Sberbank Hungary Private Company Limited by Shares

Consolidated Financial Statements

31 December 2018

Ernst & Young Kft.
Ernst & Young Ltd.
H-1132 Budapest Váci út 20.
1399 Budapest 62. Pf.632. Hungary

Tel: +36 1 451 8100
Fax: +36 1 451 8199
www.ey.com/hu
Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of Sberbank Magyarország Zrt.

Report on the audit of the consolidated annual financial statements

Opinion

We have audited the accompanying 2018 consolidated annual financial statements of Sberbank Magyarország Zártkörűen Működő Részvénytársaság ("the Group"), which comprise the statement of financial position as at 31 December 2018 - showing a balance sheet total of HUF 365,837 million and a total comprehensive income for the year of HUF 719 million -, the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the consolidated annual financial statements, including a summary of significant accounting policies.

In our opinion the consolidated annual financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and has been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated annual financial statements prepared in accordance with EU IFRSs.

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 consolidated annual financial statements" section of our report.

We are independent of the Group 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.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 consolidated 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 consolidated 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 consolidated annual financial statements.

Credit Impairment

The Group calculates credit impairment in accordance with IFRS9 Financial instruments, the new accounting standard effective from 1 January 2018. Credit impairment is a highly subjective area due to the level of judgement applied by management in determining expected credit losses ("ECL"). 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. These ECL models require the significant judgment of management regarding correct segmentation, the identification

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 receivables to customers and controls over ECL calculations including the quality of underlying data and systems.

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

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of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlay to reflect on circumstances beyond the modelling capabilities. 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 62% of Total Assets as at 31 December 2018) and the related estimation uncertainty, this is considered a key audit matter.

understanding and available market information.

For ECL for loans and receivables to customers calculated on a collective basis we evaluated the model governance, methodologies, inputs and assumptions used (probability of default, loss given default, significant changes in credit risk and forward-looking elements) including model validations and backtesting.

We also assessed whether the disclosures in the consolidated annual financial statements appropriately reflect the Group's exposure to credit risk and are compliant with the EU IFRSs.

The Group's disclosures about its risk management policies are included in Note 6.4 - Accounting policies which specifically explains the key assumptions used when determining credit risk and their evaluation are detailed in Note 6.6.4 - Loans and advances to customers and Note 6.11.3 Credit risk.

Information Technology (IT) systems

A significant part of the Group's financial reporting process and interest and fee revenue recognition 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 authorized in an appropriate manner.

We focused our audit on those IT systems and controls that are significant for the Group'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 adjusted our audit approach based on the financial significance of the system and whether there were automated procedures supported by that system.

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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 therefore consider this as a key audit matter.

As part of our audit procedures we tested the operating effectiveness of controls over appropriate access rights to assess whether 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 appropriately authorized, developed and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application controls embedded in the processes relevant to our audit.
The Group's disclosures about its IT Systems are included in Note 6.4B - IT systems used by the Bank.

Other information

Other information consists of the 2018 consolidated business report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated annual financial statements does not cover the consolidated business report.

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

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

In our opinion, the consolidated business report of the Group for 2018 is consistent, in all material respects, with the 2018 consolidated annual financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

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

We also confirm that the consolidated 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 Group and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the consolidated 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 consolidated annual financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated annual financial statements.

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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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated 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 Group on 28 May 2018. 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 seven year.

Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated annual financial statements expressed herein is consistent with the additional report to the audit committee of the Group, 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 Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated business report and in the consolidated annual 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, 13 May 2019

(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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SBERBANK HUNGARY
private company limited by shares

Consolidated Financial Statements
31 December 2018

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1. STATEMENT OF FINANCIAL POSITION

data in HUF million

	Note	31.12.2018	31.12.2017	01.01.2017
Assets				
Cash and cash equivalents	6.6.1	61 808	58 293	55 531
Securities	6.6.2	43 884	53 472	56 959
Receivables from credit institutions	6.6.3	22 455	31 742	45 057
Loans and advances to customers	6.6.4	228 635	199 390	191 151
Plant, property and equipment	6.6.5	1 408	1 036	1 778
Intangible assets	6.6.6	4 069	2 380	1 332
Equity investments	6.6.7	438	364	301
Invvestment property		0	0	0
Tax assets	6.6.8	13	19	96
Derivative assets	6.6.9	1 219	563	1 127
Other assets	6.6.10	1 895	1 856	2 334
Non-current assets and disposal groups held for sale	6.6.11	13	557	0
Total Assets		**365 837**	**349 672**	**355 666**

Liabilities				
Liabilities due to banks	6.6.12	34 938	42 631	62 165
Liabilities due to customers	6.6.13	265 319	245 092	218 833
Debt securities in issue	6.6.14	4 177	5 119	4 985
Subordinated liabilities	6.6.15	9 062	8 742	21 105
Provisions	6.6.16	749	785	822
Tax liabilities	6.6.8	36	1	13
Derivative liabilities	6.6.9	732	957	1 471
Other liabilities	6.6.17	6 290	4 757	7 943
Non-current liabilities and disposal groups held for sale		0	0	0
Total Liabilities		**321 303**	**308 084**	**317 337**

Equity				
Share capital	6.6.18	3 727	3 727	3 727
Share premium	6.6.19	94 416	91 500	88 362
Other reserves	6.6.20	185	50	0
Other comprehensive income	6.8	257	750	840
Retained earnings		-54 051	-54 439	-54 600
Total equity		**44 534**	**41 588**	**38 329**
Total liabilities and equity		**365 837**	**349 672**	**355 666**

Budapest, 13 May 2019

Richard Szabó
Chairman - CEO

Éva Tudisconé Gyöngyösy
CFO

2. INCOME STATEMENT

data in HUF million

	Note	31.12.2018	31.12.2017
Profit or loss for the year			
Interest receivable and similar income	6.7.1	11 739	10 164
Interest payable and similar expense	6.7.2	-2 357	-2 430
Net provision charge for loan impairment	6.7.3	-893	121
Net interest income minus risk provisions		8 489	7 855
Fee and commission income	6.7.4	8 346	7 891
Fee and commission expense	6.7.5	-1 208	-1 070
Net fee and commissions income		7 138	6 821
Net trading income	6.7.6	1 651	-123
Net gain or loss on securities	6.7.7	-633	-446
Changes in allowances for other risks	6.7.8	-235	-78
Other operating income	6.7.9	784	920
Other operating expenses	6.7.10	-15 350	-14 352
Result before tax		1 844	596
Income tax	6.7.11	-497	-385
Profit or loss after tax from continuing operations		1 347	211
Profit or loss after tax from discontinued operations		0	0
Profit or loss after tax		**1 347**	**211**
Charges in general reserves		-135	-50
Profit or loss for the year		**1 212**	**161**

Other comprehensive income for the year	6.8	-493	-90
Total comprehensive income for the year		**719**	**71**

Budapest, 13 May 2019

Richard Szabó
Chairman - CEO

Éva Tudisconé Gyöngyösy
CFO

3. STATEMENT OF OTHER COMPREHENSIVE INCOME

data in HUF million

	Note	31.12.2018	31.12.2017
Other comprehensive income			
Other comprehensive results not to be reclassified to profit or loss		0	0
Changes in fair value of equity instruments designated at FVOCI		0	0
Changes in fair value of financial liabilities measured at FVTPL due to changes in credit risks		0	0
Other items		0	0
Related taxes		0	0
Other comprehensive results to be reclassified to profit or loss		-447	-90
Changes in fair value of equity instruments available for sale			90
Changes in fair value of debt instruments available for sale			-180
Changes in fair value of debt instruments measured at FVOCI	6.8	-447	
Changes in fair value of loans measured at FVOCI	6.8	0	
Reclassification to profit or loss		0	0
Net gain or loss from sale of debt instruments measured at FVOCI		0	
Net gain or loss from sale of available for sale debt instruments			0
Impact of transition from IAS 39 to IFRS 9		-46	
Other items		0	0
Related taxes		0	0
Other comprehensive income		-493	-90

Budapest, 13 May 2019

Richard Szabó
Chairman - CEO

Éva Tudiscone Gyöngyösy
CFO

Sberbank Hungary Ltd. data in HUF million

4. STATEMENT OF CHANGES IN EQUITY

data in MHUF

	Share capital	Share premium	Other reserves	Other comprehensive income	Retained earnings	Total
Balance at 1. January 2017 according to Hungarian Accounting Standards	**3 727**	**88 362**	**0**	**447**	**-52 390**	**40 146**
Impact of transition to IFRS	0	0	0	393	-2 210	-1 817
Balance at 1. January 2017 according to IFRS	**3 727**	**88 362**	**0**	**840**	**-54 600**	**38 329**
Profit for the year	0	0	0	0	211	211
Other comprehensive income for the year	0	0	0	-90	0	-90
Increase in general reserves	0	0	50	0	-50	0
Increase in share capital	0	3 138	0	0	0	3 138
Dividend payments	0	0	0	0	0	0
Total changes	0	3 138	50	-90	161	3 259
Balance at 31. December 2017	**3 727**	**91 500**	**50**	**750**	**-54 439**	**41 588**
Impact of transition from IAS 39 to IFRS 9	0	0	0	-46	-824	-870
Profit for the year	0	0	0	0	1 347	1 347
Other comprehensive income for the year	0	0	0	-447	0	-447
Increase in general reserves	0	0	135	0	-135	0
Increase in share capital	0	2 916	0	0	0	2 916
Dividend payments	0	0	0	0	0	0
Total changes	0	2 916	135	-493	388	2 946
Balance at 31. December 2018	**3 727**	**94 416**	**185**	**257**	**-54 051**	**44 534**

Budapest, 13 May 2019

Richard Szabó
Chairman - CEO

Éva Tudiscóné Gyöngyösy
CFO

5. STATEMENT OF CASH FLOWS

data in HUF million

	31.12.2018	31.12.2017
Cash flows from operating activities		
Interest income	11 191	9 499
Interest expense	-2 131	-1 545
Fees and commissions received	8 346	7 891
Fees and commissions paid	-1 208	-1 070
Net gains realised on FVTPL securities	-1	0
Dividends received from FVTPL securities	0	0
Net gains realised on derivatives	701	756
Other operating income received	1 219	1 091
Operating expenses paid	-14 722	-13 464
Income tax paid	-497	-385
Cash received from operating activities of discontinued operations	0	0
Net changes in trading securities (increase: -, decrease: +)	0	0
Net changes in securities designated at FVTPL (increase: -, decrease: +)	0	0
Net changes in loans and advances to banks (increase: -, decrease: +)	9 524	13 322
Net changes in loans and advances to customers (increase: -, decrease: +)	-30 611	-8 286
Net changes in other financial instruments (increase: -, decrease: +)	-52	105
Net changes in other non-financial instruments (increase: -, decrease: +)	41	437
Net changes in due to banks (increase: +, decrease: -)	-7 799	-19 543
Net changes in due to customers (increase: +, decrease: -)	20 232	26 098
Net changes in debt securities in issue (increase: +, decrease: -)	-880	-40
Net changes in other financial liabilities (increase: +, decrease: -)	1 634	-3 223
Net changes in other non-financial liabilities (increase: +, decrease: -)	-74	37
Net changes in FVTPL financial assets (increase: -, decrease: +)	415	844
Net changes in FVTPL financial liabilities (increase: +, decrease: -)	-1 316	-1 396
Cash flows from operating activities	**-5 988**	**11 128**

Cash flows from investing activities		
Acquisition of investment securities	-62 060	-6 651
Proceeds from disposal and maturity of investment securities	70 100	8 720
Interest received on investment securities	728	891
Acquisition of plant, property and equipment and intangible assets	-2 983	-1 908
Proceeds from disposal of plant, property and equipment including insurance payments and intangible assets	9	326
Acquisition of associates and subsidiaries	0	-45
Proceeds from disposal of associates and subsidiaries	0	0
Dividends received from subsidiaries	36	36
Acquisition of investment property	0	0
Proceeds from disposal of investment property	1 056	0
Cash flows from investing activities	**6 886**	**1 369**

data in HUF million

	31.12.2018	31.12.2017
Cash flows from financial activities		
Loans received	0	0
Redemption of loans	0	0
Interest paid on loans	0	0
Subordinated debts received	0	0
Redemption of subordinated debts	0	-12 300
Interest paid on subordinated debts	-299	-573
Dividends paid	0	0
Acquisition of own shares	0	0
Proceeds from disposal of own shares purchased from shareholders	0	0
Cash received from shareholders	2 916	3 138
Effect of exchange rate changes on cash and cash equivalents	0	0
Cash flows from financial activities	**2 617**	**-9 735**

Cash flows	**3 515**	**2 762**
Cash and cash equivalents at 1. January	58 293	55 531
Cash and cash equivalents at 31. December	61 808	58 293
Changes in Cash and cash equivalents	3 515	2 762

Budapest, 13 May 2019

Richard Szabó
Chairman - CEO

Éva Tudiscóné Gyöngyösy
CFO

Sberbank Hungary Ltd. data in HUF million

6. NOTES

The notes in this chapter form part of the financial statements.

6.1 General information

Sberbank Magyarország Zrt. (the Bank) started operations as Magyarországi Volksbank Ltd. on 27 August 1993. Its subscribed capital upon foundation was HUF 1,000 million and its sole owner was Österreichische Volksbanken AG (ÖVAG). 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 a subsidiary of the Russian Sberbank became the majority shareholder of the Bank, which has been operating under the name of Sberbank Europe AG since 5 November 2012. The ultimate parent company of the Bank is Sberbank of Russia.

The new name of the Bank (Sberbank Magyarország Zártkörűen Működő Részvénytársaság) is effective from 1 November 2013.

General information on the Bank:

Registered office:	1088 Budapest, Rákóczi út 1-3.
Registration number:	01-10-041720
Tax number:	10776999-2-44
Statistical code:	10776999-6419-114-01
Account number at MNB:	19017004-00201414
Website: www.sberbank.hu	

Every company under the direct or indirect control of the Bank is involved in the consolidation.

In this Financial Statements Bank consolidates following subsidiaries:

		Participation (%)		
Equity investment	**Main activity**	**31.12.2018**	**31.12.2018**	**31.12.2018**
V-DAT Kft.	Purchase/sale of own properties	100,00%	100,00%	100,00%
East Site Kft	Purchase/sale of own properties	100,00%	100,00%	100,00%
Egressy 2010 Kft.	Purchase/sale of own properties	-	100,00%	100,00%
Károlyi Ingatlan 2011 Kft.	Purchase/sale of own properties	100,00%	100,00%	100,00%
Egressy Immo Kft.	Purchase/sale of own properties	-	100,00%	-

The Bank is authorised to perform the following registered activities:

As per TEÁOR (Standard Sector Classification of Business Activities):

- 6419 '08 Other monetary intermediation - Core activity
- 6492 '08 Other lending
- 6499 '08 Other financial intermediation elsewhere not classified
- 6612 '08 Security and commodity contracts brokerage
- 6619 '08 Other activities auxiliary to financial services
- 6622 '08 Insurance agent and broker activities
- 6629 '08 Other activities auxiliary to insurance and pension funding

Activities of the consolidated subsidiaries

As per TEÁOR (Standard Sector Classification of Business Activities):

V-Dat Informatikai Szolgáltató és Kereskedelmi Kft.

- 6810'08 Purchase/sale of own properties (main activity)
- 6820'08 Rent/lease-out of own and borrowed property, property management
- 2611'08 Manufacturing of electronic parts
- 4614'08 Agency trade of machinery, vessels and aircraft
- 4651'08 Wholesale of computer hardware, peripherals and software
- 4652'08 Wholesale of electronic and telecommunication equipment and spare parts
- 4666'08 Wholesale of other office machinery and equipment
- 4741'08 Retail of computer hardware, peripherals and software
- 4742'08 Retail of telecommunication products
- 5819'08 Other publishing activities
- 5821'08 Publication of computer games
- 5829'08 Publication of other software
- 6201'08 Computer programming
- 6202'08 IT advisory services
- 6203'08 Operating computers
- 6209'08 Other IT services
- 6311'08 Data processing, web hosting
- 6312'08 Web portal services
- 7010'08 Business management
- 7021'08 PR, communication
- 7022'08 Business and other management consultancy
- 7112'08 Engineering activities and related technical consultancy
- 7120'08 Technical review and analysis
- 7490'08 Other professional, scientific and technical activities n.e.c
- 7733'08 Office equipment rental (including computers)
- 8299'08 Activities auxiliary to business services n.e.c
- 8560'08 Activities supplementing education
- 9511'08 Repair of computer peripherals

East Site Ingatlanforgalmazó és Ingatlanhasznosító Kft.

- 6810'08 Purchase/sale of own properties (main activity)
- 6820'08 Rental and operation of own or rented property

Egressy 2010 Kft.

- 6810'08 Purchase/sale of own properties (main activity)
- 6832'08 Property management

Károlyi Ingatlan 2011 Kft.

- 6810'08 Purchase/sale of own properties (main activity)
- 6820'08 Rental and operation of own or rented property

Egressy Immo Kft.

- 6810'08 Purchase/sale of own properties (main activity)

Sberbank Hungary Ltd. data in HUF million

Sberbank Europe AG (Schwarzenberg street 3. 1010 Vienna Austria) prepares consolidated financial statements in accordance with IFRS for the smallest unit of the Group which includes Sberbank Magyarország Ltd. as a subsidiary. Sberbank of Russia (Vavilova street 19. 117997 Moscow, Russia) has 100% of the Sberbank Europe AG shares and prepares the consolidated financial statements for the largest unit of the Group.

The consolidated annual financial statements of the Bank must be audited. Audit is performed by Ernst & Young Könyvvizsgáló Kft. (Váci út 20. 1132 Budapest, Registration number: 01-09-267553; Chamber of Hungarian Auditors registration number: 001165).

The (natural) person responsible for the audit: Gergely Szabó (CHA registration number: 005676).

Person responsible for the Bank's accounting records: Mrs. Éva Gyöngyösy Tudisco Finance Director. (CHA registration number: 005792).

Richard Szabó Chief Executive Officer and Mrs. Éva Gyöngyösy Tudisco Finance Director are authorised to sign jointly the consolidated financial statements of the Bank.

6.2 Senior executives

Senior executives of the Bank as at 31 December 2018:

Supervisory Board members	Function	Company
Hans Gerhard Randa	chairman	Sberbank Europe AG
Elena Valentinovna Viklova	member	Sberbank Europe AG
Yulia Arsentyeva Vitalievna	member	Sberbank Russia
Martin Frank	member	Sberbank Europe AG
dr. Zoltán Fényi	member	employee delegate
Tibor Bodnár	member	employee delegate

Members of the Board of Directors	Function
Richard Szabó	chairman
Éva Tudisconé Gyöngyösy	member
Bence Kalmár	member
Tamás Fodor	member

6.3 Statement of compliance

As at 1 January 2018 the Bank switched form applying Hungarian accounting regulations to the application of international accounting standards, thus these financial statements, based on the option provided by Section 10 (2) of Act C of 2000, have been prepared in accordance with International Financial Reporting Standards as announced as a regulation in the official gazette of the European Union.

Consolidated subsidiaries continue to prepare their financial statements according to Hungarian accounting standards. During the preparation phase of completion of the consolidated financial statements, Bank assesses whether information disclosed in the financial statements of subsidiaries is compliant to the international accounting standards. In case of any material derogation in the consolidated financial statements Bank adjusts the figures of the subsidiaries in order to ensure the compliance with international accounting standards.

As of 1 January 2018 the Bank adopted IFRS 9. During transition the Bank used the option provided by the Standard and applies the requirements of the standard prospectively. As a result, reporting-year data and comparative information have been prepared based on different rules: at the end of the reporting year (2018) figures are presented under IFRS 9, while comparative information includes data under IAS 39.

6.4 Accounting policies

The Bank prepares its consolidated financial statements applying the same accounting policies as in the preparation of the stand-alone financial statements.

Data in these financial statements are in Hungarian forints, which is the functional and bookkeeping currency of the Bank. Unless otherwise indicated, data disclosed in the financial statements are presented in Hungarian forints rounded to the nearest million.

The reporting date in the financial statements is 31 December 2018.

When preparing the financial statements and during bookkeeping the Bank assumes that the *going concern principle* is met, that is, the Bank intends and is able to maintain its operations for the foreseeable future, can continue its activity, and a closure of operations or any significant reduction therein is not expected.

Basic measurement principles

In accordance with the *fair presentation principle*, the Bank presents the Group's financial position, financial performance and cash flows fairly. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in IFRSs.

Assets and equity and liabilities are reported in the financial statements basically at cost or amortised cost, except for financial instruments held for trading, derivatives and available-for-sale assets, which are presented at fair value.

Revaluation of foreign currency assets and foreign currency liabilities

Foreign currency assets, liabilities, income and expenses are booked in the currency of the transaction, but are recognised in the financial statements in HUF.

Foreign currency assets and liabilities are converted to HUF on a daily basis at the middle rate published by the Bank.

Foreign currency assets and liabilities are measured in the financial statements at the exchange rate published by MNB and valid on the last day of the year.

Measurement estimates

As a result of inherent uncertainties in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available information and does not undermine the reliability of the financial statements.

The Bank applies accounting estimates when quantifying the following items:

- determining doubtful receivables, impairment and provisions;
- obsolescence of inventories;
- useful lives, residual values and depreciation of depreciable assets;
- calculation of amortised cost;
- determining the fair value of financial instruments.

An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error, thus the effect of the change shall be recognised in the period of the change and future periods (prospective recognition). Prospective recognition means that the change is applied to transactions and business events from the date of the change in estimate.

Estimating impairment and provisions

Information relating to measuring and assessing credit risk are presented in Section 6.11.3 Credit risk.

Estimating depreciation

The Bank records depreciation on property, plant and equipment as well as amortisation on intangible assets from the first day after such are ready for use. The depreciation on property, plant and equipment and the amortisation on intangible assets are recognised on a straight-line basis, taking into account the expected duration of use and the residual value.

The Bank assumes that the commissioning date and the date assets become available for use is one and the same, given that the business model followed by the Bank means the commissioning of assets is not preceded by a lengthy stockpiling period.

Intangible assets always have definite useful lives. Straight-line rates used considering useful lives determined individually:

a.) rights and concessions	15%
b.) goodwill	15%
c.) software	max. 25%
d.) other intellectual property	max. 25%

Sberbank Hungary Ltd. data in HUF million

Straight-line rates used for property, plant and equipment:

Land and buildings	
Buildings, parts of buildings, held by own	2,00%
Investment of buildings held by own	depending on use, max 10,00%
Investment of buildings, rented	according to lease contracts (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%

Calculation of amortised cost

Amortised cost is calculated using the effective interest method, which is also used to determine interest income.

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Bank shall estimate the expected cash flows by considering all the contractual terms of the financial instrument but shall not consider the expected credit losses.

The calculation includes all fees and commissions related to the creation of the deal and paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

During the calculation the Bank applies the effective interest rate to the gross carrying amount of the financial assets, except for:

- purchased or originated credit-impaired financial assets. For these assets the Bank applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- financial assets that are not purchased or originated credit-impaired financial assets, but subsequently became credit-impaired financial assets. For these financial assets the Bank applies the effective interest rate to the amortised cost of the financial assets in subsequent reporting periods.

By applying the effective interest method the Bank identifies the fees that are an integral part of the financial instrument's effective interest rate. Fees that are an integral part of the effective interest rate of a financial instrument include:

- origination fees received by the Bank relating to the creation or acquisition of a financial asset. Such fees include for example compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction;

- commitment fees received by the Bank to originate a loan when the loan commitment is not measured at fair value through profit or loss and it is probable that the Bank will enter into a specific lending arrangement. If the commitment expires without the Bank making the loan, the fee is recognised as income on expiry;
- origination fees paid on issuing financial liabilities measured at amortised cost.

These fees are an integral part of generating an involvement with the resulting financial instrument.

The Bank distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

When applying the effective interest method the Bank generally amortises any fees, points paid or received, transaction costs and other premiums or discounts that are included in the effective interest rate calculation over the expected life of the financial instrument.

For floating-rate financial assets and floating-rate financial liabilities, the periodic re-estimation of cash flows to reflect the movements in the market rate of interest alters the effective interest rate.

In some cases the financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is acquired at a deep discount. The Bank includes the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired at initial recognition.

For the Bank, the transactions that do not have a cash flow which can be reliably estimated in advance are not included in the amortised cost calculation, i.e. their effective interest rate is the same as the transaction rate, and the amortised cost is the same as the outstanding contractual amount. Such transactions include current account overdrafts and revolving loans, credit lines and guarantees.

Estimating the fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price).

The inputs to valuation techniques used to measure fair value can be categorised into a fair value hierarchy which includes the following levels:

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Such as for example:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liabilities in markets that are not active

- other observable inputs:
    - interest rates and yield curves observable at commonly quoted intervals
    - implied volatilities
    - credit spreads
- market-corroborated inputs.

Level 3 inputs: Unobservable inputs. Unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Where possible, the Bank uses principal market prices to determine fair value.

Given the Bank's low market share on principal markets and its relatively low total assets, the Bank does not adjust observed prices. The IFRS allow both call prices and bid prices to be used for valuations, so in line with the consolidated accounting policies of its owner the Bank

- uses bid prices for debt securities
- and mid prices in all other instances for valuations.

