

This is a translation of the Hungarian Report
Independent Auditors' Report

To the Shareholders of Sberbank Magyarország Zrt.

Report on the audit of the annual financial statements

Opinion

We have audited the accompanying 2017 annual financial statements of Sberbank Magyarország Zrt. ("the Company"), which comprise the balance sheet as at 31 December 2017 - showing a balance sheet total of HUF 354,801 million and a profit for the year of HUF 498 million -, the related profit and loss account for the financial year then ended and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion the annual financial statements give a true and fair view of the equity and financial position of the Company as at 31 December 2017 and of the results of its operations for the financial year then ended in accordance with the Act C of 2000 on Accounting ("Hungarian Accounting Law").

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our report.

We are independent of the Company in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the annual financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying annual financial statements.

Credit Impairment

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining loan loss provisions. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, calculated using collective impairment models, are unsecured or are subject to potential collateral shortfalls. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

Due to the significance of loans and receivables to customers (representing 57% of Total Assets) and the related

We involved valuation specialists to assist us in performing our audit procedures. Our audit procedures included among others the following procedures.

We assessed the design and tested the operating effectiveness of internal controls over the approval, recording and monitoring of loans and advances and controls over impairment calculations including the quality of underlying data and systems.

For allowances for loans and receivables to customers calculated on an individual basis (specific provision), we tested the assumptions underlying the impairment identification and quantification focusing on loan cases with the most significant potential impact on the annual financial statements. We assessed the Company's assumptions on the expected future cash flows, including the value of realisable collateral and estimates of recovery on default based on our own understanding and available market information. For allowances for

estimation uncertainty, this is considered a key audit matter.

loans and receivables to customers calculated on a collective basis (portfolio provision) we evaluated the methodologies, inputs and assumptions used, including model validations and backtesting.

We also assessed whether the disclosures in the annual financial statement appropriately reflect the Company's exposure to credit risk and are compliant with the Hungarian Accounting Law.

The Company's disclosures about its risk management policies are included in Note 1.3.1.3. which specifically explains the key assumptions used when determining credit risk and their evaluation are detailed in Note 2.2.1.

Information Technology (IT) systems

A significant part of the Company's financial reporting process is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist, and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorised in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort was in this area. Furthermore the complexity of IT systems and nature of application controls requires special expertise to be involved in the audit. We

We focused our audit on those IT systems and controls that are significant for the Company's financial reporting. As audit procedures over the IT systems and application controls require specific expertise, we involved IT audit specialists in our audit procedures.

We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes. We designed our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights and validating that only appropriate users had the ability to create, modify or delete user accounts for the relevant in-scope applications. We also tested the operating effectiveness of controls around system development and program changes to establish that changes to the system were

therefore consider this as a key audit matter.

appropriately authorised and also developed and implemented properly. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.

Other information

Other information consists of the 2017 business report of the Company. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the annual financial statements does not cover the business report.

In connection with our audit of the annual financial statements, our responsibility is to read the business report and, in doing so, consider whether 1) the business report is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

We are required to confirm whether the business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

In our opinion, the business report of the Company for 2017 is consistent, in all material respects, with the 2017 annual financial statements of the Company and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Company further requirements with regard to its business report, we do not express opinion in this regard.

We also confirm that the business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Company and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the business report, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the annual financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with the Hungarian Accounting Law, and for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. Management is required to apply going concern principle unless the applicability of that principle is precluded by other provisions or there are facts and circumstances that contradict with the continuance of the Company's business activity.

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

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 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 annual financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual

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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Appointment and Approval of Auditor

We were appointed as statutory auditor by the General Assembly of Shareholders of the Company on August 21, 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 6 years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Company in conducting the audit.

In addition to statutory audit services and services disclosed in the business report and in the financial statements, no other services were provided by us to the Company and its controlled undertakings.

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

Budapest, 24 April, 2018

(The original Hungarian language version has been signed.)

Szabó Gergely
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No.: 001165

Szabó Gergely
Registered auditor
Chamber membership No.: 005676

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Registration number

SBERBANK HUNGARY private company limited by shares

H-1088 Budapest, Rákóczi út 7.

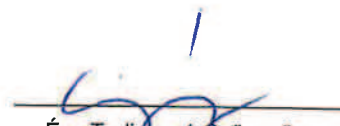
Tel.: 06-1-328-6666

Annual financial statements for 2017

Date: Budapest, 24 April 2018



Richard Szabó
Chairman - CEO
Sberbank Hungary Ltd.



Éva Tudiszoné Gyöngyösy
CFO
Sberbank Hungary Ltd.

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SBERBANK HUNGARY LTD.

Balance Sheet Assets

31 December 2017

Data in MHUF

Description	Previous year	Current year
1. Liquid assets	27,343	34,069
2. Government securities	55,773	53,970
<i>a) held for trading</i>	8,455	29,610
<i>b) for investment purposes</i>	47,318	24,360
2./A Valuation difference on government securities	218	-1,403
3. Receivables from credit institutions	73,245	55,954
<i>a) repayable on demand</i>	12,934	15,584
<i>b) other receivables in connection with financial services</i>	51,984	38,648
ba) due within one year	44,927	31,691
Of which: - subsidiaries	41,990	21,338
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- National Bank of Hungary	-	-
- clearing houses	-	-
bb) due more than one year	7,057	6,957
Of which: - subsidiaries	7,020	6,924
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- National Bank of Hungary	-	-
- clearing houses	-	-
<i>c) in connection with investment services</i>	8,327	1,722
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- clearing houses	-	-
3./A Valuation difference on receivables from credit institutions	-	-
4. Receivables from customers	194,450	201,874
<i>a) in connection with financial services</i>	194,412	201,874
aa) due within one year	58,221	54,019
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
ab) due more than one year	136,191	147,855
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
<i>b) in connection with investment services</i>	38	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
ba) receivables in connection with investment services on the stock exchange	-	-
bb) receivables in connection with investment services outside the stock exchange (OTC)	-	-
bc) receivables from customers in connection with investment services	38	-
bd) claims from clearing houses	-	-
be) receivables in connection with other investment services	-	-
4./A Valuation difference on receivables from customers	-	-
5. Debt securities, including fixed-income securities	1,455	1,491
<i>a) Issued by local municipalities and other public bodies (not including treasury bills and similar securities)</i>	-	-
aa) held for trading	-	-
ab) for investment purposes	-	-
<i>b) securities issued by other borrowers</i>	1,455	1,491
ba) held for trading	1,455	1,491
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- repurchased own shares	1,455	1,491
bb) for investment purposes	-	-
Of which: - issued by subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- issued by affiliated companies	-	-
5./A Valuation difference on debt securities	-	-

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SBERBANK HUNGARY LTD.

Balance Sheet Assets

31 December 2017

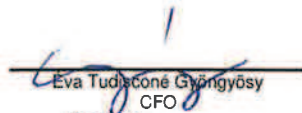
Data in MHUF

Description	Previous year	Current year
6. Shares and other variable-yield securities	-	-
a) shares and participations held for trading	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
b) variable-yield securities	-	-
ba) held for trading	-	-
bb) for investment purposes	-	-
6./A Valuation difference on shares and other variable-yield securities	-	-
7. Shares and participations for investment purposes	300	364
a) shares and participations for investment purposes	300	364
of which: - shares in financial institutions	67	67
b) revaluation of shares and participations for investment purposes	-	-
of which: - shares in financial institutions	-	-
7./A Valuation difference on shares and participations for investment purposes	-	-
8. Shares and participations in affiliated companies	143	188
a) shares and participations for investment purposes	143	188
of which: - shares in financial institutions	-	-
b) revaluation of shares and participations for investment purposes	-	-
of which: - shares in financial institutions	-	-
9. Intangible assets	1,332	2,061
a) intangible assets	1,332	2,061
b) revaluation of intangible assets	-	-
10. Tangible assets	1,693	1,549
a) tangible assets for financial and investment services	1,693	1,549
aa) land and buildings	1,313	1,188
ab) machinery, equipment, fittings, fixtures and vehicles	374	361
ac) construction-in-progress	6	-
ad) prepayments on construction-in-progress	-	-
b) tangible assets not directly used for financial and investment services	-	-
ba) land and buildings	-	-
bb) machinery, equipment, fittings, fixtures and vehicles	-	-
bc) construction-in-progress	-	-
bd) prepayments on construction-in-progress	-	-
c) revaluation of tangible assets	-	-
11. Own shares	-	-
12. Other assets	543	1,118
a) inventories	44	35
b) other receivables	499	1,083
Of which: - subsidiaries	6	26
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
12./A Valuation difference on other assets	-	-
12./B Positive valuation difference on derivatives	1,139	568
13. Prepaid expenses and accrued income	3,196	2,998
a) accrued income	2,609	2,321
b) prepaid expenses	331	324
c) accrued payables	256	353
Total assets	360,830	354,801
Of which: - CURRENT ASSETS		
[1 + 2.a) + 3.a) + 3.ba) + 3.c) + 4.aa) + 4.b) + 5.aa) + 5.ba) + 6.a) + 6.ba) + 11 + 12 + the sums from 2/A, 3/A, 4/A, 5/A, 6/A, 12/A and 12/B as pertaining to the previous items]	163,464	169,011
[1 + 2.a) + 3.a) + 3.ba) + 3.c) + 4.aa) + 4.b) + 5.aa) + 5.ba) + 6.a) + 6.ba) + 11 + 12 + the sums from 2/A, 3/A, 4/A, 5/A, 6/A, 12/A and 12/B as pertaining to the previous items]		
- FIXED ASSETS		
[2.b) + 3.bb) + 4.ab) + 5.ab) + 5.bb) + 6.bb) + 7 + 8 + 9 + 10 + the sums from 2/A, 3/A, 4/A, 5/A, 6/A, 7/A, 12/A and 12/B as pertaining to the previous items]	194,170	182,792
[2.b) + 3.bb) + 4.ab) + 5.ab) + 5.bb) + 6.bb) + 7 + 8 + 9 + 10 + the sums from 2/A, 3/A, 4/A, 5/A, 6/A, 7/A, 12/A and 12/B as pertaining to the previous items]		

Date: Budapest, 24 April 2018



Richard Szabó
Chairman - CEO
Sberbank Hungary Ltd.



Eva Tudi
CFO
Sberbank Hungary Ltd.

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SBERBANK HUNGARY LTD.

Balance Sheet Liabilities
31 December 2017

Description	Data in MHUF	
	Previous year	Current year
1. Liabilities to credit institutions	67,247	44,435
a) repayable on demand	1,639	967
b) with agreed maturity dates or periods of notice in connection with financial services	62,541	43,468
ba) due within one year	31,290	9,873
Of which: - subsidiaries	24,600	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- National Bank of Hungary	4,949	8,015
- clearing houses	-	-
bb) due more than one year	31,251	33,595
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- National Bank of Hungary	21,560	17,446
- clearing houses	-	-
c) in connection with investment services	3,067	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- clearing houses	-	-
1/A. Valuation difference on liabilities to credit institutions	-	-
2. Amounts owed to customers	218,877	244,930
a) savings deposits	8	7
aa) repayable on demand	-	-
ab) due within one year	8	7
ac) due more than one year	-	-
b) other liabilities in connection with financial services	218,801	244,785
ba) repayable on demand	136,524	174,876
Of which: - subsidiaries	139	122
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
bb) due within one year	65,150	68,058
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
bc) due more than one year	17,127	1,851
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
c) in connection with investment services	68	138
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
ca) liabilities in connection with investment services on the stock exchange	-	-
cb) liabilities in connection with investment services outside the stock exchange (OTC)	-	-
cc) liabilities to customers in connection with investment services	68	138
cd) liabilities to clearing houses	-	-
ce) liabilities in connection with other investment services	-	-
2/A. Valuation difference on amounts owed to customers	-	-
3. Issued bonds and other interest-bearing securities	5,517	5,504
a) issued bonds	5,517	5,504
aa) due within one year	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
ab) due more than one year	5,517	5,504
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
b) other debt securities issued	-	-
ba) due within one year	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
bb) due more than one year	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-

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SBERBANK HUNGARY LTD.

Balance Sheet Liabilities
31 December 2017

Description	Data in MHUF	
	Previous year	Current year
c) debt instruments treated as securities for accounting purposes, which are not recognized as debt securities under the Capital Markets Act	-	-
ca) due within one year	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
cb) due more than one year	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
4. Other liabilities	2,799	2,557
a) due within one year	2,799	2,557
Of which: - subsidiaries	237	250
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- other contributions received from members in respect of co-operative credit institutions	-	-
b) due more than one year	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
4/A. Negative valuation difference on derivatives	1,419	925
5. Accrued expenses and deferred income	3,090	3,274
a) deferred revenue	119	171
b) accrued expenses	2,946	3,061
c) deferred income	25	42
6. Provisions	725	828
a) provisions for pension and severance pay	-	-
b) provisions for contingent liabilities and for (future) commitments	407	270
c) general risk provisions	-	-
d) other provisions	318	558
7. Subordinated liabilities	21,008	8,684
a) subordinated loan	21,008	8,684
Of which: - subsidiaries	21,008	8,684
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
b) other contributions received from members in respect of co-operative credit institutions	-	-
c) other subordinated liabilities	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- to other companies	-	-
8. Subscribed capital	3,727	3,727
Of which: - repurchased own shares on nominal value	-	-
9. Subscribed but unpaid capital (-)	-	-
10. Capital reserve	88,362	91,500
a) share premium	87,472	90,610
b) other	890	890
11. General reserve	-	-
12. Profit reserve (±)	-46,658	-52,388
13. Tied-up reserves	-	-
14. Valuation reserve	447	327
a) revaluation reserve on value adjustments	-	-
b) fair value reserve	447	327
15. Net profit (loss) for the year	-5,730	498
Total liabilities	360,830	354,801
Of which: - SHORT-TERM LIABILITIES		
[1.a)+1.ba)+1.c)+1/A+2.aa)+2.ab)+2.ba)+2.bb)+2.c)+2/A+3.aa)+3.ba)+3.ca)+4.a)+4/A]	241,964	257,401
- LONG-TERM LIABILITIES		
[1.bb)+2.ac)+2.bc)+3.ab)+3.bb)+3.cb)+4.b)+7]	74,903	49,634
- EQUITY		
(8-9+10+11+12+13+14+15)	40,148	43,664


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SBERBANK HUNGARY LTD.

