period	17	33	0	(11)	**39**
Highest	46	85	17	(63)	**85**
Lowest	3	2	0	3	**8**

(million HUF)

VaR 2018	Foreign exchange	Interest rate	Equity	Correla-tion effect	Total
31 December	12	27	0	(14)	**25**
Daily average during the period	21	36	0	(13)	**44**
Highest	53	80	2	(41)	**94**
Lowest	6	6	0	2	**14**

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 Bank 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 Bank 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 Bank's Management Board. On the tactical horizon, interest risk is managed by the Financial Risk Committee, which proposes position and sensitivity limits, and monitors such limits to restrict the effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

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

(46) Risk management (continued)

The sensitivity of equity economic value is calculated on the changes of the net present value (NPV) of all non-trading financial assets, liabilities and derivatives on 31 December 2019 on the basis of the effects of standard shock scenarios.

The sensitivity of the net interest income is the effect of the standard shock scenarios on the net interest income within one-year time horizon, based on the floating and fixed rate non-trading financial assets and financial liabilities and derivative instruments as of 31 December 2019. The Bank uses for the sensitivity calculations NPV calculations with admitting negative value on interest rates for the year.

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.

(million HUF)

2019	Shock scenarios in basis points (+)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	+100	**6,931**	(744)	159	364	(720)	**(941)**
EUR	+100	**961**	(286)	139	392	358	**603**
USD	+100	**(37)**	(30)	0	18	18	**6**
CHF	+100	**31**	(10)	20	(14)	(27)	**(31)**
Other	+100	**(8)**	1	1	2	3	**7**

(million HUF)

2019	Shock scenarios in basis points (-)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(100)	**(6,728)**	744	(159)	(364)	720	**941**
EUR	(100)	**(1,004)**	286	(139)	(392)	(358)	**(603)**
USD	(100)	**37**	30	-	(18)	(18)	**(6)**
CHF	(100)	**(8)**	10	(20)	14	27	**31**
Other	(100)	**8**	(1)	(1)	(2)	(3)	**(7)**

(million HUF)

2018	Shock scenarios in basis points (+)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	+100	**4,150**	(681)	(388)	1,043	714	**688**
EUR	+100	**803**	(195)	(160)	228	569	**442**
USD	+100	**8**	(10)	36	27	20	**73**
CHF	+100	**(10)**	(33)	41	180	(8)	**180**
Other	+100	**29**	1	1	3	3	**8**

(million HUF)

2018	Shock scenarios in basis points (-)	Sensitivity of net interest income	Sensitivity of equity				
			Under 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
HUF	(100)	**(2,527)**	169	390	(392)	(809)	**(642)**
EUR	(100)	**(1)**	(40)	(190)	(65)	(595)	**(890)**
USD	(100)	**(8)**	11	(37)	(27)	(25)	**(78)**
CHF	(100)	**0**	(30)	20	73	(64)	**(1)**
Other	(100)	**(28)**	(1)	(1)	(3)	(4)	**(9)**

(46) Risk management (continued)

Foreign exchange risk– Non-trading

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

The Bank 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 statement of comprehensive income to reasonable possible changes in exchange rates, with all other variables held constant:

(million HUF)

2019	**Sensitivity of net income**			
	EUR	**USD**	**CHF**	**Total**
5% strengthening of currencies vs. HUF	103	15	(9)	**109**
5% weakening of currencies vs. HUF	(103)	(15)	9	**(109)**

(million HUF)

2018	**Sensitivity of net income**			
	EUR	**USD**	**CHF**	**Total**
5% strengthening of currencies vs. HUF	1,799	(163)	(127)	**1,509**
5% weakening of currencies vs. HUF	(1,799)	163	127	**(1,509)**

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

(46) Risk management (continued)

The currency structure of the Bank's financial assets, liabilities as follows:

(currency equivalents in million HUF)

31/12/2019	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	35,553	949	50	209	102	**36,863**
Securities held for trading	6,471	364	-	60	-	**6,895**
Financial assets measured at fair value through OCI	323,200	-	-	23,382	-	**346,582**
Loans to banks	307,528	129,706	125	2,660	892	**440,911**
Loans to customers at amortised cost and at fair value through profit or loss	666,414	323,599	13,821	35,196	49	**1,039,079**
Debt securities at amortised cost	48,864	21,424	-	-	-	**70,288**
Total financial assets	**1,388,030**	**476,042**	**13,996**	**61,507**	**1,043**	**1,940,618**
Deposits from banks	131,112	132,986	15,485	336	-	**279,919**
Deposits from customers	1,130,020	250,435	5,876	43,181	6,163	**1,435,675**
Subordinated debts	-	9,922	-	-	-	**9,922**
Total financial liabilities	**1,261,132**	**393,343**	**21,361**	**43,517**	**6,163**	**1,725,516**
Net on-statement of financial positon	**126,898**	**82,699**	**(7,365)**	**17,990**	**(5,120)**	**215,102**
FX position of derivatives	**78,976**	**(73,698)**	**7,230**	**(16,870)**	**3,847**	
Off-balance	***344,469***	***114,515***	***313***	***6,475***	***-***	***465,772***
Guaranteed	*25,717*	*16,655*	*-*	*-*	*-*	***42,372***
Letters of credit	*-*	*4,475*	*-*	*352*	*-*	***4,827***
Commitments	*318,752*	*93,385*	*313*	*6,123*	*-*	***418,573***

(46) Risk management (continued)

(currency equivalents in million HUF)

31/12/2018	HUF	EUR	CHF	USD	Other	Total
Cash and current account with central banks	45,602	1,082	25	305	94	**47,108**
Securities held for trading	24,274	276	-	135	-	**24,685**
Financial assets measured at fair value through OCI	284,033	-	-	1,699	-	**285,732**
Loans to banks	340,270	179,799	209	18,415	5,662	**544,355**
Loans to customers at amortised cost and at fair value through profit or loss	564,131	282,533	16,001	33,389	1	**896,055**
Debt securities at amortised cost	46,408	6,459	-	-	-	**52,867**
Total financial assets	**1,304,718**	**470,149**	**16,235**	**53,943**	**5,757**	**1,850,802**
Deposits from banks	110,737	123,908	16,667	720	149	**252,181**
Deposits from customers	1,089,784	230,280	6,086	40,542	11,223	**1,377,915**
Subordinated debts	-	9,652	-	-	-	**9,652**
Total financial liabilities	**1,200,521**	**363,840**	**22,753**	**41,262**	**11,372**	**1,639,748**
Net on-statement of financial positon	**104,197**	**106,309**	**(6,518)**	**12,681**	**(5,615)**	**211,054**
FX position of derivatives	**103,550**	**(101,402)**	**5,357**	**(12,698)**	**7,244**	
Off-balance						
Guaranteed	*26,957*	*13,738*	*-*	*44*	*124*	***40,863***
Letters of credit	*-*	*5,263*	*-*	*333*	*-*	***5,596***
Commitments	*326,278*	*114,927*	*2,974*	*7,220*	*-*	***451,399***

(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;
- conduct risk, defined as the risk of incurring judicial or administrative sanctions, material financial losses or reputational harms as a result of behaviours unfair towards customers, jeopardising the integrity and orderly functioning of financial markets, constituting an infringement of regulations in financial crimes area (e.g. anti-money laundering, counter terrorism, embargoes, anti-corruption, tax crimes, cyber crimes);
- 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. (IT security risk is part of the ICT risk);
- cyber risk is the risk of disruption to business processes and/or financial loss and/or damage to reputation deriving from improper use and/or dissemination of digital data and information, any actual or attempted unauthorised access to the Bank's ICT or to the digital data and information contained therein and any malicious or involuntary activity that compromises or uses it inappropriately, jeopardising business processes and/or supporting critical infrastructures;
- information Security risk, defined as the risk of sustaining economic loss, or reputational harm, including those arising from the failure to comply with rules as a result of the loss of confidentiality, integrity and/or availability of corporate information favoured or caused by the use of technology or related to it.