If there are no observable prices on the principal markets then to determine the fair value of receivables from customers and credit institutions with terms of more than 90 days the Bank uses the DCF (discounted cash flow) method to estimate fair value with due consideration of the following:

- The Bank adjusts future cash flows from the Core Banking System so they reflect estimates of future interest rates. This adjustment appears in the cash flows with the help of projected (forward and FRA) curves.
- When discounting the Bank uses money-market reference rates in line with the nature of the transaction (for example: BUBOR3M or LIBOR3M).
- The Bank takes liquidity costs into account too by adjusting the discount rate as appropriate. These are key parts of asset and liability pricing, and can be derived from market parameters under Level 1 inputs (for example: material asset swap spreads).
- When pricing assets (specifically in the case of loans), the price has to include compensation for expected losses stemming from any non-payment by the debtor. Alongside the cash flows the Bank adjusts the discount curve as well in line with the expected loss, so the fair value is not distorted.
- The Bank's internal rating system furnishes faithful information on credit risk premiums in relation to expected credit risks; the adjustment applied is calculated from the product of PD x LGD, where the LGD data comprises various collateral levels.

The fair value of receivables from credit institutions with terms of less than 90 days is determined based on the present value calculated in the Murex system.

If the carrying amount is a good approximation of the fair value (for example, current receivables and liabilities of no more than 90 days: sight deposits and short-term deposits), IFRS does not require any fair value measurement or calculation; in these cases the Bank considers the carrying amount to be the fair value.

The Bank measures financials assets/liabilities on fair value which are: debt securities (Hungarian government bonds) designated at fair value under fair value option, and held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, loans and advances in the same business model, other (not consolidated) equity investments and derivatives. The Bank uses the following inputs for the fair value calculation of these instruments:

Fair value hierarchy 1 (level 1)

The Bank calculates the fair value of the Hungarian goverment bonds using the directly observed composition of quotes of contributors on the active market.

Fair value hierarchy 2 (level 2)

The Bank deals with derivatives (swaps, forward, options) only on the OTC markets, meaning there is no directly observable market quotation in this case. However, the fair value calculation is made with using input data which are observable on active markets (yield curves, volatility surface) discounted cash flow method and option price models (Black-Scholes, Garman-Kolhaegen).

Fair value hierarchy 3 (level 3)

Only the fair value of Visa Inc. investment can be defined reliably from the other equity investments of the Bank: the Bank has „B" series convertible stocks, which can be converted to „A" series common stocks on a fixed rate (13 952). The Bank calculates the fair value of the „B" series convertible stocks as the multiplication of the directly observable market price of the „A" series common stocks and the fixed conversion rate.

The fair value of the Bank's remaining other equity investments can not be defined reliably after the initial recognition, therefore, in accordance with the Accounting Policy of the Bank, the equity investments are measured on their initial costs less accumulated impairment after the initial recognition. In these cases, the fair value difference of the equity investments is calculated as a difference between the Banks' portion of investment's equity and the historical cost and recognized as impairment, which is not directly observable input data. According to the impairment tests performed at the reporting date and the comparative reporting periods, there were no indication of impairment so no impairment was recognized for these investments.

The calculation of the fair value is similar for the non-performing loans which are held within a business model whose objective is acheived by both collecting contractual cash flows and selling financial assets. In these cases the past due days of receivables are more than 90 days, therefore the general cash flow method can not be applied because estimated cash flows are not reliable. The net carrying value of these loans equals the gross value of the loans reduced with accumulated impairment, as a directly non-observable input data, that Bank considers the realistic fair value of non-performing loans. The impairment movement and its causes for these loans are disclosed in the impairment movement table of chapter 6.6.4.

The classification in the fair value hierarchy may change on account of changing market conditions, modernised models and the sensitivity of input factors. If the market becomes inactive for instance, the input parameters previously observable on the market may become unobservable parameters. If a new fair value measurement model is applied that uses several input factors observable on the market, this can refine the fair value calculation. The impact of a used input parameter can become significant or insignificant.

This is why the Bank revises the fair value calculation methodology and hierarchical classification at the end of each reporting period.

Principles of presenting financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash, nostro accounts, the minimum reserve placed with MNB as well as overnight deposits placed with National Bank of Hungary (MNB) and other credit institutions and accrued interest thereof.

Initial recognition

The Bank treats all contracts as financial instruments that give rise to a financial asset for one entity and to a financial liability or an equity instrument for another entity.

The Bank treats all contracts as equity instruments that evidence a residual interest for the Bank in the assets of an entity after deducting all of its liabilities.

The Bank recognises financial instruments in the statement of financial position when it becomes a party to the contractual provisions of the instrument.
Except for derivatives, the Bank recognises regular way purchase or sale of financial assets using settlement date accounting, while in the case of derivatives it accounts for the transactions on the trade date.

At initial recognition the Bank measures financial assets and financial liabilities at their fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. An exception to this are trade receivables that do not have a significant financing component. These receivables are measured at their transaction price as defined in IFRS 15.

If the Bank originates a loan that bears an off-market interest rate, and receives an upfront fee as compensation, the Bank recognises the loan at its fair value, i.e. net of the fee it receives.

If it is determined that the fair value at initial recognition differs from the transaction price, the difference is accounted for as follows:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (Level 1 input) or based on a valuation technique that uses only data from observable markets (Level 2 input). The Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases the fair value at initial recognition shall be adjusted by the deferred amount of the difference between the fair value and the transaction price. After initial recognition, the Bank shall recognise the deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.

Classification and measurement - business model for managing the financial asset

Based on the business model for managing the financial asset, specified in a resolution by the Board of Directors, the Bank classifies financial assets upon initial recognition into one of the following models:

a) business model whose objective is to hold financial assets to collect contractual cash flows;
b) business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

c) other business models, of which one is a business model, in which the Bank manages the financial assets with the objective of realising cash flows through the sale of the assets.

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification but can be determined on a higher level of aggregation, and more than one business model can be used for managing financial instruments. The portfolio segmentation of the Bank is decided on by the Board of Directors.

When assessing its business model, the Bank considers all relevant information that is available at the date of the assessment, which includes, but is not limited to:
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within the model), and particularly the method for managing these risks;
- how managers of the business are compensated.

The Bank classifies financial assets at initial recognition into the following categories based on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset:
- financial assets measured at amortised cost;
- assets measured at fair value through other comprehensive income;
- assets measured at fair value through profit or loss;
- purchased or originated credit-impaired financial assets.

Financial assets are measured by the Bank at amortised cost, if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured by the Bank at fair value through other comprehensive income, if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank examines whether the cash flows of a financial asset are solely payments of principal and interest on the principal amount outstanding by using a decision tree designed for this purpose (contractual cash flow test, SPPI test).

Based on the SPPI test, it can be decided whether contractual cash flows are consistent with basic lending arrangements.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with basic lending arrangements. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest; however, interest can also include consideration for other basic lending risks and costs, as well as a profit margin. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement give rise to contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. In this case the Bank measures the financial asset at fair value through profit or loss.

Of equity instruments, the Bank records other investments that do not qualify as related companies and therefore are not consolidated are measured at fair value through profit or loss. However, if at initial recognition it is likely that the fair value of an investment cannot be measured reliably in the future, then these interests are classified into assets measured at fair value through comprehensive income upon initial recognition of interests. If the fair value of such interests cannot be determined reliably after initial recognition, these interests are recorded in the books at cost less accumulated impairment at measurements after initial recognition.

According to the principals above the Bank evaluates its other equity investments as follows:

Equity investment	Valuation method
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt	Fair value through Other Comprehensive Income
Garantiqa Hitelgarancia Zrt.	Fair value through Other Comprehensive Income
S.W.I.F.T.	Fair value through Other Comprehensive Income
Visa Inc.	Fair value through Profit or Loss

The Bank may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- a group of financial assets or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's key management personnel.

Financial liabilities

All financial liabilities shall be classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities include for example derivative instruments that shall be measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate. An issuer of such a contract shall subsequently measure it at the higher of the following two options:
    - the amount of the loss allowance;
    - the amount initially recognised less the cumulative amount of income.

The Bank may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel of the Bank.

Modification of contractual terms for financial instruments

If a transaction is modified because of a customer request, and not because the customer is struggling with financial difficulties (performing customer), and the new conditions are measured at market price, then the modification is deemed market-driven.

In this case, if the impact of the modification is significant, the old instrument has to be derecognised and the renegotiated loan treated as a new instrument. If the net effect of the derecognition and the new recognition is not zero, this impact has to be recognised through profit and loss upon derecognition. The Bank recognises the impact of the derecognition under Other operating income.

Among other things, the Bank considers the following to be a significant modification of contract:

- change in debtor
- change in contract currency
- increase in loan amount, refinancing
- change in SPPI-critical condition
- significant change in term (at least 100%, but no less than 2 years)

If the modification does not count as significant, the instrument is not derecognised; the modification gain or loss is accounted for separately in the net interest income/expense, and it also adjusts the amortised cost of the instrument. This gain or loss is subsequently amortised over the life of the transaction using the effective interest method.

Write-off of financial assets

The Bank writes off the amount of unrecoverable receivables against profit or loss.

A receivable is considered unrecoverable if,

- there is no collateral for it during enforcement;
- it was released in the framework of an agreement;
- there is no collateral for it according to the written statement issued by the liquidator;
- there is no collateral for it based on the proposal for the distribution of assets;
- the costs of collection are not in proportion to the amount of the receivable;
- the debtor cannot be located and this is "documented";
- it cannot be enforced in a court of law;
- it has expired.

Reclassification

Financial assets may be reclassified when, and only when, the Bank changes its business model for managing financial assets. A change in the business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations (e.g.: a business line). The following for example are not changes in business model: a change in intention related to particular financial assets or the temporary disappearance of a particular market for financial assets.

Reclassification shall be applied prospectively from the reclassification date. This means that any previously recognised gains, losses or interest shall not be restated.

Financial liabilities may not be reclassified.

Financial assets pledged as collateral

Under financial assets used as collateral, the Bank discloses cash placed at other banks to cover losses from derivative transactions as well as securities and SME loans used to cover FGS refinancing sources.

The Bank retained all the risks and rewards related to ownership of the financial assets used as collateral, so these assets remain part of the Bank's balance sheet. Their presentation is based on the accounting policies of cash and securities.

Accounting policies for comparative data

Before 1 January 2018 IAS 39 was in force, therefore comparative data included in the financial statements are presented under IAS 39, whereby classification and measurement rules are as follows.

Financial assets are classified into the following categories:
- loans and receivables
- financial assets held to maturity
- available-for-sale financial assets
- financial assets measured at fair value through profit or loss

Financial instruments held for trading

The Bank classifies into this category the financial instruments with an active market which are acquired or incurred principally for the purpose of selling or repurchasing it in the near term or short-term profit-taking.

The evidence of trading is the turnover of the financial assets in the portfolio and the average holding period.

Changes in the fair value of financial instruments held for trading are recognised within Net trading income/expense. Financial instruments held for trading include government bonds, shares, investment units, non-hedge forward and interest rate swap transactions.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The assets are recognised at fair value and are measured subsequently at amortised cost. The calculation of amortised cost is the same as described above. Credits granted, interbank deposits, other financial receivables shall be classified into this category.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These assets are recorded in the books at fair value and are measured subsequently at amortised cost. During the term of the instrument the Bank regularly revises whether the positive intention and ability to hold to maturity still exist. If the initially valid conditions cease to exist, the assets are reclassified to available-for-sale financial assets and the Bank may not use the held-to-maturity category for two subsequent years. Reclassification from held-to-maturity financial assets is not permitted.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into any of the above categories. This category mainly includes government and other securities.

Available-for-sale financial assets are measured both initially and subsequently at fair value, except for unquoted equity instruments, which are measured at cost, as their fair value cannot be measured reliably.

During the subsequent measurement of debt instruments, the related interest income is recognised through profit or loss under Interest income using the effective interest method.

Exchange differences related to debt instruments denominated in foreign currency are recognised in profit or loss. Dividend income on equity instruments is accounted for under Dividend income in profit or loss. Impairment is recognised under Impairment in profit or loss. Other changes in the fair value are accounted for through other comprehensive income.

Investments

Investments include some non-controlling interests held for business purposes which have been classified into the available-for-sale category.

Interest income and interest expense on derivative transactions

For derivative transactions the Bank presents the related interest income and interest expense broken down by the transaction objective:

- for derivatives in the trading book, the related interest income and interest expense are recognised in the Net trading income/expense;
- for transactions in the banking book, the related interest income and interest expense form part of the net interest income/expense.

Accounting for finance and operating leases

Under IAS 17 a lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset, irrespective of the form of the contract. An operating lease is a lease other than a finance lease.

A lease can be a finance lease if

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Bank treats assets obtained under finance lease as if they were own assets: they are recorded at cost and are amortised over their useful lives.

The amount of future lease liabilities is recorded as lease liability when the asset is capitalised. The principal portion of lease payments made during the term reduces this liability, while the interest portion is accounted for under interest paid.

Lease payments under operating leases are recognised in profit or loss on a straight-line basis over the lease term.

The Bank does not lease out assets as part of its normal course of business.

Accounting for government grants

Government grants are transfers of resources to an entity in return for past or future compliance with certain conditions.

In accordance with the provisions of IAS 20, the Bank recognises government grants only if there is reasonable assurance that it will comply with the conditions attaching to them and the grants will be received. Receipt of a grant does not of itself provide conclusive evidence, especially if compliance with the conditions is checked subsequently.

In accordance with the provisions of IAS 20, the Bank treats the benefit of a government loan at a below-market rate of interest as a government grant.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Bank recognises as expenses the related costs for which the grants are intended to compensate.

Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet as deferred income and not by deducting the grant in arriving at the carrying amount of the asset.

Government grants related to income are presented in the same profit or loss category that includes the expenses for which the grants are intended to compensate.

The Bank accounts for government grants for the following items:
- MNB interest rate swaps conditional on lending activity (HIRS)
- Preferential deposits at the MNB.

In contrast to the above, the Bank accounts for its HUF monetary policy interest rate swaps with the MNB (MIRS) under IFRS 9 using the practice that has developed in the Hungarian banking sector based on the opinion of the Chamber of Hungarian Auditors and as approved by the MNB as the supervisory authority; here the government grant is not separated during the presentation, and its impact on fair value is immediately recognised through profit or loss as the day-one gain or loss.

Accounting for hedges

The Bank does not apply hedge accounting. Nevertheless, for interest hedging purposes the Bank may designate certain specified financial instruments as at fair value through profit or loss.

Fair value option

Under IFRS 9 an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different bases. The application of the fair value option shall result in the financial statements providing reliable and more relevant information about the effects of transactions on the entity's financial position, financial performance and cash flows. The fair value option may be applied for example when an entity has financial assets that share a risk, such as interest rate risk, and that gives rise to opposite changes in fair value that tend to offset each other. In such cases the entity may measure the asset that otherwise is measured at amortised cost at fair value.

The Bank chose to apply the fair value option for disclosure of Hungarian treasury bond portfolio (amounts to 10 billion HUF at face value) whose interest rate risk is hedged by interest rate swap transactions concluded in the frame of HIRS (MNB Market-Based Lending Scheme).

Treatment of events after the reporting period

Events after the reporting period are events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

The amounts included in the financial statements shall be adjusted for events that provide evidence of conditions that existed at the reporting date.
Such events include for example the receipt of information after the reporting date indicating that an asset was impaired at the reporting date.

If after the reporting date the management of the Bank decides to liquidate the entity or to cease operations, or has no realistic alternative but to do so, the financial statements may not be prepared using the going concern basis of accounting. This fact must be disclosed in the notes to the financial statements.

The amounts recognised in the financial statements shall not be adjusted to reflect those events that are indicative of conditions that arose after the reporting date. However, additional disclosure may be necessary in the notes to the financial statements.
Such event is for example a decline in the market value of investments after the reporting date.

Dividends approved after the reporting period shall be treated as a non-adjusting event, thus these shall not be recognised as a liability at the reporting date. If dividends are declared before the financial statements are authorised for issue, this fact shall be disclosed in the notes.

Rules relating to corrections of accounting errors

Financial statements do not comply with IFRSs if
- they contain either material errors
- or immaterial errors made intentionally.

The Bank considers an error material, if its aggregate amount together with any other errors exceeds 2% of the balance sheet total, or HUF 1 million, if such 2% of the balance sheet total does not reach HUF 1 million.

Current period errors discovered in that period are corrected in the current period.

Significant errors made in financial statements for previous years are corrected by retrospective restatement in the first set of financial statements after the discovery of the errors.

During retrospective restatement comparative amounts for the prior period(s) presented in which the error occurred shall be restated. If the error occurred before the earliest prior period presented, the opening balances for the earliest prior period presented shall be restated.

An exception to this is when retrospective restatement is impracticable; in this case opening balances shall be stated for the earliest period for which it is practicable (which may be the current period).

The effect of insignificant errors on assets, liabilities and equity shall be corrected in the current period. Opening balances are not restated. The effect of insignificant errors on prior-year profit or loss is accounted for through current-year profit or loss.

Changes in accounting policies

As described in Section 6.2 Statement of compliance, as of 1 January 2018 the Bank changed its accounting policies and replaced the rules in accordance with the Hungarian Act on Accounting applied previously with the rules of International Financial Reporting Standards which were applied during the financial year.

As of 1 January 2018 the Bank adopted IFRS 9 instead of IAS 39. The impact of transition from IAS 39 to IFRS 9 on the assets, liabilities, equity and comprehensive income of the Bank is presented in chapter 6.5 First-time adoption of IFRS.

IFRS 15 Revenue from Contracts with Customers is effective from 1 January 2018 and replaces IAS 18 Revenue and IAS 11 Construction Contracts as well as related interpretations. Under the new standard the Bank uses a five-step model to determine when and how much revenue shall be recognised.
Accounting for interest, fee and commission income for banking services is within the scope of IFRS 9. If a contract with a customer also contains elements within the scope of IFRS 9, the Bank separates the elements within the scope of IFRS 9 and applies the provisions of IFRS 15 only to the remaining elements.

The transition did not have any impact, basically because the majority of the Bank's income is not within the scope of IFRS 15. Accounting for revenue within the scope of IFRS 15, as they do not contain a significant financing component, remains unchanged.

Every company under the direct or indirect control of the Bank is involved in the consolidation.

Consolidation process

The Bank involves every subsidiary in the consolidation over which it has control, namely it has all the following:

- power over the subsidiary
  The Bank has power over a subsidiary when it has existing rights to direct the relevant activities of the subsidiary.
- exposure, or rights, to variable returns from its involvement with the subsidiary
  The Bank is exposed to variable returns from its involvement with the subsidiary when its returns have the potential to vary as a result of the subsidiary's performance.
- the ability to use its power over the subsidiary to affect the amount of the Bank's return

The Bank considers all facts and circumstances when assessing whether it controls a subsidiary. If facts and circumstances indicate there are changes to these elements of control, the Bank reassesses whether it controls a subsidiary.

Recognition and valuation of assets and liabilities of consolidated companies are based on the methods applied at the parent company.

The consolidated financial statements of the Group are based on the stand-alone financial statements of the Bank and its consolidated subsidiaries

The Bank has started to apply international accounting standards from 1 January 2018, while consolidated subsidiaries continue to prepare their financial statements according to Hungarian accounting standards. During the preparation phase of completion of the consolidated financial statements, Bank assesses whether information disclosed in the financial statements of subsidiaries is compliant to the international accounting standards. In case of any material derogation in the consolidated financial statements Bank adjusts the figures of the subsidiaries in order to ensure the compliance with international accounting standards.

In 2017, a new subsidiary was acquired by the Bank, Egressy Immo Kft, whose solely owner is the Bank. Similar to previous reporting years, companies owned by the Bank with 100% share are fully consolidated while Egressy Immo Kft's profit or loss for year is taken into account in the consolidated financial statements for the period starts from 14 June 2017, the purchase date of the company.

In 2017 the Bank as owner decided to dissolve two subsidiaries (Egressy 2010 Kft. and Egressy Immo Kft.) through voluntary liquidation. The voluntary liquidation procedure was completed in 2018, therefore their profit or loss for the period ends on 30 June 2018 is taken into account in the consolidated financial statements.

All intra-group receivables, liabilities, income and expenses are eliminated in full on consolidation. Profits and losses relating to transactions between members of the Group are also eliminated in the consolidation preocess.

Sberbank Hungary Ltd. data in HUF million

Standards issued by IASB and adopted by the European Union not yet effective, and their expected effect

IFRS 16 Leases

Due to future application of IFRS 16 Leases effective from 1 January 2019 the Bank supplemented its accounting policies as follows:

- the Bank recognises the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application in the 2019 financial statements, and it does not recognise comparative information;
- the Bank only applies the standard to contracts existing on the date of transition that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*;
- the Bank does not apply the standard to
  - intangible assets,
  - leases with a lease term less than 12 months, and
  - leases for which the underlying asset is of low value. The Bank sets the threshold for low-value assets in the context of this standard at EUR 4,000.
- for short-term leases and leases for which the underlying asset is of low value, the Bank recognises the lease payments associated with the leases as an expense on a straight-line basis over the lease term.
- for leases previously classed as operating leases under IAS 17, as of the date of initial application the right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application;
- at initial application of the standard the Bank does not make such adjustment for leases for which the underlying asset is of low value;
- the Bank applies the rules relating to short-term leases to operating leases for which the lease term ends within 12 months of the date of initial application;
- for operating leases the Bank excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- it uses hindsight in determining the lease term if the contract contains options to extend or terminate the lease.
- The Bank applies a single discount rate to a portfolio of leases with similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);
- for vehicle leases the Bank uses the interest rate implicit in the lease, while for property lease contracts, considering that determining the market value of leased parts of property would cause unnecessary costs and effort to the Bank, it uses the lessee's incremental borrowing rate.
- the Bank does not consider non-reclaimable VAT part of the lease liability and the right-of-use asset.

As a result of transitioning from IAS 17 to IFRS 16, the Bank's balance sheet changes as follows from 1 January 2019 in relation to property rental contracts previously treated as operating leases:

Changes in assets		
Right of use assets	a	3 538

Sherbank Hungary Ltd. data in HUF million

Changes in liabilities		
Lease liabilities	a	3 538
Accrued discount from leasing fee	b	-84

Changes in Retained Earnings		
Accrued discount from leasing fee	b	84

a. Right of use asset and lease liability
The Bank records the lease liability in its books at the discounted present value of future lease payments, while right of use assets are determined at the same value as the lease liability.
The Bank does not consider non-reclaimable VAT to be part of the lease liability and the right of use asset.

b. Adjustment to accrued rental fee discount
Prior to 2019, property-related rental fees were recognised under IAS 17 in such a manner that all the discounts received during the lease term were accounted for on a straight-line basis in profit or loss over the term of the contract, regardless of which period's rental fee the discount was taken into account.

During the transition, the discounted present value of future lease payments was included under liabilities. The discount claimed in previous periods but not accounted for in profit or loss (accrued) was recognised by the Bank in retained earnings on transition.

For leased vehicles, the transition brought a change to the accounting methodology in that the assets previously recorded as leased assets will be recognised from 2019 onwards as right of use assets.

Following the introduction of IFRS 16, the amount of booked rental fees in 2019 is likely to fall by HUF 826 million, while depreciation is set to increase by HUF 598 million and the interest expense on the lease by HUF 112 million.

The VAT on the rental fees is expected to be HUF 163 million, which the Bank immediately recognises under other expenses when it arises.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts issued in May 2017 and effective from 1 January 2021 regulates accounting for and recognising insurance and re-insurance contracts.
Considering that the Bank does not provide insurance services, the introduction of the new standard has no effect on the financial statements and bookkeeping of the Bank.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation was published on 7 June 2017 and is effective from 1 January 2019.

The interpretation clarifies how the requirements of IAS 12 relating to recognition and measurement shall be applied when income tax treatments involve uncertainty.

Its effect is not expected to be significant on the Bank's financial statements.

Amendment to IFRS 9: Prepayment Features with Negative Compensation

The amendment was published on 12 October 2017 and is effective from 1 January 2019.

The amendments are aimed at clarifying the classification of certain prepayable financial assets in connection with the application of IFRS 9.

Its effect is not expected to be significant on the Bank's financial statements.

Amendments not yet adopted by the European Union

- Amendment to IAS 28 Investments in Associates and Joint Ventures
  effective from 1 January 2019
- Amendments to IAS 19 Employee Benefits
  effective from 1 January 2019
- Amendments to the Framework
  effective from 1 January 2020
- Amendments to IFRS 3 Business Combinations
  effective from 1 January 2020
- Amendments to IAS 1 and IAS 8, Definition of Material
  effective from 1 January 2020

The Bank plans to apply the above amendments after they are adopted by the EU.

The Bank's IT systems supporting bookkeeping processes

The Bank's books are kept in a integrated core banking system (MIDAS) recording loans and deposits with related sub-ledgers, running on an AS/400 server:

Clavis – securities

Spectrum – derivatives, MM transactions

SAP FI – customers, suppliers, property, plant and equipment records, mixed accounting

ABC Card management - bankcards

Appello – collateral, guarantees, letters of credit

These sub-ledger systems – with the exception of Appello – provide electronic ledger postings on a daily basis to the MIDAS general ledger via the GPSI interface as part of the daily close; Appello prepares its bookkeeping file once a month, at the end of the reporting month.

Purchased and issued securities are recorded in the Clavis Securities settlement and registration programme, which posts electronically to MIDAS.

Derivative and money-market transactions are settled, recorded and booked in the Spectrum registration and bookkeeping system, which sends electronic postings on a daily basis to MIDAS.

Deposit, loan and interbank transactions as well as account-management bookkeeping take place in MIDAS.

Petty cash items related to cash transactions are also booked in the integrated MIDAS system, thereby ensuring that cash balances recorded by denomination in the sub-ledgers tally with the balance of petty cash accounts in the general ledger.

Given that MIDAS only records the contractual transactions and balances of transactions, the Bank uses an application called IFRS Tool to calculate effective interest rates and the corresponding amortised costs; as part of the closing procedure it calculates the necessary adjustments once a month, on the second day after the end of the month, before sending them to the MIDAS general ledger through the GPSI interface.