Balance Sheet Liabilities
31 December 2017

Off-balance sheet receivables	360,688	314,668
1. Contingent assets	215,670	230,392
2. Future receivables	145,018	84,276
Off-balance sheet liabilities	231,982	222,094
1. Contingent liabilities	87,382	138,299
2. Commitments	144,600	83,795

Date: Budapest, 24 April 2018


Richard Szabó
Chairman - CEO
Sberbank Hungary Ltd.


Éva Tüdöscsóné Gyöngyösi
CFO
Sberbank Hungary Ltd.

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SBERBANK HUNGARY LTD.

Income Statement
31 December 2017

Data in MHUF

Description	Previous year	Current year
1. Interest received and similar income	10,051	10,697
a) interest received and similar income from fixed-income securities	1,802	2,512
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
b) other interest received and similar income	8,249	8,185
Of which: - subsidiaries	351	273
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
2. Interest paid and similar expenses	1,885	1,557
Of which: - subsidiaries	635	600
- to other companies linked by virtue of participating interests	-	-
- significant owned enterprises with participating interest	-	-
Interest margin (1-2)	8,166	9,140
3. Income from securities	35	36
a) income from shares and participations held for trading (dividends and profit-sharing)	-	-
b) income from participating interests in affiliated companies (dividends and profit-sharing)	-	-
c) income from significant owned enterprises with participating interest (dividends and profit-sharing)	-	-
d) income from other securities (dividends and profit-sharing)	35	36
4. Commission and fee income	6,817	7,276
a) in connection with other financial services	6,797	7,251
Of which: - subsidiaries	28	3
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
b) in connection with investment services (excluding trading activities)	20	25
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
5. Commission and fee expenses	2,961	1,837
a) in connection with other financial services	2,961	1,837
Of which: - subsidiaries	1,367	34
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
b) in connection with investment services (excluding trading activities)	-	-
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
6. Net financial profit (6.a)-6.b)+6.c)-6.d)]	471	625
a) income on other financial services	2,355	1,188
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- valuation difference	-	-
b) expense on other financial services	448	164
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- valuation difference	-	-
c) income on investment services (income from trading activities)	1,112	1,639
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- release of impairment on securities held for trading	228	449
d) expense on investment services (expense from trading activities)	2,548	2,038
Of which: - subsidiaries	37	35
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- impairment on securities held for trading	-	-
- valuation difference	1,305	1,056
7. Other income from business activities	4,127	1,973
a) income from non-financial and non-investment services	71	71
Of which: - subsidiaries	3	1
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-

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SBERBANK HUNGARY LTD.

Income Statement
31 December 2017

Data in MHUF

Description	Previous year	Current year
b) other income	4,056	1,902
Of which: - subsidiaries	442	533
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- release of impairment on inventories	-	-
8. General administrative costs	10,059	9,731
a) staff costs	5,801	5,162
aa) wages and salaries	4,291	3,880
ab) other employee benefits	223	293
Of which: - social security costs	-	-
= pension related costs	-	-
ac) contributions on wages and salaries	1,287	989
Of which: - social security costs	1,130	834
= pension related costs	-	-
b) other administrative expenses (materials and supplies)	4,258	4,569
9. Depreciation	1,226	933
10. Other expense on business activities	8,582	4,685
a) Expenses on non-financial and investment services	71	71
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
b) other expenses	8,511	4,614
Of which: - subsidiaries	-	-
- significant owned enterprises with participating interest	-	-
- to other companies linked by virtue of participating interests	-	-
- impairment on inventories	-	-
11. Impairment on loans and advances and provision for contingent liabilities and for (future) commitments	8,354	5,474
a) Impairment on loans and advances	8,252	5,430
b) provision for contingent liabilities and for (future) commitments	102	44
12. Reversal of impairment on loans and advances and release of provision for contingent liabilities and for (future) commitments	5,971	5,460
a) reversal of impairment on loans and advances	5,513	5,278
b) release of provision for contingent liabilities and for (future) commitments	458	182
12/A Difference on creation and usage of general risk provisions	-	-
13. Impairment on debt securities held for investment purposes, and on shares and participations in subsidiaries and affiliated companies	141	1,013
14. Reversal of impairment on debt securities held for investment purposes, and on shares and participations in subsidiaries and affiliated companies	6	41
15. Profit or loss from ordinary activities	-5,730	878
Of which: - PROFIT OR LOSS ON FINANCIAL AND INVESTMENT SERVICES [1-2+3+4-5+6+7.b)-8-9-10.b)-11+12-13+14]	-5,730	878
- PROFIT OR LOSS ON OPERATIONS OTHER THAN FINANCIAL AND INVESTMENT SERVICES [7.a)-10.a)]	-	-
16. Extraordinary income	-	-
17. Extraordinary expenses	-	-
18. Net profit (loss) of extraordinary items (16-17)	-	-
19. Profit before tax (+15+18)	-5,730	878
20. Income tax	-	380
21. Profit after tax (+19-20)	-5,730	498
22. Charge and release of general reserves (±)	-	-
23. Net profit (loss) for the year (+21-/+22)	-5,730	498

Date: Budapest, 24 April 2018

Richard Szabó
Chairman - CEO
Sberbank Hungary Ltd.

Eva Tudosné Gyöngyösi
CFO
Sberbank Hungary Ltd.

SBERBANK Hungary
private company limited by shares

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL PART

1.1. Sberbank Hungary Ltd.

Sberbank Hungary Ltd. started operating on 27 August 1993 as 'Magyarországi Volksbank Zrt.' with an issued capital of HUF 1.000 million and with Österreichische Volksbanken AG (ÖVAG) as its sole owner. Since 1996 the main shareholder of the Bank had been Volksbank International AG (VBI), a subsidiary of ÖVAG. On 15 February 2012 the full acquisition of VBI was completed and as a result the majority shareholder of the Bank now is a subsidiary of the Russian Sberbank. As of 5 November 2012, our parent bank's new name is Sberbank Europe AG.

As of 1 November 2013, the Bank's new name is Sberbank Hungary Ltd.

Since its foundation, the Bank's issued capital has been increased several of times.

Both at 31 December 2014 and 31 December 2015, the Bank's issued capital totalled HUF 37,268 million. On 31 December 2015, the Bank's majority shareholder, Sberbank Europe AG, made a capital injection which was registered by the Companies Court after the balance sheet date at 12 January 2016. As a result of the capital injection, the Bank's issued capital increased to HUF 37,269 million as of the same date, and the remaining part of the capital injection from share premium (HUF 9,427.5 million) was posted to capital reserve.

After the capital increase, the meeting of the shareholders at 20 January 2016 decided to reduce the share capital by HUF 33,542.1 thousand by cutting the face value of the shares from HUF 1 million to HUF 100,000 and the capital reduction was used to increase retained earnings.

The capital reduction was registered by the Companies Court on 3 May 2016. At their next, extraordinary meeting on 15 June 2016, the shareholders decided to increase the share capital of HUF 3,726.9 million by issuing one ordinary share of HUF 100,000 face value. The value of the share upon issuance was HUF 4,189,725 thousand and the amount over its face value was posted to capital reserve as share premium. This capital increase was registered by the Companies Court on 11 July 2016.

The owner decided to made capital increase during 2017, as a result of which the Bank's subscribed capital increased by HUF 100 thousand, while the capital reserve increased by HUF 3,137.9 million. The capital increase was registered by the Companies Court on 14 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

The Bank's issued capital as at 31 December 2017 registered at the Companies Court comprised 37,271 printed ordinary shares each with a nominal value of HUF 100,000 (that is one hundred thousand Hungarian forints). The capital reserve totalled HUF 91,500 million.

Ownership structure and the breakdown of shares as at 31 December 2017:

Shareholder	Number of ordinary shares (pcs)	Voting share (%)	Total number of shares (darab)	Ownership ratio (%)
Sberbank Europe AG AT 1010 Wien Schwarzenberplatz 3.	36,871	99	36,871	99
Türkiye Halk Bankası TU 06240 Ankara Eskisehir Yolu 2. Cadde No: 63, Sögütözü	400	1	400	1
Total:	37,271	100	37,271	100

Details of Sberbank Hungary Ltd.:

- Registered office: 1088 Budapest, Rákóczi út 7.
- Company registration number: 01-10-041720
- Tax ID: 10776999-2-44
- Statistical code: 10776999-6419-114-01
- Central bank account number: 19017004-00201414
- Website: www.sberbank.hu

Sberbank Hungary Ltd. is authorised to perform the following activities:

TEÁOR number (Standard Sector Classification of Business Activities):

- 6419 '08 Other monetary consignment services (core activity)
- 6492 '08 Other lending
- 6499 '08 Other financial consignment services not classified otherwise
- 6612 '08 Securities and commodities brokerage activity
- 6619 '08 Other services supplementing financial activities
- 6622 '08 Insurance agency and brokerage activity

NOTES TO THE FINANCIAL STATEMENTS

- 6629 '08 Other auxiliary insurance and pension related services

According to subsection 3(1) of the bank act, financial services include the following financial activities carried out in Hungarian forint or in foreign currencies:

- collecting deposits and accepting other repayable financial assets from the public
- granting loans and borrowings (lending)
- financial leasing
- financial transactions
- issuing electronic money
- issuing paper-based cash equivalents (such as printed travel cheques and bills) and provision of related services other than financial transactions
- undertaking guarantees and other bank obligations
- own account and consignment activities with foreign currencies (other than currency exchange), and with bills and cheques
- acting as an intermediary of financial services
- deposit and vault services
- loan reporting services, and
- buying debt

According to subsection 3(2) of the bank act, the Bank's auxiliary financial activities comprise the performance of the following activities in Hungarian forint or in foreign currencies:

- currency exchange
- operating a payment system
- money processing
- financial brokering on the interbank market
- issuing marketable bills

According to subsection 5(1) of the investments act, the Bank's investment services include the following activities pursued in the normal course of business:

- receiving and forwarding orders
- executing orders on behalf of clients

NOTES TO THE FINANCIAL STATEMENTS

- own-account trading
- portfolio management
- investment advisory services
- placement of financial assets (securities or other financial assets) with an obligation to buy the asset (underwriting guarantee)
- placement of financial assets without obligation to buy the asset (financial asset)
- operating multilateral trading systems

According to subsection 5(2) of the investments act, auxiliary investment services include the following activities pursued in the normal course of business:

- safekeeping and registration of financial instruments and related client account management
- custody services, management of related securities accounts, for printed securities: keeping records of securities and client account management
- currency and foreign exchange trading related to investment services
- investment analysis and financial analysis
- investment lending, advisory and similar services relating to capital structure, business strategy and related issues, mergers and acquisitions
- services related to underwriting guarantees
- investment services or auxiliary services related to instruments underlying derivatives

Senior officers

Sberbank Hungary Ltd's senior officers at 31 December 2017:

Supervisory Board members	Function	Company
Hans Gerhard Randa	Chairman	Sberbank Europe AG
Elena Valentinovna Viklova	Member	Sberbank Russia
Yulia Arsenteyeva Vitalievna	Member	Sberbank Russia
Martin Frank	Member	Sberbank Europe AG

NOTES TO THE FINANCIAL STATEMENTS

Members of the Board of Directors	Function
Richard Szabó	Chairman
Éva Tudisconé Gyöngyösy	Member
Bence Kalmár	Member
Tamás Fodor	Member

1.2. The accounting system of Sberbank Hungary Ltd.

Sberbank Hungary Ltd's accounting policies and related accounting systems were developed based on the following pieces of legislation:

- act C of 2000 on accounting as amended (hereafter: accounting law)
- government decree 250/2000 (XII. 24.) on the reporting and bookkeeping requirements of credit institutions and financial enterprises as amended (hereafter: Government Decree),
- act CXX of 2001 on capital markets as amended,
- act CXXXVIII of 2007 on investment companies and commodity brokers, and on the regulations governing their activities (hereafter: investments act)
- act LXXXI of 1996 on corporate and dividends tax as amended,
- act CCXXXVII of 2013 on credit institutions and financial enterprises as amended
- Supervisory guidelines and rules relating to legal regulations applicable to the Bank
- Other applicable legal regulations and internal policies issued to ensure compliance.

Compliance with the above rules creates an adequate environment for the operation of the management information system and the compilation of the annual financial statements, as well as for meeting the reporting requirements of the National Bank of Hungary (MNB).

Sberbank Hungary Ltd. maintains its accounting system and prepares its annual financial statements in accordance with the accounting principles specified in the accounting law and in the Government Decree.

The reporting date of the 2017 annual financial statements was 31 December 2017.

The effects of economic events on the financial statements for the reporting year were taken into account by 7 January 2018, i.e. the balance sheet preparation date.

NOTES TO THE FINANCIAL STATEMENTS

The Bank prepares a balance sheet as set out in appendix 1 and an income statement as set out in appendix 2 to the Government Decree based on section 10 of the accounting law and compiles its consolidated annual financial statements in accordance with sections 116 and 117 of the accounting law.

Sberbank Europe AG (Austria, 1010 Wien, Schwarzenberg str. 3.) prepares consolidated financial statements in accordance with IFRS for the smallest unit of the Group. Sberbank Hungary Ltd. is included in these consolidated financial statements as a subsidiary. Sberbank of Russia (Russia, 117997 Moscow, Vavilova ul. 19.) owns 100% of the shares of Sberbank Europe AG, therefore it prepares the consolidated financial statements for the largest unit of the Group.