(46) Risk management (continued)

- financial reporting risk, defined as the possibility that quantitative or qualitative accounting or financial information contained in company communications disclosed to the public is not true, correct or complete due to the inadequacy of administrative processes or the ICT applications used to produce it.

Strategic and reputational risks are excluded.

In the Bank, Operational Risk Management measures and monitors the exposure to operational risk and reports thereon to the corporate bodies of the Bank, such as the Management Board, Supervisory Board, Audit Committee, Risk Assumption and Risk Management Committee and Operational Risk Committee. 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 Bank, 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 Bank's operational risk exposure, both qualitative and quantitative tools are being applied.

One of the qualitative tools is the annual operational risk self-diagnosis where operational criticalities are identified and mitigating actions are defined in response to those criticalities. A set of operational key risk indicators is also used as a qualitative measure aiming at conveying an easily understandable overall picture to the senior management about the operational risk profile of the Bank, and in the meanwhile, enabling the Bank 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 2019, the Bank detected and recorded in its internal loss database 436 operational risk events which caused HUF 445 million effective operational loss (excluding losses boundary with credit risk and specific provisions). In 2018, the corresponding numbers were 614 events with HUF 1,624 million loss.

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

F. Information on capital

(47) Capital and capital management

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

The basis of the capital management of the Bank 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 global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The rules have been being applied from 1 January 2014. The framework aims at making institutions in the EU more solid and strengthening their capacity to adequately manage the risks linked to their activities and creating capital bases adequate to absorb any losses they may incur in doing business, with special focus on the liquidity risk management tools and the capital requirements.

The Bank has entirely complied with the regulatory capital requirements in 2019 as well as in 2018.

The Bank quantifies the regulatory and ICAAP capital requirements. Both the risk management processes and the capital requirement comprehensively cover the Bank.

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 Bank, their sensitivity to crisis scenarios, and how they are expected to evolve in light of changes in the Bank's business going forward.

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

The Bank continuously focusing on the following risks:

Credit Risk

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

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Market Risk

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

Residual Risk

The risk that arises from the recognized risk measurement and mitigation techniques used by the credit institution proves less effective than expected.

Model Risk

Model risk is the risk of losses relating to the development, implementation or improper use of any other models by the institution for decision-making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits, etc.)

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.

(47) Capital and capital management (continued)

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 (MNB) requirement the Bank identifies the portfolio meeting the criteria defined by the MNB for high risk portfolios and allocates additional capital for such portfolios. Repossessed assets are forming part of the high-risk portfolios.

Applied methodologies

Under Pillar 1 the Bank applies Standardized Methodologies (STA) for quantifying the regulatory capital requirement of Credit risk, Operational risk and Market risk. Under Pillar 2 the Bank implemented and use advanced methodologies for ICAAP purposes.

Capital management

The Bank's regulator, National Bank of Hungary sets and monitors capital requirements for the Bank in the so called SREP - supervisory review and evaluation process.

The Bank'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, OCI reserves and deductions for intangible assets and deferred tax other than temporary differences
- Tier 2 capital, which includes qualifying subordinated liabilities

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

The primary objective of the Bank'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.

(47) Capital and capital management (continued)

(million HUF)

Regulatory capital	31/12/2019	31/12/2018
Share capital	50,000	50,000
Reserves	165,106	156,479
Current year's profit after deduction dividend payment	6,981	4,265
Total shareholder's equity	**222,087**	**210,744**
Deduction item: intangible assets	(12,323)	(11,103)
Deduction item: prudential valuation	(420)	(344)
Tier 1 capital	**209,344**	**199,297**
Subordinated capital	3,785	5,610
Tier 2 capital	**3,785**	**5,610**
Total capital	**213,129**	**204,907**
Risk weighted assets for Credit risks	888,184	818,712
Risk weighted assets for Market risks	13,621	21,487
Risk weighted assets for Operating risks	111,025	114,825
Credit Valuation Adjustment	3,490	1,652
Risk weighted assets	**1,016,320**	**956,676**
Tier 1 capital ratio (%)	**20.60%**	**20.83%**
Total capital ratio (%)	**20.97%**	**21.42%**

Current year's profit for 2019 includes the proposed dividend payment with an amount of HUF 7,000 million.

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

SREP requirements for 2020 are already available, and the Bank estimates to meet the relating requirements based on current and projected financial position.

CIB BANK

CIB BANK LTD.

Business and management report
based on the audited separate financial statements
for the year ended 31 December 2019
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

I. Macro and microeconomic environment

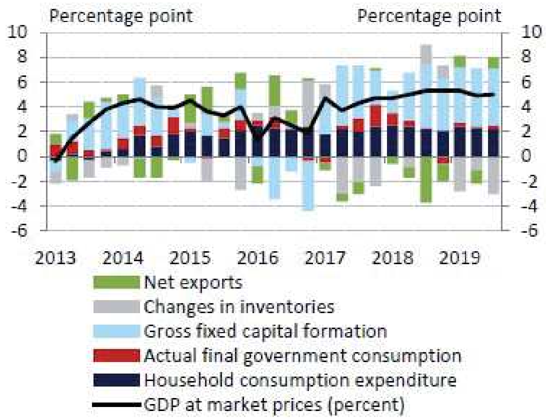
1. GDP

In 2019 the Hungarian economy showed a strong growth momentum, similar to the dynamics of 2018. Following an annual GDP growth of 5.1% (2018), the growth rate was around 4.8-5.0% in 2019 based on the statistical data of Q1-Q3 and the expected growth rate of Q4. Regarding quarterly data, GDP growth probably peaked in Q1 2019, reaching a multi-year record of 5.3% (unadjusted year-on-year data).

The speed of the revival of the Hungarian economy exceeded expectations. The market consensus for the projected full-year 2019 GDP figure had been increasing essentially throughout the entire year. GDP growth in Q1 2019 was at 5.3% year-on-year, while Q2 and Q3 delivered 4.9% and 5.0% year-on-year respectively. The better-than-expected rise to multi-year record levels was boosted primarily by domestic demand, which lifted services too and was supported by wages surging at a double-digit growth rate. Detailed data of Q4 will probably show some modest signs of decelaration, which will continue with a more marked deceleration in 2020. For the whole of 2020 the National Bank of Hungary projected a GDP growth by 3.7%, while most market participants project a moderately more pronounced slowdown to 3.2-3.3%.

During 2019 EU-funded projects kept giving a strong boost to the economy, investment dynamics became more broad-based. While private investments were still relatively weaker, investments in construction, machinery and equipment rose significantly. On the production side, the primary contributors to economic growth were market-based services. The automotive industry recorded a relatively weaker performance, while all sectors accounting for a more significant weight within the manufacturing sector showed solid growth. From the absoprtion side households' demand was a key factor in growth, supported by double-digit wage increase. Fiscal policy also provided some support to growth.

Contribution to annual changes in GDP



Source: MNB, KSH

2. Budget and external balance

The 2019 fiscal performance was twin-faced, especially due to the effect of the domestic pre-financing of EU-funded projects and programmes. While proceeds from the EU reached HUF 1,469bn, expenditures related to EU-projects was nearly HUF 100bn higher (HUF 1,557 billion). Last year's annual data showed that the overall state budget produced an annual cash-based deficit of HUF 1,219 billion, above the plan, but below the 2018 gap. The jump was primarily driven by a strong wave of EU-financed programs and their pre-financing without sufficient inflow of the related EU financing. However, the ESA-based balance (calculated in accordance with the EU-methodology) is likely to come close to the plan of -1.8% of GDP, with the final data to arrive later in 2020. The balance was supported by larger-than-expected tax proceeds, with an especially strong performance from the side of VAT. In addition to strong GDP growth and high wage growth, the tax income boom was also supported by the enhanced efficiency of tax collection. The above-plan cash-based deficit naturally created a jump in state financing needs, but the favorable interest rate environment provided new bond releases with low yields, close to zero in the case of in-year maturities.