Bankcard settlements take place via the *Card booking* card management system, which automatically prepares GPSI postings to MIDAS every day.

The integrated SAP application facilitates the settlement of operating costs and income arising during non-banking business, and the booking of related accruals/deferrals.

GL items for payroll settlements are posted to SAP by the external sub-ledger payroll system operated by the HR Department on the last working day of the reporting month (the sub-ledger payroll system used is NexonBér, owned by NEXON Kft.).

SAP compiles the payment files for the payment of trade payable invoices and tax liabilities, etc., and connects – via an interface – to the MIDAS GIRO module.

The general ledger data of business events booked in SAP are posted to MIDAS – via the GPSI interface – during the daily GL close.

Following the daily close, data is transferred from MIDAS to the data warehouse (DWH), from which a full general ledger statement along with other sub-ledger transactions and data can be retrieved using Cognos.

6.5 First-time adoption of IFRS

As from 1 January 2018 and based on Section 9/A (2) b) of the Hungarian Act on Accounting the Bank prepares its annual financial statements in accordance with IFRSs instead of Hungarian accounting rules, taking Section 9/A (4) of the Act into account, which sets forth that the provisions of the Hungarian Act on Accounting shall be applied to matters not regulated by IFRSs.

Rules relating to first-time adoption of IFRSs are set forth in paragraph D16 of IFRS 1 and based on paragraph a), if a subsidiary becomes a first-time adopter later than its parent, and consequently it applies international accounting rules in the preparation of its separate financial statements later than in the case of the consolidated financial statements, it may measure its assets and liabilities (except for adjustments due to consolidation) as in the consolidated financial statements.

The Bank applies the exemption set forth in IFRS 1 D16 a) for the comparative information included in these financial statements because the Bank's parent company, Sberbank Europe AG (formerly known as Volksbank International AG) acquired Magyarországi Volksbank Rt. (currently Sberbank Magyarország Zrt.) on 8 July 2002, while the transition to IFRS standards took place on 1 January 2003. So Magyarországi Volksbank Rt. was also included in the first consolidated financial statements prepared under IFRS.

Consequently, the Bank may not make use of the other exemptions permitted by IFRS 1 because these were applied by its parent company on transition to IFRS.

In the Bank's case, the first-time adoption of IFRS coincides with the first-time adoption of IFRS 9 Financial Instruments issued by the IASB in July 2014 and adopted by the European Union in November 2016.

For the first-time adoption of IFRS 9 the Bank opted for the following simplification: IFRS 9 prescribes the retrospective application of rules on derecognition, recognition and modification. However, the Bank only applies these rules retrospectively for retail mortgage loans converted into Hungarian forints. The reason for this is that only in these cases does the Bank have the historical information required for the calculations without unnecessary cost or effort.

Sberbank Hungary Ltd. data in HUF million

During the continued application of IFRS 9, if a financial asset is derecognised under market conditions, the Bank deems the fair value at initial recognition of the new asset to be recognised to be the amount disbursed, given that the disbursement took place under market conditions.

The Bank considers all financial assets to be credit-impaired if they were originated via the modification of some financial asset where

- the customer affected by the contract modification is in default, and
- for economic or contractual reasons relating to the customer's financial difficulty, the Bank grants a concession to the customer that it would not otherwise consider (forbearance contract modification), and
- the contract modification qualifies as a significant modification, meaning the financial asset prior to the modification is derecognised.

The tables below present the impact of transition to IFRS on the balance sheet of the Group:

Changes in Other Comprehensive Income		31.12.2017	01.01.2017
Valuation reserve according to Hungarian accounting standards		327	447
Modification to value of AFS securities	d	424	393
Total adjustments		424	393
Valuation reserve according to IFRS		750	840

Changes in Retained Earnings		31.12.2017	01.01.2017
Retained Earnings according to Hungarian accounting standards		-51 909	-52 390
Amortisation of fees related to loans	a	-193	-259
Initial fair value difference of FGS loans	b	92	163
Modification of suspended interest	c	2 793	3 144
Modification to value of AFS securities	d	-424	-393
Modification of impairment	e	-4 436	-4 814
Modification of provisions	e	-481	-192
Modification to value of derivatives	f	-27	-34
Sale of VISA Europe interest	g	52	52
Netting of issued bonds repurchased	h	139	141
Finance leases	i	-1	-6
Other adjustments		-44	-10
Total adjustments		-2 530	-2 210
Retained Earnings according to IFRS		-54 439	-54 600

data in HUF million

Changes in assets		31.12.2017	01.01.2017
Assets according to Hungarian accounting standards		354 666	361 106
Amortisation of fees related to loans	a	-361	-328
Initial fair value difference of FGS loans	b	-997	-1 566
Modification of suspended interest	c	2 793	3 144
Modification of impairment	e	-4 436	-4 814
Modification to value of derivatives	f	5	-12
Sale of VISA Europe interest	g	52	52
Netting of issued bonds repurchased	h	-2 072	-2 040
Finance leases	i	41	82
Other adjustments		-19	42
Total adjustments		-4 994	-5 440
Assets according to IFRS		349 672	355 666

Changes in liabilities		31.12.2017	01.01.2017
Liabilities according to Hungarian accounting standards		311 021	320 979
Amortisation of fees related to loans	a	-168	-69
Initial fair value difference of FGS loans	b	-1 089	-1 729
Modification to value of derivatives	f	32	23
Modification of provisions	e	481	192
Netting of issued bonds repurchased	h	-2 211	-2 180
Finance leases	i	42	88
Other adjustments		-24	33
Total adjustments		-2 937	-3 642
Liabilities according to IFRS		308 084	317 337

Transition differences

a. Amortisation of fees related to loans

Under Hungarian accounting rules the Bank recorded a part of financial assets (loans, bonds held to maturity) at cost. However, under IFRS these assets shall be recorded at amortised cost. The Bank calculates amortised cost using the effective interest method. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. The calculation is described in detail in Section 6.4 Accounting policies.

b. Initial fair value difference of FGS loans

In the case of the funds received from the MNB's Funding for Growth Scheme (FGS) and the low-interest loans disbursed to customers from these funds, the Bank recognises an initial fair value difference in line with IFRS provisions, which modifies the initial recognition value of both the loans and their sources.

c. Modification of suspended interest

According to Hungarian accounting rules, the amount of unreceived interest and interest-type commissions due for the financial year on a pro rata temporis basis and payable until the balance sheet preparation date, along with the amount of interest and interest-type commissions due for the financial year on a pro rata temporis basis but not payable by the balance sheet preparation date, have to be recognised as suspended on the reporting date if the underlying receivable qualifies as a non-performing exposure.

In the financial statements prepared under IFRS rules, however, the Bank always recognises the interest income calculated using the effective interest rate, i.e. no interest is made suspended.

d. Modification to value of AFS securities

The value of AFS securities changed for two reasons during transition:

- Under Hungarian accounting rules, the fair value difference of AFS securities only has to be recognised in the revaluation reserve if it is positive. Any negative revaluation difference must be accounted for in profit or loss. By contrast, under IFRS the revaluation difference always has to be recognised in the revaluation reserve. Consequently, on transition the negative revaluation difference was transferred to the revaluation reserve from profit or loss.
- The difference between the nominal value and the cost (premium) is recognised in profit or loss upon sale or maturity according to Hungarian accounting rules. Under IFRS, this difference is accounted for systematically in profit or loss over the term, and in the balance sheet it modifies the carrying amount of the security.

e. Modification of impairment, provisions

Under Hungarian accounting rules, impairment must be equal to the difference (loss) between the carrying amount of the receivable and the amount expected to be recovered, if this difference is permanent and significant. So for performing loans the Bank did not apply impairment to cover for expected losses.
Under IFRS, however, impairment is also charged on performing loans. Section 6.11.3 Risk management policies provides details about the recording of impairment.

f. Modification to value of derivatives

In the financial statements prepared under Hungarian accounting standards, fair value is calculated using market variables.
In line with IFRS provisions, the Bank also uses potential future losses from counterparty risk in addition to market variables.

g. Sale of VISA Europe interest

During 2016 the Bank sold its interest in VISA Europe. Part of the purchase price during the sale was an amount payable in 2019, which the Bank recognises in the IFRS financial statements as a financial asset (receivable).

h. Netting of issued bonds repurchased

Under Hungarian accounting rules the repurchased portions of issued bonds are recognised under assets. Under IFRS, however, the repurchased part and the value of the issued bond must be recognised on a consolidated (net) basis.
The difference between the nominal value and the repurchase value is recognised by the Bank in profit or loss on repurchase.

i. Finance leases

The Bank recognises vehicle contracts as finance leases, as they comply with the finance lease definition set forth in IAS 17.

data in HUF million

Impact of transition to IFRS on Cash flows:

	Value according to Hungarian accounting standards	Modification	Value according to IFRS
Cash flows from operating activities			
Interest income	9 448	51	9 499
Interest expense	-1 557	12	-1 545
Fees and commissions received	8 132	-241	7 891
Fees and commissions paid	-1 248	178	-1 070
Net gains realised on FVTPL securities	0	0	0
Dividends received from FVTPL securities	0	0	0
Net gains realised on derivatives	756	0	756
Other operating income received	1 091	0	1 091
Operating expenses paid	-13 849	385	-13 464
Income tax paid	0	-385	-385
Cash received from operating activities of discontinued operations	0	0	0
Net changes in trading securities (increase: -, decrease: +)	0	0	0
Net changes in securities designated at FVTPL (increase: -, decrease: +)	0	0	0
Net changes in loans and advances to banks (increase: -, decrease: +)	17 287	-3 965	13 322
Net changes in loans and advances to customers (increase: -, decrease: +)	-8 286	0	-8 286
Net changes in other financial instruments (increase: -, decrease: +)	105	0	105
Net changes in other non-financial instruments (increase: -, decrease: +)	437	0	437
Net changes in due to banks (increase: +, decrease: -)	-19 543	0	-19 543
Net changes in due to customers (increase: +, decrease: -)	26 098	0	26 098
Net changes in debt securities in issue (increase: +, decrease: -)	0	-40	-40
Net changes in other financial liabilities (increase: +, decrease: -)	-3 223	0	-3 223
Net changes in other non-financial liabilities (increase: +, decrease: -)	37	0	37
Net changes in FVTPL financial assets (increase: -, decrease: +)	844	0	844
Net changes in FVTPL financial liabilities (increase: +, decrease: -)	-1 396	0	-1 396
Cash flows from operating activities	**15 133**	**-4 005**	**11 128**

Cash flows from investing activities			
Acquisition of investment securities	-6 691	40	-6 651
Proceeds from disposal and maturity of investment securities	8 720	0	8 720
Interest received on investment securities	891	0	891
Acquisition of plant, property and equipment and intangible assets	-1 908	0	-1 908
Proceeds from disposal of plant, property and equipment including insurance payments and intangible assets	326	0	326
Acquisition of associates and subsidiaries	-45	0	-45
Proceeds from disposal of associates and subsidiaries	0	0	0
Dividends received from subsidiaries	36	0	36
Acquisition of investment property	0	0	0
Proceeds from disposal of investment property	0	0	0
Cash flows from investing activities	**1 329**	**40**	**1 369**

Sberbank Hungary Ltd. data in HUF million

Cash flows from financial activities		0	
Loans received	0	0	0
Redemption of loans	0	0	0
Interest paid on loans	0	0	0
Subordinated debts received	0	0	0
Redemption of subordinated debts	-12 300	0	-12 300
Interest paid on subordinated debts	-573	0	-573
Dividends paid	0	0	0
Acquisition of own shares	0	0	0
Proceeds from disposal of own shares purchased from shareholders	0	0	0
Cash received from shareholders	3 138	0	3 138
Effect of exchange rate changes on cash and cash equivalents	0	0	0
Cash flows from financial activities	**-9 735**	**0**	**-9 735**

Cash flows	**6 727**	**-3 965**	**2 762**
Cash and cash equivalents at 1. January	27 343	28 188	55 531
Cash and cash equivalents at 31. December	34 069	24 224	58 293
Changes in Cash and cash equivalents	6 727	-3 965	2 762

The tables below present the impact of transition from IAS 39 to IFRS 9 on the assets, liabilities, equity and comprehensive income of the Group:

Changes in Other Comprehensive Income		
Opening balance according to IAS 39		750
Impairment of AFS treasury bonds	b	-46
Reclassification of equity investments	c	92
Total adjustments		46
Opening balance according to IFRS 9		797

Changes in Retained Earnings		
Opening balance according to IAS 39		-54 439
Impairment of AFS treasury bonds	b	-46
Impairment of HTM treasury bonds	b	-1
Impairment for loans	b	-2 005
Impairment for nostro accounts	b	-167
Impairment for loans to banks	b	-66
Impairment for margin call accounts	b	-48
Impairment for other on-balance items	b	-40
Adjustments to loans' gross value	a	1 229
Provision for off-balance exposures	b	261
Reclassification of equity investments	c	92
Other adjustments		-33
Total adjustments		-824
Opening balance according to IFRS 9		-55 263

Sberbank Hungary Ltd. data in HUF million

Changes in assets		
Opening balance according to IAS 39		349 671
Impairment of HTM treasury bonds	b	-1
Impairment for loans	b	-2 005
Impairment for nostro accounts	b	-167
Impairment for loans to banks	b	-66
Impairment for margin call accounts	b	-48
Impairment for other on-balance items	b	-40
Adjustments to loans gross value	a	1 229
Other adjustments		-53
Total adjustments		-1 151
Opening balance according to IFRS 9		348 520

Changes in liabilities		
Opening balance according to IAS 39		308 082
Provision for off-balance exposures	b	261
Other adjustments		19
Total adjustments		280
Opening balance according to IFRS 9		308 363

Transition differences

a. Modification to gross value of loans

IFRS 9 introduced the financial-asset category of purchased or originated credit-impaired financial assets. In this category the Bank classified HUF-converted loans in default at the time of their conversion, since these loans were modified to such an extent during their conversion to forints that resulted in the derecognition of the existing loans and the recognition of new credit-impaired loans.
The carrying amount of the newly recognised credit-impaired loans was calculated differently by the Bank than the procedure used for standard loans: instead of the contractual cash flows, the actual cash flows expected from the transaction – after the consideration of losses – were taken into account, calculating a credit-adjusted effective interest rate. This changed the gross carrying amount of the loans in question, and on transition the Bank accounted for the difference as a one-off impact.

b. Modification of impairment and provisioning

IFRS 9 altered the methodology for calculating impairment and provisions. IAS 39 used incurred loss as the basis for impairment, but the new standard focuses on expected loss. The standard prescribes that impairment must be recorded from when the financial asset is recognised. This expanded the scope of assets that the Bank impairs, and increased the amount of impairment as well.

c. Reclassification of fair value of interests

Under IFRS 9 all interests must be measured at fair value through profit or loss. The standard does enable interests to be designated at fair value through other comprehensive income if they are not held for sale, but the Bank did not take advantage of this opportunity. Consequently, the fair value change of interests previously in the held-for-sale category had to be transferred from other comprehensive income to retained earnings.

Sberbank Hungary Ltd. data in HUF million

6.6 Notes to the Balance Sheet

6.6.1. Cash and cash equivalents

	31.12.2018	31.12.2017	01.01.2017
Cash and cash equivalents			
Cash in hand	3 632	3 899	2 610
Current account with Central Bank	2 841	2 437	2 246
Impairment for current account with Central Bank	-7	0	0
Deposits with Central Bank	21 400	28 000	14 500
Impairment for deposits with Central Bank	0	0	0
Nostro accounts and overnight loans	33 943	23 957	36 175
Impairment for nostro accounts and overnight loans	-1	0	0
Total of cash and cash equivalents	**61 808**	**58 293**	**55 531**

The balance of the account held at the National Bank of Hungary (MNB) includes a minimum reserve of HUF 2 698 million, which the Bank does not use during its day-to-day operations. Thanks to the ample liquidity the Bank significantly raised its volume of one-day and overnight deposits at the end of 2018 compared to the previous year.

At the end of 2018 and using a 12-month probability of default, the Bank calculated an expected credit loss for its standard performing receivables from the MNB that is negligible compared to its volume of credit exposure: HUF 7 million was recognised for the account balance including the minimum reserve, while no impairment was recorded for overnight deposits given their maturity. Equally insignificant collective impairment of HUF 1 million was recorded for the balance of nostro accounts and overnight deposits at other banks, with due consideration of the partner banks' standard risk rating.

	31.12.2018			
Changes in expected credit loss (ECL) during the year	**Current account with Central Bank**	**Deposits with Central Bank**	**Nostro accounts, overnight loans**	**Total**
opening balance	**0**	**0**	**-167**	**-167**
allocation	-16	0	-6	-22
release	9	0	167	176
write-offs	0	0	0	0
modifications without derecognition	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0
other movements (foreign currency translation)	0	0	5	5
closing balance	**-7**	**0**	**-1**	**-8**

data in HUF million

6.6.2. Securities

In this section the Bank's portfolio of debt securities is presented. In this portfolio the Bank only holds bonds and discounted treasury bills issued by the Hungarian State, primarily for managing surplus liquidity but also for managing interest income and partially hedging interest risks.

The Bank had no securities held for trading at either the end of the reporting year or at the end of the comparative years, although there was a small quantity of interim purchases which were sold before the end of the year.

Securities purchased under the HIRS programme to hedge at balance sheet level the risk arising from the decrease in variable interest rates were designated by the Bank at fair value through profit or loss using the fair value option to eliminate the inconsistency between the measurement of the derivative at fair value through profit or loss and the measurement of the securities at amortised cost (see also Section 6.9.7. Fair value option).

On the date of transition to IFRS 9, i.e. 1 January 2018, the Bank reclassified its securities held in the held-to-maturity category to the "hold" business model, and since Hungarian government securities only pay principal and interest cash flows to their owners, the Bank continues to recognise these in its books at amortised cost following the transition.

On the date of transition to IFRS 9, i.e. 1 January 2018, the Bank reclassified its securities held in the available-for-sale category to the "hold and sell" business model, and since Hungarian government securities only pay principal and interest cash flows to their owners, the Bank recognises these in its books as financial assets measured at fair value through other comprehensive income following the transition.

Book value of debt securities broken-down by valuation categories	Valuation category	31.12.2018	31.12.2017	01.01.2017
At fair value through profit and loss		10 641	11 291	11 735
Trading		0	0	0
Designated at fair value through profit or loss		10 641	11 291	11 735
Available-for-sale	IAS 39-AFS		41 181	42 544
At fair value through other comprehensive income	IFRS 9-FVOCI	32 234		
Held-to-maturity	IAS 39-HTM		1 000	2 680
Impairment	IAS 39-HTM		0	0
At amorised cost	IFRS 9-AC	1 009		
Total debt securities		**43 884**	**53 472**	**56 959**

The following table shows the maximum credit risk exposure of the Bank's securities portfolio, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Sberbank Hungary Ltd. data in HUF million

Fair value/gross value of debt securities broken down by the categories of internal credit rating system	31.12.2018 12 month ECL	lifetime ECL	impaired assets	Total	31.12.2017 collective	01.01.2017 collective
Debt Securities at fair value through other comprehensive income						
high grade	32 234	0	0	32 234	41 181	42 544
standard grade	0	0	0	0	0	0
average grade	0	0	0	0	0	0
sub-standard grade	0	0	0	0	0	0
impaired	0	0	0	0	0	0
Total	**32 234**	**0**	**0**	**32 234**	**41 181**	**42 544**
Debt Securities at amortised cost						
high grade	1 022	0	0	1 022	1 000	2 680
standard grade	0	0	0	0	0	0
average grade	0	0	0	0	0	0
sub-standard grade	0	0	0	0	0	0
impaired	0	0	0	0	0	0
Total	**1 022**	**0**	**0**	**1 022**	**1 000**	**2 680**

The following table shows the volume changes in the Bank's securities portfolio, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year. For securities measured at fair value through other comprehensive income the table contains changes to fair value, while for securities measured at amortised cost the table shows changes to gross carrying amounts.

Changes in fair value/gross value of debt securities broken down by the categories of expected credit loss (ECL)	31.12.2018 12 month ECL	lifetime ECL	impaired assets	Total
Debt Securities at fair value through other comprehensive income				
opening balance	**41 181**	**0**	**0**	**41 181**
purchases during the year	62 060	0	0	62 060
derecognised or matured (excluding write offs)	-70 100	0	0	-70 100
write-offs	0	0	0	0
modifications without derecognition	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0
reclassification impaired category	0	0	0	0
change in fair value	-1 410	0	0	-1 410
other movements (foreign currenciy translation)	503	0	0	503
closing balance	**32 234**	**0**	**0**	**32 234**
Debt Securities at amortised cost				
opening balance	**999**	**0**	**0**	**999**
purchases during the year	0	0	0	0
derecognised or matured (excluding write offs)	0	0	0	0
write-offs	0	0	0	0
modifications without derecognition	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0
reclassification impaired category	0	0	0	0
other movements (foreign currency translation, accrued interest)	23	0	0	23
closing balance	**1 022**	**0**	**0**	**1 022**

Sberbank Hungary Ltd. data in HUF million

The decline in the portfolio related to the derecognition of securities measured at fair value through other comprehensive income stems from maturing securities. Consequently, alongside the derecognitions, no profit or loss was transferred from other comprehensive income to the reporting year profit or loss because there were no disposals.

The portfolio measured at amortised cost was unchanged during the reporting year.

The following table shows the reporting-year changes in expected credit loss. For securities measured at fair value through other comprehensive income, these movements reflect changes during the reporting year to the portfolio's fair value due to credit risks. These fair value changes were transferred from other comprehensive income to risk costs in the income statement.

Changes in expected credit loss (ECL) of debt securities during the year	31.12.2018 12 month ECL	lifetime ECL	impaired assets	Total
Debt securities at fair value through other comprehensive income				
opening balance	**46**	**0**	**0**	**46**
purchases during the year	70	0	0	70
derecognised or matured (excluding write offs)	-16	0	0	-16
write-offs	0	0	0	0
modifications without derecognition	0	0	0	0
due to change in credit risk	-23	0	0	-23
due to unwinding of discount	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0
reclassification impaired category	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0
other movements (foreign currenciy translation, rounding)	1	0	0	1
closing balance	**78**	**0**	**0**	**78**
Debt securities at amortised cost				
opening balance	**1**	**0**	**0**	**1**
purchases during the year	0	0	0	0
derecognised or matured (excluding write offs)	0	0	0	0
write-offs	0	0	0	0
modifications without derecognition	0	0	0	0
due to change in credit risk	12	0	0	12
due to unwinding of discount	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0
reclassification impaired category	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0
other movements (foreign currency translation, rounding)	0	0	0	0
closing balance	**13**	**0**	**0**	**13**

Before transition to IFRS 9 as of 1 January 2018 the Bank did not record impairment on debt securities.

data in HUF million

The following table shows the Bank's debt securities broken down by their original maturity.

Book value of debt securities broken-down by original maturity categories	31.12.2018	31.12.2017	01.01.2017
securites with original maturity within 1 year	0	0	0
securites with original maturity over 1 year	43 884	53 472	56 959
of which mature within 1 year	14 712	28 938	8 720
Total debt securities	**43 884**	**53 472**	**56 959**

Neither in the reporting year nor in the comparative years does the Bank's balance sheet contain overdue receivables related to any of the securities presented here.

6.6.3. Receivables from credit institutions

Changes to receivables from credit institutions:

Receivables from credit institutions	31.12.2018	31.12.2017	01.01.2017
Receivables from Central Bank	697	1 287	10 516
Impairment for receivables from Central Bank	-19		
Receivables from credit institutions	21 812	30 455	34 541
Impairment for receivables from credit institutions	-35		
Total receivables from credit institutions	**22 455**	**31 742**	**45 057**

On transition to IFRS 9 the Bank classified all of its receivables from credit institutions in the 'hold' business model. In compliance with the SPPI tests performed, these receivables are recognised at amortised cost.

Changes to gross values:

Gross book value of receivables from credit institutions broken down by the categories of internal credit rating system	31.12.2018 12 month ECL	lifetime ECL	impaired assets	Total	31.12.2017 collective	01.01.2017 collective
Performing receivables	22 509	0	0	22 509	31 742	45 057
high grade	1 147	0	0	1 147	4 311	2 975
standard grade	21 362	0	0	21 362	27 431	42 082
average grade	0	0	0	0	0	0
past due, but not impaired	0	0	0	0	0	0
Non-performing receivables	0	0	0	0	0	0
individually impaired	0	0	0	**0**	**0**	**0**
collectively impaired	0	0	0	**0**	0	0
Total gross book value	**22 509**	**0**	**0**	**22 509**	**31 742**	**45 057**

Sberbank Hungary Ltd. data in HUF million

Changes in gross value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2018			
	12 month ECL	lifetime ECL	impaired assets	Total
opening balance	**40 116**	**0**	**0**	**40 116**
placements and purchases during the year	156 943	285	0	157 228
derecognised or matured (excluding write offs)	-175 067	0	0	-175 067
write-offs	0	0	0	0
modifications without derecognition	0	0	0	0
change in volume in the same ECL category	-450	0	0	-450
reclassification to 12 month ECL category	574	-574	0	0
reclassification to lifetime ECL category	-291	291	0	0
reclassification impaired category	0	0	0	0
other movements (foreign currenciy translation)	684	-2	0	682
closing balance	**22 509**	**0**	**0**	**22 509**

Changes to expected credit loss:

Changes in expected credit loss (ECL) during the year	31.12.2018			
	12 month ECL	lifetime ECL	impaired assets	Total
opening balance	**114**	**0**	**0**	**114**
purchases during the year	7	7	0	14
derecognised or matured (excluding write-offs)	-12	0	0	-12
write-offs	0	0	0	0
modifications without derecognition	0	0	0	0
due to change in credit risk	-55	-7	0	-62
due to unwinding of discount	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0
reclassification to impaired category	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0
other movements (foreign currenciy translation)	0	0	0	0
closing balance	**54**	**0**	**0**	**54**

Before 1 January 2018, under IAS 39 the Bank did not recognise impairment for receivables from credit institutions.