The Bank is required by law to have its annual financial statements audited. The Bank's auditors are Ernst & Young Könyvvizsgáló Kft. (1132 Budapest, Váci út 20., Company registration No.:01-09-267553; Chamber membership No.:001165).

The signing statutory auditor responsible for the audit is: Gergely Szabó (mother's maiden name: Zsuzsanna Kiss, address: 1202 Budapest, Mézes u. 35; Chamber registration number: 005676).

The person responsible for the Bank's accounting records is: Éva Gyöngyösy Tudisconé, CFO. (Chamber registration number: 005792)

The persons authorised to co-sign the Bank's annual financial statements are: Richard Szabó, president-CEO (domicile: 1052 Budapest, Vitkovics Mihály utca 8.) and Éva Gyöngyösy Tudisconé, CFO, jointly.

1.3. Accounting policies

All economic events should be recorded in the accounts when they incur if they relate to a year not yet closed for accounting purposes. Prompt FX transactions involving FX translation are recorded as at the trade date. Receivables and liabilities arising from such transactions affect the FX position as of the trade date.

Sberbank Hungary Ltd. recognises the following items on a daily basis:

- exchange gains/losses on the revaluation of FX assets and liabilities, as well as off balance sheet receivables and liabilities arising from forward transactions, and
- accruals related to the prorated interest of on balance sheet and off balance sheet hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS

Under the Government decree, and for reporting purposes, the Bank is required to close its asset and liability as well as profit and loss accounts and prepare a trial balance on a monthly basis.

As a part of the monthly closing process, the Bank prepares a trial balance sheet and performs the following supporting procedures:

- fair value measurement of financial instruments
- charging depreciation
- booking and reversal of impairment loss on receivables.

1.3.1. General measurement policies

1.3.1.1. Measurement of FX assets and liabilities

Foreign exchange (currency) held in account and on hand as well as receivables and liabilities denominated in foreign exchange are translated into forints (HUF) each day at the Bank's own FX rates.

For month-end and annual revaluation purposes, the Bank uses the FX rates published by the central bank prevailing on the last day of the period. (see also at 1.4.)

1.3.1.2. Fair value measurement

The Bank has applied the fair value measurement basis since 1 January 2005.

Portfolio classification

For the purposes of fair value measurement, financial assets that are not a hedging or hedged asset are classified as follows (without affecting their statutory classification as financial assets or current assets):

- a) financial assets held for trading
- b) available-for-sale financial assets
- c) financial assets held to maturity
- d) loan and other receivables originated by the entity.

Based on the above classification of the Bank's various portfolios, the measurement principles of the individual portfolios are as follows:

NOTES TO THE FINANCIAL STATEMENTS

- The following assets are measured at fair value:
 - Government bonds (held for trading, available-for-sale)
 - Debt securities (held for trading, available-for-sale)
 - Shares and other variable yield securities (held for trading)
 - Derivative contracts
- The following assets are measured at cost:
 - Government bonds and debt securities held-to-maturity
 - Receivables from credit institutions
 - Receivables from customers (debtors)
 - Shares and investments for investment purposes
 - Other receivables.
- The following liabilities are measured at fair value:
 - Derivative contracts
- The following liabilities are measured at cost:
 - Liabilities to credit institutions
 - Liabilities to customers
 - Subordinated debt
 - Other liabilities

Measurement policies

Subsections 9(4)-(8) of the Government Decree also apply to foreign currency assets and liabilities subject to fair value measurement.

Special rules

Since 1 January 2013, we have been using the 'Murex' system to measure assets held for trading. The system uses market rates and yield curves uploaded from the databases of authentic and generally accepted providers of market information, Bloomberg and Reuters, and this market information is used to value portfolios held for trading.

NOTES TO THE FINANCIAL STATEMENTS

While the Bank makes a distinction between the interest rate risk and FX rate position of its FX swap and FX forward contracts both in the accounting records and for business purposes, the effects of interest rate and FX rate fluctuations are recognised in aggregate through the net financial profit on investment services, in accordance with applicable accounting legislation.

Option contracts are measured at the value determined by Murex less any premium which is recognised separately.

General measurement policies for derivatives

FX forwards and futures

The two opposing cash flows in a transaction denominated in different currencies are discounted at the appropriate yield curve points, then the discounted cash flows are aggregated as translated to the basis currency at the central bank's prevailing foreign exchange rates.

FX swaps

To arrive at their fair value, each FX swap contract is split to a spot and an opposing outright forward contract, then forward contracts are transformed into net cash flows in line with the principles applicable to FX forwards then discounted at interest rates applicable to the term of the contract.

Interest rate swaps (IRS)

IRS contracts are measured as follows:

- The interest rate swaps are split to the short position of a fix interest bearing security of the same maturity and to the long position of a variable interest bearing security re-priced or maturing upon the beginning of the next interest period.
- For opposite contracts, the short position of the variable interest rate security and the long position of the fix interest rate security are considered by the Bank.

The opposing cash flows from the above transaction are discounted by the Bank based on the above method using market yield curve points and these discounted cash flows are then converted at the prevailing foreign exchange rates of the National Bank of Hungary.

NOTES TO THE FINANCIAL STATEMENTS

Basis swap

The measurement approach of basis swaps is similar to that of IRSs, the only difference being that the split synthetic securities are denominated in different currencies and both legs bear variable interest rates.

FX options

Options are measured based on the Black-Scholes model set in our Murex Front Office system.

Other options

Other options are measured at rates quoted by the relevant partner.

As laid down in the Bank's accounting policies, assets classified as **available-for-sale** are measured at fair value on a consistent basis. Assets measured at fair value are clearly indicated in the sub-ledger system "Clavis" by using an "investment available for sale" flag.

The general rules for measurement at cost, including impairment, should apply to the measurement of receivables from credit institutions and customers, and other receivables classified as available for sale financial assets as well as debt securities held to maturity and equity investments measured. These items are subject to subsections 13 (1), (2) and (5) of the Government Decree and subsection 59/B (9) of the accounting law.

Securities and shares classified as long-term financial assets available-for-sale or current assets should be rated on a monthly basis and where the rating has deteriorated, an impairment loss should be recognised on the investment. Where the rating has improved, any previously recognised impairment loss should be reversed to increase the carrying value of the investment.

If the fair value exceeds the initial cost less repaid instalments, the excess should be recognised in the fair value reserve in equity.

Special rules

The Bank uses the Murex system to measure **trading and available-for-sale assets**. For government bonds and debt securities, fair value equals the market value determined by the Murex system that uses market information based on actual sale-purchase transactions with respect to government bonds. If no actual sale-purchase information is available, fair value is

NOTES TO THE FINANCIAL STATEMENTS

established by the Bank with discounted cash flow method using the zero coupon yield curve applicable for the government exposure.

Measurement rules for **assets not reclassified as held for trading or available-for-sale**:

Receivables from credit institutions and customers, and other receivables not reclassified as held for trading or available-for-sale and qualify as own receivables, purchased receivables or debt securities held to maturity, as well as purchased receivables, debt securities and ownership investments qualifying as available-for-sale financial assets not measured at fair value are measured at cost. Subsections 13(1)-(2) and (5) of the Government Decree applies to credit institutions.

Receivables should be rated on a monthly basis and where the rating has deteriorated, an impairment loss should be recognised on the receivable. Where the rating has improved, any previously recognised impairment loss should be reversed to increase the carrying value of the receivable.

Other measurement policies

The allocation and use of provisions in accordance with subsection 13(6) of the Government Decree should also be applied in case fair value measurement is opted for. The risk provision recognized as other expenses and measured based on the rating of contingent liabilities and commitments should be recognised as risk provision made for contingent liabilities and commitments. If an interim rating finds the amount of risk provision exceeding the level necessary for that rating, then any such excess should be released up to the total annual provision made by reducing other expenses; the release of any excess over the annual provision charge should be recognised as other income.

When a contingent or certain future liability is written off or any related loss is recognised, the related risk provision should be used against other income.

Section 13(7) of the Government Decree on using provisions can also be applied, according to which the general risk provision can only be used if a loss arises on the derecognition of an asset as credit loss or impairment loss on investment, or a loss is realised on a contingent liability. The risk provision should be used to make up for the unprovided part of the asset or contingent liability when the related loss is realised. The Bank's general risk provision made in the previous years was used up in 2012.

NOTES TO THE FINANCIAL STATEMENTS

1.3.1.3. Measurement of receivables

The Bank reviews its exposures on a monthly or quarterly basis in accordance with relevant regulations, and classifies them in performing and non-performing exposure categories, both categories distinct the restructured receivables.

The impairment and the reversal of impairment, and the setting aside, release and use of the provisions shall be carried out in consideration of the expected return and/or the future payment obligation recorded as a loss. If the carrying amount of an asset is higher than the expected return an impairment loss is recognized if it is lower, the reversal of the impairment should increase the carrying amount of the asset.

For impairment testing purposes, further to subsection 55(2) of the accounting law and the Government Decree, receivables are considered to be collectively of low value per debtor if the total of receivables per debtor does not exceed HUF 100,000,000.

Since 29 February 2012, the Bank has been keeping records of any impairment loss made and reversed on FX receivables also in the relevant currency. The amounts expressed in foreign currency are translated to HUF based on the Bank's policy on the translation of FX assets and liabilities. (See also note 1.4.)

1.3.1.4. Measurement of investments

The Bank records equity instruments at cost and recognises them in the balance sheet at cost less any recognised impairment loss plus any reversed impairment loss.

An impairment loss is recognised on long-term equity investments (irrespective of whether it is held for investment purposes or it is held for trading) if on the balance sheet preparation date the carrying value of the investment permanently and significantly exceeds the its fair value. The amount of impairment loss is the difference between the carrying value and the market value of the equity instrument.

For fair valuation purposes, the following are considered:

- the company's long-term market assessment
- listed and OTC price of the investment less accumulated dividends, and related trends
- the amount expected to be recovered from discontinuing operations
- the relationship between the company's equity/subscribed capital ratio and the investment's carrying value/nominal value (the latter is not an upper limit to impairment loss).

NOTES TO THE FINANCIAL STATEMENTS

Should, in the following year(s), the fair value of an investment at the balance sheet preparation date significantly and permanently exceed its carrying value, the amount of any previously recognised impairment loss should be reversed up to the initial cost of the investment at the maximum.

1.3.1.5. Measurement of intangible and tangible assets

Intangible and tangible assets are recorded at actual purchase cost.

Depreciation is charged on intangible and tangible assets in accordance with the provisions of the accounting law.

Depreciation and amortisation are charged on a straight line basis.

In respect of residual value, HUF 5 million is considered material; below this amount, the residual value is zero.

Depreciation rates applied

INTANGIBLE ASSETS	
Rights and concession	15.00%
Goodwill	15.00%
Intellectual property	
Softwares	max 25.00%
Other intellectual property	max 25.00%

CREDIT INSTITUTION TANGIBLE ASSETS	
Land and buildings	
Buildings, parts of buildings, held by own	2.00%
Investment of buildings held by own	max 10.00%
Investment of buildings, rented	Accord. to lease contr. (20%)
Plant and other machinery	
Office assets and equipment	14.50%
Copying machines and equipment	14.50%
Other office equipment	14.50%
Telecommunications equipment	14.50%
Administration and other (office) fittings	14.50%
Tools	14.50%
Computers and IT equipment	max. 20.00%
Security equipment	14.50%
Vehicles	
Vehicles	20.00%

Tangible assets that cost less than HUF 100 thousands are fully expensed upon capitalisation.

NOTES TO THE FINANCIAL STATEMENTS

Extraordinary amortisation is recorded for rights and concessions and intellectual property capitalised as intangible asset in the event an asset is destroyed, becomes obsolete or its value declines as a result of market perception.

Extraordinary depreciation is recorded for tangible assets if

- the carrying value of a tangible asset (including construction in progress) significantly and permanently exceeds its fair value;
- a tangible asset or investment is no longer required for entity's operations, becomes damaged or is destroyed and therefore is no longer fit for use.

1.3.1.6. Accounting for interest received and contingent interest

Interests that relate to the reporting period and fell due but were not collected by the balance sheet preparation date are considered contingent interest.

Similarly, interests that relate to the reporting period but did not fall due by balance sheet preparation date and the underlying loan was rated other than pass or watch are also considered contingent interest.

Amounts of interest that were received between the reporting date and the balance sheet preparation date were recognized as interest income.

1.4 Subsequent events

In 2017, the Bank decided to open a new branch in Paks. As a first step, a new ATM was installed in November 2017, then the new branch was opened in the beginning of April 2018.

The management of the Bank decided to merge the headquarters located in two separate office buildings into one in 2017, as a result of it the Bank's headquarters will change. The address of the new headquarter is 1088 Budapest, Rákóczi út 1-3. This merger is scheduled to take place in the first half of 2018. The management intends to sell its current office buildings in the near future.

Sberbank Magyarország Zrt. participates in the program launched by National Bank of Hungary to promote SME lending. The Bank is committed to increase the SME volume through new production by HUF 7.5 billion. The National Bank of Hungary provided preferential derivative and deposit products to commercial banks.

NOTES TO THE FINANCIAL STATEMENTS

The National Bank of Hungary examines ex-post the eligibility of the use of preferential features on the basis of the Bank's regulatory reports. The Bank does not recognize the result of the preferential features in line with the principle of prudence until the end of this review.