I. Macro and microeconomic environment (continued)

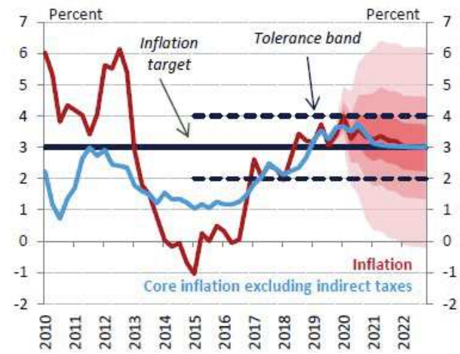
External balance indicators showed a stillfavourable development in 2019 as the gradual melting of the preceding years' huge trade surpluses came to a halt in the middle of the year. As a result, the cumulated year-to-date surplus (up to November) approached EUR 5bn, not far off the 6bn full-year stock in 2018. Import growth was faster than the growth of exports both in forint and euro terms. The C/A balance has already become negative and reached EUR -230m by Q3 2019. These developments still indicated a relatively strong financing capacity but a diminishing support to the forint's exchange rate.

3. Inflation

The December 2019 inflation figure came above market expectations at 4.0% y/y, up by more than 1pp in November and December combined primarily due to the strong base effect of fuel prices. The outcome implied an annual average CPI of 3.4% for 2019, up from 2.8% in 2018. During the course of 2019, inflation fluctuated in a relatively wide range of 2.7%-4.0%. Regarding the whole of 2019, of the main price categories alcohol and tobacco prices, car fuel prices and food prices were showing significant, above-average rise. Additionally, apartment rent prices were also rapidly rising.

Core inflation also showed rising trend, with annual average of 3.8%, up from 2.5% in the preceding year. Tax-adjusted core inflation index calculated by the MNB showed an annual average rise of 3.4%. The intensification of domestic demand and the effect of wage increases played a role in inflation trends. For 2020-21, the central bank projects both headline and core inflation to return to the vicinity of 3%.

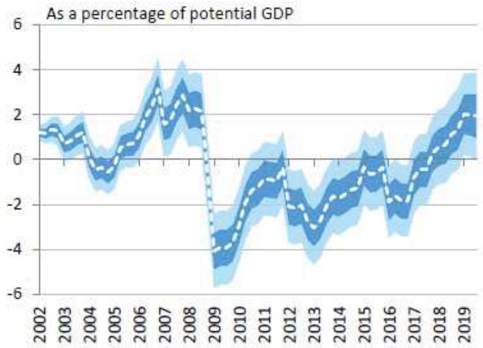
Inflation history and the inflation forecast of the MNB



Note: Based on seasonally unadjusted data.

Source: MNB, KSH

Output gap and its uncertainty band



Source: MNB

4. Labour market

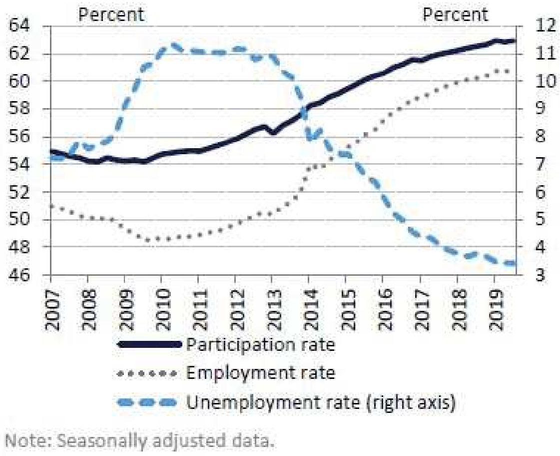
Following the drop of the unemployment rate to below 4% in Q4 2017, the labour market maintained sub-4% levels throughout 2019, similar to the preceding year. Unemployment reached its lowest rate at 3.3% in the middle of the year and returned to 3.5% by December 2019. At the same time the number of the employed rose slower in 2019 and it stabilised close to 4.5 million in Q4 2019. This path was characteristic of both the private and the state sector. However, the number of employees in the public employment programme dropped further by nearly 20 thousand compared to one year ago.

Such stability of low unemployment was supported by the maintaining of relatively high level of employment coupled with some rise of the activity rate. However, this remained strongly affected by employees working abroad and to a smaller extent by state subsidized employment. Structural inequilibrium has remained in place, with reports of labour shortages in essentially all areas of the economy. 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.

Wage rise has remained in double-digit territory in 2019 as did in 2018. Up to October 2019, the dynamics reached 11.6%, showing no sign of significant slowdown. There was also a trend of dynamic growth regarding real wages despite the latest rise of inflation.

I. Macro and microeconomic environment (continued)

LABOUR MARKET

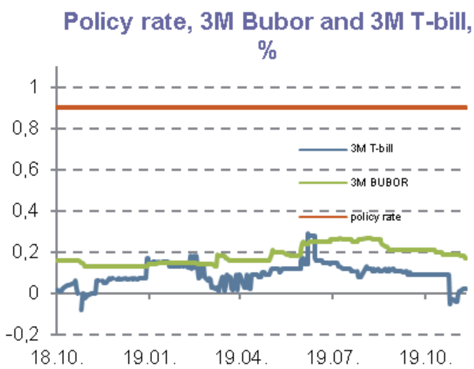


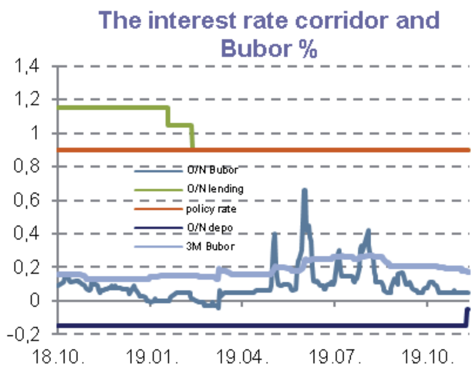
Source: MNB, KSH

5. Monetary policy

The Central Bank's main policy rate was unchanged at 0.90% throughout the entire last year. However, the Monetary Council remained active in applying non-conventional measures to extend monetary easing. Also, the focus of interest rate policy remained the O/N rate rather than the official policy rate (i.e. the 3M depo rate).

At the beginning of 2019 the central bank released repeated communication preparing markets for the normalisation of monetary policy. However, with the dovish turn in the policy of the ECB and the Fed, the MNB also changed its communication and claimed that the hike of the O/N depo rate to -0,05% (by 10bps in March) was a one-off move and not the start of a tightening cycle. The NBH kept interest rates unchanged despite their own upward shift of CPI and GDP forecasts for 2020 in September and December. Accomodative policy remained in place as the central bank sees balanced risks to inflation and a return to 3% at the end of 2020, but also still closely watching tax-adjusted core inflation. Fed and ECB policy shift lends support to ongoing loose policy, no hike is foreseen in 2020. Throughout 2019 the central bank's FX swaps were applied as a major policy tool to fine-tune liquidity conditions.





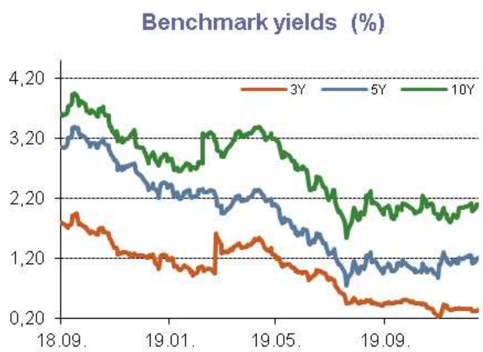
Source: NBH, Reuters

While solid GDP-growth and the relatively slower deterioration of external balances and decreasing debt rates in terms of GDP provided a solid fundamental background to the forint's exchange rate, fresh macro data in 2019 were not delivering major positive surprises that could counterbalance the impact of the low interest rate environment. Hence the forint showed a trend of depreciation against the euro in 2019, with the EUR/HUF cross exchange rate rising from the 315-320 range to above 330 in December. In November, the EUR/HUF rate briefly moved above the 336 level too. The annual average EUR/HUF level was 325.

I. Macro and microeconomic environment (continued)

The forint's nearly 3% depreciation against the euro and the annual FX market trend was strongly driven by the low interest rate environment, with the policy rates and market rates showing a barely changed minimal difference versus the euro area and showing a deeply negative interest rate differential versus our major CEE counterparties. Also, this environment implied a deeply negative real interest rate level for the forint.