Receivables from credit institutions by remaining maturity:

	31.12.2018						
Receivables from credit institutions	without maturity	≤ 30 days	31-90 days	91 days -1 year	1-5 year	> 5 year	Total
Receivables from Central Bank	678	0	0	0	0	0	678
Receivables from credit institutions	943	3 136	9 863	383	1 041	6 411	21 777
Total receivables from credit institutions	**1 621**	**3 136**	**9 863**	**383**	**1 041**	**6 411**	**22 455**

	31.12.2017						
Receivables from credit institutions	without maturity	≤ 30 days	31-90 days	91 days -1 year	1-5 year	> 5 year	Total
Receivables from Central Bank	1 287	0	0	0	0	0	1 287
Receivables from credit institutions	186	22 013	0	96	1 245	6 915	30 455
Total receivables from credit institutions	**1 473**	**22 013**	**0**	**96**	**1 245**	**6 915**	**31 742**

Sberbank Hungary Ltd. data in HUF million

	01.01.2017						
Receivables from credit institutions	**without maturity**	**≤ 30 days**	**31-90 days**	**91 days -1 year**	**1-5 year**	**> 5 year**	**Total**
Receivables from Central Bank	2 511	0	8 005	0	0	0	10 516
Receivables from credit institutions	464	26 199	0	119	96	7 663	34 541
Total receivables from credit institutions	**2 975**	**26 199**	**8 005**	**119**	**96**	**7 663**	**45 057**

Receivables from credit institutions by geographic region:

	31.12.2018				
Receivables from credit institutions	**Domestic**	**Russia**	**EU**	**Other**	**Total**
Receivables from Central Bank	678	0	0	0	678
Receivables from credit institutions	13 179	8 160	438	0	21 777
Total receivables from credit institutions	**13 857**	**8 160**	**438**	**0**	**22 455**

	31.12.2017				
Receivables from credit institutions	**Domestic**	**Russia**	**EU**	**Other**	**Total**
Receivables from Central Bank	1 287	0	0	0	1 287
Receivables from credit institutions	10 114	8 255	12 086	0	30 455
Total receivables from credit institutions	**11 401**	**8 255**	**12 086**	**0**	**31 742**

	01.01.2017				
Receivables from credit institutions	**Domestic**	**Russia**	**EU**	**Other**	**Total**
Receivables from Central Bank	10 516	0	0	0	10 516
Receivables from credit institutions	4 473	7 878	22 190	0	34 541
Total receivables from credit institutions	**14 989**	**7 878**	**22 190**	**0**	**45 057**

6.6.4. Loans and advances to customers

This section presents receivables from customers broken down by following segments:

Loans and advances to customers	**31.12.2018**	**31.12.2017**	**01.01.2017**
corporate loans	157 007	131 144	125 219
impairment for corporate loans	-7 928	-9 259	-10 933
private loans	88 131	84 572	83 319
impairment for private loans	-8 575	-7 067	-6 454
Total loans and advances to customers	**228 635**	**199 390**	**191 151**

Loans measured at fair value through other comprehensive income

On transition to IFRS 9 the Bank classified a non-performing part of the portfolio into 'hold and sell' business model, for which it was known at the date of transition that it will be recovered by the revenue from the planned sale of receivables rather than by future cash flows of principal and interest.

These loans have been held in the FVOCI category since the date of transition.

Sberbank Hungary Ltd. data in HUF million

Loans and advances to customers	31.12.2018
corporate loans	84
private loans	43
Total loans and advances to customers	127

The volume of the portfolio and the number of transactions therein dropped significantly during the reporting year on account of the intensive activity of selling receivables.

The following table shows the maximum credit risk exposure of the Bank's portfolio measured at fair value through other comprehensive income, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Fair value broken down by the categories of internal credit rating system and impairment categories	31.12.2018 12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets	Total
corporate loans	**0**	**0**	**73**	**11**	**0**	**84**
Performing	0	0	0	0	0	0
standard grade	0	0	0	0	0	0
average grade	0	0	0	0	0	0
Non-performing	0	0	73	11	0	84
impaired	0	0	73	11	0	84
private loans	**0**	**0**	**43**	**0**	**0**	**43**
Non-performing	0	0	43	0	0	43
impaired	0	0	43	0	0	43
Total fair value	**0**	**0**	**116**	**11**	**0**	**127**

The fair value of the portfolio during the reporting year was largely influenced by the increased sales of receivables: the decrease in volume owing to such derecognitions amounted to HUF 341 million, while other amounts received mainly due to claiming collateral totalled HUF 24 million. This trend is continuing in the following year, and will ultimately lead to the complete elimination of the portfolio.

Changes in the fair value of the loans broken down by the expected credit loss (ECL) categories corporate loans	31.12.2018 12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**0**	**0**	**283**	**407**	**0**	**0**	**690**
purchases during the year	0	0	0	0	0	0	0
derecognised or matured (excluding write-offs)	0	0	-54	-251	0	0	-305
write-offs	0	0	0	0	0	0	0
changes in fair value	0	0	-36	4	0	0	-32
modifications without derecognition	0	0	0	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0	0	0	0
reclassification to impaired category	0	0	0	0	0	0	0
other movements (FX translation, interest accruals)	0	0	0	2	0	0	2
closing balance	**0**	**0**	**193**	**162**	**0**	**0**	**355**

Sberbank Hungary Ltd. data in HUF million

Changes in the fair value of the loans broken down by the expected credit loss (ECL) categories private loans	31.12.2018						
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**0**	**0**	**345**	**0**	**0**	**0**	**345**
purchases during the year	0	0	0	0	0	0	0
derecognised or matured (excluding write-offs)	0	0	-60	0	0	0	-60
write-offs	0	0	-1	0	0	0	-1
valós érték változása	0	0	-29	0	0	0	-29
modifications without derecognition	0	0	0	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0	0	0	0
reclassification to impaired category	0	0	0	0	0	0	0
other movements (FX translation, interest accruals)	0	0	2	0	0	0	2
closing balance	**0**	**0**	**257**	**0**	**0**	**0**	**257**

The following tables show the reporting-year changes in portfolio fair value due to credit risks. These fair value changes were transferred from other comprehensive income to risk costs in the income statement.

Changes in the fair value of the loans due to change in credit risk broken down by the expected credit loss (ECL) categories corporate loans	31.12.2018						
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**0**	**0**	**-197**	**-359**	**0**	**0**	**-546**
purchases during the year	0	0	0	0	0	0	0
derecognised or matured (excluding write-offs)	0	0	77	219	0	0	296
write-offs	0	0	0	0	0	0	0
modifications without derecognition	0	0	0	0	0	0	0
due to change in credit risk	0	0	-4	-8	0	0	-12
due to unwinding of discount	0	0	4	7	0	0	11
reclassification to 12 month ECL category	0	0	0	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0	0	0	0
reclassification to impaired category	0	0	0	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0	0	0	0
other movements (FX translation, interest accruals)	0	0	0	-10	0	0	-10
closing balance	**0**	**0**	**-120**	**-151**	**0**	**0**	**-271**

Sberbank Hungary Ltd. data in HUF million

Changes in the fair value of the loans due to change in credit risk broken down by the expected credit loss (ECL) categories private loans	31.12.2018 12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**0**	**0**	**-267**	**0**	**0**	**0**	**-267**
purchases during the year	0	0	0	0	0	0	0
derecognised or matured (excluding write-offs)	0	0	71	0	0	0	71
write-offs	0	0	20	0	0	0	20
modifications without derecognition	0	0	0	0	0	0	0
due to change in credit risk	0	0	-41	0	0	0	-41
due to unwinding of discount	0	0	7	0	0	0	7
reclassification to 12 month ECL category	0	0	0	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0	0	0	0
reclassification to impaired category	0	0	0	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0	0	0	0
other movements (FX translation, interest accruals)	0	0	-4	0	0	0	-4
closing balance	**0**	**0**	**-214**	**0**	**0**	**0**	**-214**

The ageing of overdue receivables by the maximum days in default is presented below at the end of the reporting year.

Ageing of fair value of overdue loans broken down by the categories of internal credit rating system	31.12.2018 ≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
corporate loans	**0**	**0**	**0**	**0**	**6**	**78**	**84**
Non performing	0	0	0	0	6	78	84
impaired	0	0	0	0	6	78	84
private loans	**2**	**0**	**0**	**0**	**1**	**40**	**43**
Non performing	2	0	0	0	1	40	43
impaired	2	0	0	0	1	40	43
Total fair value	**2**	**0**	**0**	**0**	**7**	**118**	**127**

Loans measured at amortised cost

The following table shows loans measured at amortised cost, broken down by business segments. The impairment data for the reporting year in the table are figures in accordance with the provisions of IFRS 9, while comparative information is calculated according to the rules of IAS 39.

Loans and advances to customers	31.12.2018	31.12.2017	01.01.2017
corporate loans	156 923	131 144	125 219
impairment for corporate loans	-7 928	-9 259	-10 933
private loans	88 088	84 572	83 319
impairment for private loans	-8 575	-7 067	-6 454
Total loans and advances to customers	**228 508**	**199 390**	**191 151**

Sberbank Hungary Ltd. data in HUF million

The Bank's lending portfolio displayed stable growth over the last two years, which is primarily down to increases at two business divisions, the commercial loans of the corporate customers division and the any-purpose loans of the retail division. Retail overdrafts – though starting from a lower level – also produced significant growth.

By contrast, project-financing loans for businesses stagnated and retail mortgage loans steadily declined, partly because of the reduction of non-performing loans and partly because the Bank's management.

From here onwards in the detailed statements included in the financial statements, impairment data for the reporting year are figures under IFRS 9 and are presented in the following breakdown

- 12-month expected credit loss (stage 1)
- lifetime expected credit loss (stage 2) and
- credit impaired (stage 3)

while comparative data are calculated under IAS 39 and are broken down by

- collective
- individual and
- incurred but not reported (IBNR)

assessment category.

Purchased or originated credit impaired loans (POCI) are recognised separately by the Bank from all three impairment categories. In the years presented in these financial statements the Bank only has originated credit-impaired loans it disbursed, it did not purchase such loans. The portfolio of originated credit impaired loans stems from the non-performing foreign currency loans converted into Hungarian forints during the 2015 debtor relief programme.

Corporate loans

The following tables show the maximum credit risk exposure of loans measured at amortised cost, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2018						
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
Performing	**135 623**	**10 883**	**0**	**0**	**0**	**0**	**146 506**
high grade	5 987	0	0	0	0	0	5 987
standard grade	39 475	7 068	0	0	0	0	46 543
average grade	85 791	2 005	0	0	0	0	87 796
below average grade	4 370	1 810	0	0	0	0	6 180
Non performing	**0**	**0**	**2 170**	**7 526**	**0**	**721**	**10 417**
standard grade	0	0	29	0	0	0	29
average grade	0	0	47	0	0	0	47
below average grade	0	0	47	0	0	0	47
impaired	0	0	2 047	7 526	0	721	10 294
Total corporate loans	**135 623**	**10 883**	**2 170**	**7 526**	**0**	**721**	**156 923**

data in HUF million

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2017			
	collective	individual	IBNR	Total
Performing	**0**	**0**	**119 454**	**119 454**
high grade	0	0	1 202	1 202
standard grade	0	0	43 776	43 776
average grade	0	0	65 854	65 854
below average grade	0	0	8 622	8 622
Non performing	**2 421**	**8 745**	**524**	**11 690**
standard grade	6	0	44	50
average grade	43	0	9	52
below average grade	67	0	110	177
impaired	2 305	8 745	361	11 411
Total corporate loans	**2 421**	**8 745**	**119 978**	**131 144**

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	01.01.2017			
	collective	individual	IBNR	Total
Performing	**2**	**2 069**	**110 547**	**112 618**
high grade	0	0	375	375
standard grade	0	0	37 167	37 167
average grade	2	2 069	59 582	61 653
below average grade	0	0	13 423	13 423
Non performing	**2 698**	**9 184**	**719**	**12 601**
standard grade	0	1 068	122	1 190
average grade	23	0	115	138
below average grade	27	0	32	59
impaired	2 648	8 116	450	11 214
Total corporate loans	**2 700**	**11 253**	**111 266**	**125 219**

The reporting-year changes in the gross carrying amounts of the loans measured at amortised cost are shown in the following tables broken down by the expected credit loss categories at the end of the reporting year.

Changes in the gross book value broken down by the expected credit loss (ECL) categories	31.12.2018						
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**106 976**	**12 733**	**2 362**	**7 705**	**0**	**791**	**130 567**
purchases during the year	64 079	685	0	452	0	0	65 216
derecognised or matured (excluding write-offs)	-30 379	-2 546	-465	-220	0	0	-33 610
write-offs	-1	0	-133	-1 929	0	0	-2 063
changes within the same ECL category	-2 600	-1 145	-492	-1 101	0	-71	747
modifications without derecognition	0	0	0	0	0	0	0
reclassification to 12 month ECL category	2 545	-2 442	-45	-58	0	0	-6 156
reclassification to lifetime ECL category	-5 023	5 416	-298	-95	0	0	0
reclassification to impaired category	-1 541	-2 145	1 170	2 516	0	0	0
other movements (FX translation, interest accruals)	1 567	327	71	256	0	1	2 222
closing balance	**135 623**	**10 883**	**2 170**	**7 526**	**0**	**721**	**156 923**

Sberbank Hungary Ltd. data in HUF million

The following tables reveal the reporting-year changes in the expected credit loss of the loans measured at amortised cost, broken down by category of expected credit loss. The comparative data show the changes in impairment calculated under IAS 39.

Changes in the expected credit loss broken down by the expected credit loss (ECL) categories	31.12.2018						
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**-755**	**-261**	**-1 173**	**-6 192**	**0**	**-206**	**-8 587**
purchases during the year	-574	-19	-1	-227	0	0	-821
derecognised or matured (excluding write-offs)	361	120	398	787	0	18	1 684
write-offs	0	0	114	1 929	0	0	2 043
modifications without derecognition	0	0	0	0	0	0	0
due to change in credit risk	-78	14	-236	-1 441	0	-69	-1 810
due to unwinding of discount	0	0	-22	-147	0	-7	-176
reclassification to 12 month ECL category	-45	27	18	0	0	0	0
reclassification to lifetime ECL category	26	-117	86	5	0	0	0
reclassification to impaired category	6	131	-54	-83	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0	0	0	0
other movements (FX translation, interest accruals)	-9	-8	-38	-206	0	0	-261
closing balance	**-1 068**	**-113**	**-908**	**-5 575**	**0**	**-264**	**-7 928**

The opening amount of the expected credit loss in 2018 is lower by HUF 672 million than its closing amount in 2017 due to the transition from IAS 39 to IRS 9.

Changes in the expected credit loss broken down by the expected credit loss (ECL) categories in IAS 39	31.12.2017			
	collective	individual	IBNR	Total
opening balance	**-2 108**	**-7 268**	**-1 557**	**-10 933**
allocation	-328	-1 608	-634	-2 570
release	657	737	948	2 342
write-offs	426	1 170	62	1 658
due to unwinding of discount	0	35	0	35
other movements (FX translation, interest accruals)	46	162	1	200
closing balance	**-1 307**	**-6 772**	**-1 180**	**-9 259**

Taking collateral into account may result in that while some or all of a receivable may be overdue, there is still no need to record impairment. The following tables break down such overdue receivables by age.

This portfolio reveals a sharp decline at the end of the reporting year compared to the previous years, but this is not due to the actual fall in the eligible portion of collateral that reduces credit risks, but is caused by the transition to IFRS 9.

Sberbank Hungary Ltd. data in HUF million

Ageing of the gross value of overdue but not impaired loans broken down by the categories of the internal credit rating system	31.12.2018						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**1**	**0**	**0**	**0**	**0**	**0**	**1**
high grade	0	0	0	0	0	0	0
standard grade	1	0	0	0	0	0	1
average grade	0	0	0	0	0	0	0
below average grade	0	0	0	0	0	0	0
Non performing	**0**	**0**	**0**	**0**	**0**	**2**	**2**
standard grade	0	0	0	0	0	0	0
average grade	0	0	0	0	0	0	0
below average grade	0	0	0	0	0	0	0
impaired	0	0	0	0	0	2	2
Total corporate loans	**1**	**0**	**0**	**0**	**0**	**2**	**3**

Ageing of the gross value of overdue but not impaired loans broken down by the categories of the internal credit rating system	31.12.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**7 781**	**104**	**23**	**0**	**0**	**0**	**7 908**
high grade	25	0	0	0	0	0	25
standard grade	606	24	0	0	0	0	630
average grade	5 451	79	18	0	0	0	5 548
below average grade	1 699	1	5	0	0	0	1 705
Non performing	**80**	**86**	**23**	**204**	**1 509**	**6 645**	**8 605**
standard grade	0	0	0	6	0	0	6
average grade	0	0	0	40	3	0	43
below average grade	0	0	0	24	41	2	67
impaired	80	86	23	134	1 465	6 643	8 489
Total corporate loans	**7 861**	**190**	**46**	**204**	**1509**	**6 645**	**16 513**

Ageing of the gross value of overdue but not impaired loans broken down by the categories of the internal credit rating system	01.01.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**7 633**	**183**	**920**	**0**	**0**	**0**	**8 736**
high grade	45	0	0	0	0	0	45
standard grade	1 477	2	1	0	0	0	1 480
average grade	4 056	79	835	0	0	0	4 970
below average grade	2 055	102	84	0	0	0	2 241
Non performing	**630**	**146**	**18**	**218**	**376**	**9 494**	**10 882**
standard grade	0	0	0	0	0	0	0
average grade	0	0	13	121	1	1	136
below average grade	8	0	3	21	1	4	37
impaired	622	146	2	76	374	9 489	10 709
Total corporate loans	**8 263**	**329**	**938**	**218**	**376**	**9 494**	**19 618**

Sberbank Hungary Ltd. data in HUF million

The ageing of overdue receivables by the maximum days in default is presented below at the end of the reporting year and in the previous years.

Ageing of the gross value of overdue loans broken down by the categories of the internal credit rating system	31.12.2018						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**237**	**14**	**1**	**0**	**1**	**0**	**253**
high grade	40	0	0	0	0	0	40
standard grade	33	0	0	0	0	0	33
average grade	143	10	0	0	1	0	154
below average grade	21	4	1	0	0	0	26
Non performing	**22**	**103**	**0**	**393**	**173**	**4 712**	**5 403**
standard grade	0	0	0	1	0	0	1
average grade	0	0	0	4	0	1	5
below average grade	4	0	0	0	1	2	7
impaired	18	103	0	388	172	4 709	5 390
Total corporate loans	**259**	**117**	**1**	**393**	**174**	**4 712**	**5 656**

Ageing of the gross value of overdue loans broken down by the categories of the internal credit rating system	31.12.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**588**	**3**	**1**	**0**	**0**	**0**	**592**
high grade	0	0	0	0	0	0	0
standard grade	29	0	0	0	0	0	29
average grade	511	3	1	0	0	0	515
below average grade	48	0	0	0	0	0	48
Non performing	**55**	**0**	**1**	**120**	**902**	**6 757**	**7 835**
standard grade	0	0	0	1	0	0	1
average grade	0	0	0	1	1	0	2
below average grade	0	0	0	20	1	2	23
impaired	55	0	1	98	900	6 755	7 809
Total corporate loans	**643**	**3**	**2**	**120**	**902**	**6 757**	**8 427**

Ageing of the gross value of overdue loans broken down by the categories of the internal credit rating system	01.01.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**382**	**30**	**65**	**0**	**0**	**0**	**477**
high grade	2	0	0	0	0	0	2
standard grade	24	2	1	0	0	0	27
average grade	313	24	18	0	0	0	355
below average grade	43	4	46	0	0	0	93
Non performing	**13**	**2**	**5**	**68**	**162**	**9 615**	**9 865**
standard grade	0	0	0	0	0	0	0
average grade	0	0	0	43	1	1	45
below average grade	0	0	3	2	1	4	10
impaired	13	2	2	23	160	9 610	9 810
Total corporate loans	**395**	**32**	**70**	**68**	**162**	**9 615**	**10 332**

The ageing of the expected credit loss by the maximum days in default of the related overdue receivable is presented below at the end of the reporting year and in the previous years.

data in HUF million

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	31.12.2018			
	overdue	<=1 year	> 1 year	Total
Performing	**-4**	**-226**	**-950**	**-1 180**
high grade	0	-2	-5	-7
standard grade	0	-39	-171	-210
average grade	-3	-161	-727	-891
below average grade	-1	-24	-47	-72
Non performing	**-4 093**	**-1 019**	**-1 636**	**-6 748**
standard grade	0	-2	0	-2
average grade	-1	-3	0	-4
below average grade	-2	-3	-1	-6
impaired	-4 090	-1 011	-1 635	-6 736
Total impairment for corporate loans	**-4 097**	**-1 245**	**-2 586**	**-7 928**

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	31.12.2017			
	overdue	<=1 year	> 1 year	Total
Performing	**-6**	**-492**	**-688**	**-1 186**
high grade	0	-9	-1	-10
standard grade	-1	-129	-324	-454
average grade	-4	-322	-265	-591
below average grade	-1	-32	-98	-131
Non performing	**-6 496**	**-631**	**-946**	**-8 073**
standard grade	0	-1	0	-1
average grade	-2	-8	0	-10
below average grade	-5	-13	0	-18
impaired	-6 489	-609	-946	-8 044
Total impairment for corporate loans	**-6 502**	**-1 123**	**-1 634**	**-9 259**

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	01.01.2017			
	overdue	<=1 year	> 1 year	Total
Performing	**-18**	**-868**	**-1 465**	**-2 351**
high grade	0	-1	0	-1
standard grade	-1	-177	-240	-418
average grade	-13	-614	-923	-1 550
below average grade	-4	-76	-302	-382
Non performing	**-7 471**	**-483**	**-628**	**-8 582**
standard grade	0	-240	-308	-548
average grade	-8	-8	-1	-17
below average grade	-7	-2	-1	-10
impaired	-7 456	-233	-318	-8 007
Total impairment for corporate loans	**-7 489**	**-1 351**	**-2 093**	**-10 933**

data in HUF million

Private loans

The following tables show the maximum credit risk exposure of loans measured at amortised cost, broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2018						
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
Performing	**69 697**	**2817**	**0**	**0**	**92**	**0**	**72 606**
high grade	0	0	0	0	0	0	0
standard grade	40 764	558	0	0	45	0	41 367
average grade	21 564	1 186	0	0	33	0	22 783
below average grade	7 369	1 073	0	0	14	0	8 456
Non performing	**0**	**0**	**5 959**	**1**	**9 047**	**475**	**15 482**
standard grade	0	0	15	0	76	0	91
average grade	0	0	32	0	89	0	121
below average grade	0	0	93	0	43	0	136
impaired	0	0	5 819	1	8 839	475	15 134
Total private loans	**69 697**	**2 817**	**5 959**	**1**	**9 139**	**475**	**88 088**

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	31.12.2017			
	csoportos	egyedi	IBNR	Összesen
Performing	**0**	**0**	**65 874**	**65 874**
high grade	0	0	816	816
standard grade	0	0	35 965	35 965
average grade	0	0	22 826	22 826
below average grade	0	0	6 267	6 267
Non performing	**15 938**	**322**	**2 438**	**18 698**
standard grade	38	0	203	241
average grade	24	0	123	147
below average grade	71	0	278	349
impaired	15 805	322	1 834	17 961
Total private loans	**15 938**	**322**	**68 312**	**84 572**

Gross book value broken down by the categories of internal credit rating system and the expected credit loss (ECL) categories	01.01.2017			
	collective	individual	IBNR	Total
Performing	**329**	**0**	**63 462**	**63 792**
high grade	0	0	125	125
standard grade	11	0	9 470	9 481
average grade	132	0	45 977	46 109
below average grade	186	0	7 890	8 077
Non performing	**16 967**	**0**	**2 560**	**19 527**
standard grade	6	0	0	6
average grade	27	0	86	113
below average grade	142	0	84	226
impaired	16 792	0	2 390	19 182
Total private loans	**17 296**	**0**	**66 023**	**83 319**

Sberbank Hungary Ltd. data in HUF million

The reporting-year changes in the gross carrying amounts of the loans measured at amortised cost are shown in the following tables broken down by the expected credit loss categories at the end of the reporting year.

Changes in the gross book value broken down by the expected credit loss (ECL) categories	12 month ECL collective	lifetime ECL collective	31.12.2018 impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**63 008**	**3 116**	**6 741**	**1**	**12 140**	**437**	**85 443**
purchases during the year	19 779	331	133	0	0	0	20 243
derecognised or matured (excluding write-offs)	-4 829	-254	-1 899	0	-4 080	0	-11 062
write-offs	0	0	-150	0	-75	0	-225
changes within the same ECL category	-7 577	-299	218	0	1 104	39	-6 515
modifications without derecognition	0	0	-1	0	0	0	-1
reclassification to 12 month ECL category	5 066	-4 526	-540	0	0	0	0
reclassification to lifetime ECL category	-5 464	6 059	-595	0	0	0	0
reclassification to impaired category	-381	-1 625	2 006	0	0	0	0
other movements (FX translation, interest accruals)	95	15	46	0	49	-1	204
closing balance	**69 697**	**2 817**	**5 959**	**1**	**9 138**	**475**	**88 088**

The following tables reveal the reporting-year changes in the expected credit loss of the loans measured at amortised cost, broken down by category of expected credit loss. The comparative data show the changes in impairment calculated under IAS 39.