In accordance with the provisions of the Act CLXXVIII of 2015, the Bank has to prepare its annual financial statements in line with International Financial Reporting Standards (IFRS) from 1 January 2018, thus the Bank prepared the opening IFRS balance sheet for 1 January 2017 according to IFRS 1 where the difference between the balance sheet of 31 December 2016 based on Act C of 2000 on Accounting and the opening IFRS balance sheet were recognised at the corresponding elements of the capital. On January 1, 2018 the Bank introduced its new accounting policy in accordance with international accounting standards, in case of topics which are not regulated by IFRS the provisions of the accounting act and of the government decree are still be applied.

Simultaneously with the first application of IFRS, the Bank is obliged to apply IFRS 9 Financial Instruments as of 1 January 2018, as a result of which the Bank's impairment losses and provisions have been significantly changed.

1.5 Information systems of the Bank supporting its accounting records

The accounting of the Bank is based on the integrated loan and deposit MIDAS banking system that is running on an AS/400 server. The different sub-systems that are attached to MIDAS are the following:

Clavis – securities

Spectrum – derivatives and money market deals

SAP FI – trade debtors, creditors, fixed assets, and other items

ABC Card management – bank card

Appello – collaterals, guaranties and letter of credits

The above analytical systems (except for Appello) are posting to MIDAS general ledger through a GPSI interface as part of the daily closing process. Appello is making the postings once a month as part of the monthly closing.

The purchased and sold securities are recorded in Clavis application which is posting to MIDAS.

The recording and accounting of derivative and money market deals are in Spectrum application which is posting to MIDAS on a daily basis.

NOTES TO THE FINANCIAL STATEMENTS

The accounting for deposits, loans and interbank deals are in MIDAS application.

In addition the cash transactions and petty cash items are also recorded in MIDAS thus ensuring the subledger reconciliation of petty cash to the general ledger.

The bank card transactions are recorded in Card booking management application which is posting daily to MIDAS through GPSI.

The SAP integrated application mainly serves for the accounting of non banking operational costs, expenses and income together with the related accrual postings.

The payroll general ledger postings are prepared by NexonBér application that is operated by the human resources department.

SAP is preparing the payment files used for creditors and tax payables and it is connected to MIDAS GIRO module.

The transactions recorded in SAP are transferred to MIDAS as part of the daily posting through the GPSI interface.

Following the daily closing, the data are transferred from MIDAS to the datawarehouse, from where the general ledger and other analytical ledgers can be extracted with the help of Cognos application.

NOTES TO THE FINANCIAL STATEMENTS

2. SPECIFIC PART

2.1. Key indicators of the Bank in 2017 and their analysis

The Bank's balance sheet total dropped by 1.7% (HUF 6,029 million) on the previous year from HUF 360,830 in 2016 to HUF 354,801 million.

On the assets side of the balance sheet, receivables from credit institutions dropped by HUF 17,291 million and receivables from customers increased by 3.8% to HUF 201,874 million. The government bond is 3.23% lower compared to the previous year-end.

On the equity & liabilities side, liabilities towards credit institutions fell by HUF 22,812 million and amounts payable to customers grown by HUF 26,053 million compared to 2016. The HUF 12,324 million decrease in subordinated liabilities was due to the repayment of CHF 42.5 million subordinated debt from Sberbank Russia. The equity increased by HUF 3,516 million as a result of the positive result achieved in 2017 and the capital increase carried out during the year.

The Bank's clients can be grouped into two major categories: retail and micro enterprises.

The Bank's key financial indicators are set out in Appendix 1.

Below is an analysis of the number of active clients as at 31 December 2017:

Description	No. of people	
	31.12.2016	31.12.2017
Number of active customers	57,975	61,753
Private customers	45,619	49,430
Micro enterprises	10,761	10,642
Medium and corporate enterprises	1,595	1,681

NOTES TO THE FINANCIAL STATEMENTS

Changes in the number of accounts held with the Bank:

Description	31.12.2016	31.12.2017	Change	<i>piece</i>
				Change %
Number of customer accounts	103,085	108,262	5,177	5.0%
Savings accounts	6,925	6,566	-359	-5.2%
Deposit accounts	10,763	7,666	-3,097	-28.8%
Current accounts	62,146	64,459	2,313	3.7%
Loan accounts	23,251	29,571	6,320	27.2%

The Bank held 9 branches in Budapest and 17 other branches across the country and 1 bank shop at 31 December 2017. The number of cash machines increased to 30 by the end of 2017 as a result of one ATM installation in Paks.

2.2. Financial position of the Bank and the result of its operations

2.2.1. Assets

Liquid assets

<i>HUF millions</i>					
BS.ref	Description	31.12.2016	31.12.2017	Change	Change %
1	Liquid assets	27,343	34,069	6,726	24.6%

At the end of 2017, liquid assets totalled HUF 34,069 million, which is a HUF 6,726 million increase on the previous year.

The positive change is due to the fact that at the end of 2017, the Bank placed more funds at the National Bank of Hungary (MNB) for overnight deposits (HUF 28 billion) than at the end of 2016 (HUF 14.5 billion). Compared to HUF 8 billion in the previous year, the Bank did not have a three-month deposit on the balance sheet date.

Government bonds

<i>HUF millions</i>					
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
2	Treasury bills and similar securities	55,773	53,970	-1,803	-3.2%
2a)	held for trading	8,455	29,610	21,155	250.2%
2b)	held as financial fixed assets	47,318	24,360	-22,958	-48.5%
2./A	Valuation difference on treasury bills	218	-1,403	-1,621	-743.6%

NOTES TO THE FINANCIAL STATEMENTS

Government bonds decreased by HUF 1,803 million on the previous year.

Government bonds held for trading increased by HUF 21,155 million, while government bonds held as financial fixed assets decreased by HUF 22,958 million. This rearrangement is caused by the reclassification of government bonds which expire in 2018 to held for trading category.

Government bonds held for sale contain Hungarian treasury bonds reclassified from held to maturity government bonds. The revaluation gain/loss on government bonds decreased from HUF 218 million to HUF -1,403 million, due to the fall in market rates in 2017.

The details of the securities owned by the bank are presented in appendix 3.

Receivables from credit institutions

<i>HUF millions</i>					
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
3	Loans and advances to credit institutions	73,245	55,954	-17,291	-23.6%
3a)	repayable on demand	12,934	15,584	2,650	20.5%
3b)	other loans and advances in connection with financial services	51,984	38,648	-13,336	-25.7%
3ba)	with remaining maturity of less than one year	44,927	31,691	-13,236	-29.5%
	Showing separately: - affiliated companies	41,990	21,338	-20,652	-49.2%
3bb)	with a remaining maturity of more than one year	7,057	6,957	-100	-1.4%
	Showing separately: - affiliated companies	7,020	6,924	-96	-1.4%
3c)	in connection with investment services	8,327	1,722	-6,605	-79.3%

Receivables from credit institutions reduced by HUF 17,291 million as a result of a HUF 13,336 million drop in receivables from financial services and a HUF 6,605 million decrease in receivables in connection with investment services. This decrease was partly set off by a HUF 2,650 increase in repayable on demand.

The decrease in receivables from investment services within one year was due to a HUF 20,652 million decrease in short-term deposits of subsidiaries. This effect was partly set off by the HUF 7,416 million growth in other loans and advances to domestic credit institutions. Receivables from investment services include receivables from a margin deposit.

NOTES TO THE FINANCIAL STATEMENTS

The following table shows the repayment schedules in the other loans to credit institutions:

BS row	31.12.2017	0-90 day	91-365 day	1-5 year	more than 5 year
3.b) Other loans and advances to credit institutions in connection with financial services	38,648	30,373	823	4,148	3,304

HUF millions

Receivables from customers

HUF millions

BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
4	Loans and advances to customers	194,450	201,874	7,424	3.8%
4a)	in connection with financial services	194,412	201,874	7,462	3.8%
4aa)	with a remaining maturity of less than one year	58,221	54,019	-4,202	-7.2%
	Showing separately: - affiliated companies	-	-	-	0.0%
	Károlyi Ingatlan 2011 Kft.(subsidiaries)	-	-	-	0.0%
	Egressy 2010 Ingatlanformalgazó Kft. (subsidiaries)	-	-	-	0.0%
	East Site Kft. (subsidiaries, former: Új Garai tér Kft.)	-	-	-	0.0%
4ab)	with a remaining maturity of more than one year	136,191	147,855	11,664	8.6%
	Showing separately: - affiliated companies	-	-	-	0.0%
4b)	b) in connection with investment services	38	-	-38	-100.0%
4bb)	receivables in connection with investment services outside the exchange markets	-	-	-	0.0%
4bc)	receivables from customers in connection with investment services	38	-	-38	-100.0%

Net receivables from customers increased by 3.8% from HUF 194,450 million in 2016 to HUF 201,874 million in 2017.

Net receivables from financial services account for 100% of receivables from customers in 2017.

Net receivables from financial services growth by HUF 7,462 million as a result of a HUF 4,202 million drop in loans maturing within one year and a HUF 11,664 increase in loans maturing over one year. The overall increase was due to the following two reasons:

1. Several large corporate lendings
2. Increase in the volume of loans granted to small and medium-sized enterprises under the HIRS program (program launched by National Bank of Hungary to promote SME lending)

NOTES TO THE FINANCIAL STATEMENTS

The breakdown by maturity of the balance sheet row 4a) Loans and advances to customers in connection with financial services is shown below. The figures below are based on the repayment schedules in the loan agreements.

HUF millions

BS row	Total	0-90 day	91-365 day	1-5 year	over 5 years
4.a) Loans and advances to customers in connection with financial services	201,874	18,711	54,005	82,404	46,754

The percentage of impairment loss on debtors compared to the total gross loan portfolio dropped from 12.28% to 10.53% in 2017.

Movements in the impairment of financial instruments are shown in the following table:

HUF millions

Description	Opening	Value adjustment	Value readjustment	Write-offs	Effect of foreign currency movements	Closing
Loans and advances to customers	27,228	5,430	5,278	3,395	-222	23,763
Government bonds available-for-sale	71	977	5	-	-6	1,037
Domestic credit institutions, investments	-	-	-	-	-	-
Non-financial enterprises, investments	1,253	36	36	-	-	1,253
Total	28,552	6,443	5,319	3,395	-228	26,053

By the end of the financial year, the percentage of gross assets rated performing in the balance sheet increased from 85.36% to 85.54%. The previous five criteria customer rating systems have been eliminated since 2017 so that the previously 'Pass' and 'Watch' category transactions are shown in the category of 'Performing' and the category of 'Substandard', 'Doubtful', 'Bad' are shown as 'Non-performing' as of 2016.12.31. The detailed change is shown in the following table.

Rating of BS items	31.12.2016	31.12.2017
Performing	85.36%	85.54%
Non-performing	14.64%	14.46%
Total	100.00%	100.00%

The improvement in loan ratings was due to an improvement on the quality of retail loans and to a thorough cleaning of the nonperforming corporate portfolio (project loans) in 2017.

NOTES TO THE FINANCIAL STATEMENTS

Debt securities

<i>HUF millions</i>					
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
5	Debt securities, including fixed-income securities	1,455	1,491	36	2.5%
5b)	securities issued by other borrowers	1,455	1,491	36	2.5%
5ba)	held for trading	1,455	1,491	36	2.5%

Debt securities include repurchased treasury bonds (presented as *Securities issued by other borrowers*) and increased by HUF 36 million (2.5%) in 2017. The increase due to repurchased debt securities was HUF 39 million translated at central bank rates prevailing on 31 December 2017, and a lower HUF/EUR rate caused a HUF 3 million drop in the total value of the portfolio.

Shares, participations held as investments

<i>HUF millions</i>					
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
7	Shares and participations in corporations held as financial fixed assets	300	364	64	21.3%
7a)	Shares and participations in corporations held as financial fixed assets	300	364	64	21.3%
	Showing separately: - participating interests in credit institutions	67	67	-	0.0%

In 2017, there was no significant change in the shares and participations in corporations held as financial fixed assets. The 21.3% increase of the balance sheet value was mainly due to the revaluation of the investment in Visa Inc.

Shares, participations in related parties

<i>HUF millions</i>					
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
8	Shares and participating interests in affiliated companies	143	188	45	31.5%
8a)	Shares and participations in corporations held as financial fixed assets	143	188	45	31.5%

The aggregate of investments held in related parties increased from HUF 143 million in 2016 to HUF 188 million in 2017 as a result of acquiring 100% of Egressy Immo Kft. by the Bank.

NOTES TO THE FINANCIAL STATEMENTS

The Bank is the sole owner of **V-Dat Informatikai Kft.**, the core activity of which is the sale-purchase of properties, and other activities include letting and (sub)leasing own and rented/leased properties, facilities operations and property management.

In 2016, the company had an issued capital of HUF 3 million, capital reserve of HUF 233 thousand and retained earnings of HUF 5 million. In 2017, the Bank recognised an impairment loss of HUF 2 million on its investment in this subsidiary.

The Bank is the sole owner of **East Site Ingatlanforgalmazó és Ingatlanhasznosító Kft.** (formerly: Új Garay tér Ingatlanforgalmazó és Ingatlanhasznosító Kft.), the issued capital of which was HUF 8 million at the end of 2017. The Kft's core activity is the sale-purchase of own properties; other activities include renting out, operating and managing own and rented properties. The Bank recognised an impairment loss of HUF 2 million on this investment in 2017.

The Bank is the sole owner of **Egressy 2010 Kft.**, the issued capital of the company has been increased to HUF 4 million during the second quarter of 2017. The capital reserve increased by HUF 19 million. The core activity of the Kft. is the sale and purchase of own properties. The Bank recognised HUF 15 million impairment loss on its investment in this subsidiary in 2017.

The Bank is the sole owner of **Károlyi Ingatlan 2011 Kft.**, the core activity of which is the sale and purchase of own properties; other activities include letting and (sub)leasing own and rented/leased properties, facilities operations and property management. The subsidiary's issued capital is HUF 4 million and its capital reserve is HUF 455.3 million. The Bank recognised an impairment gain of HUF 36 million on its investment in this subsidiary in 2017.