Regarding foreign demand for Hungarian (forint denominated) government bonds in 2019, the stock of non-residents' holdings rose above HUF 4,000 billion in January and approached the HUF 4,500 billion level by July. This was followed by a moderate decreasing trend leading to an end-2019 level of HUF 4,168 billion. Yields on government bonds remained relatively low with the 10Y yield below 2% during most of Q4 2019.



Data source: Reuters

6. Banking environment

The Hungarian banking sector was characterised by solid profitability and solvency in 2019 as well. Customer loan volume continued its dynamic grow, while the liquidity and capital position of the banks is solid.

Operating environment for the domestic banking sector improved further. Rising consumption and investment demand is generating steadily increasing credit demand in both the corporate and household sectors.

Corporate lending increased by 14,8% in 2019, supported by the new Funding for Growth fix scheme. The growing trend of new loan disbursements continued also in the household sector, mortgages and personal loans were the main drivers, in addition to the new Babaváró loan product that started in the second half of 2019. Double digit growth of the prices on housing market and the continued rise in real wages increased credit demand, which was strongly supported by the low interest rate environment.

Besides the increase in new loan volumes, year 2019 was also characterized by further improvement in loan portfolio quality, thanks to portfolio cleaning (sale and write-off) and recovery.

Profitability of the banking sector remained at the same level as in the previous year, supported less and less by the reversal of previously recognized loan impairments, but shrinking interest margins require further improvement in efficiency.

Total assets, liabilities, and equity

Based on the most recent available figures (as of November, 2019) the banking sector's overall total assets increased by 10.6% compared to prior year-end and amounted to HUF 43,439 billion.

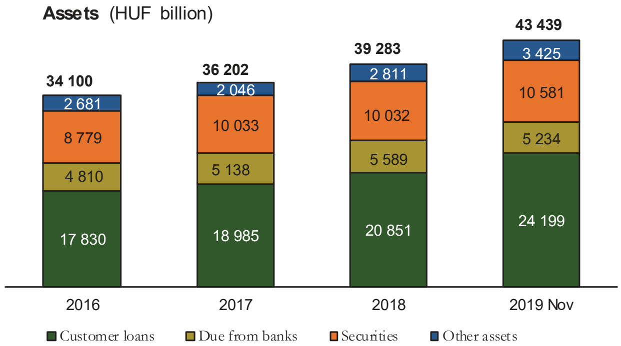
The gross loan portfolio increased by 16.1% (HUF 24,199 billion) compared to December 2018 (+14.8% excluding the foreign exchange effect). The lending capacity of Hungarian banks remained under pressure due to market liquidity constraints and low profitability.

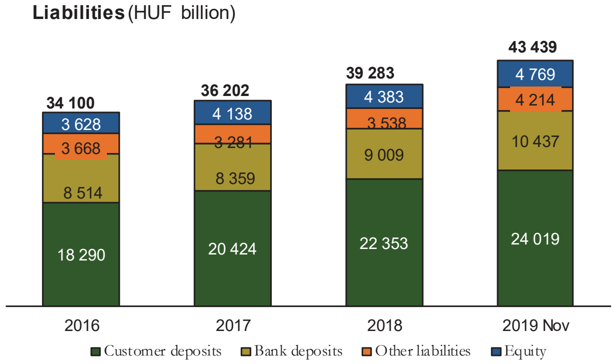
The decline in loans outstanding to households stopped since the new disbursements more than offset the volume of repayments, thus pushing retail loans up by +14,3% compared to the end of the previous year. Demand for new loans was at very low level in the years following the financial crisis, however from 2015, there was a turnaround with growth of over 30% in recent years and this tendency continued in 2019.

There was 42.8% increase in retail new disbursements as of November 2019 compared to the same period last year. The volume of foreign currency loans significantly decreased from 58.1% as of December 2014 to 34.4% as of November 2019, largely due to the conversion of the foreign currency mortgage portfolio.

I. Macro and microeconomic environment (continued)

The volume of deposits from customers increased by 7.4% compared to the end of 2018, reaching HUF 24,019 billion at the end of November 2019. Retail deposits increased by 5.7%, while corporate deposit showed 7.2% increase compared to December 2018. At the same time the net asset value of investment funds totalled HUF 5,404 billion at the end of November 2019. While government bond portfolio of consumer customers increased by 27.73% as of October 2019 from the beginning of the year.



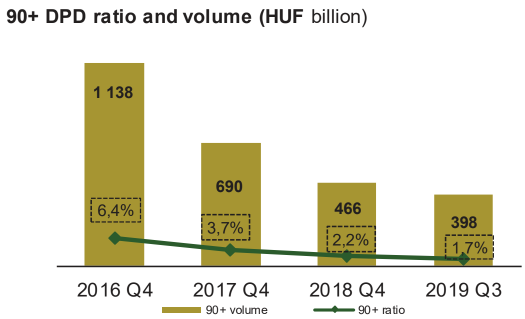


Data source: NBH, IFRS

Credit quality

90+ past due loan ratio (non-performing loans) decreased significantly to 1.7% as of September 2019 thanks to the portfolio cleaning.

Volume of corporate loans with more than 90 days past due within total loan showed a significant decrease and the 90+ ratio in this segment was 2.2% at the end of September 2019. The retail segment's portfolio quality has also improved with a 90+ ratio decreased to 3.0% as of Q3 2019, which is further 1.5% point improvement compared to the 2018 year-end.



Data source: NBH; IFRS, Q4 2019 data is not available

I. Macro and microeconomic environment (continued)

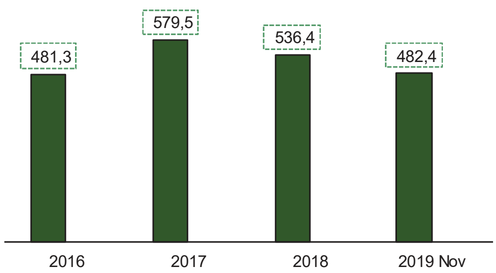
Profitability

The profitability of the banking sector was able to remain at the level of the same period of last year as of November 2019, despite significantly lower provision release in 2019.

The increased Net Operating Margin was further strengthened by lower Operating Cost. The banking sector's profit after tax totalled to HUF 482 billion as of November 2019.

Net Interest Income decreased by 1.1%, Net Commission income increased by 10.2%, Profit from Trading Activities decreased by 8.1% and Other Income / Expense decreased by 67.1% compared to the same period last year. The cost / income ratio was 55.0% at the end of November 2019.

Profit after tax (HUF Bn)



Data source: NBH; IFRS

Liquidity and Capital

The amount of liquid assets (securities and interbank receivables) increased by HUF 194 billion (+1.2%) while the sector's loan to deposit ratio (net customer loan / customer deposits) increased by 8.0% points (98.5% as of November 2019).

The capital position of the banking sector is adequate, with a Capital Adequacy Ratio (CAR) at 20.4% as of September 2019 (includes Co-operative credit institutions).

II. Business strategy and priorities

In 2018, CIB Bank, hand in hand with its parent company, Intesa Sanpaolo, established the fundamental strategic directions and objectives of the period until 2021. In line with this, as a universal service provider, CIB will continue to operate serving all customer segments in the coming years by substantially improving its operational efficiency, while holding on to long-term profitable operation, through increased business volumes, digitalisation covering the full spectrum of banking operations and the optimisation of sales channels.

The pillars of the strategy – in line with the key strategic objectives of Intesa Sanpaolo Group 2018-2021 business plan – are as follows:

- The implementation of the **digital transition** permeating the whole of the bank parallel to the transformation of the role and tasks of the physical network.
- **Increasing revenues** in an increasingly competitive environment in the interest of sustainably profitable operation, by ensuring that an increasing proportion of revenues is derived from the fees and commissions of additional services provided to customers.
- **Improving cost efficiency** by way of digitalisation and the optimisation of sales channels. In this context, process transformations related to digitalisation, the increasing of the ratio of online sales, the simplification of sales activities and certain other activities supporting sales through the increased involvement of third partners and agents, as well as the directing of released capacities to the performance of greater added-value activities will be implemented.
- The conclusion of the process aimed at **reducing the portfolio of non-performing loans**, and maintaining loan quality.