Changes in the gross book value broken down by the expected credit loss (ECL) categories	12 month ECL collective	lifetime ECL collective	31.12.2018 impaired assets collective	impaired assets individual	POCI assets collective	POCI assets individual	Total
opening balance	**-893**	**-353**	**-2 653**	**0**	**-4 945**	**-85**	**-8 929**
purchases during the year	-387	-28	-33	0	0	0	-448
derecognised or matured (excluding write-offs)	226	93	982	0	1 768	0	3 069
write-offs	0	0	132	0	356	0	488
modifications without derecognition	0	0	0	0	0	0	0
due to change in credit risk	-53	-477	-407	0	-927	-130	-1 994
due to unwinding of discount	0	0	-108	0	-626	-15	-749
reclassification to 12 month ECL category	-408	249	159	0	0	0	0
reclassification to lifetime ECL category	375	-521	146	0	0	0	0
reclassification to impaired category	7	654	-661	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0	0	0	0
other movements (FX translation, interest accruals)	32	1	-45	0	0	0	-12
closing balance	**-1 101**	**-382**	**-2 488**	**0**	**-4 374**	**-230**	**-8 575**

The opening amount of the expected credit loss in 2018 is higher by HUF 1 862 million than its closing amount in 2017 due to the transition from IAS 39 to IRS 9.

data in HUF million

Changes in the expected credit loss broken down by the expected credit loss (ECL) categories in IAS 39	31.12.2017			
	collective	individual	IBNR	Total
opening balance	**-5 532**	**0**	**-922**	**-6 454**
allocation	-2 419	-4	-564	-2 987
release	1 357	0	463	1 820
write-offs	578	0	67	645
due to unwinding of discount	0	0	0	0
other movements (FX translation, interest accruals)	-93	0	2	-91
closing balance	**-6 109**	**-4**	**-954**	**-7 067**

Taking collateral into account may result in that while some or all of a receivable may be overdue, there is still no need to record impairment. The following tables break down such overdue receivables by age.

Ageing of the gross value of overdue but not impaired loans broken down by the categories of the internal credit rating system	31.12.2018						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**418**	**0**	**0**	**0**	**0**	**0**	**418**
high grade	0	0	0	0	0	0	0
standard grade	418	0	0	0	0	0	418
average grade	0	0	0	0	0	0	0
below average grade	0	0	0	0	0	0	0
Non performing	**0**	**0**	**0**	**0**	**0**	**4**	**4**
standard grade	0	0	0	0	0	0	0
average grade	0	0	0	0	0	0	0
below average grade	0	0	0	0	0	0	0
impaired	0	0	0	0	0	4	4
Total private loans	**418**	**0**	**0**	**0**	**0**	**4**	**422**

Ageing of the gross value of overdue but not impaired loans broken down by the categories of the internal credit rating system	31.12.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**4 338**	**755**	**268**	**0**	**0**	**0**	**5 361**
high grade	0	0	0	0	0	0	0
standard grade	1 744	191	29	0	0	0	1 964
average grade	1 425	189	54	0	0	0	1 668
below average grade	1 169	375	185	0	0	0	1 729
Non performing	**576**	**342**	**380**	**918**	**621**	**12 796**	**15 633**
standard grade	59	12	1	12	0	1	85
average grade	55	15	6	17	0	0	93
below average grade	134	36	46	46	1	2	265
impaired	328	279	327	843	620	12 793	15 190
Total private loans	**4 914**	**1 097**	**648**	**918**	**621**	**12 796**	**20 994**

data in HUF million

Ageing of the gross value of overdue but not impaired loans broken down by the categories of the internal credit rating system	01.01.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**4 991**	**1 210**	**518**	**0**	**0**	**0**	**6 719**
high grade	10	0	0	0	0	0	10
standard grade	363	27	2	0	0	0	392
average grade	2 846	285	45	0	0	0	3 176
below average grade	1 772	898	471	0	0	0	3 141
Non performing	**170**	**91**	**349**	**948**	**1 318**	**13 672**	**16 548**
standard grade	0	0	0	0	1	5	6
average grade	9	0	72	8	3	15	107
below average grade	1	6	39	107	1	50	204
impaired	160	85	238	833	1 313	13 602	16 231
Total private loans	5 161	1 301	867	948	1 318	13 672	23 267

The ageing of overdue receivables by the maximum days in default is presented below at the end of the reporting year and in the previous years.

Ageing of the gross value of overdue loans broken down by the categories of the internal credit rating system	31.12.2018						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**1 089**	**20**	**12**	**0**	**0**	**0**	**1 121**
high grade	0	0	0	0	0	0	0
standard grade	653	4	2	0	0	0	659
average grade	301	6	3	0	0	0	310
below average grade	135	10	7	0	0	0	152
Non performing	**12**	**13**	**12**	**59**	**178**	**9 945**	**10 219**
standard grade	1	0	0	2	1	1	5
average grade	0	0	0	2	1	2	5
below average grade	0	0	0	3	1	3	7
impaired	11	13	12	52	175	9 939	10 202
Total private loans	**1 101**	**33**	**24**	**59**	**178**	**9 945**	**11 340**

Ageing of the gross value of overdue loans broken down by the categories of the internal credit rating system	31.12.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**54**	**16**	**9**	**0**	**0**	**0**	**79**
high grade	0	0	0	0	0	0	0
standard grade	19	3	1	0	0	0	23
average grade	19	4	2	0	0	0	25
below average grade	16	9	6	0	0	0	31
Non performing	**15**	**9**	**12**	**58**	**112**	**9 440**	**9 646**
standard grade	1	0	0	2	0	1	4
average grade	0	0	0	2	0	0	2
below average grade	1	0	1	3	1	2	8
impaired	13	9	11	51	111	9 437	9 632
Total private loans	**69**	**25**	**21**	**58**	**112**	**9 440**	**9 725**

data in HUF million

Ageing of the gross value of overdue loans broken down by the categories of the internal credit rating system	01.01.2017						
	≤ 30 days	31-60 days	61-90 days	91-180 days	181 days -1 year	> 1 year	Total
Performing	**42**	**21**	**15**	**0**	**0**	**0**	**78**
high grade	1	0	0	0	0	0	1
standard grade	6	3	1	0	0	0	10
average grade	19	5	2	0	0	0	26
below average grade	16	13	12	0	0	0	41
Non performing	**4**	**3**	**22**	**43**	**114**	**9 816**	**10 002**
standard grade	0	0	0	0	1	5	6
average grade	0	0	2	1	3	15	21
below average grade	0	0	1	3	1	40	45
impaired	4	3	19	39	109	9 756	9 930
Total private loans	**46**	**24**	**37**	**43**	**114**	**9 816**	**10 081**

The ageing of the expected credit loss by the maximum days in default of the related overdue receivable is presented below at the end of the reporting year and in the previous years.

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	31.12.2018			
	overdue	<=1 year	> 1 year	Total
Performing	**-27**	**-252**	**-1 208**	**-1 487**
high grade	0	0	0	0
standard grade	-5	-101	-471	-577
average grade	-13	-89	-436	-538
below average grade	-9	-62	-301	-372
Non performing	**-5 230**	**-266**	**-1 592**	**-7 088**
standard grade	-2	-1	-8	-11
average grade	-4	-3	-20	-27
below average grade	-5	-7	-35	-47
impaired	-5 219	-255	-1 529	-7 003
Total impairment for private loans	**-5 257**	**-518**	**-2 800**	**-8 575**

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	31.12.2017			
	overdue	<=1 year	> 1 year	Total
Performing	**-8**	**-162**	**-767**	**-937**
high grade	0	-3	-16	-19
standard grade	-2	-61	-252	-315
average grade	-3	-58	-312	-373
below average grade	-3	-40	-187	-230
Non performing	**-3 679**	**-286**	**-2 164**	**-6 130**
standard grade	-2	-1	-6	-9
average grade	-2	-3	-10	-15
below average grade	-5	-8	-38	-51
impaired	-3 670	-275	-2 110	-6 055
Total impairment for private loans	**-3 687**	**-449**	**-2 931**	**-7 067**

data in HUF million

Ageing of the expected credit loss broken down by the categories of the internal credit rating system	01.01.2017			
	overdue	<=1 year	> 1 year	Total
Performing	**-7**	**-121**	**-816**	**-944**
high grade	0	-1	-3	-4
standard grade	-1	-19	-43	-63
average grade	-2	-61	-482	-545
below average grade	-4	-40	-288	-332
Non performing	**-3 271**	**-212**	**-2 027**	**-5 510**
standard grade	-6	0	0	-6
average grade	-20	-1	-9	-30
below average grade	-43	-6	-53	-102
impaired	-3 202	-205	-1 965	-5 372
Total impairment for private loans	**-3 278**	**-333**	**-2 843**	**-6 454**

Loans and advances to customer – other information

Receivables from customers by country or group of countries of origin of the customers are presented below.

Net book value broken down by country	31.12.2018				
	Domestic	Russia	EU	Other	Total
Loans measured at fair value through other comprehensive income	**127**	**0**	**0**	**0**	**127**
corporate loans	84	0	0	0	84
private loans	43	0	0	0	43
Loans measured at amortised cost	**210 904**	**15 204**	**2 209**	**191**	**228 508**
corporate loans	132 510	14 625	1 860	0	148 995
private loans	78 394	579	349	191	79 513
Total	211 031	15 204	2 209	191	228 635

Net book value broken down by country	31.12.2017				
Loans measured at amortised cost	Domestic	Russia	EU	Other	Total
corporate loans	109 855	11 975	55	0	121 885
private loans	76 446	528	393	138	77 505
Total	**186 301**	**12 503**	**448**	**138**	**199 390**

Net book value broken down by country	01.01.2017				
Loans measured at amortised cost	Domestic	Russia	EU	Other	Total
corporate loans	96 119	14 404	3 763	0	114 286
private loans	75 723	593	446	103	76 865
Total	**171 842**	**14 997**	**4 209**	**103**	**191 151**

data in HUF million

Receivables from customers by industry:

Net book value Loans measured at fair value through other comprehensive income	31.12.2018
Agriculture, forestry and fishing	1
Manufacturing	34
Water supply	0
Construction	1
Wholesale and retail trade	21
Transport and storage	6
Accommodation and food service activities	12
Information and communication	2
Real estate activities	0
Professional, scientific and technical activities	7
Arts, entertainment and recreation	0
Total	**84**

Net book value Loans measured at amortised cost	31.12.2018
Agriculture, forestry and fishing	4 716
Mining and quarrying	6
Manufacturing	25 325
Electricity, gas, steam and air conditioning supply	7 171
Water supply	873
Construction	6 089
Wholesale and retail trade	26 895
Transport and storage	5 179
Accommodation and food service activities	3 489
Information and communication	16 972
Financial and insurance activities	1 827
Real estate activities	36 730
Professional, scientific and technical activities	4 154
Administrative and support service activities	2 779
Public administration and defence, compulsory	2 792
Education	1 980
Human health services and social work activities	1 181
Arts, entertainment and recreation	273
Other services	564
Foreign organizations, bodies	0
Total	**148 995**

Sberbank Hungary Ltd. data in HUF million

Net book value broken down by industry	
Net book value Loans measured at amortised cost	**31.12.2017**
Agriculture, forestry and fishing	3 980
Mining and quarrying	0
Manufacturing	17 587
Electricity, gas, steam and air conditioning supply	7 077
Water supply	922
Construction	5 697
Wholesale and retail trade	31 239
Transport and storage	5 210
Accommodation and food service activities	1 699
Information and communication	2 613
Financial and insurance activities	3 047
Real estate activities	31 580
Professional, scientific and technical activities	5 158
Administrative and support service activities	2 029
Public administration and defence, compulsory	44
Education	1 508
Human health services and social work activities	906
Arts, entertainment and recreation	1 179
Other services	410
Foreign organizations, bodies	0
Total	**121 885**

Net book value Loans measured at amortised cost	01.01.2017
Agriculture, forestry and fishing	5 316
Mining and quarrying	3 802
Manufacturing	15 086
Electricity, gas, steam and air conditioning supply	9 329
Water supply	642
Construction	4 580
Wholesale and retail trade	30 273
Transport and storage	3 165
Accommodation and food service activities	2 083
Information and communication	1 926
Financial and insurance activities	210
Real estate activities	25 770
Professional, scientific and technical activities	5 003
Administrative and support service activities	2 555
Public administration and defence, compulsory	79
Education	2 031
Human health services and social work activities	836
Arts, entertainment and recreation	1 250
Other services	350
Foreign organizations, bodies	0
Total	**114 286**

Sberbank Hungary Ltd. data in HUF million

6.6.5. Plant, property and equipment

The Group measures its plant, property and equipment using the cost model.

Changes to plant, property and equipment:

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Acquisition cost						
Opening balance as at 01.01.2017	**46**	**3 224**	**1 323**	**1 231**	**209**	**6 033**
Addition	0	37	120	47	0	204
Disposal	-8	-321	-534	-276	-4	-1 143
Reclassification	0	-1 647	0	0	0	-1 647
Closing balance as at 31.12.2017	**38**	**1 293**	**909**	**1 002**	**205**	**3 447**
Addition	0	169	369	52	35	625
Disposal	0	0	-4	-12	-26	-42
Reclassification	-16	16	0	0	0	0
Closing balance as at 31.12.2018	**22**	**1 478**	**1 274**	**1 042**	**214**	**4 030**

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Accumulated depreciation						
Opening balance as at 01.01.2017	**0**	**-1 141**	**-1 111**	**-1 060**	**-121**	**-3 433**
Regular depreciation for the year	0	-95	-119	-56	-45	-315
Extraordinary depreciation for the year	0	0	0	0	0	0
Disposal	0	182	530	269	2	983
Reclassification	0	470	0	0	0	470
Closing balance as at 31.12.2017	**0**	**-584**	**-700**	**-847**	**-164**	**-2 295**
Regular depreciation for the year	0	-76	-78	-50	-45	-249
Extraordinary depreciation for the year	0	0	0	0	0	0
Disposal	0	0	3	12	25	40
Reclassification	0	0	0	0	0	0
Closing balance as at 31.12.2018	**0**	**-660**	**-775**	**-885**	**-184**	**-2 504**

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Accumulated impairment						
Opening balance as at 01.01.2017	**-5**	**-807**	**0**	**-10**	**0**	**-822**
Addition	0	0	0	0	0	0
Release	0	80	0	0	0	80
Disposal	0	0	0	0	0	0
Reclassification	0	619	0	7	0	626
Closing balance as at 31.12.2017	**-5**	**-108**	**0**	**-3**	**0**	**-116**
Addition	0	-2	0	0	0	-2
Release	0	0	0	0	0	0
Disposal	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0
Closing balance as at 31.12.2018	**-5**	**-110**	**0**	**-3**	**0**	**-118**

Sberbank Hungary Ltd. data in HUF million

	Land	Buildings	Hardware	Equipments	Vehicles	Total
Net book value						
01.01.2017	41	1 276	212	161	88	1 778
31.12.2017	33	601	209	152	41	1 036
31.12.2018	17	708	499	154	30	1 408

Plant, property and equipment rose by HUF 372 million in net terms in 2018. The main reason for this change is that a new branch had to be established in Paks during the expansion of the branch network; in addition to this, two branches were relocated to more modern surroundings in 2018 (Győr and Székesfehérvár). Further conversion, renovation and network development tasks were needed owing to the amalgamation of central functions into one office building, after which the Bank's former head office was sold in the summer of 2018.

As a result of organisational and preparatory work that was started earlier, the sale became very probable towards the end of 2017 and so the office building was reclassified to assets held for sale.

The contractual commitments for the acquisition of plant, property and equipment amounted to HUF 42 million at the end of 2018. All of these were completed and capitalised at the beginning of the following year.

The Bank received HUF 0.5 million in 2018 and HUF 0.4 million in 2017 in the form of compensation related to damage from third parties.

The Group does not have any plant, property and equipment that has temporarily been withdrawn from use.

Gross carrying amounts of property, plant and equipment still in use but completely written off:

	31.12.2018	31.12.2017	01.01.2017
Land	0	0	0
Buildings	99	228	328
Hardware	625	464	702
Equipments	745	677	918
Vehicles	179	36	0
Total	**1 648**	**1 405**	**1 948**

The market value of assets still in use but completely written off is not significant.

The fair value of property, plant and equipment measured using the historical cost model is the same as the net carrying amount since the Bank regularly adjusts the carrying amount to market value by means of impairment.

data in HUF million

6.6.6. Intangible assets

The Group measures its intangible assets using the cost model.

Changes to intangible assets:

	Software	Other intangibles	Total
Acquisition cost			
Opening balance as at 01.01.2017	8 194	99	8 293
Addition	0	0	0
Separate acquisition	0	0	0
Internally generated	1 704	0	1 704
Business combination	0	0	0
Disposal	-3 118	-85	-3 203
Reclassification	0	0	0
Closing balance as at 31.12.2017	6 780	14	6 794
Addition	0	0	0
Separate acquisition	0	0	0
Internally generated	2 358	0	2 358
Business combination	0	0	0
Disposal	0	0	0
Reclassification	0	0	0
Closing balance as at 31.12.2018	9 138	14	9 152

	Software	Other intangibles	Total
Accumulated depreciation			
Opening balance as at 01.01.2017	-6 802	-98	-6 900
Regular depreciation for the year	-656	0	-656
Extraordinary depreciation for the year	0	0	0
Disposal	3 104	85	3 189
Reclassification	0	0	0
Closing balance as at 31.12.2017	-4 354	-13	-4 367
Regular depreciation for the year	-668	-1	-669
Extraordinary depreciation for the year	0	0	0
Disposal	0	0	0
Reclassification	0	0	0
Closing balance as at 31.12.2018	-5 022	-14	-5 036

	Software	Other intangibles	Total
Accumulated impairment			
Opening balance as at 01.01.2017	-61	0	-61
Addition	0	0	0
Release	0	0	0
Disposal	14	0	14
Reclassification	0	0	0
Closing balance as at 31.12.2017	-47	0	-47
Addition	0	0	0
Release	0	0	0
Disposal	0	0	0
Reclassification	0	0	0
Closing balance as at 31.12.2018	-47	0	-47

Sberbank Hungary Ltd. data in HUF million

	Software	Other intangibles	Total
Net book value			
01.01.2017	1 331	1	1 332
31.12.2017	2 379	1	2 380
31.12.2018	4 069	0	4 069

The main reason for the growth in 2018 is the software purchases, expansions and licence renewals in the last quarter of the year.

The Bank held the following main intangible assets in its books at the end of 2018:

- Data warehouse developments totalling HUF 557 million.
- Developments and licence fees for the Bank's core system totalling HUF 408 million.
- Projects and developments related to the IFRS transition totalling HUF 249 million.

Gross carrying amount of intangible assets still in use but completely written off:

	31.12.2018	31.12.2017	01.01.2017
Software	525	373	376
Other intangibles	12	12	98
Total	**537**	**385**	**474**

The market value of assets still in use but completely written off is not significant.

6.6.7. Equity investments

Interests of the Group:

		Participation (%)		
Equity investment	**Main activity**	**31.12.2018**	**31.12.2017**	**01.01.2017**
Other investments				
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt	Other monetary mediation	1,39%	1,39%	1,39%
Garantiqa Hitelgarancia Zrt.	Other financial services	0,13%	0,13%	0,13%
S.W.I.F.T.	Financial services	0,01%	0,01%	0,01%
Visa Inc.	Financial services	0,01%	0,01%	0,01%

Carrying amount of the interests:

Equity investment	Valuation method	31.12.2018
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt	Fair value through Other Comprehensive Income	67
Garantiqa Hitelgarancia Zrt.	Fair value through Other Comprehensive Income	10
S.W.I.F.T.	Fair value through Other Comprehensive Income	0
Visa Inc.	Fair value through Profit or Loss	361
Total		**605**

Sberbank Hungary Ltd. data in HUF million

Equity investment	Valuation method	31.12.2017	01.01.2017
Egressy Immo Kft.	Cost less impairment	0	0
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt	Available for sale	67	67
Garantiqa Hitelgarancia Zrt.	Available for sale	10	10
S.W.I.F.T.	Available for sale	0	0
Visa Inc.	Available for sale	287	224
Total		**539**	**444**

The change in the value of Visa Inc. is due to changes in the market price and the exchange rate.

Dividends received on the equity investments:

	2018	2017
Fundamenta- Lakáskassza Lakástakarékpénztár Zrt	35	35
Visa Inc.	1	1
Total	**36**	**36**

6.6.8. Tax assets and liabilities

	31.12.2018	31.12.2017	01.01.2017
Current tax assets			
Local business tax	0	12	84
Innovation contribution	12	2	12
Corporate income tax	1	5	0
Current tax assets total	13	19	96
Deferred tax assets	0	0	0
Tax assets total	**13**	**19**	**96**

	31.12.2018	31.12.2017	01.01.2017
Current tax liabilities			
Local business tax	36	0	0
Innovation contribution	0	0	0
Corporate income tax	0	1	13
Current tax liabilities total	36	1	13
Deferred tax liabilities	0	0	0
Tax liabilities total	**36**	**1**	**13**

Since the profitable operation is uncertain in the near future, the Group does not show deferred tax assets in its Statement of Financial Position.

The following table presents temporary differences, unused tax losses and tax credits for which no deferred tax was recognised in the balance sheet.

Sberbank Hungary Ltd. data in HUF million

	31.12.2018	
	in Profit or loss	in Other comprehensive income
Losses carried forward, tax allowance regarding FX rescue program	68 540	0
Securities available for sale	0	-282
Temporary differences in relation to discrepancies of HAS and IFRS	1 658	0
Tax base modifying items	1 147	0
Total	**71 345**	**-282**

	31.12.2017	
	in Profit or loss	in Other comprehensive income
Losses carried forward, tax allowance regarding FX rescue program	69 403	0
Securities available for sale	0	-424
Temporary differences in relation to discrepancies of HAS and IFRS	2 487	0
Tax base modifying items	1 210	0
Total	**73 100**	**-424**

	01.01.2017	
	in Profit or loss	in Other comprehensive income
Losses carried forward, tax allowance regarding FX rescue program	69 622	0
Securities available for sale	0	-393
Temporary differences in relation to discrepancies of HAS and IFRS	2 199	0
Tax base modifying items	1 649	0
Total	**73 473**	**-393**

Loss carried forward and tax allowances by expiry:

	31.12.2018
amount of tax allowance re FX program without expiration	237
amount with expiration till 31.12.2025	60 100
amount with expiration till 31.12.2023	8
amount with expiration till 31.12.2022	4
amount with expiration till 31.12.2021	4 190
amount with expiration till 31.12.2020	4 002
Total	**68 540**

Sberbank Hungary Ltd. data in HUF million

6.6.9. Derivatives

Derivatives by type:

	31.12.2018				
	Nominal value /assets	Nominal value /liabilities	Net position	Positive fair value	Negative fair vlaue
Exchange traded deals	0	0	0	0	0
OTC deals					
Interest rate swaps	91 518	-91 518	**0**	1 084	-535
Interest rate options	3 296	-3 296	**0**	5	-6
Basis swaps	0	0	**0**	0	0
FX options	0	0	**0**	0	0
FX swaps	22 670	-22 472	**198**	77	-104
FX forwards	9 284	-9 341	**-57**	53	-87
Index options	0	0	**0**	0	0
Total	**126 768**	**-126 627**	**141**	**1 219**	**-732**

	31.12.2017				
	Nominal value /assets	Nominal value /liabilities	Net position	Positive fair value	Negative fair vlaue
Exchange traded deals	0	0	**0**	0	0
OTC deals					
Interest rate swaps	73 445	-73 118	**327**	490	-841
Interest rate options	0	0	**0**	0	0
Basis swaps	0	0	**0**	0	0
FX options	66	-77	**-11**	28	-33
FX swaps	4 216	-4 198	**18**	27	-12
FX forwards	6 425	-6 479	**-54**	18	-71
Index options	700	0	**700**	0	0
Total	**84 852**	**-83 872**	**980**	**563**	**-957**

	01.01.2017				
	Nominal value /assets	Nominal value /liabilities	Net position	Positive fair value	Negative fair vlaue
Exchange traded deals	0	0	**0**	0	0
OTC deals					
Interest rate swaps	51 583	-51 276	**307**	467	-946
Interest rate options	0	0	**0**	0	0
Basis swaps	28 461	-28 358	**103**	0	0
FX options	524	-517	**7**	66	-66
FX swaps	33 333	-33 547	**-214**	333	-206
FX forwards	31 387	-31 420	**-33**	261	-253
Index options	700	0	**700**	0	0
Total	**145 988**	**-145 118**	**870**	**1 127**	**-1 471**

data in HUF million

Derivative assets broken down by maturity:

Nominal value	31.12.2018				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	50 000	2 660	19 289	19 569	**91 518**
Interest rate options	0	0	3 296	0	**3 296**
Basis swaps	0	0	0	0	**0**
FX options	0	0	0	0	**0**
FX swaps	13 961	8 709	0	0	**22 670**
FX forwards	4 119	3 959	1 206	0	**9 284**
Index options	0	0	0	0	**0**
Total	**68 080**	**15 328**	**23 791**	**19 569**	**126 768**

Nominal value	31.12.2017				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	140	5 683	67 622	0	73 445
Interest rate options	0	0	0	0	**0**
Basis swaps	0	0	0	0	**0**
FX options	59	7	0	0	**66**
FX swaps	2 797	1 419	0	0	**4 216**
FX forwards	2 943	3 482	0	0	**6 425**
Index options	0	700	0	0	**700**
Total	**5 939**	**11 291**	**67 622**	**0**	**84 852**

Nominal value	01.01.2017				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	0	35	47 229	4 319	**51 583**
Interest rate options	0	0	0	0	**0**
Basis swaps	7 671	20 790	0	0	**28 461**
FX options	430	46	48	0	**524**
FX swaps	33 178	155	0	0	**33 333**
FX forwards	3 755	26 985	647	0	**31 387**
Index options	0	0	700	0	**700**
Total	**45 034**	**48 011**	**48 624**	**4 319**	**145 988**

Derivative liabilities broken down by maturity:

Nominal value	31.12.2018				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	50 000	2 660	19 289	19 569	**91 518**
Interest rate options	0	0	3 296	0	**3 296**
Basis swaps	0	0	0	0	**0**
FX options	0	0	0	0	**0**
FX swaps	13 955	8 517	0	0	**22 472**
FX forwards	4 112	3 979	1 250	0	**9 341**
Index options	0	0	0	0	**0**
Total	**68 067**	**15 156**	**23 835**	**19 569**	**126 627**

data in HUF million

Nominal value	31.12.2017				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	16	5 683	67 419	0	**73 118**
Interest rate options	0	0	0	0	**0**
Basis swaps	0	0	0	0	**0**
FX options	70	7	0	0	**77**
FX swaps	2 802	1 396	0	0	**4 198**
FX forwards	2 953	3 526	0	0	**6 479**
Index options	0	0	0	0	**0**
Total	**5 841**	**10 612**	**67 419**	**0**	**83 872**

Nominal value	01.01.2017				
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Interest rate swaps	0	35	46 965	4 276	**51 276**
Interest rate options	0	0	0	0	**0**
Basis swaps	7 711	20 647	0	0	**28 358**
FX options	429	39	49	0	**517**
FX swaps	33 391	156	0	0	**33 547**
FX forwards	3 738	27 032	650	0	**31 420**
Index options	0	0	0	0	**0**
Total	**45 269**	**47 909**	**47 664**	**4 276**	**145 118**

6.6.10. Other assets

	31.12.2018	31.12.2017	01.01.2017
Net book value			
Other financial assets	1 786	1 750	1 854
Other non-financial assets	109	106	480
Total	**1 895**	**1 856**	**2 334**

Composition of other financial assets:

	31.12.2018	31.12.2017	01.01.2017
Other financial assets			
Business support receivables	147	333	29
Receivables from the state	14	19	14
Receivables from deferred payments	53	52	52
Plastic cards settlements	324	296	219
Other settlements	49	41	149
Advances	71	42	29
Initial fair value difference of FGS loans	457	543	484
Prepaid expenses and accrued income	727	426	880
Total	**1 842**	**1 752**	**1 856**

data in HUF million

	31.12.2018	31.12.2017	01.01.2017
Impairment on other financial assets			
Business support receivables	-36	-2	-2
Receivables from the state	0	0	0
Receivables from deferred payments	0	0	0
Plastic cards settlements	-9	0	0
Other settlements	-11	0	0
Advances	0	0	0
Initial fair value difference of FGS loans	0	0	0
Prepaid expenses and accrued income	0	0	0
Total	**-56**	**-2**	**-2**

Composition of other non-financial assets:

	31.12.2018	31.12.2017	01.01.2017
Other non-financial assets			
Raw materials and inventory	98	105	540
Collaterals taken into possession	0	13	13
Receivables on operating taxes	10	7	9
Other non-financial assets	1	0	0
Total	**109**	**125**	**562**

	31.12.2018	31.12.2017	01.01.2017
Impairment on other non-financial assets			
Raw materials and inventory	0	-19	-82
Collaterals taken into possession	0	0	0
Receivables on operating taxes	0	0	0
Other non-financial assets	0	0	0
Total	**0**	**-19**	**-82**

In 2018 the sale of plots of land in Szombathely which were previously pledged as collateral for loans and taken into possession when the borrower defaulted became very probable, therefore they were reclassified into the held-for-sale category.