The Bank acquired 100% ownership in Egressy Immo Kft on 15 June 2017. In June 2017, the Bank increased the capital of the Kft., as a result the issued capital and the capital reserves of the company increased to HUF 3 million and HUF 22.5 million respectively. The company's core activity is the sale and purchase of own property; its other activities include letting and (sub)leasing own and rented/leased properties, facilities operations and property management.

V-Dat Informatikai Kft., East Site Ingatlanforgalmazó és Ingatlanhasznosító Kft., Egressy 2010 Kft., Károlyi Ingatlan 2011 Kft. and the newly acquired Egressy Immo Kft. are fully consolidated. The Bank's consolidated financial statements that are available at the Bank's registered offices.

NOTES TO THE FINANCIAL STATEMENTS

The management of the Bank decided to close Egressy 2010 Kft. and Egressy Immo Kft by liquidation. The closing reports were completed in September 2017 for the period 01.01.2017-31.08.2017, the liquidation process is ongoing.

Investments and their dividends

HUF millions

Description	Participation (%)		Net book value		Received dividend*	
	31.12.2016	31.12.2017	31.12.2016	31.12.2017	2016	2017
V-DAT Kft.	100.00%	100.00%	8	6	-	-
East Site Kft.	100.00%	100.00%	23	21	-	-
Egressy 2010 Kft.	100.00%	100.00%	-	5	-	-
Károlyi Ingatlan 2011 Kft.	100.00%	100.00%	112	148	-	-
Egressy Immo Kft.	-	100.00%	-	8	-	-
Shares and participating interests in affiliated companies			143	188	-	-
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt	1.39%	1.39%	67	67	35	35
Garantiqa Hitelgarancia Zrt.	0.13%	0.13%	10	10	-	-
S.W.I.F.T.	0.01%	0.01%	1	-	-	-
Visa Inc.	0.01%	0.01%	222	287	-	1
Shares and participations in corporations held as financial fixed assets			300	364	35	36
Total Investments			443	552	35	36

*Dividends received, paid in the given year

NOTES TO THE FINANCIAL STATEMENTS

Main indicators of local investments over 20%

HUF millions

Name and address of the entity	Equity	Registered capital	Registered but not paid capital	Reserves	Net result
	31.12.2017.	31.12.2017.	31.12.2017.	31.12.2017.	31.12.2017.
V-DAT Kft. 1088 Budapest, Rákóczi út 7.	6	3	-	5	-2
East Site Kft 1088 Budapest, Rákóczi út 7.	21	8	-	15	-2
Egressy 2010 Kft. 1088 Budapest, Rákóczi út 7.	5	4	-	2	-1
Károlyi Ingatlan 2011 Kft. 1088 Budapest, Rákóczi út 7.	148	4	-	113	31
Egressy Immo Kft. 1088. Budapest, Rákóczi út 7.	8	3	-	8	-3

Intangible and tangible assets

HUF millions

BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
9	Intangible assets	1,332	2,061	729	54.7%
9a)	Intangible assets	1,332	2,061	729	54.7%
10	Tangible assets	1,693	1,549	-144	-8.5%
10a)	Tangible assets for financial and investment services	1,693	1,549	-144	-8.5%
10aa)	Land and buildings	1,313	1,188	-125	-9.5%
10ab)	Machinery, equipment, fittings, fixtures and vehicles	374	361	-13	-3.5%
10ac)	Assets under construction	6	-	-6	-100.0%

Intangible assets increased by HUF 729 million from HUF 1,332 million to HUF 2,061 million mainly as a result of software developments, extensions and license renewals made during the last quarter of 2017..

Tangible assets fell by HUF 144 million from HUF 1,693 million to HUF 1,549 million mainly as a result of bank branch movings which were made to rationalize the branch network, whereby own properties were also sold.

NOTES TO THE FINANCIAL STATEMENTS

Changes in the cost of intangible and tangible assets:

HUF millions

Description	Opening balance	Additions	Disposals	Reclassifications	Closing balance
Intangible assets	8,294	2,076	3,894	-	6,476
Rights and concessions	82	-	80	-	2
Intellectual property	8,154	680	3,119	-	5,715
Other intangible assets	17	-	5	-	12
Assets under construction	41	1,396	690	-	747
Tangible assets	5,842	415	1,338	-	4,919
Land and buildings	3,264	37	328	-	2,973
Plant, machinery and equipment	2,572	173	799	-	1,946
Assets under construction	6	205	211	-	-

Significant drop in the gross value of intellectual property is attributable to the write-off of unused software discovered during the PPE stock take in 2017.

Small value assets totalled HUF 238 million at the year-end.

Changes in the amortisation/depreciation of intangible and tangible assets:

HUF millions

Description	Opening balance	Additions	Disposals	Reclassifications	Closing balance
Intangible assets	6,962	656	3,203	-	4,415
Rights and concessions	81	-	80	-	1
Intellectual property	6,864	656	3,118	-	4,402
Other intangible assets	17	-	5	-	12
Tangible assets	4,149	276	1,055	-	3,370
Land and buildings	1,951	96	262	-	1,785
Plant, machinery and equipment	2,198	180	793	-	1,585

Ordinary depreciation and amortisation totalled HUF 933 million in 2017, from which HUF 8 million related to small value tangible assets. Extraordinary depreciation were not recognised in 2017, but at the end of the year HUF 104 million of extraordinary depreciation, related to the owned headquarter, has been reversed based on the appraisal made for the planned sale.

NOTES TO THE FINANCIAL STATEMENTS

Other assets, revaluation gain or loss

HUF millions

BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
12	Other assets	543	1,118	575	105.9%
12a)	Inventories	44	35	-9	-20.5%
12b)	Other receivables	499	1,083	584	117.0%
	Showing separately: - from affiliated companies	6	26	20	333.3%
12./B	Positive valuation difference on derivatives	1,139	568	-571	-50.1%

Other assets increased from HUF 543 million in 2016 to HUF 1,118 million in 2017 owing to a near 117% increase in other receivables. This significant change was due to a large increase in customer receivables and prepayments to suppliers.

The revaluation gain on derivatives declined by HUF 571 million to HUF 568 million in 2017 mainly as a result of a reduced revaluation gain on basis swaps: a number of basis swaps were closed in 2017 and their revaluations balances were derecognized as a result. The further reason for this decline was that there were 360 open forward transactions at the end of 2016, while at the end of 2017 the number fell to 188. Revaluation gain related to these forward transactions decreased from HUF 266 million to HUF 19 million. The decrease in revaluation gain was also due to a waning effect of foreign exchange fluctuation as the HUF was weaker at the end of 2017 than at the end of 2016.

Prepaid expenses and accrued income

HUF millions

BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
13	Prepayments and accrued income	3,196	2,998	-198	-6.2%
13a)	accrued income	2,609	2,321	-288	-11.0%
13b)	prepaid expenses	331	324	-7	-2.1%
13c)	deferred expenses	256	353	97	37.9%

Prepaid expenses and accrued income decreased by 6.2% in total as a result of a 11% decrease in accrued income, a 2.1% decrease in prepaid expenses and a 37.9% increase in deferred expenses .

NOTES TO THE FINANCIAL STATEMENTS

2.2.2. Equity and liabilities

Liabilities to credit institutions

<i>HUF millions</i>					
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
1	Amounts owed to credit institutions	67,247	44,435	-22,812	-33.9%
1a)	repayable on demand	1,639	967	-672	-41.0%
1b)	with agreed maturity dates or periods of notice in connection with financial services	62,541	43,468	-19,073	-30.5%
1ba)	with remaining maturity of less than one year	31,290	9,873	-21,417	-68.4%
	Showing separately: - affiliated companies	24,600	-	-24,600	100.0%
	- National Bank of Hungary	4,949	8,015	3,066	62.0%
1bb)	with remaining maturity of more than one year	31,251	33,595	2,344	7.5%
	Showing separately: - affiliated companies: Sberbank of Russia	-	-	-	-
	National Bank of Hungary	21,560	17,446	-4,114	-19.1%
1c)	in connection with investment services	3,067	-	-3,067	100.0%

Amounts owed to credit institutions at the year-end totalled HUF 44,435 million which is a HUF 22,812 million decrease on the previous year.

Current liabilities to credit institutions fell by HUF 21,417 million on 2016, mainly as a result of the repayment of a HUF 24,600 million loan from Sberbank Russia.

The following table presents a maturity analysis of balance sheet row 1 "Amounts owed to credit institutions".

<i>HUF millions</i>					
BS row	31.12.2017	0-90 day	90-365 day	1-5 year	over 5 year
1a) repayable on demand	967	967	-	-	-
1b) with agreed maturity dates or periods of notice in connection with financial services	43,468	1,468	8,406	24,080	9,514
1c) in connection with investment services	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

HUF 9,873 million was reclassified from long-term liabilities to current due to maturity or instalments due within one year as shown in the table below:

HUF millions

BS ref.	Description	2017
1bb)	Amounts owed to credit institutions with agreed maturity dates or periods of notice in connection with financial services with remaining maturity of more than one year	33,595
1ba)	Amounts owed to credit institutions with agreed maturity dates or periods of notice in connection with financial services with remaining maturity of less than one year	9,873
	<i>Liabilities reclassified from long term category</i>	<i>9,873</i>
	<i>because of maturity</i>	<i>1,313</i>
	<i>because of payment within a year</i>	<i>8,560</i>

Reclassified instalments due within one year relate to loans from the central bank and to other refinancing loans.

The following table presents securities and receivables pledged for NBH's Funding for Growth Program as at 31 December 2017:

HUF millions

Lender	Type of state bond placed as collateral	Pledged amount in HUF
National Bank of Hungary	government bond	15,004
Total		15,004

NOTES TO THE FINANCIAL STATEMENTS

Other liabilities in connection with financial services to customers

HUF millions

BS ref.	Description	31.12.2016	31.12.2017	Change	Change %
2	Amounts owed to customers	218,877	244,930	26,053	11.9%
2a)	savings deposits	8	7	-1	-12.5%
2ab)	with remaining maturity of less than one year	8	7	-1	-12.5%
2ac)	with remaining maturity of more than one year	-	-	-	-
2b)	other liabilities in connection with financial services	218,801	244,785	25,984	11.9%
2ba)	repayable on demand	136,524	174,876	38,352	28.1%
	Showing separately: - to affiliated companies	139	122	-17	-12.2%
	V-DAT Kft. (subsidiary)	8	6	-2	-25.0%
	East Site Kft. (subsidiary)	24	21	-3	-12.5%
	Egressy 2010 Kft. (subsidiary)	1	1	-	0.0%
	Károlyi Ingatlan 2011 Kft. (subsidiary)	106	87	-19	-17.9%
	Egressy Immo Kft. (subsidiary)	-	7	7	100.0%
2bb)	with remaining maturity of less than one year	65,150	68,058	2,908	4.5%
	Showing separately: - to affiliated companies	-	-	-	-
2bc)	with remaining maturity of more than one year	17,127	1,851	-15,276	-89.2%
2c)	in connection with investment services	68	138	70	102.9%
2cc)	liabilities to customers in connection with investment services	68	138	70	102.9%

Amounts owed to customers grew from HUF 218,877 million to HUF 244,930 million which was caused mainly by the HUF 38,352 million increase in payables on demand which was partly set off by the HUF 15,276 million decrease in liabilities maturing over one year.

Maturity break-down of the balance sheet category „2. Amounts owed to customers“:

HUF millions

Description	31.12.2017	0-90 day	90-365 day	1-5 year	over 5 year
2ab) with remaining maturity of less than one year	7	7	-	-	-
2ac) with remaining maturity of more than one year	-	-	-	-	-
2a) savings deposits	7	7	-	-	-
2ba) repayable on demand	174,876	174,876	-	-	-
2bb) with remaining maturity of less than one year	68,058	28,232	39,826	-	-
2bc) with remaining maturity of more than one year	1,851	-	-	1,847	4
2b) other liabilities in connection with financial services	244,785	203,108	39,826	1,847	4

NOTES TO THE FINANCIAL STATEMENTS

Of long-term other liabilities towards customers, HUF 8,750 million was reclassified to current liabilities as they will mature in 2018.

		<i>HUF millions</i>
BS ref.	Description	2017
2bc)	Other liabilities owed to customers in connection with financial services with remaining maturity of more than one year	1,851
2bb)	Other liabilities owed to customers in connection with financial services with remaining maturity of less than one year	68,058
	<i>Liabilities reclassified from long term category</i>	<i>8,750</i>
	<i>because of maturity</i>	<i>8,750</i>
	<i>because of payment within a year</i>	<i>-</i>

Liabilities from issued debt securities

						<i>HUF millions</i>
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %	
3	Issued bonds and other interest-bearing securities	5,517	5,504	-13	-0.2%	
3a)	issued bonds	5,517	5,504	-13	-0.2%	
3ab)	due more than one year	5,517	5,504	-13	-0.2%	

Liabilities from debt securities issued dropped from HUF 5,517 million in 2016 to HUF 5,504 million in 2017. The HUF 13 million decrease was attributable purely to a sliding HUF/EUR rate.

Other liabilities

						<i>HUF millions</i>
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %	
4	Other liabilities	2,799	2,557	-242	-8.6%	
4a)	due within one year	2,799	2,557	-242	-8.6%	
	Of which: - subsidiaries:	237	250	13	5.5%	
	Sberbank Europe AG (shareholder)	237	250	13	5.5%	
4./A	Negative valuation difference on derivatives	1,419	925	-494	-34.8%	

Other liabilities at the end of the year amounted to HUF 2,557 million which shows a HUF 242 million (8.6%) decrease on the previous year. Other liabilities include suppliers, taxes and social security payables, amounts payable to pension funds and to employees, and amounts in transit.