In its growth strategy, CIB has set itself the goal of being the primary bank for its customers. The main component in this approach is to simplify bank processes, improve customer satisfaction, and digitalisation, which is set to have a crucial role in sales and the service model.

In the retail segment, the Bank aims at boosting the volume of loan disbursement by introducing new processes and developing its commercial channels, in particular the mobile application and the online bank. In terms of savings products, CIB places a strong emphasis on offering alternative savings solutions in the extremely low interest environment.

II. Business strategy and priorities (continued)

In respect of premium banking services, the objective is to continuously expand the range on offer, and to provide high-standard asset management and insurance products and excellent, standardised banking services through electronic channels and the branch network. Serving the millennial generation is a primary focus of the strategy, were CIB is looking to increase its activity by developing new digital products and services and through cooperation with institutions of higher education.

CIB's business strategy also comprises the reinforcement of its corporate market position through customer acquisitions and increased business volumes. Through the renewal of the corporate online bank and front-end system and the simplification of processes, the bank's objective is to ensure that SME and large corporate customers execute an increased ratio of their transactional, deposit and foreign exchange turnover at CIB. The strengthening of treasury services is also assigned significant emphasis. Beyond the above, in the years ahead CIB would like to take even greater advantage of the synergies that exist with its parent company, Intesa Sanpaolo, with a view to strengthening its presence in the multinational corporate sector.

As part of the strategy, CIB Group - together with VUB Bank, the Slovakian subsidiary of Intesa Sanpaolo Bank Group - has launched a new strategic cooperation called "Central European Hub" which aims at utilising cross-border synergies by sharing best practices, increasing operational efficiency and by exploiting the banks' complementary strengths. The objective of the initiative is ultimately to improve the financial performance and enhance the business performance of the two banks, and to solidify their respective market positions by way of the better utilisation of business opportunities pertaining to common corporate customers.

III. Outlook for the banking sector

Increasing lending activity

Growing economy and increasing demand for bank financing will provide favourable conditions for lending. Retail loans will continue to increase further, although the growth on the housing market and consequently in mortgages will be slower than in 2019. Demand for personal loans will be lower, however the still popular Babaváró loan will mitigate this effect. Corporate lending will grow as well, driven by investments and favourable interest rates. The Funding for Growth fix facility of MNB will also support lending to SME-s.

Margins remain under pressure

Fear of economic recession and decreasing inflation led the most important central banks to cut rates in 2019 and interest rates are expected to remain on the current extreme low level in 2020. Margins will be under pressure both on the active and on the passive side. Negative interest rate on short term placement will cause further losses. Growing lending and transactional activity could mitigate the negative effect, however strong competition and digitalization will drive the fees down.

Improvement in credit quality

As a result of continuous portfolio cleaning and decreasing new NPL inflows (thanks to solid underwriting processes and preventive credit risk assessment methodologies), the NPL portfolio of the sector and of CIB show a declining tendency. However, the high ratio of distressed household mortgage and project-finance loans continues to be a risk in the financial system. NPL ratios can decrease further in 2020 supported by the increased performing loan portfolio.

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

Assets

The balance sheet total of CIB Bank amounted to HUF 2,009,416 million (+5.6% compared to December 2018) as of December, 2019. The higher balance was primarily a consequence of the increase in customer loans.

Customer loans

At the end of December, 2019 CIB Bank's gross loan portfolio was HUF 1,071,402 million (+15.1%). Within the total portfolio the proportion of consumer loans (mortgage, car financing and others) levelled at 33.4% by the end of December (+0.4%). The share of large corporate loans grew by 1.8%, to 42.4%, while that of SME and Small Business financing slightly decreased by 0.7% and 0.3% respectively. Demand for new financing increased compared to the same period of 2018, especially in the retail mortgage and unsecured markets, where new disbursements rose by 39% and 28%, in addition to the huge demand for the new Babaváró product.

IV. Evaluation on the performance of CIB Bank including net assets, financial and earning position (continued)

Loan portfolio quality

The credit quality of CIB Bank's loan portfolio improved in 2019, and the share of 90 days past due loans decreased to 1.3% (-0.4%) thanks to limited new inflow and portfolio cleaning activities. The improvement is connected mainly to SME (-0.5%), thanks to the sale and write-off of non-performing loans, but there was improvement in all of the segments. Improving portfolio quality also reflected in the reversal of HUF 2,437 million loan impairment over the year.

Securities

The Bank held securities portfolio of HUF 426,232 million by December, 2019 (+17.1%) of which trading portfolio amounted to HUF 6,895 million; held to collect and sell portfolio reached HUF 346,582 million, while held to collect and equity investments amounted to HUF 72,755 million. Most of the security portfolio (82% of total securities held) consisted of government bonds.

Interbank receivables

CIB Bank's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 477,774 million (-19.2%) by the end of December 2019. 45.9% of interbank receivables was placed within Intesa Sanpaolo Group, while 48.7% was short term placement at MNB.

Tangible and intangible assets

Net book value of fixed and intangible assets increased to HUF 30,047 million (+51.4% compared to December 2018), mainly due to the introduction of IFRS 16.

Liabilities

Customer deposits

Total customer deposits, amounted to HUF 1,435,675 million (+4.2%) by the end of December, 2019. All business segments contributed to the growth.

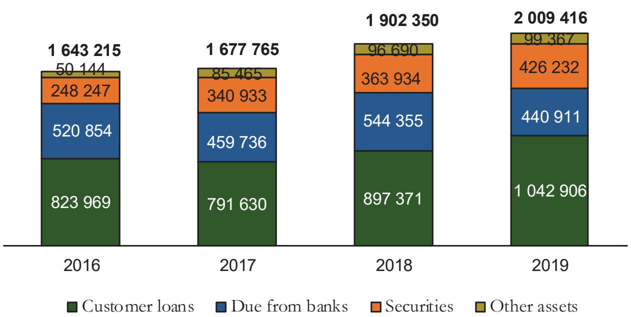
Deposit from banks

Interbank funds – including subordinated deposits – totalled to HUF 289,841 million (+10.7%) as of December 2019. Part of the funds came from the Bank's parent company, accounting for 42.6% of the total of interbank deposits, while the remaining part was received from supranational financial institutions, mortgage banks and from the central bank.

Equity

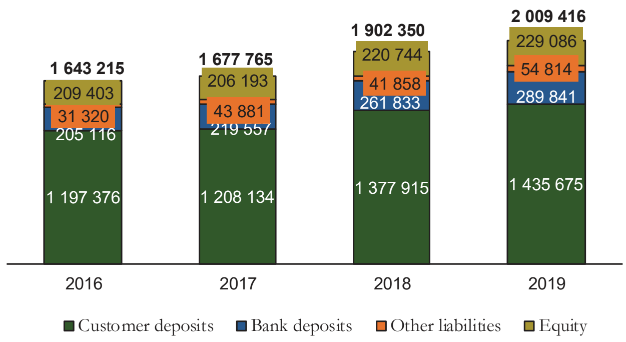
CIB Bank's total shareholders' equity was HUF 229,086 million (+5.6%), the increase was the result of the profit for the current year.

Assets (HUF million)



IV. Evaluation on the performance of CIB Bank including net assets, financial and earning position (continued)

Liabilities & Equity (HUF million)



Data source: CIB Bank, IFRS

Profit and loss

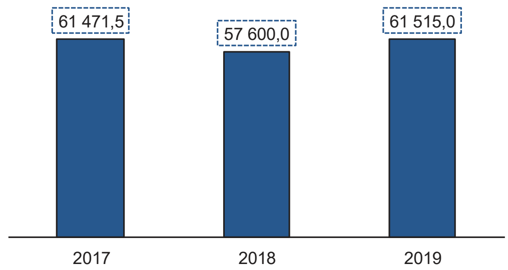
The Bank closed year 2019 with a profit of HUF 13,981 million.