6.6.11. Non-current assets and disposal groups held for sale

Composition of assets held for sale:

	31.12.2018	31.12.2017	01.01.2017
Land and buildings	13	557	0
Total	**13**	**557**	**0**

Sberbank Hungary Ltd. data in HUF million

Changes to assets held for sale:

	Land and buildings	Total
Opening balance as at 01.01.2017	**0**	**0**
Reclassification into Held for sale category	557	557
Sale	0	0
Closing balance as at 31.12.2017	**557**	**557**
Reclassification into Held for sale category	13	13
Sale	-557	-557
Closing balance as at 31.12.2018	**13**	**13**

In 2017 the Bank reclassified its former head office into property held for sale, as it met the criteria required by IFRS 5:

- the Bank intention was principally the sale of the asset rather than continuing use;
- on reclassification the asset was available for immediate sale;
- negotiations were under way with a potential buyer.

The head office was sold in the summer of 2018.

In 2018 the sale of plots of land in Szombathely which were previously pledged as collateral for loans and taken into possession when the borrower defaulted became very probable, therefore they were reclassified into the held-for-sale category.

6.6.12. Liabilities to credit institutions

Liabilities to credit institutions are recorded initially at fair value and subsequently at amortised cost.

Balances of liabilities to credit institutions:

	31.12.2018	31.12.2017	01.01.2017
Liabilities due to central banks	**16 585**	**23 644**	**24 079**
Up to 1 year	15 957	23 644	24 079
1 to 5 years	628	0	0
More than 5 years	0	0	0
Liabilities due to other credit institutions	**18 353**	**18 987**	**38 086**
Up to 1 year	634	968	27 247
1 to 5 years	10 341	8 995	411
More than 5 years	7 378	9 024	10 428
Total	**34 938**	**42 631**	**62 165**

data in HUF million

6.6.13. Liabilities to customers

Liabilities to customers are recorded initially at fair value and subsequently at amortised cost.

Balances of liabilities to customers:

	31.12.2018	31.12.2017	01.01.2017
Liabilities due to corporate customers	**182 528**	**162 770**	**131 518**
Up to 1 year	174 942	162 584	117 322
1 to 5 years	7 586	186	14 196
More than 5 years	0	0	0
Liabilities due to private customers	**82 791**	**82 322**	**87 315**
Up to 1 year	82 388	81 959	84 384
1 to 5 years	403	363	2 931
More than 5 years	0	0	0
Total	**265 319**	**245 092**	**218 833**

6.6.14. Debt securities in issue

Issued bonds are recorded initially at fair value and subsequently at amortised cost.

Liabilities due to issued bonds:

	31.12.2018	31.12.2017	01.01.2017
Debt securities in issue			
Up to 1 year	2 829	981	0
1 to 5 years	1 348	4 138	4 985
More than 5 years	0	0	0
Total	**4 177**	**5 119**	**4 985**

Information on issued bonds:

Bond	Start date	Maturity date	Nominal amount	Currency	Interest rate*	Book value as at 31.12.2018
VICTORIA 2	2009.04.01	2019.04.01	634	EUR	50,00%	941
VICTORIA 3	2009.07.01	2019.07.01	452	EUR	30,00%	580
VICTORIA 4	2009.12.01	2019.12.02	965	EUR	40,00%	1 308
VICTORIA 5	2010.02.01	2020.02.01	265	EUR	40,00%	357
VICTORIA 6	2010.05.03	2020.05.01	329	EUR	25,00%	397
VICTORIA 7	2010.07.01	2020.07.01	323	EUR	35,00%	416
VICTORIA 8	2010.10.01	2020.10.01	140	EUR	35,00%	178
Total						**4 177**

The Bank fully repaid the Victoria 1 bond maturing in 2018.

Sberbank Hungary Ltd. data in HUF million

Bond	Start date	Maturity date	Nominal amount	Currency	Interest rate*	Book value as at 31.12.2017
VICTORIA 1	2008.09.01	2018.09.03	673	HUF	50,00%	981
VICTORIA 2	2009.04.01	2019.04.01	629	EUR	50,00%	896
VICTORIA 3	2009.07.01	2019.07.01	460	EUR	30,00%	570
VICTORIA 4	2009.12.01	2019.12.02	941	EUR	40,00%	1 228
VICTORIA 5	2010.02.01	2020.02.01	323	EUR	40,00%	419
VICTORIA 6	2010.05.03	2020.05.01	351	EUR	25,00%	410
VICTORIA 7	2010.07.01	2020.07.01	352	EUR	35,00%	436
VICTORIA 8	2010.10.01	2020.10.01	146	EUR	35,00%	179
Total						**5 119**

Bond	Start date	Maturity date	Nominal amount	Currency	Interest rate*	Book value as at 01.01.2017
VICTORIA 1	2008.09.01	2018.09.03	673	HUF	50,00%	941
VICTORIA 2	2009.04.01	2019.04.01	644	EUR	50,00%	878
VICTORIA 3	2009.07.01	2019.07.01	472	EUR	30,00%	566
VICTORIA 4	2009.12.01	2019.12.02	958	EUR	40,00%	1 202
VICTORIA 5	2010.02.01	2020.02.01	324	EUR	40,00%	404
VICTORIA 6	2010.05.03	2020.05.01	352	EUR	25,00%	399
VICTORIA 7	2010.07.01	2020.07.01	353	EUR	35,00%	422
VICTORIA 8	2010.10.01	2020.10.01	147	EUR	35,00%	173
Total						**4 985**

* Interest rates relate to the whole term of the bonds, they are not annual interest rates.

Changes result on the one hand from changes in the exchange rates, on the other hand from repurchases.

Loss on repurchase of bonds totalled HUF -5 million in 2018 and HUF -41 million in 2017.

6.6.15. Subordinated liabilities

Subordinated debt is recorded initially at fair value and subsequently at amortised cost.

Composition of subordinated debt:

	31.12.2018	31.12.2017	01.01.2017
Subordinated debt			
Up to 1 year	0	0	12 301
1 to 5 years	0	0	0
More than 5 years	9 062	8 742	8 804
Total	**9 062**	**8 742**	**21 105**

Sberbank Hungary Ltd. data in HUF million

Information on the individual loans:

Lender	Start date	Maturity date	Nominal amount in currency	Currency	Interest rate	Book value as at 31.12.2018
Sberbank Europe AG	2015.07.27	2025.07.27	15 000 000	EUR	3M EURIBOR + 3,63%	4 851
Sberbank Europe AG	2016.04.11	2024.04.11	13 000 000	EUR	3M EURIBOR + 3,63%	4 211
Total						**9 062**

Lender	Start date	Maturity date	Nominal amount in currency	Currency	Interest rate	Book value as at 31.12.2017
Sberbank Europe AG	2015.07.27	2025.07.27	15 000 000	EUR	3M EURIBOR + 3,63%	4 680
Sberbank Europe AG	2016.04.11	2024.04.11	13 000 000	EUR	3M EURIBOR + 3,63%	4 062
Total						**8 742**

In November 2017 the Bank repaid the subordinated loan received from Sberbank of Russia.

Lender	Start date	Maturity date	Nominal amount in currency	Currency	Interest rate	Book value as at 01.01.2017
Sberbank Europe AG	2015.07.27	2025.07.27	15 000 000	EUR	3M EURIBOR + 6,5%	4 718
Sberbank Europe AG	2016.04.11	2024.04.11	12 000 000	EUR	3M EURIBOR + 4,9%	4 086
Sberbank of Russia	2012.02.15	2017.11.11	42 500 000	CHF	3M CHF LIBOR + 2,33%	12 301
Total						**21 105**

6.6.16. Provisions

Provisions for contingent liabilities and commitments related to off-balance sheet lending

As part of its universal banking activity and in addition to opening credit lines the Bank also offers its customers financial guarantees as well as letter of credit facilities. Financial guarantees means furnishing bank guarantees for various purposes, while letters of credit satisfy the needs of a special group of customers, so they are small in number but stable.

The rise in the portfolio of credit lines at the end of 2017 was a sign of the lending boom in 2018, and in the course of 2018, most of the facilities opened in 2017 were used and became exposures on the balance sheet.

Future and contingent liabilities	31.12.2018	31.12.2017	01.01.2017
credit lines	45 206	75 368	40 432
provisions for credit lines	-168	-358	-186
financial guarantees	34 526	28 097	16 264
provisions for financial guarantees	-292	-141	-156
letter of credtis	34 077	31 308	35 045
provisions for letter of credits	-28	-22	-18
Total	**113 321**	**134 252**	**91 381**

data in HUF million

Accordingly, the provisions for off-balance sheet credit risks dropped at the beginning of the reporting year too, but this was also caused by the transition to IFRS 9, which brought about a one-off fall in the portfolio of HUF 261 million (see Section 6.5 First-time adoption of IFRS). The provisioning data for the reporting year in the table above are figures under IFRS 9, while comparative information is calculated in accordance with the rules of IAS 39.

From here onwards, in the detailed statements in this section reporting-year provision data are figures under IFRS 9 and are presented in the following breakdown

- 12-month expected credit loss (stage 1)
- lifetime expected credit loss (stage 2) and
- credit impaired (stage 3),

while comparative data are calculated under IAS 39 and are broken down by

- collective and
- individual

assessment category.

The tables below present off-balance sheet maximum credit risk exposures broken down according to the Bank's internal credit rating system and the expected credit loss categories at the end of the reporting year.

Off-balance sheet exposures broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2018				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
credit lines	**44 128**	**590**	**3**	**485**	**45 206**
Performing	44 128	581	0	0	44 709
high grade	2 868	45	0	0	2 913
standard grade	25 597	5	0	0	25 602
average grade	13 905	396	0	0	14 301
below average grade	1 758	135	0	0	1 893
impaired	0	0	0	0	0
Non performing	0	9	3	485	497
standard grade	0	0	0	0	0
average grade	0	0	0	0	0
below average grade	0	9	0	0	9
impaired	0	0	3	485	488
financial guarantees	**33 937**	**50**	**0**	**539**	**34 526**
Performing	33 929	50	0	0	33 979
high grade	8 158	0	0	0	8 158
standard grade	20 650	0	0	0	20 650
average grade	4 973	0	0	0	4 973
below average grade	148	50	0	0	198
Non performing	8	0	0	539	547
standard grade	0	0	0	0	0
average grade	6	0	0	0	6
impaired	2	0	0	539	541
letter of credits	**34 077**	**0**	**0**	**0**	**34 077**
Performing	34 077	0	0	0	34 077
standard grade	33 775	0	0	0	33 775
below average grade	302	0	0	0	302
Non performing	0	0	0	0	0
standard grade	0	0	0	0	0
average grade	0	0	0	0	0
Total	**112 142**	**640**	**3**	**1 024**	**113 809**

data in HUF million

Off-balance sheet exposures broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2017		
	collective	individual	Total
credit lines	**75 364**	**4**	**75 368**
Performing	75 297	0	75 297
high grade	8 880	0	8 880
standard grade	36 952	0	36 952
average grade	28 421	0	28 421
below average grade	1 044	0	1 044
impaired	0	0	0
Non performing	67	4	71
standard grade	59	0	59
average grade	5	0	5
below average grade	0	0	0
impaired	3	4	7
financial guarantees	**28 037**	**60**	**28 097**
Performing	27 964	0	27 964
high grade	10 597	0	10 597
standard grade	14 977	0	14 977
average grade	2 249	0	2 249
below average grade	141	0	141
Non performing	73	60	133
standard grade	70	0	70
average grade	2	0	2
impaired	1	60	61
letter of credits	**31 308**	**0**	**31 308**
Performing	31 015	0	31 015
standard grade	31 015	0	31 015
below average grade	0	0	0
Non performing	293	0	293
standard grade	276	0	276
average grade	17	0	17
Total	**134 709**	**64**	**134 773**

Sberbank Hungary Ltd. data in HUF million

Off-balance sheet exposures broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	01.01.2017		
	collective	individual	Total
credit lines	**40 265**	**167**	**40 432**
Performing	40 184	115	40 299
high grade	67	0	67
standard grade	24 635	0	24 635
average grade	14 669	115	14 784
below average grade	813	0	813
impaired	0	0	0
Non performing	81	52	133
standard grade	0	15	15
average grade	5	0	5
below average grade	3	0	3
impaired	73	37	110
financial guarantees	**16 136**	**128**	**16 264**
Performing	16 098	0	16 098
high grade	1 247	0	1 247
standard grade	9 573	0	9 573
average grade	5 174	0	5 174
below average grade	104	0	104
Non performing	38	128	166
standard grade	0	50	50
average grade	35	0	35
impaired	3	78	81
letter of credits	**35 045**	**0**	**35 045**
Performing	35 045	0	35 045
standard grade	35 045	0	35 045
below average grade	0	0	0
Non performing	0	0	0
standard grade	0	0	0
average grade	0	0	0
Total	**91 446**	**295**	**91 741**

The following tables reveal the reporting-year changes in off-balance sheet exposures relating to lending, broken down by category of expected credit loss at the end of the reporting year to credit lines, financial guarantees and letters of credit.

The main reason for the drop in credit lines was the use of such facilities, and only a smaller portion, HUF 2,201 million, was credit lines expired without being used.

data in HUF million

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories credit lines	31.12.2018				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
opening balance	74 904	452	8	4	75 368
new exposures during the year	6 155	20	0	0	6 175
derecognised as matured	-2 201	-43	0	0	-2 244
deregnoised as used	-35 245	-163	-48	114	-35 342
reclassification between collective and individual categories	0	0	-129	129	0
reclassification to 12 month ECL category	423	-399	-24	0	0
reclassification to lifetime ECL category	-762	767	-5	0	0
reclassification to impaired category	-402	-45	202	245	0
other movements (FX translation, rounding)	1 256	1	-1	-7	1 249
closing balance	**44 128**	**590**	**3**	**485**	**45 206**

No financial guarantees were claimed at the Bank in 2018.

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories financial guarantees	31.12.2018				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
opening balance	28 097	0	0	0	28 097
new exposures during the year	16 747	3	-1	-35	16 714
derecognised as matured	-10 815	0	0	0	-10 815
deregnoised as used	0	0	0	0	0
reclassification between collective and individual categories	0	0	-5	5	0
reclassification to 12 month ECL category	19	-19	0	0	0
reclassification to lifetime ECL category	-66	66	0	0	0
reclassification to impaired category	-577	0	6	570	-1
other movements (FX translation, rounding)	532	0	0	-1	531
closing balance	**33 937**	**50**	**0**	**539**	**34 526**

Changes in the off-balance sheet exposures broken down by the expected credit loss (ECL) categories letter of credtis	31.12.2018				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
opening balance	31 308	0	0	0	31 308
new exposures during the year	3 109	-3	0	0	3 106
derecognised as matured	-453	0	0	0	-453
deregnoised as used	-1 062	0	0	0	-1 062
reclassification between collective and individual categories	0	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0	0
reclassification to impaired category	0	0	0	0	0
other movements (FX translation, rounding)	1 175	3	0	0	1 178
closing balance	**34 077**	**0**	**0**	**0**	**34 077**

Sberbank Hungary Ltd. data in HUF million

The following tables show the provisions for off-balance sheet exposures related to lending, broken down according to the Bank's internal credit rating system and the expected credit loss categories. Comparative information shows the provisions calculated under IAS 39.

Provisions for off-balance sheet broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2018				
	12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
credit lines	**108**	**2**	**0**	**58**	**168**
Performing	108	2	0	0	110
high grade	2	0	0	0	2
standard grade	41	0	0	0	41
average grade	49	1	0	0	50
below average grade	16	1	0	0	17
impaired	0	0	0	0	0
Non performing	0	0	0	58	58
standard grade	0	0	0	0	0
average grade	0	0	0	0	0
below average grade	0	0	0	0	0
impaired	0	0	0	58	58
financial guarantees	**70**	**1**	**0**	**221**	**292**
Performing	70	1	0	0	71
high grade	2	0	0	0	2
standard grade	39	0	0	0	39
average grade	26	0	0	0	26
below average grade	3	1	0	0	4
Non performing	0	0	0	221	221
standard grade	0	0	0	0	0
average grade	0	0	0	0	0
impaired	0	0	0	221	221
letter of credtis	**28**	**0**	**0**	**0**	**28**
Performing	28	0	0	0	28
standard grade	23	0	0	0	23
below average grade	5	0	0	0	5
Non performing	0	0	0	0	0
standard grade	0	0	0	0	0
average grade	0	0	0	0	0
Contingent liabilities and commitments total	**206**	**3**	**0**	**279**	**488**

data in HUF million

Provisions for off-balance sheet broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	31.12.2017		
	collective	individual	Total
credit lines	358	0	358
Performing	357	0	357
high grade	43	0	43
standard grade	164	0	164
average grade	149	0	149
below average grade	1	0	1
impaired	0	0	0
Non performing	1	0	1
standard grade	0	0	0
average grade	0	0	0
below average grade	0	0	0
impaired	1	0	1
financial guarantees	102	39	141
Performing	102	0	102
high grade	50	0	50
standard grade	42	0	42
average grade	9	0	9
below average grade	1	0	1
Non performing	0	39	39
standard grade	0	0	0
average grade	0	0	0
impaired	0	39	39
letter of credtis	22	0	22
Performing	22	0	22
standard grade	22	0	22
below average grade	0	0	0
Non performing	0	0	0
standard grade	0	0	0
average grade	0	0	0
Provisions total	482	39	521

Sberbank Hungary Ltd. data in HUF million

Provisions for off-balance sheet broken down by the internal credit rating system categories and the categories of expected credit loss (ECL)	01.01.2017		
	collective	individual	Total
credit lines	**145**	**41**	**186**
Performing	144	41	185
high grade	0	0	0
standard grade	89	0	89
average grade	54	41	95
below average grade	1	0	1
impaired	0	0	0
Non performing	1	0	1
standard grade	0	0	0
average grade	0	0	0
below average grade	0	0	0
impaired	1	0	1
financial guarantees	**46**	**110**	**156**
Performing	45	0	45
high grade	0	0	0
standard grade	26	0	26
average grade	19	0	19
below average grade	0	0	0
Non performing	1	110	111
standard grade	0	33	33
average grade	1	0	1
impaired	0	77	77
letter of credtis	**18**	**0**	**18**
Performing	18	0	18
standard grade	18	0	18
below average grade	0	0	0
Non performing	0	0	0
standard grade	0	0	0
average grade	0	0	0
Provisions total	**209**	**151**	**360**

The following tables show the reporting-year changes in provisions for off-balance sheet exposures related to lending, broken down according to the Bank's internal credit rating system and the expected credit loss categories. In light of the low interest rates, the impact of discounting the provisions for long-term transactions is negligible and so this is not presented on a separate row and is not reclassified to interest expenses.

data in HUF million

Changes in the provisions broken down by the expected credit loss (ECL) categories credit lines	31.12.2018 12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
opening balance	**159**	**4**	**3**	**0**	**166**
new exposures during the year	137	2	2	32	173
derecognised as matured	-136	-4	-1	0	-141
due to change in credit risk	-57	1	-2	25	-33
due to unwinding of discount	0	0	0	0	0
reclassification to 12 month ECL category	5	-3	-2	0	0
reclassification to lifetime ECL category	-1	1	0	0	0
reclassification to impaired category	0	0	0	0	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0	0
other movements (FX translation, interest accruals)	1	1	0	1	3
closing balance	**108**	**2**	**0**	**58**	**168**

The opening amount of provisions for credit lines in 2018 is lower by HUF 192 million than its closing amount in 2017 due to the transition from IAS 39 to IRS 9.

Changes in the provisions broken down by the expected credit loss (ECL) categories financial guarantess	31.12.2018 12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
opening balance	**31**	**1**	**0**	**39**	**71**
new exposures during the year	25	0	0	0	25
derecognised as matured	-4	0	0	0	-4
due to change in credit risk	19	0	0	181	200
due to unwinding of discount	0	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0	0
reclassification to impaired category	-2	0	0	2	0
changes in ECL measurement model, assumptions and inputs	0	0	0	0	0
other movements (FX translation, interest accruals)	1	0	0	-1	0
closing balance	**70**	**1**	**0**	**221**	**292**

The opening amount of provisions for financial guarantees in 2018 is lower by HUF 70 million than its closing amount in 2017 due to the transition from IAS 39 to IRS 9.

Changes in the provisions broken down by the expected credit loss (ECL) categories letter of credits	31.12.2018 12 month ECL collective	lifetime ECL collective	impaired assets collective	impaired assets individual	Total
opening balance	**23**	**0**	**0**	**0**	**23**
new exposures during the year	12	7	0	0	19
derecognised as matured	-7	0	0	0	-7
due to change in credit risk	-1	-7	0	0	-8
due to unwinding of discount	0	0	0	0	0
reclassification to 12 month ECL category	0	0	0	0	0
reclassification to lifetime ECL category	0	0	0	0	0
reclassification to impaired category	0	0	0	0	0

data in HUF million

changes in ECL measurement model, assumptions and inputs	0	0	0	0	0
other movements (FX translation, interest accruals)	1	0	0	0	1
closing balance	**28**	**0**	**0**	**0**	**28**

The opening amount of provisions for letter of credits in 2018 is higher by HUF 1 million than its closing amount in 2017 due to the transition from IAS 39 to IRS 9.

The following tables show the changes for the year prior to the reporting year in provisions for off-balance sheet exposures related to lending. Comparative information shows the provisions calculated under IAS 39.

Changes in the provisions broken down by IAS 39 categories	**31.12.2017**		
credit lines	**collective**	**individual**	**Total**
opening balance	145	41	186
allocation	272	0	272
release	-60	-40	-100
due to unwinding of discount	0	0	0
other (rounding)	0	0	0
closing balance	**357**	**1**	**358**

Changes in the provisions broken down by IAS 39 categories	**31.12.2017**		
financial guarantees	**collective**	**individual**	**Total**
opening balance	45	111	156
allocation	84	0	84
release	-28	-72	-100
due to unwinding of discount	0	0	0
other (rounding)	1	0	1
closing balance	**102**	**39**	**141**

Changes in the provisions broken down by IAS 39 categories	**31.12.2017**		
letter of credits	**collective**	**individual**	**Total**
opening balance	18	0	18
allocation	22	0	22
release	-18	0	-18
due to unwinding of discount	0	0	0
other (rounding)	0	0	0
closing balance	**22**	**0**	**22**

Sberbank Hungary Ltd. data in HUF million

The following tables reveal the off-balance sheet exposures related to lending broken down by geographical region.