The negative valuation difference on derivatives decreased by HUF 494 million. The decrease was due to the fact that at the end of 2016 there were 360 open forward transactions, while at

NOTES TO THE FINANCIAL STATEMENTS

the end of 2017 the number fell to 188. Revaluation loss related to these transactions increased from HUF -253 million to -71 million. In case of FX swaps, the volume of our open transactions at the end of 2016 was significantly higher than at the end of 2017, which explains the change in negative valuation difference on derivatives from HUF -206 million to HUF -12 million. The decline in the revaluation loss on interest rate swaps is related to a terminated IRS in the current year. The Bank had revaluation loss of HUF -106 million for the IRS transactions at the end of 2016, which was no longer included in the closing balance for 2017 due to termination.

Accrued expenses and deferred income

					<i>HUF millions</i>	
BS ref.	Description	31.12.2016	31.12.2017	Change	Change %	
5	Accruals and deferred income	3,090	3,274	184	6.0%	
5a)	deferred revenue	119	171	52	43.7%	
5b)	accrued expenses	2,946	3,061	115	3.9%	
5c)	deferred income	25	42	17	68.0%	

Accrued expenses and deferred income totalled to HUF 3,274 million, which is a HUF 184 million increase on the previous year.

Provisions

					<i>HUF millions</i>	
BS reff	Description	31.12.2016	31.12.2017	Change	Change %	
6	Provisions for liabilities and charges	725	828	103	14.2%	
6b)	provisions for contingent liabilities and for (future) commitments	407	270	-137	-33.7%	
6d)	other provisions	318	558	240	75.5%	

Provisions increased by HUF 103 million on the previous year. In accordance with its accounting policies, the Bank did not make a general risk provision in 2017.

NOTES TO THE FINANCIAL STATEMENTS

The following table shows changes in provisions in the reporting year:

<i>HUF millions</i>						
Title	Opening	Allocation	Utilization	Release	FX difference	Closing
Provisions for contingent liabilities and for (future) commitments	407	44	182	-	1	270
Other provisions	318	533	292	-	-1	558
Total	725	577	474	-	-	828

Other provisions grew by HUF 240 million in 2017. The increase is largely due to the fact that the amount of the bonus previously recognized as an accrual, this amount was transferred to other provisions in 2017.

Subordinated liabilities

Subordinated liabilities include subordinated loan capital received under the following conditions:

Subordinated loan capital					
	31.12.2016			31.12.2017	
Amount (CCY):	42,500,000 CHF	15,000,000 EUR	13,000,000 EUR	15,000,000 EUR	13,000,000 EUR
Start date:	15.02.2012	27.07.2015	11.04.2016	27.07.2015	11.04.2016
Maturity:	11.11.2017	27.07.2025	11.04.2024	27.07.2025	11.04.2024
Interest rate:	3 M CHF LIBOR + 233 bps	3 M EURIBOR + 650 bps	3 M EURIBOR + 490 bps	3 M EURIBOR + 363 bps	3 M EURIBOR + 363 bps
Lender:	SBERBANK RUSSIA	SBERBANK EUROPE AG	SBERBANK EUROPE AG	SBERBANK EUROPE AG	SBERBANK EUROPE AG
Amount in HUF in BS:	12,299,925,000	4,665,300,000	4,043,260,000	4,652,100,000	4,031,820,000

The CHF 42.5 million subordinated debt from Sberbank Russia was repayed in November 2017. In addition FX rate fluctuations reduced the balance of subordinated loan capital by HUF 24.6 million.

NOTES TO THE FINANCIAL STATEMENTS

Equity

Changes in equity are presented in the following table:

Description	Opening	Increase	Decrease	Closing
8. Subscribed capital	3,727	-	-	3,727
9. Subscribed capital called but unpaid (-)	-	-	-	-
10. Capital reserve	88,362	3,138	-	91,500
<i>a) share premium</i>	87,472	3,138	-	90,610
<i>b) other</i>	890	-	-	890
11. General reserve	-	-	-	-
12. Profit reserve (±)	-46,658	-	5,730	-52,388
13. Tied-up reserves	-	-	-	-
14. Revaluation reserve	447	-	120	327
15. Profit or loss for the financial year (±)	-5,730	6,228	-	498
Total equity	40,148	9,366	5,850	43,664

The 9% increase in equity was due to the following three factors:

- the profit of 2017 increased equity by HUF 498 million,
- the revaluation gain on available-for-sale bonds decreased equity by HUF 120 million,
- the capital increase during the year increased equity by HUF 3.1 billion.

Last year's loss was posted to retained earnings based on the resolution of the shareholders.

NOTES TO THE FINANCIAL STATEMENTS

2.2.3. Profit and loss account

The Bank's pre-tax profit turned to positive (HUF 498 million) from the previous year's HUF - 5.7 billion loss. The increase in interest income, commission income and impairment gain largely contributed to the significant improvement.

The shift in costs and expenses was also more favourable than in 2016.

HUF millions

Description	2016	2017	Change	Change %
Net interest income	8,166	9,140	974	11.9%
Income from securities	35	36	1	2.9%
Income from commissions	3,856	5,439	1,583	41.1%
Net profit or net loss on financial operations	471	625	154	32.7%
Other operating profit	-4,455	-2,712	1,743	-39.1%
Result from impairment and provisions	-2,518	-986	1,532	-60.8%
General administrative expenses	-10,059	-9,731	328	-3.3%
Depreciation	-1,226	-933	293	-23.9%
Profit or loss on ordinary activities	-5,730	878	6,608	-115.3%
Profit (loss) before tax	-5,730	878	6,608	-115.3%
Income tax	-	380	380	100.0%
Net profit (loss) for the year	-5,730	498	6,228	-108.7%

Net interest income

In 2017, the interest margin was HUF 9,140 million, which is a HUF 974 million (12%) growth on last year's net interest income of HUF 8,166 million.

Interest received and recognised increased as a result of the growth of government securities portfolio and the increasing quality of the loan portfolio and the dynamically growing personal loan product in the retail business.

The average annual net loan portfolio declined by 2% (nearly HUF 4.5 billion). The annual average of deposits increased by 4% (HUF 8.8 billion). This surplus average deposit increased primarily the average annual stock of government securities.

The average balance sheet total increased by 1.5%.

Consequently the net interest margin increased by 10, chiefly as a result of higher asset margins.

NOTES TO THE FINANCIAL STATEMENTS

HUF millions

P&L ref.	Description	2016	2017	Change	Change %
1	Interest received and similar income	10,051	10,697	646	6.4%
1a)	interest received and similar income from fixed-income securities	1,802	2,512	710	39.4%
1b)	other interest received and similar income	8,249	8,185	-64	-0.8%
	Showing separately: - from affiliated companies	351	273	-78	-22.2%
	Sberbank Russia	283	250	-33	-11.7%
	Sberbank Europe AG	68	23	-45	-66.2%
	East Site Kft. (subsidiary)	-	-	-	-
	Károlyi Ingatlan Kft. (subsidiary)	-	-	-	-
2	Interest paid and similar charges	1,885	1,557	-328	-17.4%
	Showing separately: - to affiliated companies	635	600	-35	-5.5%
	Sberbank Russia	195	159	-36	-18.5%
	Sberbank Europe AG	439	441	2	0.5%
	Garay Center Kft (subsidiary until 28.09.2016)	1	-	-1	-100.0%
(1-2)	Net interest income	8,166	9,140	974	11.9%

Income from securities

HUF millions

P&L ref.	Description	2016	2017	Change	Change %
3	Income from securities	35	36	1	2.9%
3c)	income from other securities (dividends and profit-sharing)	35	36	1	2.9%

The HUF 36 million recorded as income from securities fully represents dividends received in the financial year of 2017.

Commission income and expense

HUF millions

P&L ref.	Description	2016	2017	Change	Change %
4	Commissions and fees received or due	6,817	7,276	459	6.7%
4a)	in connection with other financial services	6,797	7,251	454	6.7%
	Showing separately: - from affiliated companies	28	3	-25	-89.3%
	Sberbank Russia	26	0	-26	-100.0%
	Sberbank Europe AG	1	3	2	200.0%
	Garay Center (subsidiary until 28.09.2016)	1	0	-1	-100.0%
4b)	in connection with investment services (not including trading operations)	20	25	5	25.0%
5	Commissions and fees paid or payable	2,961	1,837	-1,124	-38.0%
5a)	in connection with other financial services	2,961	1,837	-1,124	-38.0%
	Showing separately: - to affiliated companies	1,367	34	-1,333	-97.5%
	Sberbank Europe AG	1,367	34	-1,333	-97.5%
5b)	in connection with investment services (not including trading operations)	-	-	-	-
(4-5)	Net income from commissions	3,856	5,439	1,583	41.1%

NOTES TO THE FINANCIAL STATEMENTS

In 2017, net income from commissions totalled HUF 5,439 million which is a HUF 1,583 million improvement on last year's HUF 3,856 million and was due to the following factors:

- Revenues from commissions and banking fees related to banking operations increased primarily as a result of a growth in the banking services used by customers.
- The guarantees received from the parent company to secure loans decreased by HUF 1.3 billion thus raised the net commissions.
- Expenses on other financial services dropped by HUF 1.124 million compared to the previous year.

Net financial profit

Net financial profit increased from HUF 471 million in 2016 to HUF 625 million in 2017. Previous year's loss from investment services (trading activity) of HUF 1,436 million decreased to HUF 399 million. This was due to the decrease in net loss on derivatives in 2017, as a result of its effective hedging of the inherent risks of the transactions, and the result of the HIRS program was also accounted for. Profit from other financial services decreased from HUF 1,907 million to HUF 1,024.

NOTES TO THE FINANCIAL STATEMENTS

The following tables show the changes in **income and expenses from the Bank's investment services**:

HUF millions

P&L ref.	Description	2016	2017	Change	Change %
	Organization of issue of securities	-	-	-	0.0%
	Other services	18	23	5	27.8%
	Custody services, portfolio management	2	2	-	0.0%
4b)	In connection with investment services (not including trading operations)	20	25	5	25.0%
	Trading operation	1,112	1,639	527	47.4%
	-showing separately revaluation difference	228	449	221	96.9%
6c)	In connection with investment services (income from trading operations)	1,112	1,639	527	47.4%
4b)+6c)	Income from investment services	1,132	1,664	532	47.0%
	Organization of issue of securities	-	-	-	0.0%
5b)	In connection with investment services (not including trading operations)	-	-	-	0.0%
	Trading operation	2,548	2,038	-510	-20.0%
	-showing separately revaluation difference	1,305	1,056	-249	-19.1%
6d)	In connection with investment services (expenses on trading operations)	2,548	2,038	-510	-20.0%
5b)+6d)	Expenses of investment services	2,548	2,038	-510	-20.0%

Profit/Loss from non-financial and non-investment services

HUF millions

P&L ref.	Description	2016	2017	Change	Change %
	Income from re-charged KAVOS fees	-	-	-	-
	Income from re-charged postal services fees	61	64	3	4.9%
	Income from items re-charged to employees	3	3	-	0.0%
	Income from other re-charged items	7	4	-3	-42.9%
7a)	Income from operations other than financial and investment services	71	71	-	0.0%
	Re-charged KAVOS fees	-	-	-	-
	Re-charged postal services fees	62	64	2	3.2%
	Expenses re-charged to employees	3	3	-	0.0%
	Other re-charged expenses	6	4	-2	-33.3%
10a)	Charges on operations other than financial and investment services	71	71	-	0.0%
7a)-10a)	Result on operations other than financial and investment services	-	-	-	0.0%

In the case of operations other than financial and investment services, both the revenues and the expenditures are essentially unchanged, so in the current year there is no profit or loss effect of the activity.

NOTES TO THE FINANCIAL STATEMENTS

Other income

HUF millions

P&L ref.	Description	2016	2017	Change	Change %
	Income from sale of loan	3,197	502	-2,695	-84.3%
	Income from sale of property	13	326	313	2,407.7%
	Amounts refunded by liquidator, executor, court	39	62	23	59.0%
	Income from sale of tangible asset	-	5	5	100.0%
	Received compensations	9	38	29	322.2%
	Release of provision related to branch closures	-	292	292	100.0%
	Release of provision related to customer compensation	312	-	-312	-100.0%
	Reversal of extraordinary depreciation	-	104	104	100.0%
	Portfolio handling and success fee	442	522	80	18.1%
	Others	44	51	7	15.9%
7b)	Other income	4,056	1,902	-2,154	-53.1%
	Expenses from sale of loan	3,222	501	-2,721	-84.5%
	Bad debts written off	57	134	77	135.1%
	Expenses from sale of tangible asset	-	162	162	100.0%
	Fixed asset scrapping, demolition, write off	32	16	-16	-50.0%
	Extraordinary depreciation of fixed assets	374	-	-374	-100.0%
	Paid penalties and compensations	406	188	-218	-53.7%
	Expenses from damages	4	6	2	50.0%
	Surtax of financial institutions	1,062	386	-676	-63.7%
	Innovation contribution	50	50	-	0.0%
	Bank contribution	60	-	-60	-100.0%
	Local business tax	342	334	-8	-2.3%
	Other tax	6	8	2	33.3%
	Transactions fee	2,414	2,622	208	8.6%
	Others	243	106	-137	-56.4%
	Provision for branch closure	31	-	-31	-100.0%
	Provision for fine	10	-	-10	-100.0%
	Provision for unused vacation	102	103	1	1.0%
	Other provision	96	-	-96	-100.0%
10b)	Other expenses	8,511	4,616	-3,895	-45.8%
7b)- 10b)	Other result	-4,455	-2,715	1,740	-39.1%

NOTES TO THE FINANCIAL STATEMENTS

Details of **other income from and other expenses on business activities** in 2017:

- In the current year HUF 326 million was received from real estate sales due to rationalization of the branch network.
- Financial transactions tax, which was first imposed on the banking sector in 2013, totalled HUF 2,622 million in 2017 (56.80% of other expenses).
- The banking tax expense makes totalled HUF 386 million in 2017, which is 63.7% less than in 2016 as a result of changes in related legislation.
- Expenses on sold loan receivables totalled HUF 501 million (10.85% of other expenses). In contrast, the gains on sold loan receivables were HUF 502 million, which represents 26.41% of other revenues in the current year.
- Other income was mostly attributable to administration fee income related to portfolio management and the related bonus income (27.46%).