Revenues

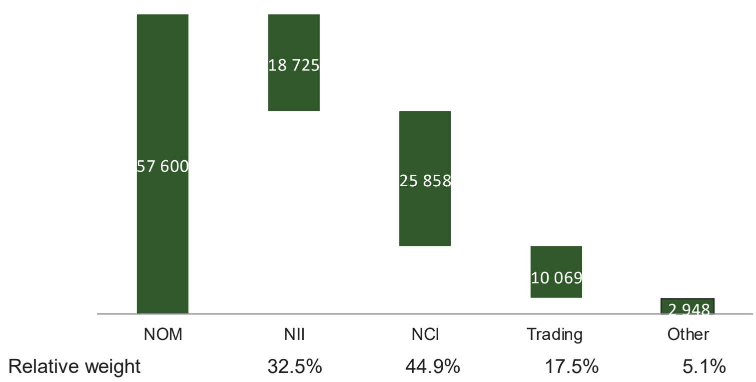
Total revenue of CIB Bank amounted to HUF 61,515 million (+6.8% compared to the same period of 2018), out of which Net Interest Income was HUF 24,745 million (+32.1%). Net Commission Income was HUF 26,733 million (+3.4%), while Trading and Hedging Income totalled to HUF 8,534 million (-15.3%), Other operating income reached HUF 1,503 million (-49.0%).

Revenues increased compared to 2018, thanks to growing business activity. Trading results were less, due to lower gain on the derivative portfolio in 2019.

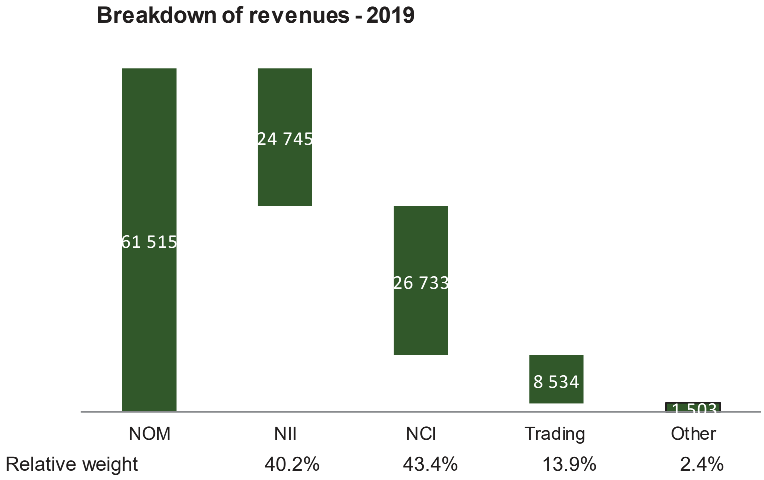
Revenues (HUF Mln)



Breakdown of revenues - 2018



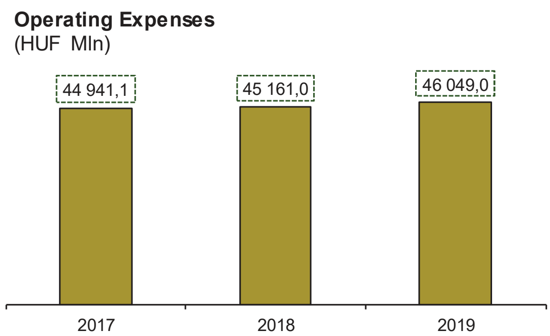
IV. Evaluation on the performance of CIB Bank including net assets, financial and earning position (continued)



Data source: CIB Bank, IFRS

Operating Expenses

Total operating expenses increased by 2.0% compared to 2018 and amounted to HUF 46,049 million without the bank tax.



Data source: CIB Bank, IFRS

Banking Sector Tax

Total extraordinary bank tax of the Bank amounted to HUF 3,099 million in 2019.

Allowances and impairments

The cumulated amount of new allowances, impairments and provisions showed a reversal of HUF 3,577 million. Out of the total, loan impairment reversal amounted to HUF 2,437 million. The positive result was mainly the effect of the improving rating of corporate customers and releases from sale of corporate exposures.

In addition the Bank released provision on legal cases in the amount of HUF 1.042 million, thanks to the closure of some lawsuits.

V. 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 Bank financial or earnings position.

VI. Utilisation of financial instruments in the Bank

The Bank holds a substantial quantity of liquid financial instruments.

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

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

VII. Risk-management and hedging policy of the Bank

The Bank's regulations pertaining to the various significant types of risk are approved, and reviewed at least once a year, by the Management Board of the mother company. The Bank has credit risk management, market risk management, liquidity and liquidity crisis management, interestrate risk, country risk - counterparty 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 Bank's credit risk management policy defines fundamentals of credit risk management, risk appetite of the Bank 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 financial portfolio policy includes the guiding principles related to currency and interest risk, the regulations containing methodology of sensitivity analyses and value-at-risk calculations, as well as the limits for the risk exposures.

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

The Bank applies hedge accounting to some specific assets hedged by interest rate swaps in order to mitigate the interest rate risk in the Banking Book. The Bank in accordance with IFRS and Intesa Sanpaolo Group policies designates certain derivatives also 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 P&L calculation method depends on the purpose of the transaction wether trading or hedging. The effect of the changes in the fair value is immediately recognized on the income statement in case of the derivative transactions for trading purposes.

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

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 Bank.

VIII. Price, credit, interest, liquidity and cash-flow risks of the Bank

In the course of its business operations, the Bank 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 Bank 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 alignment with the requirements of the supervisory bodies and its owner, the Bank pursues a prudent policy in terms of assumption of risk.

Lending process is managed along structured principles in its entire complexity from customer request via credit approval, disbursement, 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.

In the frame of the core business activity the Bank is actively managing the interest rate risk by defining the maximum accepted level of interest rate risk exposure held in the banking book and the expected net interest income. Each year, the Management Board, under the supervision of the Supervisory Board and in line 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 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 liquidity and disponibility and ensuring the safety of customer deposits constantly.

Among the various price risks, the Bank is predominantly exposed to the changes of currency exchange rates, as well as as well as the changes of the market values of securities. The Bank aims to hedge its FX positions in the frame of the trading book activities performed by the Treasury.

IX. Research and development

In 2019 and 2018 the Bank had no own research and development and did participate in the financing of any research projects.

X. Employment policy

The focus of Human Resources Management in 2019 was strengthening employee satisfaction and loyalty. To support this, the Group developed an HR value proposition for each stage of the CIB employee experience journey, and implemented programs along these lines throughout the year.

In-house employee engagement programs known as “CIB Spirit” continued in 2019. Most prominent among these were family-friendly initiatives, such as financial support for summer camp for colleagues' children, the Santa Claus Event, the Family Picnic and the CIB Children’s Club - which included childcare for staff's children during the spring and fall school holidays. These are coupled with “Womentoring” initiative, which aims to support female career path and the return after maternity leave to the workplace. The Group managed to significantly increased the number of mothers returning to CIB by 2019 and won the Family Friendly Company title, thanks to above mentioned programs. To promote work-life balance, CIB also launched a “service in the office” initiative in the headquarters: in addition to seasonal tire changing and car washing, colleagues now have access to on-site laundry and ironing services.

In 2019, the award portfolio got extended, rewarding and celebrating TOP sales and TOP support colleagues. The Retaining Leaders, Golden Teams of the Year and CIB jubilee staff members with 20-25-30 years tenure were acknowledged by the Board of Directors at a year-end award ceremony. The “CIMBI” Buddy Program for new hires was launched, with more than 80 volunteering buddies supporting newcomers to make them feel part of the community as soon as possible.

2019 was a special year since CIB celebrated the 40th anniversary of the foundation of the Central European International Bank, the predecessor of CIB Bank. With relation to this, numerous exciting activities and surprises were arranged: re-launching of the Sabbatical Program, which this time allowed 40 colleagues to recharge. Lot of photos regarding the major milestones in the history of the Bank were collected along the photo contest; and in September the 40th birthday of the Bank at the CIB Spirit Day was celebrated.