Off-balance sheet exposures by geographical region	31.12.2018				
	Domestic	Russia	EU	Other	Total
credit lines	38 394	2	4 826	1 984	45 206
financial guarantees	22 558	11 652	316	0	34 526
letter of credits	34 077	0	0	0	34 077
Total	**95 029**	**11 654**	**5 142**	**1 984**	**113 809**

Off-balance sheet exposures by geographical region	31.12.2017				
	Domestic	Russia	EU	Other	Total
credit lines	70 384	0	4 981	3	75 368
financial guarantees	15 428	11 416	1 247	6	28 097
letter of credits	31 308	0	0	0	31 308
Total	**117 120**	**11 416**	**6 228**	**9**	**134 773**

Off-balance sheet exposures by geographical region	01.01.2017				
	Domestic	Russia	EU	Other	Total
credit lines	36 352	0	1	4 079	40 432
financial guarantees	12 848	3 409	0	7	16 264
letter of credits	35 045	0	0	0	35 045
Total	**84 245**	**3 409**	**1**	**4 086**	**91 741**

The following tables show the off-balance sheet exposures related to lending broken down by division.

Off-balance sheet exposures broken down by industry	31.12.2018			
	credit lines	financial guarantees	letter of credits	Total
Agriculture, forestry and fishing	1 183	31	0	1 214
Mining and quarrying	30	0	0	30
Manufacturing	8 740	641	0	9 381
Electricity, gas, steam and air conditioning supply	1 121	1 026	0	2 147
Water supply	24	21	0	45
Construction	6 131	17 578	0	23 709
Wholesale and retail trade	8 247	1 381	34 077	43 705
Transport and storage	6 161	56	0	6 217
Accommodation and food service activities	453	1	0	454
Information and communication	2 810	27	0	2 837
Financial and insurance activities	1 539	3 963	0	5 502
Real estate activities	2 051	0	0	2 051
Professional, scientific and technical activities	2 793	9 612	0	12 405
Administrative and support service activities	836	149	0	985
Public administration and defence, compulsory	702	0	0	702
Education	57	0	0	57
Human health services and social work activities	167	0	0	167
Arts, entertainment and recreation	55	4	0	59
Other services	69	0	0	69
Individuals	2 037	36	0	2 073
Total	**45 206**	**34 526**	**34 077**	**113 809**

data in HUF million

Off-balance sheet exposures broken down by industry	31.12.2017 credit lines	financial guarantees	letter of credits	Total
Agriculture, forestry and fishing	1 562	0	0	1 562
Mining and quarrying	0	0	0	0
Manufacturing	14 793	602	0	15 395
Electricity, gas, steam and air conditioning supply	8 332	360	0	8 692
Water supply	32	21	0	53
Construction	17 352	19 803	0	37 155
Wholesale and retail trade	12 216	1 323	31 032	44 571
Transport and storage	6 146	75	0	6 221
Accommodation and food service activities	306	1	0	307
Information and communication	836	0	0	836
Financial and insurance activities	1 003	4 940	276	6 219
Real estate activities	4 810	1	0	4 811
Professional, scientific and technical activities	3 635	652	0	4 287
Administrative and support service activities	1 195	280	0	1 475
Public administration and defence, compulsory	709	0	0	709
Education	890	0	0	890
Human health services and social work activities	100	0	0	100
Arts, entertainment and recreation	46	18	0	64
Other services	58	13	0	71
Individuals	1 347	8	0	1 355
Total	**75 368**	**28 097**	**31 308**	**134 773**

Off-balance sheet exposures broken down by industry	01.01.2017 credit lines	financial guarantees	letter of credits	Total
Agriculture, forestry and fishing	1 045	0	0	1 045
Mining and quarrying	4 078	0	0	4 078
Manufacturing	6 842	507	0	7 349
Electricity, gas, steam and air conditioning supply	6 629	746	0	7 375
Water supply	19	21	0	40
Construction	3 976	7 622	0	11 598
Wholesale and retail trade	8 552	1 284	35 045	44 881
Transport and storage	1 188	105	0	1 293
Accommodation and food service activities	227	1	0	228
Information and communication	692	39	0	731
Financial and insurance activities	4	4 781	0	4 785
Real estate activities	1 464	231	0	1 695
Professional, scientific and technical activities	2 587	458	0	3 045
Administrative and support service activities	1 408	442	0	1 850
Public administration and defence, compulsory	764	0	0	764
Education	36	0	0	36
Human health services and social work activities	141	0	0	141
Arts, entertainment and recreation	51	14	0	65
Other services	73	13	0	86
Individuals	656	0	0	656
Total	**40 432**	**16 264**	**35 045**	**91 741**

Sberbank Hungary Ltd. data in HUF million

Other provisions

The Bank records other provisions for expected liabilities stemming from legal and other contractual obligations if it has a present obligation from a past event making it probable that it will have to make a payment and the amount of said payment can be quantified.

Composition of other provisions:

	31.12.2018	31.12.2017	01.01.2017
Other provisions			
Provisions for pending legal issues	223	227	237
Provisions for plastic card liabilities	4	3	2
Provisions for other liabilities	34	34	223
Total	**261**	**264**	**462**

Provisions for other expected liabilities as of 1 January 2017 included HUF 65 million for the branch closure and HUF 24 million for a fine from the National Bank of Hungary. Both items were used in the course of 2017.

Changes in other provisions:

	Provisions for pending legal issues	Provisions for plastic card liabilities	Provisions for other liabilities	Total
Opening balance as at 01.01.2018	227	3	34	264
Allocation	38	9	0	47
Release	-41	-1	0	-42
Use	-1	-7	0	-8
Closing balance as at 31.12.2018	223	4	34	261

	Provisions for pending legal issues	Provisions for plastic card liabilities	Provisions for other liabilities	Total
Opening balance as at 01.01.2017	237	2	223	462
Allocation	71	7	2	80
Release	-81	-1	-1	-82
Use	0	-5	-190	-195
Other movements	0	0	0	0
Closing balance as at 31.12.2017	227	3	34	264

Sberbank Hungary Ltd. data in HUF million

6.6.17. Other liabilities

	31.12.2018	31.12.2017	01.01.2017
Net book value			
Other financial liabilities	5 621	3 990	7 206
Other non-financial liabilities	669	767	737
Total	**6 290**	**4 757**	**7 943**

Composition of other financial liabilities:

	31.12.2018	31.12.2017	01.01.2017
Other financial liabilities			
Bussines support payables	612	629	3 381
Payables to the state	347	166	165
Plastic cards settlements	4	2	1
Other settlements	2 449	1 262	1 890
Advances	0	0	0
Initial fair value difference of FGS loans	526	740	710
Accrued expenses and deferred income	1 683	1 191	1 059
Total	**5 621**	**3 990**	**7 206**

Composition of other non-financial liabilities:

	31.12.2018	31.12.2017	01.01.2017
Other non-financial liabilities			
Operating tax payables	557	621	553
Other non-financial liabilities	112	146	184
Total	**669**	**767**	**737**

6.6.18. Share capital

The Bank's share capital only comprises "A" ordinary shares. The shares in the "A" series are printed, registered ordinary shares that come with voting rights. All "A" shares provide one vote at the Bank's general meeting.

Ownership structure and breakdown of shares:

	31.12.2018		31.12.2017		01.01.2017	
	pieces	amount	pieces	amount	pieces	amount
Sberbank Europe AG AT 1010 Wien Schwarzenbergplatz 3.	36 872	3 687	36 871	3 687	36 870	3 687
Türkiye Halk Bankasi TU 06240 Ankara Eskisehir Yolu 2. Cadde No 63, Söğütözü	400	40	400	40	400	40
Total	**37 272**	**3 727**	**37 271**	**3 727**	**37 270**	**3 727**

Sberbank Europe AG raised capital in 2017, during which the Bank's share capital rose by HUF 100 000. The capital increase was registered by the Court of Registration on 14 December 2017.

In 2018 Sberbank Europe AG decided to raise capital again, increasing the Bank's share capital by another HUF 100 000. The capital increase was registered by the Court of Registration on 4 December 2018.

There were no significant direct issue costs in connection with the share issues in either 2017 or 2018.

6.6.19. Capital reserve

The capital reserve contains the contributions made by owners in relation to the capital increases.

Following the capital increases the capital reserve rose by HUF 3 138 million in 2017 and by HUF 2 916 million in 2018.

6.6.20. Allocated reserve

The allocated reserve only contains the general reserve.

Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises prescribes that the Bank must transfer 10% of its reporting-year profit after tax from retained earnings into the general reserve. The general reserve may only be used to cover losses derived from operations. No dividends may be paid from the general reserve.

The general reserve in 2017 was created from the profit after tax (HUF 498 million) assessed in accordance with Hungarian accounting rules which differs from the profit after tax for 2017 in these financial statements under IFRS (HUF 204 million).

data in HUF million

6.7 Notes to the Income statement

6.7.1. Interest income

Details of interest income:

	2018	2017
Interest receivable and similar income		
Interest income calculated using effective interest method		
Cash and cash equivalents	156	123
Receivables from credit institutions	532	568
Loans and advances to customers	9 322	7 495
Securities	1 381	1 541
Other	0	0
Interest income calculated using effective interest method total	11 391	9 727
Interest income calculated using other than effective interest method		
Derivatives	348	437
Interest income calculated using other than effective interest method total	348	437
Total	**11 739**	**10 164**

The amount of government grant received in the interest of preferential deposit facilities is presented under 'Receivables from credit institutions'.

Interest income rose by HUF 1,6 billion (+16%) in 2018 owing to the robust growth in lending activity. The interest income on loans disbursed to customers rose by HUF 1,8 billion (+24,4%), while the net interest income on securities, interbank deposits and derivative transactions fell by HUF -201 million.

The rise in interest income on loans is thanks to the HUF 19 billion increase in the annual average gross lending portfolio (+8,6%), the improvement in the portfolio quality and the robust sales results of personal loans and corporate financing, in which the Bank's market share exceeded 4% by the end of 2018.

This all corroborates the Bank's more efficient asset management strategy, which is primarily aimed at raising net interest income.

Sberbank Hungary Ltd. data in HUF million

6.7.2. Interest expenses

Details of interest expenses:

	2018	2017
Interest payable and similar expenses		
Interest expense calculated using effective interest method		
Liabilities to credit institutions	-697	-754
Liabilities to customers	-795	-501
Debt securities in issue	-176	-156
Subordinated liabilities	-299	-573
Others	0	0
Interest expense calculated using effective interest method total	-1 967	-1 984
Interest expense calculated using other than effective interest method		
Derivatives	-390	-447
Interest expense calculated using other than effective interest method total	-390	-447
Total	**-2 357**	**-2 431**

The amount of government grants received in the interest on HIRS transactions is included under derivative transactions.

In 2018 the amount of interest expenses fell by HUF 74 million (-3%). The average volume of liabilities to customers increased by HUF 41 billion, while the interest paid on customer deposits rose by HUF 295 million.

Net value of interest expenses on other sources (liabilities to banks, subordinated loan capital, derivatives, issued bonds) fell by HUF 136 million.

6.7.3. Net provision charge for loan impairment

Changes in loan loss allowance are detailed in Sections 6.6.1-6.6.4.

6.7.4. Fee and commission income

	2018	2017
Fee and commission income		
Lending business and guarantees issued	717	589
Cash and settlements	4 143	3 936
Transactions with securities	6	26
Plastic cards operations	925	970
Operations with foreign currencies	2 214	2 101
Others	341	269
Total	**8 346**	**7 891**

Non-recurring fees (disbursement commissions and contracting fees) related to lending activity are taken into account during the effective interest calculation and thus recognised under interest income. Lending business and guarantees issued row containes fees related to overdrafts, issued guarantee fees and handling fees of government subsidies.

The primary reason for the increase in fee and commission income related to payment services is the growth in the payment services used by customers.

Sberbank Hungary Ltd. data in HUF million

In 2018 commission income increased by HUF 454 million (+5,8%): somewhat less than one-third of this is income from lending activity, while a little more than two-thirds is the income received from payment services. Other fee income dropped marginally.

The 7,4% increase in the number of active customers to 66 300 (+4 547 customers) contributed to all this.

6.7.5. Fee and commission expense

	2018	2017
Fee and commission expense		
Lending business and guarantees issued	-326	-166
Cash and settlements	-131	-143
Transactions with securities	0	0
Plastic cards operations	-688	-701
Operations with foreign currencies	-15	-13
Others	-48	-47
Total	**-1 208**	**-1 070**

Non-recurring fees (agent commissions, appraisal and notary fees) related to lending activity are taken into account during the effective interest calculation and thus recognised under interest income. Lending business and guarantees received row contains brokerage fees related to overdraft loans, paid guarantee fees and other administrative fees.

Commission expenses rose by HUF 138 million (+13%) owing to the increase in items related to lending, which were up by 96%.

6.7.6. Net trading income

	2018	2017
Net trading income		
Operations with foreign currencies	120	69
Derivatives	1 531	-192
Total	**1 651**	**-123**

In the case of the monetary HUF interest rate swaps (MIRS) with the MNB, the Bank immediately recognises the gain from the preferential interest in profit or loss as the day-one gain or loss impact. In 2018 this amounted to HUF 1,38 billion.

Sberbank Hungary Ltd. data in HUF million

6.7.7. Net gain or loss on securities

	2018	2017
Net gain or loss on securities		
Trading debt securities	-1	0
Debt securities designated at fair value through profit or loss	-649	-444
Debt securities at fair value through other comprehensive income	-40	7
Debt securities at amortised cost	-12	0
Dividend income	36	36
Equity instruments	47	-4
Buy back of own bonds	-5	-41
Total	**-624**	**-446**

Income from securities dropped by 40% or HUF 178 million in 2018. The loss on the portfolio grew on account of the higher revaluation loss due to the significant drop in market prices.

6.7.8. Changes in allowances for other risks

Changes in reserves for other risks are detailed in Section 6.6.16.

6.7.9. Other operating income

	2018	2017
Other operating income		
Sale of loans	133	1
Sale of tangible and intangible assets	507	289
Income from recharged items	3	6
Administration and success fees	127	519
Cancelled liabilities	0	62
Others	14	63
Total	**784**	**920**

The Sale of tangible and intangible assets row contains also the profit from selling the former head office (HUF 499 million) in 2018 and the profit from selling of ownership and rental right of real estates where former branches of the Bank operated (HUF 155 million) and of a real estate which previously was taken into possession against a default loan (HUF 12 million) in 2017.

The Administration and success fees row contains fees received from the parent company in connection with closing non-performing loans that were previously sold but remained managed by the Bank.

Partial waiver of a loan from Sberbank Europe AG in 2017 is disclosed on the cancelled liabilities line.

Sberbank Hungary Ltd. data in HUF million

6.7.10. Other operating expenses

	2018	2017
Other operating expenses		
Materials and supplies	-4 769	-4 402
Training costs	-44	-62
Other administrative expenses	-2 020	-1 984
Advertising and marketing costs	-605	-565
Consulting and assurance services	-654	-547
Telecommunication expenses	-332	-313
Repair and maintenance costs	-1 114	-931
Personnel expenses	-5 704	-5 152
Wages and salaries	-4 493	-3 914
Other employee benefits	-278	-225
Social Securitly costs	-960	-1 012
Changes in accrued expense on unused vacations	27	-1
Depreciation and amortization	-917	-971
Depreciation of tangible assets	-249	-308
Amortization of intangible assets	-668	-663
Other taxes	-3 840	-3 592
Others	-129	-235
Others	-123	-228
Mandatory deposit insurance expenses	-6	-7
Total	**-15 359**	**-14 352**

The average headcount in 2018 was 604 people, up from the 580 people in 2017.

Material-type expenses rose by HUF 403 million (+9,2%) in 2018.
Training costs fell by HUF 18 million, including 53% less spent on professional books, 37% less on internal group training and 37% less on conference fees compared to the previous year.

In 2018 the amount of other administrative costs exceeded the previous year by HUF 72 million, which is partly due to the rise in IT costs and partly due to the higher costs of producing bankcards.

Marketing costs rose by HUF 40 million (+7,1%) in 2018, primarily because of the 62% increase in marketing production costs.

Advisory and insurance costs rose by HUF 107 million (+19,6%) in 2018, which is mainly due to the higher costs resulting from the services contract concluded with the parent company.

Despite the 44% fall in fixed-line and mobile telephone costs and the 13% drop in data transmission costs, the 21% rise in electronic mailing costs and the 40% rise in the mass sending of text messages meant that communication costs rose by HUF 19 million (+6,1%) in 2018.

Repair and maintenance costs rose by HUF 183 million (+19,6%) compared to 2017, mainly because the Bank amalgamated central functions into one rented office building. This increased rental fees by HUF 159 million. The property that previously served as the Bank's head office was sold in 2018.

Staff costs rose by HUF 552 million in 2018, almost all of which is down to the higher salary costs. The 4,1% increase in the headcount along with the higher staff incentives paid for sales activity are the reasons for the higher salary cost.

Sberbank Hungary Ltd. data in HUF million

The introduction of a new health insurance benefit pushed other staff benefits up by HUF 45 million.

The fall in social contributions during 2018 is because the amount of social contribution tax dropped from 22% to 19,5%.

Depreciation in 2018 fell by 5,6% compared to the previous year. The depreciation of property, plant and equipment fell by HUF 60 million, two-thirds of which was related to IT and hardware equipment, and one-third to buildings and structures.

The increase in other taxes was attributable to the 10,4% increase in the financial transaction tax.

Mandatory deposit insurance costs fell by HUF 1 million in 2018, the investor protection fund fee by 9%, and the amount paid to the Claim Settlement Fund by 36%.

6.7.11. Income tax

The Group's current tax payment liability:

	2018	2017
Current income taxes		
Local business tax	-436	-334
Innovation contribution	-61	-50
Corporate income tax	0	-1
Current income taxes total	-497	-385
Deferred income taxes	0	0
Total	**-497**	**-385**

The Group generated a profit before tax in both 2017 and 2018. That said, taking the use of loss carry-forwards from previous years and tax differences related to consumer loan contracts (FX rescue program) into account, the Group's corporate tax liability was immaterial. The current tax payment liability comprises local taxes.

The corporate tax rate in both years was 9%. The calculation of effective tax rate is presented below:

	2018	2017
Profit before tax	**1 844**	**596**
Tax rate	9%	9%
Calculated corporate income tax	**-166**	**-54**
Tax impact of modifying items	0	0
Disallowed items	-95	-141
Deductible items	135	184
Local business tax, innovation contribution	-497	-384
Temporary differences due to transition to IFRS	62	0
Losses carried forward from previous years	32	5
Tax allowance regarding FX rescue program	32	5
Deferred tax	0	0
Current income tax expenses	**-497**	**-385**
Effective tax rate	26,94%	64,54%

data in HUF million

6.8 Notes to the Statement of Other comprehensive income

Since there were no disposals in either 2017 or 2018, there were no reclassifications into the reporting-year profit or loss in connection with securities available for sale or measured at fair value through other comprehensive income. The decrease in the portfolio is due to securities maturing.

	31.12.2018
Changes in fair value of debt securities measured at fair value through Other comprehensive income	
Changes in fair value	-479
Reclassification of changes due to credit risk changes to Profit and loss	32
Changes reported in Other comprehensive income	**-447**

	31.12.2018
Changes in fair value of loans measured at fair value through Other comprehensive income	
Changes in fair value	487
Reclassification of changes due to credit risk changes to Profit and loss	-487
Changes reported in Other comprehensive income	**0**

Sberbank Hungary Ltd. data in HUF million

6.9 Other notes

6.9.1. Finance and operating lease

Finance lease

Future minimum lease payments:

	31.12.2018	31.12.2017	01.01.2017
Future minimum lease payments			
Up to 1 year	10	45	50
1 to 5 years	23	0	46
More than 5 years	0	0	0
Total	**33**	**45**	**96**

Present value of future minimum lease payments::

	31.12.2018	31.12.2017	01.01.2017
Future minimum lease payments			
Up to 1 year	9	42	44
1 to 5 years	22	0	44
More than 5 years	0	0	0
Total	**31**	**42**	**88**

Net carrying amount of leased assets in the balance sheet:

	31.12.2018	31.12.2017	01.01.2017
Vehicles	31	41	82
Total	**31**	**41**	**82**

The Bank accounted for HUF 6 million interest expense as expenses on lease contracts in both 2018 and 2017.

Operating lease

Future minimum lease payments:

	31.12.2018	31.12.2017	01.01.2017
Future minimum lease payments			
Up to 1 year	822	540	669
1 to 5 years	3 101	1 225	1 296
More than 5 years	1 153	1 137	1 271
Total	**5 076**	**2 902**	**3 236**

The significant increase in future minimum lease payments in 2018 is due to the fact that the Bank amalgamated central functions into one office building, thus the size of leased office area rose considerably.

data in HUF million

Lease payments accounted for as expenses:

	2018	2017
Property rental fees	722	596
Parking rental fees	13	12
IT and equipment rental fees	57	58
Other rental fees	1	5
Total	**793**	**671**

Rentals accounted for as income:

	2018	2017
Rental income	1	1
Total	**1**	**1**

6.9.2. Offsetting of financial assets and liabilities

		31.12.2018			
	Note	**Gross amount of financial assets**	**Gross amount of offsetting financial liabilities**	**Net amount of financial assets**	**Cash collateral**
Derivative assets with netting agreement		1 106	418	689	894
Derivative assets without netting agreement		30	0	30	0
		Gross amount of offsetting financial assets	**Gross amount of financial liabilities**	**Net amount of financial liabilities**	**Cash collateral**
Derivative liabilities with netting agreement		83	222	139	521
Derivative liabilities without netting agreement		0	92	92	0
Total	6.6.9	**1 219**	**732**	**949**	**1 415**

		31.12.2017			
	Note	**Gross amount of financial assets**	**Gross amount of offsetting financial liabilities**	**Net amount of financial assets**	**Cash collateral**
Derivative assets with netting agreement		517	45	472	279
Derivative assets without netting agreement		46	0	46	0
		Gross amount of offsetting financial assets	**Gross amount of financial liabilities**	**Net amount of financial liabilities**	**Cash collateral**
Derivative liabilities with netting agreement		0	808	808	1 287
Derivative liabilities without netting agreement		0	104	0	0
Total	6.6.9	**563**	**957**	**1 430**	**1 566**

data in HUF million

		2017.01.01			
	Note	Gross amount of financial assets	Gross amount of offsetting financial liabilities	Net amount of financial assets	Cash collateral
Derivative assets with netting agreement		425	204	221	0
Derivative assets without netting agreement		265	0	265	0
		Gross amount of offsetting financial assets	Gross amount of financial liabilities	Net amount of financial liabilities	Cash collateral
Derivative liabilities with netting agreement		437	954	517	2 791
Derivative liabilities without netting agreement		0	313	0	0
Total	6.6.9	**1 127**	**1 471**	**1 316**	**2 791**

6.9.3. Transactions with related parties

The Bank considers those entities related parties which have – directly or indirectly – influence over the Bank, or which are under the influence of the Bank or under joint control with the Bank.

Other related parties mean the companies which are in the same consolidation scope and are not Owners or Investments.

Key management personnel are also considered related parties – transactions with them are presented in the next section (6.9.4).

The Bank enters into transactions with related parties on an arm's length basis.

31.12.2018	Owners	Other related parties	Total
Cash and cash equivalents	24 417	9 171	33 588
Receivables from credit institutions	7 877	0	7 877
Loans and advances to customers	0	0	0
Equity investments	0	0	0
Derivative assets (nominal value)	8 270	0	8 270
Other assets	0	0	0
Liabilities due to banks	182	270	452
Liabilities due to customers	0	105	105
Subordinated liabilities	9 062	0	9 062
Derivative liabilities (nominal value)	12 607	0	12 607
Other liabilities	50	4	54

Sberbank Hungary Ltd. data in HUF million

31.12.2017	Owners	Other related parties	Total
Cash and cash equivalents	9 284	1 368	10 652
Receivables from credit institutions	28 280	0	28 280
Loans and advances to customers	0	0	0
Equity investments	0	0	0
Derivative assets (nominal value)	4 088	0	4 088
Other assets	52	0	52
Liabilities due to banks	495	164	659
Liabilities due to customers	0	127	127
Subordinated liabilities	8 742	0	8 742
Derivative liabilities (nominal value)	2 481	0	2 481
Other liabilities	309	3	312

2017.01.01	Owners	Other related parties	Total
Cash and cash equivalents	26 342	594	26 936
Receivables from credit institutions	25 692	0	25 692
Loans and advances to customers	0	0	0
Equity investments	0	0	0
Derivative assets (nominal value)	3 766	305	4 071
Other assets	560	0	560
Liabilities due to banks	25 527	55	25 582
Liabilities due to customers	0	194	194
Subordinated liabilities	21 105	0	21 105
Derivative liabilities (nominal value)	33 003	270	33 273
Other liabilities	238	2	240

2018	Owners	Other related parties	Total
Interest receivable and similar income	207	18	225
Interest payable and similar expense	-340	-6	-346
Net provision charge for loan impairment	-5	0	-5
Net interest income minus risk provisions	-138	12	-126
Fee and commission income	0	21	21
Fee and commission expense	-35	-1	-36
Net fee and commissions income	-35	20	-15
Net trading income	-139	0	-139
Net gain or loss on securities	0	0	0
Changes in allowances for other risks	0	0	0
Other operating income	125	0	125
Other operating expenses	-305	-17	-322
Result before tax	-492	15	-477
Income tax	0	0	0
Profit or loss after tax from continuing operations	-492	15	-477
Profit or loss after tax from discontinued operations	0	0	0
Profit or loss after tax	-492	15	-477

data in HUF million

2017	Owners	Other related parties	Total
Interest receivable and similar income	273	15	288
Interest payable and similar expense	-601	-14	-615
Net provision charge for loan impairment	0	0	0
Net interest income minus risk provisions	-328	1	-327
Fee and commission income	3	12	15
Fee and commission expense	-34	-1	-35
Net fee and commissions income	-31	11	-20
Net trading income	-140	0	-140
Net gain or loss on securities	0	0	0
Changes in allowances for other risks	0	0	0
Other operating income	533	0	533
Other operating expenses	-288	-21	-309
Result before tax	-254	-9	-263
Income tax	0	0	0
Profit or loss after tax from continuing operations	-254	-9	-263
Profit or loss after tax from discontinued operations	0	0	0
Profit or loss after tax	-254	-9	-263

6.9.4. Compensation of key management personnel

The Bank considers the members of the Board of Directors and the Supervisory Board key management personnel.