General administrative expenses

General administrative expenses of HUF 10,059 million in 2016 declined by HUF 328 million to HUF 9,731 million in 2017. The decrease is the result of a HUF 639 million drop in payments to personnel compared to the previous year due to the amount of the accrued bonus was recognised as a labor cost in the previous year, while in 2017 it was accounted for as provisioning. At the same time, the amount of other administrative costs increased by HUF 311 million in 2017 compared to the previous year.

Staff and payroll information

<i>HUF millions</i>					
P&L ref.	Description	2016	2017	Change	Change %
8aa)	Wages and salaries	4,291	3,880	-411	-9.6%
8ab)	Other employee benefits	223	293	70	31.4%
	Risk money	10	9	-1	-10.0%
	Sick-leave, sick allowance	30	24	-6	-20.0%
	In-kind benefits	128	191	63	49.2%
	Representation costs	9	11	2	22.2%
	Tax on taxable costs	30	38	8	26.7%
	Travel cost	11	12	1	9.1%
	Others	5	8	3	60.0%
8ac)	Contributions on wages and salaries	1,287	989	-298	-23.2%
8a)	Employee-related expenses	5,801	5,162	-639	-11.0%

NOTES TO THE FINANCIAL STATEMENTS

Description	2016	2017	Change	Change %
Average number of employees	578	580	2	0.3%

head

Remuneration of senior executives

The members of the Board of Directors and the Supervisory Board received no remuneration for their board activities in 2017.

Loans provided to the members of the Board of Directors and the Supervisory Board were HUF 1 million on 31.12.2017

The Bank has no retirement benefit paying obligation to former senior executives.

Other administrative expenses

P&L ref.	Description	2016	2017	Change	Change %
8b)	Other administrative expenses (materials and supplies)	4,258	4,569	311	7.3%

HUF millions

Other administrative expenses increased by HUF 311 million in 2017 primarily due to the increase of HUF 147 million of software repair and maintenance costs and a HUF 77 million increase of the marketing cost of advertising campaigns. The costs recognised in relation to advisory services also increased.

Audit and advisory fees paid in 2017, as presented among other administrative expenses, increased by HUF 11 million (see the details below):

Description	2016	2017
Audit of the annual financial statements	66	69
Other audit fees	25	35
Tax advisory services	5	5
Other, non-audit fee	10	8
Total	106	117

HUF millions

Other general administrative expenses by category are presented in detail in Appendix 5.

NOTES TO THE FINANCIAL STATEMENTS

Depreciation

<i>HUF millions</i>					
P&L ref.	Description	2016	2017	Change	Change %
9	Depreciation	1,226	933	-293	-23.9%

The annual depreciation charge totals HUF 933 million, which is HUF 293 million less than in the previous year.

Extraordinary income and expenses

Further to the Bank's decision laid down in its accounting policies, the extraordinary income and expense categories are no longer used.

Impairment loss and risk provisions

<i>HUF millions</i>					
P&L ref.	Description	2016	2017	Change	Change %
11	Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	8,354	5,474	-2,880	-34.5%
11a)	value adjustments in respect of loans and advances	8,252	5,430	-2,822	-34.2%
11b)	risk provisions for contingent liabilities and for (future) commitments	102	44	-58	-56.9%
12	Value readjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	5,971	5,460	-511	-8.6%
12a)	value readjustments in respect of loans and advances	5,513	5,278	-235	-4.3%
12b)	risk provisions for contingent liabilities and for (future) commitments	458	182	-276	-60.3%
13	Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	141	1,013	872	618.4%
14	Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	6	41	35	583.3%

Impairment loss recognised on debtors in 2017 totalled HUF 5,474 million which is HUF 2,880 million less than in 2016. Reversed impairment loss and released provisions on debtors totalled HUF 5,460 million which is HUF 511 million less than in 2016.

NOTES TO THE FINANCIAL STATEMENTS

The impairment loss recognised on debt securities, participations and investments totalled HUF 1,013 million in 2017 as opposed to HUF 141 million in 2016, while reversed impairment losses totalled HUF 41 million as opposed to HUF 6 million in 2016. The higher impairment loss was primarily due to the lower market value of government securities.

During the year 2017, less impairment loss was required compared to the previous year, partly as a result of the continuous improvement of the portfolio quality and partly due to the improvement of the return on non-performing portfolio because of positive trends on property markets. Compared to previous years, the impairment loss and reversal in 2017 had similar level and as a result, the profit or loss effect of the impairment change is negligible.

Corporate income tax

In 2017, the Bank realized pre-tax profit. However, due to the utilization of unused tax losses of previous years and the tax compensation after the effect of FX Loan Act to consumer loan contracts, the Bank did not have corporate tax liability in 2017.

HUF millions

Profit before tax	878
Disallowed items	1,450
Provision	103
Ordinary depreciation, sale, scrapping	1,110
Fine determined in legal resolution	153
Costs incurred outside the normal course of business	1
Tax inspection, self-revision	11
Impairment (not from financial and investment services)	41
Other disallowed items	31
Deductible items	1,993
Losses carried forward from previous years	336
Tax depreciation, book value of assets sold or scrapped	1,108
Reversal of extraordinary depreciation	104
Dividends received	36
Reversal of provision	373
Reversal of impairment (not from financial and investment services)	36
Corporate income tax base	335
Corporate income tax rate	9%
Calculated corporate income tax	30
Tax allowance regarding FX rescue program	30
Corporate income tax payment liability	0

NOTES TO THE FINANCIAL STATEMENTS

2.2.4. Contingencies (Off-balance sheet items)

The Bank has the following contingent (off balance sheet) items in line with effective accounting regulations:

- commitments and contingent liabilities,
- collaterals received,
- contingent interest,
- securities held by third parties.

Commitments and contingent liabilities/assets as at 31 December 2017:

HUF millions

Contingent assets	31.12.2016	31.12.2017	Note
Collateral received to the extent of receivables	133,548	145,072	
Collateral received beyond the amount of receivables	58,869	63,716	
Contingent assets due to pending lawcases	1,114	59	
Contingent assets	20,915	20,779	
Fx option	524	66	delivery
Index option	700	700	delivery
Total	215,670	230,392	

Future receivables	31.12.2016	31.12.2017	Note
Unpaid part of purchased receivables	254	190	
FX forwards	30,603	5,012	settlement
FX forwards	784	1,413	delivery
Liabilities due to forward part of swap transactions	33,333	4,216	delivery
CCS (Cross Currency Swap)	28,461	-	delivery
IRS (Interest Rate Swap)	51,583	73,445	settlement
Total	145,018	84,276	

Contingent liabilities	31.12.2016	31.12.2017	Note
Assumed guarantees and surety	16,264	28,097	
Contingent liabilities due to pending lawcases	1,676	3,449	
Letters of credit	28,002	31,048	
Undrawn credit facilities	40,924	75,628	
Fx option	517	77	delivery
Total	87,382	138,299	

Commitments	31.12.2016	31.12.2017	Note
FX forwards	30 651	5,066	settlement
FX forwards	768	1,413	delivery
Liabilities due to forward part of swap transaction	33,547	4,198	delivery
CCS (Cross Currency Swap)	28,358	-	delivery
IRS (Interest Rate Swap)	51,276	73,118	settlement
Total	144,600	83,795	

NOTES TO THE FINANCIAL STATEMENTS

Contingent interest:

HUF millions

Suspended interest	31.12.2016	31.12.2017	Change	Change %
Deal interest	3,129	2,793	-336	-10.7%
Default interest	6,032	5,415	-617	-10.2%
Total	9,161	8,208	-953	-10.4%

The contingent interest decreased by HUF 953 million comparing 31 December 2017 to 31 December 2016.

Collateral and securities received (total value and up to the outstanding receivable):

HUF millions

Description	On full value	
	31.12.2016	31.12.2017
Cash coverage	7,971	12,176
Bank guarantee, suretyship	5,620	5,792
State guarantee	35,201	40,278
Securities	378	591
Assigned sales revenue	249	-
Assigned receivables	666	825
Mortgage	142,332	149,126
Total	192,417	208,788

HUF millions

Description	Up to the value of receivables	
	31.12.2016	31.12.2017
Cash coverage	6,996	11,391
Bank guarantee, suretyship	4,881	4,979
State guarantee	33,368	38,503
Securities	320	591
Assigned sales revenue	80	-
Assigned receivables	263	473
Mortgage	87,640	89,135
Total	133,548	145,072

Securities held by third parties at the end of 2017 were as follows:

in FCY million

Description	Currency	Nominal value
Owned by customers	EUR	11
	HUF	12,730
	USD	0

NOTES TO THE FINANCIAL STATEMENTS

2.2.5. Informative part

Deposit protection funds:

The Bank paid membership fees to the National Deposit Protection Fund (HUF 198 million) and the Investor Protection Fund (HUF 4 million) in 2017.

Calculation of regulatory capital:

	<i>HUF millions</i>
Subscribed capital	3,727
Capital reserve	91,500
Profit reserve	-52,388
Tied-up reserve	-
Profit for the financial year	498
Committed reserve	-
Valuation reserve	326
Intangible assets	-2,061
Core capital	41,602
Subordinated borrowed capital	8,684
Subsidiary capital	8,684
Regulatory capital before deductions	50,286
Capital adjustment due to PIBB	-
Regulatory capital for limitations	50,286
Total amount of deductions due to large exposures	-

The amount of large risk as calculated in line with Regulation 575/2013/EU totalled HUF 62,132 million at the end of the year.

Changes in fair valuation difference of assets:

	<i>HUF millions</i>				
Descriptions	2016	2017	Change	P&L effect 2017	Equity (BS) effect 2017
Valuation difference on government bonds	218	-1,403	-1,621	-1,501	-120
Positive valuation difference on derivatives	1,139	568	-571	-571	-

Revaluation differences on the liabilities side:

	<i>HUF millions</i>			
Description	2016	2017	Change	Accounted
Negative valuation difference on derivatives	1,419	925	-494	in P&L

No other revaluation gain or loss incurred either at the end of 2016 or 2017.

NOTES TO THE FINANCIAL STATEMENTS

Profit or loss impact of forward, option and swap contracts closed in 2017:

HUF millions

Deal	Income	Expense	Profit/Loss
Fx Forward	310	-296	14
Fx Swap	383	-133	250
IRS	360	-326	34
CCS	86	-130	-44
Fx Option	10	-	10

Securities held-to-maturity with no inherent credit risk:

HUF millions

Description	ISIN code	CCY	Maturity	Nominal amount	Book value
A180622C15	HU0000402979	HUF	22.06.2018	5,000	5,060
A181024D15	HU0000402987	HUF	24.10.2018	1,400	1,400
A181220A13	HU0000402631	HUF	20.12.2018	15,000	15,793
A190624A08	HU0000402433	HUF	24.06.2019	11,008	11,715
A191030C16	HU0000403092	HUF	30.10.2019	3,000	3,107
A200624B14	HU0000402953	HUF	24.06.2020	5,000	5,386
A201112A04	HU0000402235	HUF	12.11.2020	3,000	3,591
A231124A07	HU0000402383	HUF	24.11.2023	9	11
A250624B14	HU0000402748	HUF	24.06.2025	2	3
A281022A11	HU0000402532	HUF	22.10.2028	4	6

Revenues per geographical segment:

Segment	Interest received	Income from securities	Commission income	Income from financial operations	Other income	Total
Domestic	10,062	36	6,510	2,827	1,954	21,389
From EU	351	-	205	-	10	566
From outside of EU	284	-	561	-	9	854
- of which Serbia	-	-	6	-	-	6
- of which Russia	200	-	83	-	-	283
Total	10,697	36	7,276	2,827	1,973	22,809

The Bank has cross-border lending operations which incurred taxes totalling HUF 0.4 million paid to foreign tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

Open spot contracts at the end of 2017:

Currency	Amount received (currency)	Amount received (HUF million)	Amount paid (currency)	Amount paid (HUF million)
CAD	-	-	-	-
CHF	3,197,664.6	848.1	1,170,310.0	310.4
CZK	43,969.0	0.5	-	-
DKK	11,755.0	0.5	-	-
EUR	7,675,535.5	2,380.5	-	-
GBP	1,105.5	0.4	-	-
HRK	-	-	-	-
HUF	308,034.0	0.3	2,853,341,577.1	2,853.3
JPY	1,700,000.0	3.9	-	-
NOK	-	-	-	-
PLN	-	-	-	-
RON	152.7	-	-	-
RUB	-	-	65,400.0	0.3
SEK	2,914.0	0.1	-	-
USD	308,524.8	79.9	599,320.0	155.1

Rated assets and contingencies at 31 December 2017:

HUF millions

Rating categories	Loans and advances to customers	Debt securities	Shares, holdings	Inventories	Balance sheet total	Off-balance sheet liabilities
Performing	185,874	1,491	364	35	187,764	134,551
Non-performing						
-Gross value	39,763	-	1,441	-	41,204	222
-Value adjustments	-23,763	-	-1,253	-	-25,016	-40
-Net book value	16,000	-	188	-	16,188	182
Total net book value	201,874	1,491	552	35	203,952	134,733

Collectively assessed loan receivables at 31 December 2017:

HUF millions

Rating category	Gross value	Value adjustments	Net book value
Performing	87,170	-	87,170
Non-performing	30,201	-16,518	13,683
Total	117,371	-16,518	100,853

NOTES TO THE FINANCIAL STATEMENTS

Rated restructured loans:

Restructured loans	HUF millions	
	31.12.2016	31.12.2017
Gross value	20,493	5,326
Value adjustments	-6,051	-1,112
Net book value	14,442	4,214

The restructured gross loan portfolio and the related impairment loss both decreased on previous year's closing balances, mostly as a result of significant (gross) loan portfolio transfers. Impairment losses recognised for the restructured loan portfolio at the year-end also decreased as significant, previously nonperforming gross loans healed in 2017 and this caused a material reduction in impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

Composition of FX assets and liabilities:

Description	<i>HUF millions</i>			
	Total	EUR	CHF	Other currencies
1. Liquid assets	937	636	19	282
2. Government securities	6,497	-	-	6,497
3. Receivables from credit institutions	54,665	21,610	600	32,455
4. Receivables from customers	50,667	46,472	2,551	1,644
5. Debt securities, including fixed-income securities	1,230	1,230	-	-
7. Shares and participations for investment purposes	287	-	-	287
12. Other assets	4,545	5,737	-1,990	798
12./B Positive valuation difference on derivatives	82	80	-	2
13. Prepaid expenses and accrued income	653	542	-2	113
Foreign exchange assets	119,563	76,307	1,178	42,078
1. Liabilities to credit institutions	9,521	8,962	38	521
2. Amounts owed to customers	93,701	51,622	1,147	40,932
3. Issued bonds and other interest-bearing securities	4,504	4,504	-	-
4. Other liabilities	1,409	992	1	416
4/A. Negative valuation difference on derivatives	-1	5	-8	2
5. Accrued expenses and deferred income	1,650	1,536	-1	115
6. Provisions	3	2	1	-
7. Subordinated liabilities	8,684	8,684	-	-
14. Revaluation reserve	92	-	-	92
Foreign exchange liabilities	119,563	76,307	1,178	42,078

A table of the details of foreign securities held by the Bank per FX denomination is presented in Appendix 3.