X. Employment policy (continued)

Great emphasis continues to be put on talent identification and talent management within the organization. In 2019, 42 employees completed successfully the Expert Talent Program. During the 2-year-program, a number of options were available to support participants' professional development, such as mentoring, coaching, a premium education package, an individual education budget, and a Bank Simulation Program. In addition, a new talent program was designed, which will be launched with the name of "Talent University" in 2020 with the participation of more than 60 colleagues.

Throughout the year 2019, numerous training and development programs were set up for the development of employees: product and system trainings renewed skill development portfolio in addition to continuing English training courses. More than 1000 colleagues participated in "Digital Galaxy" learning program, an online edugame, covering today's technological innovations and essentials of digitalization in a playful way, as well as the latest developments that make everyday life easier, and the latest CIB innovations. The Bank re-designed the leadership development program and launched a communication campaign towards managers regarding employee retention. The year was closed with an internal management conference, where managers heard presentations about improving employee experience, generational differences, and the importance of mindfulness in order to enhance their role in retention.

As of 2019 a new, more flexible and user-friendly performance evaluation IT system, called NewPat supports head office managers in setting goals for their colleagues and evaluating their performance and the competencies.

XI. Sites of operation

The Banks head office is located at 1027 Budapest, Medve u. 4-14.

XII. Corporate governance policy

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

Consistent professional governance within CIB Bank takes place in accordance with the "Principles of the professional governance and operation of CIB Bank" policy, which defines also the guidelines for the running the organisation.

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

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

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

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

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

XII. Corporate governance policy (continued)

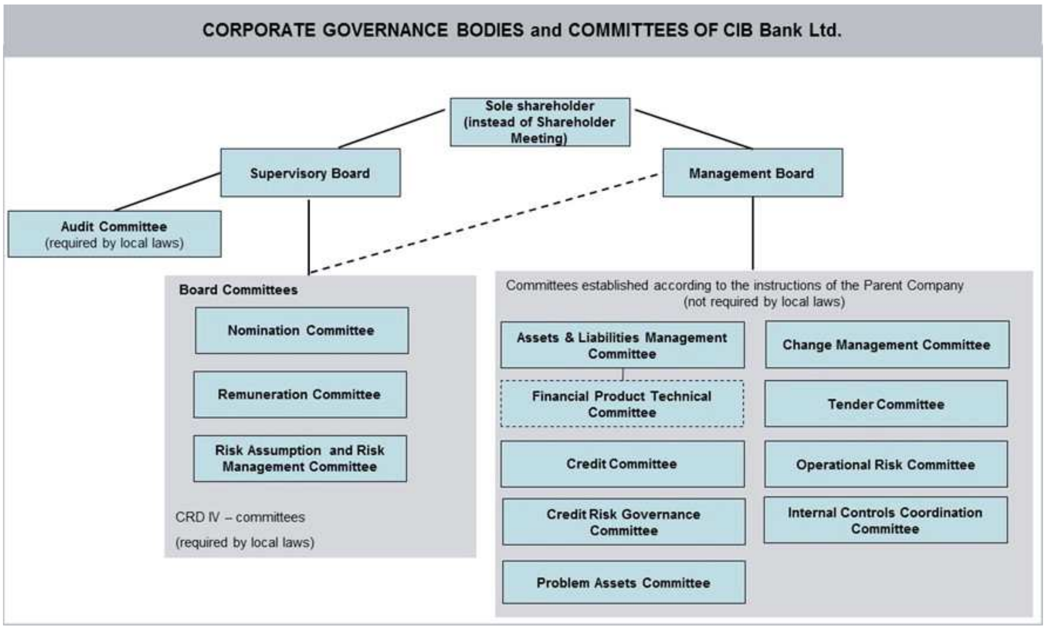
The **Audit Committee** is a body that supports the professional activities of the Supervisory Board with respect to internal audit tasks. The Audit Committee's members and rules of procedure are defined by the Sole Shareholder practicing the authority of the supreme decision maker. The committee's duties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

The **Remuneration Committee** operates based on the Constitution and upon 117. § (6) of Act CCXXXVII of 2013 also known as the Hungarian Banking Act (Hpt.). Remuneration Committee's members and rules of procedure are decided by the Supervisory Board. The Committee's duties include overseeing and preparing decisions regarding the remuneration of the members of the management board, Key People (as defined in the Remuneration Policy) performing internal control functions in compliance with the relevant legislation, supervisory guidance and Intesa Sanpaolo Group Remuneration Policies and preparing decisions regarding the remunerations and the Remuneration Policy.

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

The **Risk Assumption and Risk Management Committee** operates based on the Constitution and upon 110. § of the Hungarian Banking Act (Hpt.). The Committee's duties include supporting the Management Board and the Supervisory Board to define the risk appetite framework and the risk strategy of the Group and in the implementation of the approved risk strategy.

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



Currently CIB does not have a policy on diversity within the management body of the Bank. Pursuant to the legal requirement, the Nomination Committee discussed the target ratio for the representation of the underrepresented gender in the management body of the Bank. The Parent Company's standard approach applicable to foreign subsidiary banks of ISBD is in the process of elaboration, therefore the Committee decided to revisit the issue subject to the availability of such standard approach.

XII. Corporate governance policy (continued)

Internal Audit

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

Mission:

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

XIII. Non-financial statement

Our sustainability principles, reporting

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

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

With solid support from our parent bank, the main points of focus continue to include our efforts to be a bank that provides highly discerning retail and corporate customers with services that always stand out from the crowd. We believe that long-term sustainable growth can only be achieved through the fulfilment of these objectives.

In the course of our operation last year, we continued our projects aimed at retaining our staff and supporting the professional development of exceptionally skilled employees and aligned our corporate culture with our business objectives. We made significant efforts to strengthen our staff's commitment and motivation and we sought to involve them not only in the implementation of strategy, but also in the social and environmental protection programs and energy saving initiatives of the Bank Group. Through a variety of direct and indirect initiatives, which have been running for many years, we have assisted approximately 70,000 people in need by holding numerous volunteering programmes and as a result of projects organised with the help of our civil-sector partners.

Our sustainability reports have been prepared in compliance with the international guidelines of the Global Reporting Initiative (GRI). The report, which is published during the year as a stand-alone publication, contains the essential topics, examining them primarily from the point of view of our main stakeholder and our report's target group, the customers. For the 9th year running, our report also describes the fulfilment of the principles set out in the UN Global Compact.

Business model

CIB Bank became 40 years old in 2019. As a universal financial institution, CIB Bank offers the full range of commercial banking and investment services, supplemented by products and solutions offered by its subsidiaries. In addition to offering standard commercial services to about 416 thousand customers through its nation-wide branch network, CIB continues to seek innovative solutions tailored to customer needs. Its services are available to businesses, institutions, municipalities and sole traders, besides retail customers. In addition to the bank's branches, customers also have a wide variety of electronic channels to choose from, to manage their finances quickly and conveniently, such as the revamped official website - where a fully online end-to-end account opening is available - CIB Online, CIB Internet Bank, CIB Mobile Application or eBroker, the Bank's information and securities trading system.

XIII. Non-financial statement (continued)

Based on the four-year strategy set out for CIB Group in 2018, our objective is to become the primary financial service provider of larger base of customers. At the centre of the strategy is the simplification of banking processes, the increase of customer satisfaction and the digitalization which becomes core in the future sales and service model.

Ethical norms, rules of conduct

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

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

Stakeholder dialogue

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

Human rights

HIGHLIGHTS

- We have made a commitment to protect human rights in accordance with the 1948 Universal Declaration on Human Rights of the UN. We expect all of our Hungarian and foreign partners to do the same.
- In the course of its operation our Bank fully respects the Fundamental Law of Hungary and all other general domestic and international conventions on human rights and ethics.
- We treat protecting the personal data of our customers as a key priority; we investigate complaints related to data handling, and take steps to reduce the number of complaints to a minimum.
- We provide our employees with fair and satisfactory working conditions and pay, as well as a wide range of other benefits. The average starting monthly wage is nearly double the statutory minimum wage.
- In 2019, we continued with the implementation of the Code of Ethics and Rules of Conduct based thereon, and continued operations based on the acceptance of procedures and the system.
- We are committed to eliminating all forms of discrimination from our conduct and to respecting differences in gender, age, race, religion, political and trade-union alignment, and language, and to respecting the rights of those with disabilities.
- We joined the "Nyitottak vagyunk" (We're open) initiative: we consider it a fundamental value that we judge our employees and partners solely on the basis of their actions and performance. Our success is also due to our openness to new ideas, unusual solutions, each other and the world.
- Our branches have either full or partial accessibility for disabled persons.

XIII. Non-financial statement (continued)

Relevant considerations and their detailed explanation

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

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

The same human rights policy was adopted in CIB Bank during 2018.

CIB Bank is committed to supporting human rights in all cases where it recognises that its activity can have an impact; therefore, it has identified areas of responsibility as regards all the groups – employees, customers, suppliers, communities – that are affected by its activity. Considering that the issue of environmental protection ties in strongly with the issue of human rights, supporting strict environmental regulations can also be regarded as a key measure leading to the respect and enforcement of human rights.

The area of impact is quite wide-ranging, and can be summarised as follows:

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

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

Process of monitoring relevant considerations

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

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

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

XIII. Non-financial statement (continued)

Main indicators as at 31 December 2019

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

	male	female
manager	55.4% (2018: 54.1%)	44.6% (2018: 45.9%)
specialist	49.4% (2018: 47.9%)	50.6% (2018: 52.1%)
colleague	26.0% (2018: 26.8%)	74.0% (2018: 73.2%)

- Workplace accidents and the number of working days lost as a result (days): 13 accidents and 62 days (2018: 10, 318)
- Number of ethics complaints made due to violations of human rights: 1 *(*)* (2018: 0)
- Donations made to vulnerable and underprivileged groups (Hungarian forints): HUF 14 million (2018: HUF 14.4 million)
- Child financial literacy education activities: Pénz7 (Money Week), World Savings Day (child financial literacy education programme week) (2018: same)

(*) Following the investigation, no proof of human rights' breach has been found.

Social and labour affairs

HIGHLIGHTS

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

Relevant considerations and their detailed explanation

Equal treatment and diversity

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

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

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

Remuneration and Pay

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

XIII. Non-financial statement (continued)

The wide-ranging system of fringe benefits is an important part of our remuneration strategy. The sum of the benefits package provided under the Cafeteria system has not changed in 2019. Part-time workers continued to be entitled to Cafeteria benefits on a pro-rata basis.

Trade Unions

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

Health at Work

Participation in all the periodic vocational and professional suitability and fitness tests prescribed by law continued to be compulsory for all of our staff in 2019. In keeping with the practice of previous years, for managers above a certain grade we continued to provide executive medical screening as part of the annual occupational health examination, due to the higher-risk environment.

In response to the need of a further standardization at international level in relation to Occupational Health and Safety, CIB Bank has adopted the Rules for Occupational Health and Safety Management Systems extended to all the International Subsidiary Banks of Intesa Sanpaolo Group.

The definition of a OH&S referent in the Bank has been the first step towards a new framework for enforcing the management system of all activities related to the matter, in coherency with the Parent company's strategy on Occupational Health and Safety and with the ultimate goal of fulfilling with the ISO 450001 international standard.

Performance Assessment

Starting in 2019, a new, even more flexible and user-friendly performance evaluation system called NewPat supports our executives working in the central and/or support areas in setting goals for their colleagues and evaluating their achievement and the competencies that help their work. For those working in the business area, a uniform sales incentives system (GPS) has been in place since 2014 to provide support for the performance management processes.

During the performance assessment period, a series of panel discussions held throughout the organisation ensure the consistency of the evaluations between the management levels and the individual divisions. Every employee in the Bank is given an assessment of their performance and an overview of their career opportunities.

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

Process of monitoring relevant considerations

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

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

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

XIII. Non-financial statement (continued)

Main indicators as at 31 December 2019

- Number of employees of the CIB Group, per level of seniority (persons):

colleague	1,264	(2018: 1,211)
specialist	545	(2018: 537)
manager	193	(2018: 196)
Total	**2,002**	**(2018: 1,944)**

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

	male	female
colleague	105.3% (2018: 99.1%)	102.2% (2018: 97.0%)
specialist	95.4% (2018: 90.5%)	92.4% (2018: 88.7%)
manager	87.7% (2018: 82.6%)	87.9% (2018: 83.8%)

- Average number of training hours (hour/person) 47.63 (2018: 56.57)
- Ratio of part-time employees (%): 6.5% (2018: 4.3%)
- Percentage ratio of trade union member employees (%): 7.1% (2018: 7.9%)
- Number of workplace accidents (number): 13 (3 accidents at work and 10 traffic accidents) (2018: 10, 2, 8)

Anti-corruption, conflict of interest

HIGHLIGHTS

- Our Bank regularly reviews and keeps up to date its Code of Ethics and code of conduct, which specifically addresses the prohibition of corruption.
- Our conflict of interest regulations are stricter than the national requirements.
- All employees of the CIB Group regularly receive training in the prevention of money laundering, financing of terrorism, anticorruption and conflicts of interests, through the e-learning interface (MultiLearn) accessible via the internal network.

Relevant considerations and their detailed explanation

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

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

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

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

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

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

XIII. Non-financial statement (continued)

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

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

Process of monitoring relevant considerations

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

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

Main indicators as at 31 December 2019

- Percentage of employees that have attended and got certified through distance learning courses one prevention of money laundering topics (compared to total Group population): 83% (2018: 91%)
- Total number of employees who attended in-person training courses on the prevention of money laundering: 438 (2018: 97 persons)
- Number of ethics violation reports related to suspected corruption: 0 (2018: 0)

Enviromental protection

HIGHLIGHTS

- For the first time, we have completely carbon-neutralized our international corporate conference (Novathon #withCIB).
- At the end of 2019, the ISO 50001 certificate was revised and the bank successfully renewed the certificate. In 2018, the standard was significantly modified by the international committee, which was adopted by the Hungarian committee for standardization in 2019. This year, CIB Bank will also start working to prepare for the revised standard, the first audit of which will take place at the end of 2020.
- We continue to perform the energy efficiency objectives. (installing LED lights in the bank branches, UPS optimisation, server cooling setting, replacement of heaters and air conditioners).
- Riding a bike to work remained popular, and our bicycle storage facilities were used to their full capacity last year as well.
- When preparing and implementing the training programs we take special care to respect the values of our natural, economic and social environment, and make an effort to manage our resources responsibly and without waste. To this end we give preference to electronic communication (e.g. in the process of sending out invitations, information or training materials), and where paper-based documentation is absolutely necessary we produce this economically, with double-sided printing.
- At our headquarters, waste is collected selectively. Every year, the volume of hazardous waste is reduced, and most of it is reused (restaurant fats are recycled).
- We are planning to build recharging points for electric cars.

XIII. Non-financial statement (continued)

Main indicators as at 31 December 2019

- Total energy used (GJ):52,755 (2018: 56,324)
- Number of bicycle parking spots: 78 (2018: 78)
- Greenhouse gas emissions avoided through the use of solar collectors (tonnes, as carbon dioxide equivalent): 1.15 (2018: 23)
- CO_2 emission (t) resulting from energy utilisation: 5,460 (2018: 5,839)
- Paper usage per employee - office A4, A3 - (kg/person): 115,864 kg/1990 persons =58,2 kg/person (2018: 108,739 kg/1980 person =54,9 kg/person)
- Electricity usage (kWh): 9,739,875 (2018: 10,008,122)
- Other, renewable energy usage (kWh): 15,278 (2018: 70,000)
- CO_2 savings originating from e-car sharing service instead of taxi services since January 2019 app. 636 kg
- Carbon-neutralisation of corporate events: Planting 516 native fruit trees to offset 121.65 tonnes worth of carbon footprint.

Budapest, 24 February 2020

Dr. Pál Simák
CEO and Chairman of the Board

Dario Massimo Grassani
CFO and Deputy CEO

CIB Bank Ltd.