At 31 December 2017, the Bank did not have any outstanding repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS

Appendices:

- 1. Financial indicators and definitions
- 2. Cash flow statement
- 3. Securities
- 4. Statements of derivative transactions (FRA, IRS, FRW, SWAP, Options)
- 5. Other administrative expenses by category

Budapest, 24 April 2018



Richard Szabó

Chairman-CEO

Sberbank Hungary Ltd.



Éva Tudiszoné Gyöngyösi

Chief Financial Officer

Sberbank Hungary Ltd.

NOTES TO THE FINANCIAL STATEMENTS

Appendix 1

Asset and capital indicators

Description	2016	2017
Fixed asset coverage	20.68%	23.89%
Current asset ratio	45.30%	47.64%
Capital structure	87.82%	86.54%
Equity ratio	11.13%	12.31%
Increase in equity	25.84%	8.76%

Liquidity and profitability indicators:

Description	2016	2017
Liquidity		
Prompt liquidity ratio	29.15%	28.24%
Annual liquidity ratio	67.04%	65.56%
Return on equity		
Return on equity from financial and investment service activity	-14.26%	2.01%
Gross return on equity	-14.26%	2.01%
Net return on equity	-14.26%	1.14%
Clean return on equity	-14.26%	1.14%
Trading profitability		
Return on interest	81.25%	85.44%
Return on financial and investment services	-23.46%	3.86%
Trading profitability	-23.39%	3.85%
Asset quality		
Quality of loan portfolio	31.65%	17.62%
Coverage of rated loans	38.81%	59.76%
Efficiency		
Costs to assets	3.10%	3.00%
General funding cost indicator	0.59%	0.51%
Earnings per capital	-9,913	1,514
Other profitability indices		
Net operating margin	128.08%	140.28%
Net interest margin	2.26%	2.58%
Credit multiplier	93.56%	89.10%

NOTES TO THE FINANCIAL STATEMENTS

Definitions of indicators:

I. Asset and capital indicators:

Fixed asset margin: Equity / Fixed assets

Current asset ratio: Current assets / Total assets

Gearing: Current and long-term liabilities/ Equity and liabilities

Equity ratio: Equity / Equity and liabilities

Equity increase: Movements in equity/Prior year's equity

II. Liquidity and profitability indicators

Liquidity

Prompt liquidity ratio: (Liquid assets + Receivables on demand from banks credit institutions)/(Demand liabilities towards credit institutions + Demand liabilities towards savings account customers + Other demand liabilities towards customers from financial services)

Annual liquidity ratio: Liquid assets / Liquid liabilities

where

Liquid assets: Liquid assets + Held for trading government bonds + Receivables on demand from banks credit institutions + Current receivables from credit institutions from financial services + Current receivables from customers for financial services + Held for trading government debt securities + Other available for sale debt securities + Held for trading shares and quotas + Held for trading variable yield securities

Liquid liabilities: Demand liabilities towards credit institutions + Current liabilities towards credit institutions for financial services + Liabilities towards credit institutions from investment services + Demand liabilities towards savings account customers + Current liabilities towards savings account customers + Other demand liabilities towards customers from financial services + Current liabilities towards customers from financial services + Liabilities towards customers from investment services + Bonds maturing within one year

NOTES TO THE FINANCIAL STATEMENTS

Return on equity (ROE)

Return on equity from financial and investment services: Profit or loss on investment services / Equity

Gross ROE: Pre-tax profit or loss / Equity

Net ROE: Net profit or loss after tax / Equity

Clean ROE: Profit or loss for the year / Equity

Return on interest: Interest gains or losses / Interest received and similar income

Return on financial and investment services: Profit or loss on investment services / (Interest received and similar income + Revenues from securities + Commission received and similar income from other financial services + Commission received and similar income from investment services + Income from other financial services + Income from investment services + Other income from (financial and investment) operations)

Trading profitability: Profit or loss on ordinary activities / (Interest received and similar income + Revenues from securities + Commission received and similar income from financial services + Commission received and similar income from investment services + Income from other financial services + Income from investment services + Other income from operations)

III. Asset quality

Loan portfolio quality: Rated loans / Gross loans, total

Coverage of rated loans: Impairment loss on loans / Rated loans

IV. Efficiency

Cost to assets: (General administration costs + Depreciation charge) / Total assets

General funding cost: Interest paid and similar charges / (Current liabilities, total + Long-term liabilities, total)

Earnings per capita: Pre-tax profit or loss / Headcount

NOTES TO THE FINANCIAL STATEMENTS

V. *Other profitability indicators*

Net operating margin: (Interest received and similar income + Gains on securities + Commission received and similar income from other financial services + Commission received and similar income from investment services + Income from other financial services + Income from investment services + Other income from operations) / (Interest paid and similar charges + Commission paid and similar charges on financial services + Commission paid and similar charges on investment services + Expenses on other financial services + Expenses on investment services + General administration costs + Depreciation charge)

Net interest margin: Interest gain or loss / Equity and liabilities

Credit multiplier: (Amounts receivable from credit institutions + Amounts receivable from customers) / (Amounts payable to credit institutions + Amounts payable to customers)

NOTES TO THE FINANCIAL STATEMENTS

Appendix 2: Cash flow statement

Description	2016	2017
Interest income	10,051	10,697
+ Income from other financial services (except impairment on securities and the positive valuation difference of receivables)	9,152	8,439
+ Other income (except for release of provisions, reversal of impairment on inventories and extraordinary depreciation)	3,743	1,609
+ Income from other investment services (except for impairment on securities and positive valuation difference)	904	1,215
+ Income from operations other than financial and investment services	71	73
+ Dividend income	35	36
+ Extraordinary income	-	-
- Interest expenses	-1,885	-1,557
- Other financial services expenses (except for impairment on securities and the negative valuation difference of receivables)	-3,409	-2,001
- Other expenses (except for provisions, impairment on inventories, and extraordinary depreciation)	-8,272	-4,513
- Investment services expenses (except for impairment on securities and negative valuation difference)	-1,243	-982
- Expenses on operations other than financial and investment services	-71	-70
- General administrative expenses	-10,059	-9,731
- Extraordinary expenses (not including corporate tax payable for the financial year)	-	-
- Corporate tax payable for the financial year	-	-
- Dividends paid	-	-
Operating cash-flow	-983	3,215
Change in liabilities (increase (+), decrease (-))	-17,500	-9,337
Change in receivables (increase (-), decrease (+))	986	8,750
Change in inventories (increase (-), decrease (+))	-20	9
Change in securities disclosed under current assets (increase (-), decrease (+))	15,625	-21,191
Change in securities disclosed under fixed assets (increase (-), decrease (+))	-26,241	22,849
Change in tangible assets under construction (including prepayments) (increase (-), decrease (+))	6	6
Change in intangible assets (increase (-), decrease (+))	-592	-1,386
Change in tangible assets (except tangible assets under construction and prepayments) (increase (-), decrease (+))	209	-138
Change in prepayments and accrued income (increase (-), decrease (+))	-980	198
Change in accruals and deferred income (increase (+), decrease (-))	450	613
+ Share issue (selling price)	4,190	3,138
+ Non-repayable funds received by virtue of legal regulation	-	-
- Non-repayable funds transferred by virtue of legal regulation	-	-
- Nominal value of shares and share certificates withdrawn	-	-
Net cash-flow	-24,850	6,726
of which: - change in cash (HUF and foreign currency)	350	1,041
- change in account balances (HUF and foreign currency accounts placed with the NBH, deposit accounts with remaining maturity of less than one year, and current deposit accounts maintained in HUF at other credit institutions by virtue of specific other legislation)	-25,200	5,685

NOTES TO THE FINANCIAL STATEMENTS

Appendix 3

3/A. Listed securities held by the Bank

Securities held for trading
Government securities (E/2.a.)
Hungarian government bonds
Treasury bills
Securities for investment purposes
Government securities (E/2.b.)
Hungarian government bonds

3/B. Securities held by the Bank

Description	31.12.2016		31.12.2017	
	Nominal amount	Book value	Nominal amount	Book value
Government securities	52,097	55,773	49,893	53,970
Securities held for trading (E/2.a.)	8,682	8,455	27,871	29,610
Securities for investment purposes (E/2.b.)	43,415	47,318	22,022	24,360
Revaluation difference on government bonds (E/2.A)		218		-1,403
Securities issued by other borrowers	1,595	1,455	1,630	1,491
Securities held for trading (E/5.ba.)	1,595	1,455	1,630	1,491

3/C. Securities held by third parties

Description	<i>HUF millions</i>	
	31.12.2017	
	Nominal value	
Dematerialized securities	10,568	
Printed securities	5,652	
in own vault	1,575	
in own legal vault	4,077	

3/D. Foreign currency securities per currency

Deviza	<i>HUF millions</i>	
	31.12.2017	
	Book value	
Euro	1,230	
USD	6,497	

NOTES TO THE FINANCIAL STATEMENTS

Appendix 4

4/A. Contractual amounts of derivatives open at 31 December 2017:

HUF millions

Descriptions	31 December 2016			31 December 2017		
	Receivable	Payable	Net position	Receivable	Payable	Net position
<i>Concluded on the exchange market</i>	-	-	-	-	-	-
<i>Concluded on the interbank market</i>						
Interest-rate swap deals	51,583	-51,276	307	73,445	-73,118	327
CCIRS deals	28,461	-28,358	104	-	-	-
Foreign exchange option deals	524	-517	6	66	-77	-11
Foreign exchange swap deals	33,333	-33,547	-214	4,216	-4,198	18
Foreign exchange forward deals	31,387	-31,420	-33	6,425	-6,479	-54
Derivative index deals	700	-	700	700	-	700

4/B. Expected P&L and cash flow impact of derivate contracts open at 31 December 2017:

HUF millions

Descriptions	Impact on profit and loss	Impact on cash-flow
<i>Concluded on the exchange market</i>	-	-
<i>Concluded on the interbank market</i>		
Interest-rate swap deals	-347	327
CCIRS deals	-	-
Foreign exchange option deals	28	-12
Foreign exchange swap deals	15	17
Foreign exchange forward deals	-52	-54
Derivative index deals	-	-

The Bank enters into derivative contracts only in order to eliminate any interest and FX risks. However, these contracts do not qualify for hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

4/C. Maturity analysis of derivatives open at the end of 2017

HUF millions

Description	Receivables	Liabilities	Net position	Fair value
Interest-rate swap deals	73,445	-73,118	327	-347
0-90 days	140	-16	124	-
91-365 days	5,683	-5,683	-	-66
1-5 years	67,622	-67,419	203	-281
Foreign exchange option deals	66	-77	-11	28
0-90 days	59	-70	-11	24
91-365 days	7	-7	-	4
Foreign exchange swap deals	4,216	-4,198	18	15
0-90 days	2,797	-2,803	-6	-7
91-365 days	1,419	-1,396	24	22
Foreign exchange forward deals	6,425	-6,479	-54	-52
0-90 days	2,943	-2,953	-10	-9
91-365 days	3,482	-3,526	-44	-43
Derivative index deals	700	-	700	-
91-365 days	700	-	700	-

NOTES TO THE FINANCIAL STATEMENTS

5 Appendix

Additional information as required by section 25(14) of government decree 250/2000 (XII.24.)

Breakdown of other administrative expenses (material-type expenses):

<i>HUF millions</i>			
Number	Description	2016	2017
1.	Raw materials and consumables	133	144
2.	Contracted services	4,066	4,342
3.	Other service activities	59	83
6.	Material costs (1+2+3)	4,258	4,569

Breakdown of expenses on operations other than financial and investment services

<i>HUF millions</i>			
Number	Description	2016	2017
5.	Value of services sold (intermediated)	71	71
6.	Material costs (4+5)	71	71
12.	Expenses on operations other than financial and investment services (6+10+11)	71	71