	2018	2017
Compensation of key management personnel		
Short-term employee benefits	423	339
Post-employment benefits	0	0
Other long-term employee benefits	0	0
Termination benefits	0	0
Others	0	0
Total	**423**	**339**

Loans granted to key management personnel:

	31.12.2018	31.12.2017	01.01.2017
Loans granted to key management personnel			
Mortgage loans	53	1	6
Total	**53**	**1**	**6**

Loans granted to key management personnel rose due to the increase in the number of Supervisory Board members, and not because of reporting-year disbursement.

In 2018 the Bank realised HUF 1 million interest income on loans to key management personnel.

data in HUF million

6.9.5. Currency balances

The Bank's assets and liabilities by currency:

	31.12.2018					
Assets	**EUR**	**USD**	**CHF**	**HUF**	**Others**	**Total**
Cash and cash equivalents	26 955	6 184	48	27 284	1 337	61 808
Securities	0	5 628	0	38 256	0	43 884
Receivables from credit institutions	8 919	12 711	0	824	1	22 455
Loans and advances to customers	56 933	1 494	2 289	167 919	0	228 635
Plant, property and equipment	0	0	0	1 408	0	1 408
Intangible assets	0	0	0	4 069	0	4 069
Equity investments	0	360	0	78	0	438
Invvestment property	0	0	0	0	0	0
Tax assets	0	0	0	13	0	13
Derivative assets	218	78	0	923	0	1 219
Other assets	273	0	0	1 622	0	1 895
Non-current assets and disposal groups held for sale	0	0	0	13	0	13
Total assets	26 953	6 184	48	27 284	1 337	61 808

	31.12.2018					
Liabilities	**EUR**	**USD**	**CHF**	**HUF**	**Others**	**Total**
Liabilities due to banks	7 975	423	0	26 539	1	34 938
Liabilities due to customers	53 980	46 143	1 035	162 697	1 464	265 319
Debt securities in issue	4 177	0	0	0	0	4 177
Subordinated liabilities	9 062	0	0	0	0	9 062
Provisions	186	0	0	563	0	749
Tax liabilities	0	0	0	36	0	36
Derivative liabilities	214	6	2	510	0	732
Other liabilities	1 463	688	1	4 123	15	6 290
Non-current liabilities and disposal groups held for sale	0	0	0	0	0	0
Total liabilities	**77 057**	**47 260**	**1 038**	**194 468**	**1 480**	**321 303**

	31.12.2017					
Assets	**EUR**	**USD**	**CHF**	**HUF**	**Others**	**Total**
Cash and cash equivalents	13 742	9 282	619	33 146	1 504	58 293
Securities	0	6 594	0	46 878	0	53 472
Receivables from credit institutions	8 518	21 936	0	1 288	0	31 742
Loans and advances to customers	46 599	1 679	2 550	148 562	0	199 390
Plant, property and equipment	0	0	0	1 036	0	1 036
Intangible assets	0	0	0	2 380	0	2 380
Equity investments	0	287	0	77	0	364
Invvestment property	0	0	0	0	0	0
Tax assets	0	0	0	19	0	19
Derivative assets	341	12	0	205	5	563
Other assets	303	54	0	1 499	0	1 856
Non-current assets and disposal groups held for sale	0	0	0	557	0	557
Total assets	13 742	9 282	619	33 146	1 504	58 293

data in HUF million

	31.12.2017					
Liabilities	**EUR**	**USD**	**CHF**	**HUF**	**Others**	**Total**
Liabilities due to banks	9 654	519	38	32 418	2	42 631
Liabilities due to customers	51 697	39 288	1 147	151 211	1 749	245 092
Debt securities in issue	4 137	0	0	982	0	5 119
Subordinated liabilities	8 742	0	0	0	0	8 742
Provisions	0	0	0	785	0	785
Tax liabilities	0	0	0	1	0	1
Derivative liabilities	48	17	12	880	0	957
Other liabilities	991	155	1	3 349	261	4 757
Non-current liabilities and disposal groups held for sale	0	0	0	0	0	0
Total liabilities	**75 269**	**39 979**	**1 198**	**189 626**	**2 012**	**308 084**

	2017.01.01					
Assets	**EUR**	**USD**	**CHF**	**HUF**	**Others**	**Total**
Cash and cash equivalents	27 985	7 442	159	18 420	1 525	55 531
Securities	1 703	0	0	55 256	0	56 959
Receivables from credit institutions	8 342	25 918	0	10 797	0	45 057
Loans and advances to customers	41 505	8 688	4 793	136 164	1	191 151
Plant, property and equipment	0	0	0	1 778	0	1 778
Intangible assets	0	0	0	1 332	0	1 332
Equity investments	0	223	0	78	0	301
Invvestment property	0	0	0	0	0	0
Tax assets	0	0	0	96	0	96
Derivative assets	878	200	0	49	0	1 127
Other assets	39	0	0	2 295	0	2 334
Non-current assets and disposal groups held for sale	0	0	0	0	0	0
Total assets	**80 452**	**42 471**	**4 952**	**226 265**	**1 526**	**355 666**

	2017.01.01					
Liabilities	**EUR**	**USD**	**CHF**	**HUF**	**Others**	**Total**
Liabilities due to banks	10 794	460	0	50 911	0	62 165
Liabilities due to customers	56 768	37 103	1 117	122 396	1 449	218 833
Debt securities in issue	4 044	0	0	941	0	4 985
Subordinated liabilities	8 804	0	0	12 301	0	21 105
Provisions	37	0	0	785	0	822
Tax liabilities	0	0	0	13	0	13
Derivative liabilities	422	215	2	832	0	1 471
Other liabilities	1 148	3 090	0	3 692	13	7 943
Non-current liabilities and disposal groups held for sale	0	0	0	0	0	0
Total liabilities	**82 017**	**40 868**	**1 119**	**191 871**	**1 462**	**317 337**

data in HUF million

6.9.6. Fair value hierarchy

Financial assets and financial liabilities by measurement category:

	31.12.2018				
	At fair value through profit and loss	At fair value through other comprehensive income	At amorised cost	Total book value	Fair value
Cash and cash equivalents			61 808	61 808	61 808
Securities	10 641	32 234	1 009	43 884	43 939
Receivables from credit institutions			22 455	22 455	21 475
Loans and advances to customers		127	228 508	228 635	228 635
Equity investments	361	77	0	438	438
Derivative assets	1 219			1 219	1 219
Other monetary assets			1 895	1 895	1 895
Total financial assets	**12 221**	**32 438**	**315 675**	**360 334**	**359 409**

	31.12.2018				
	At fair value through profit and loss	At fair value through other comprehensive income	At amorised cost	Total book value	Fair value
Liabilities due to banks			34 938	34 938	34 845
Liabilities due to customers			265 319	265 319	265 319
Debt securities in issue			4 177	4 177	4 388
Subordinated liabilities			9 062	9 062	9 223
Derivative liabilities	732			732	732
Other finanfial liabilities			6 290	6 290	6 290
Total financial liabilities	**732**	**0**	**319 786**	**320 518**	**320 797**

	31.12.2017					
	Trading	Available for sale	Held to maturity	Loans and receivables	Total book value	Fair value
Cash and cash equivalents				58 293	58 293	58 293
Securities	11 291	41 181	1 000	0	53 472	53 567
Receivables from credit institutions				31 742	31 742	31 742
Loans and advances to customers				199 390	199 390	205 286
Equity investments	0	364	0	0	364	364
Derivative assets	563				563	563
Other monetary assets				1 856	1 856	1 856
Total financial assets	**11 854**	**41 545**	**1 175**	**291 281**	**345 680**	**351 671**

data in HUF million

	31.12.2017					
	Trading	Available for sale	Held to maturity	Loans and receivables	Total book value	Fair value
Liabilities due to banks				42 631	42 631	42 277
Liabilities due to customers				245 092	245 092	244 859
Debt securities in issue				5 119	5 119	5 378
Subordinated liabilities				8 742	8 742	9 146
Derivative liabilities	957				957	957
Other finanfial liabilities				4 757	4 757	4 757
Total financial liabilities	**957**	**0**	**0**	**306 341**	**307 298**	**307 374**

	2017.01.01					
	Trading	Available for sale	Held to maturity	Loans and receivables	Total book value	Fair value
Cash and cash equivalents				55 531	55 531	55 531
Securities	11 735	42 544	2 680	0	56 959	57 213
Receivables from credit institutions				45 057	45 057	45 057
Loans and advances to customers				191 151	191 151	195 582
Equity investments	0	301	0	0	301	301
Derivative assets	1 127				1 127	1 127
Other monetary assets				2 334	2 334	2 334
Total financial assets	**12 862**	**42 845**	**2 823**	**294 073**	**352 460**	**357 146**

	2017.01.01					
	Trading	Available for sale	Held to maturity	Loans and receivables	Total book value	Fair value
Liabilities due to banks				62 165	62 165	61 394
Liabilities due to customers				218 833	218 833	218 651
Debt securities in issue				4 985	4 985	5 239
Subordinated liabilities				21 105	21 105	22 621
Derivative liabilities	1 471				1 471	1 471
Other finanfial liabilities				7 943	7 943	7 943
Total financial liabilities	**1 471**	**0**	**0**	**315 031**	**316 502**	**317 319**

Fair value hierarchy of financial assets and financial liabilities measured at fair value:

		31.12.2018				
	Note	Level 1	Level 2	Level 3	Total fair value	Cost
Securities	6.6.2					
At fair value through profit and loss		10 641	0	0	10 641	11 887
At fair value through other comprehensive income		32 234	0	0	32 234	32 799
Loans and advances to customers	6.6.4					
At fair value through other comprehensive income		0	0	127	127	127
Equity investments	6.6.7					
At fair value through profit and loss		0	0	361	361	211
At fair value through other comprehensive income		0	0	77	77	77
Derivative assets	6.6.9					
At fair value through profit and loss		0	1 219	0	1 219	0
Financial assets measured at fair value		**42 875**	**1 219**	**565**	**44 659**	**45 101**

data in HUF million

		31.12.2018				
	Note	Level 1	Level 2	Level 3	Total fair value	Cost
Derivative liabilities	6.6.9					
At fair value through profit and loss		0	732	0	732	0
Financial liabilities measured at fair value		**0**	**732**	**0**	**732**	**0**

		31.12.2017				
	Note	Level 1	Level 2	Level 3	Total fair value	Cost
Securities	6.6.2	11 291	0	0	11 291	11 890
Trading		41 181	0	0	41 181	41 985
Available for sale						
Equity instruments	6.6.7	0	0	0	0	0
Trading		0	0	364	364	272
Available for sale						
Derivative assets	6.6.9	0	563	0	563	0
Trading		**52 472**	**563**	**364**	**53 399**	**54 147**
Financial assets measured at fair value		11 291	0	0	11 291	11 890

		31.12.2017				
	Note	Level 1	Level 2	Level 3	Total fair value	Cost
Derivative liabilities	6.6.9					
Trading		0	957	0	957	0
Financial liabilities measured at fair value		**0**	**957**	**0**	**957**	**0**

		2017.01.01				
	Note	Level 1	Level 2	Level 3	Total fair value	Cost
Securities	6.6.2					
Trading		11 735	0	0	11 735	11 890
Available for sale		42 544	0	0	42 544	42 171
Equity instruments	6.6.7					
Trading		0	0	0	0	0
Available for sale		0	0	301	301	299
Derivative assets	6.6.9					
Trading		0	1 127	0	1 127	0
Financial assets measured at fair value		**54 279**	**1 127**	**301**	**55 707**	**54 360**

		2017.01.01				
	Note	Level 1	Level 2	Level 3	Total fair value	Cost
Derivative liabilities	6.6.9					
Trading		0	1 471	0	1 471	0
Financial liabilities measured at fair value		**0**	**1 471**	**0**	**1 471**	**0**

Fair value hierarchy of financial assets and financial liabilities not measured at fair value:

data in HUF million

	Note	31.12.2018 Level 1	Level 2	Level 3	Total fair value	Book value
Cash and cash equivalents	6.6.1	22 734	21 392	17 682	61 808	61 808
Securities	6.6.2					
At amortised cost		1 064	0	0	1 064	1 009
Receivables from credit institutions	6.6.3	0	0	21 475	21 475	22 455
Loans and advances to customers	6.6.4					
At amortised cost		0	0	232 071	232 071	228 635
Equity investments	6.6.7					
At amortised cost		0	0	0	0	0
Other financial assets	6.6.10	0	0	1 895	1 895	1 895
Financial assets measured at amortised cost		**23 798**	**21 392**	**273 123**	**318 313**	**315 802**

	Note	31.12.2018 Level 1	Level 2	Level 3	Total fair value	Book value
Liabilities due to banks	6.6.12	0	539	34 306	34 845	34 938
Liabilities due to customers	6.6.13	0	0	265 319	265 319	265 319
Debt securities in issue	6.6.14	0	0	4 388	4 388	4 177
Subordinated liabilities	6.6.15	0	0	9 223	9 223	9 062
Other financial liabilities	6.6.17	0	0	6 290	6 290	6 290
Financial liabilities measured at amortised cost		**0**	**539**	**319 526**	**320 065**	**319 786**

	Note	31.12.2017 Level 1	Level 2	Level 3	Total fair value	Book value
Cash and cash equivalents	6.6.1	21 920	28 000	8 373	58 293	58 293
Securities	6.6.2					
At amortised cost		1 095	0	0	1 095	1 000
Receivables from credit institutions	6.6.3	0	23 914	7 828	31 742	31 742
Loans and advances to customers	6.6.4	0	0	205 286	205 286	199 390
Equity investments	6.6.7					
At amortised cost		0	0	0	0	0
Other financial assets	6.6.10	0	0	1 856	1 856	1 856
Financial assets measured at amortised cost		**23 015**	**51 914**	**223 343**	**298 272**	**292 281**

	Note	31.12.2017 Level 1	Level 2	Level 3	Total fair value	Book value
Liabilities due to banks	6.6.12	0	968	41 309	42 277	42 631
Liabilities due to customers	6.6.13	0	0	244 859	244 859	245 092
Debt securities in issue	6.6.14	0	0	5 378	5 378	5 119
Subordinated liabilities	6.6.15	0	0	9 146	9 146	8 742
Other financial liabilities	6.6.17	0	0	4 757	4 757	4 757
Financial liabilities measured at amortised cost		**0**	**968**	**305 449**	**306 417**	**306 341**

data in HUF million

	Note	2017.01.01 Level 1	Level 2	Level 3	Total fair value	Book value
Cash and cash equivalents	6.6.1	17 016	15 276	23 239	55 531	55 531
Securities	6.6.2					
At amortised cost		2 934	0	0	2 934	2 680
Receivables from credit institutions	6.6.3	0	30 366	14 691	45 057	45 057
Loans and advances to customers	6.6.4	0	0	195 582	195 582	191 151
Equity investments	6.6.7					
At amortised cost		0	0	0	0	0
Other financial assets	6.6.10	0	0	2 334	2 334	2 334
Financial assets measured at amortised cost		**19 950**	**45 642**	**235 846**	**301 438**	**296 753**

	Note	2017.01.01 Level 1	Level 2	Level 3	Total fair value	Book value
Liabilities due to banks	6.6.12	0	1 639	59 755	61 394	62 165
Liabilities due to customers	6.6.13	0	0	218 651	218 651	218 833
Debt securities in issue	6.6.14	0	0	5 239	5 239	4 985
Subordinated liabilities	6.6.15	0	0	22 621	22 621	21 105
Other financial liabilities	6.6.17	0	0	7 943	7 943	7 943
Financial liabilities measured at amortised cost		**0**	**1 639**	**314 209**	**315 848**	**315 031**

There were not changes in the fair value hierarchy; there were not transfers between the levels.

6.9.7. Fair value option

Under IFRS 9 an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on different bases. The application of the fair value option shall result in the financial statements providing reliable and more relevant information about the effects of transactions on the entity's financial position, financial performance and cash flows. The fair value option may be applied for example when an entity has financial assets that share a risk, such as interest rate risk, and that gives rise to opposite changes in fair value that tend to offset each other. In such cases the entity may measure the asset that otherwise is measured at amortised cost at fair value.

The Bank chose to apply the fair value option to hedge for disclosure of Hungarian treasury bond portfolio (amounts to 10 billion HUF at face value) whosethe interest rate risk is hedged by interest rate swap transactions concluded in the frame of HIRS (MNB Market-Based Lending Scheme).

The purchased government bond was classified in the available-for-sale category since the Bank intends to hold it in the long term, so without applying the fair value option the recognition of the HIRS transaction and the transactions hedging its interest risk would have been inconsistent. The fact the Bank had the government bond designated at fair value meant the fair value changes of the transactions were universally recognised in profit or loss, thus providing a reliable and more relevant view of the aggregate impact of the transactions.

Sherbank Hungary Ltd. data in HUF million

The IRS and government bond market move closely in tandem with one another, as verified, statistically, by the high coefficient of determination (R^2) calculated for the time series:

R^2	2018	2017
IRS5Y - Gov5Y	97%	92%
IRS10Y - Gov10Y	96%	94%

6.9.8. Government grants

In connection with its HIRS and preferential deposit transactions concluded with MNB the Bank accounted for the following amounts as government grants:

	Goverment grant			
	Amount		Nature	
	2018	2017	2018	2017
HIRS deals	246	237	interest rate subsidy	interest rate subsidy
Preferential deposits	111	51	interest rate subsidy	interest rate subsidy
Total	**357**	**288**		

In the case of HIRS transactions the interest payable on the transaction is lower than the market interest, while for preferential deposits the interest received is higher than the market interest.

In accordance with IAS 20, in both cases the Bank recognises the government grant only if there is reasonable assurance that the conditions attaching to the grant will be fulfilled and the Bank will receive the grant. Accordingly, there are no unfulfilled items or other contingent liabilities connected to the grants that have been accounted for.

6.9.9. Day-one profit or loss

The Bank measures financial assets and financial liabilities at fair value on initial recognition. If the fair value at initial recognition differs from the transaction price, the difference is accounted for depending on the level of the transaction within the fair value hierarchy:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (Level 1 input) or based on a valuation technique that uses only data from observable markets (Level 2 input). The Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases the fair value at initial recognition shall be adjusted by the deferred amount of the difference between the fair value and the transaction price. After initial recognition, the Bank shall recognise the deferred difference as a gain or loss only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset or liability.

In the case of the monetary policy HUF interest rate swaps (MIRS) with the MNB, the Bank immediately recognises the gain from the preferential interest in profit or loss as the day-one gain or loss impact. In 2018 this amounted to HUF 1,38 billion.

Sberbank Hungary Ltd. data in HUF million

In the case of the FGS funds drawn from the MNB and the FGS loans disbursed using these funds, the initial fair value difference is accrued because the Bank does not calculate the fair value using Level 1 or Level 2 inputs. The following tables show the accrued amounts not yet recognised in profit or loss:

	31.12.2018	31.12.2017	01.01.2017
Initial fair value difference of FGS loans	-1 143	-1 540	-2 050
Initial fair value difference of FGS funds	1 215	1 829	2 439
Total	**72**	**289**	**389**

Changes to initial fair value difference of FGS loans:

FGS loans	2018	2017
Opening balance	-1 540	-2 050
Initial fair value difference of new loans	-6	-221
Amortisation of initial fair value difference of loans	212	568
Disposal of the remaining initial fair value difference of sold, matured or repaid loans	191	163
Closing balance	-1 143	-1 540

Changes to initial fair value difference of FGS funds:

FGS funds	2018	2017
Opening balance	1 829	2 439
Initial fair value difference of new loans	9	298
Amortisation of initial fair value difference of loans	-393	-696
Disposal of the remaining initial fair value difference of sold, matured or repaid loans	-230	-212
Closing balance	1 215	1 829

6.9.10. Modification gain or loss

In 2018 the Bank recognised HUF -2 million loss in net interest income due to not significant contract modifications. The effect of derecognition owing to significant contract modifications was HUF -2 million.

6.9.11. Fees to the auditor

	2018	2017
Audit of the annual financial statements	91	71
Other audit fees	23	31
Tax advisory services	3	6
Other, non-audit fees	5	27
Total	**122**	**135**

Sberbank Hungary Ltd. data in HUF million

6.9.12. Collaterals received

At full value:

	31.12.2018	31.12.2017	01.01.2017
Collaterals received at full value			
Cash collaterals	11 025	12 176	7 971
Bankguarantees	12 075	5 792	5 620
State guarantees	48 720	40 278	35 201
Securities	653	591	378
Assigned sales revenue	0	0	249
Assigned receivables	667	825	666
Mortgage	148 031	149 126	142 333
Total	**221 171**	**208 788**	**192 418**

Up to the gross contractual receivable value:

	31.12.2018	31.12.2017	01.01.2017
Collaterals received up to the gross contractual receivable value			
Cash collaterals	10 157	11 391	6 996
Bankguarantees	9 765	4 979	4 881
State guarantees	46 083	38 503	33 368
Securities	587	591	320
Assigned sales revenue	0	0	80
Assigned receivables	372	473	263
Mortgage	88 828	89 135	87 640
Total	**155 792**	**145 072**	**133 548**

6.9.13. Financial assets pledged as collateral

	31.12.2018	31.12.2017	01.01.2017
Cash and cash equivalents	0	0	0
Securities	12 890	14 792	13 909
Receivables from credit institutions	1 621	1 721	1 419
Loans and advances to customers	17 070	24 325	24 100
Other monetary assets	0	0	0
Total	**31 581**	**40 838**	**39 428**

Under financial assets used as collateral, the Bank recognises cash placed at other banks to cover losses from derivative transactions as well as securities and SME loans used to cover FGS refinancing sources.

The Bank retained all the risks and rewards related to ownership of the financial assets used as collateral, so these assets remain part of the Bank's balance sheet.

data in HUF million

6.9.14. Subsequent events after the reporting date

There were no significant events after the reporting date that would have affected the financial statements.

6.9.15. Dividends paid

The Bank did not pay dividend to the shareholders either in 2017 or 2018.

6.9.16. Equity correlation table

Equity correlation table required by Section 114/B (1) of the Act on Accounting:

	31.12.2018							
	Components of equity as per the Act on Accounting							
	Share capital as per IFRS	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit or loss after tax	Valuation reserve	Allocated reserve	Total
Share capital	3 727							3 727
Capital reserve			94 416					94 416
Retained earnings				-55 398	1 347			-54 051
General reserve							185	185
Revaluation reserve of available-for-sale financial assets, net of tax		0	0	0		257		257
Equity as per the Act on Accounting	**3 727**	**0**	**94 416**	**-55 398**	**1 347**	**257**	**185**	**44 534**

	31.12.2017							
	Components of equity as per the Act on Accounting							
	Share capital as per IFRS	Subscribed, but unpaid capital (-)	Capital reserve	Retained earnings	Profit or loss after tax	Valuation reserve	Allocated reserve	Total
Share capital	3 727							3 727
Capital reserve			91 500					91 500
Retained earnings				-54 643	204			-54 439
General reserve							50	50
Revaluation reserve of available-for-sale financial assets, net of tax		0	0	0		750		750
Equity as per the Act on Accounting	**3 727**	**0**	**91 500**	**-54 643**	**204**	**750**	**50**	**41 588**

Reconciliation of capital registered by the Court of Registration and the share capital as per IFRS:

data in HUF million

	31.12.2018	31.12.2017
Capital registered by the Court of Registration	3 727	3 727
Instruments recognised as liabilities (-)	0	0
Share capital as per IFRS	3 727	3 727

Calculation of free retained earnings available for dividend payment:

	31.12.2018	31.12.2017
Retained earnings	-54 051	-54 439
Accumulated unrealised gain accounted for due to increase in the fair value of investment properties (-)	0	0
Accumulated amount of related income tax accounted for based on IAS 12 Income taxes (+)	0	0
Adjusted retained earnings	**-54 051**	**-54 439**
Free retained earnings available for dividend payment	**0**	**0**

6.10 Information related to capital management

Determining the bank's optimal capital level and its continuous monitoring is a basic process/task for every bank.

The level of capital is primarily determined by the Bank's risk appetite. Since high risks entail higher losses, it is crucial for the Bank to carefully take into account both the expected and unexpected losses related to its various business activities. The economic capital determines the required level of capital related to the actual risk profile while the level of the regulatory capital represents a mandatory minimum level below which the Bank may not go even when based on its own measurements its risk exposure would justify a lower level. The Bank's capital management covers both the Pillar 1 and the Pillar 2 view. The fundamental goal of capital management is to:

- ensure the optimal level of capital for the Bank,
- ensure the capital requirement necessary for the Bank's operation,
- facilitate compliance with European and national regulations.

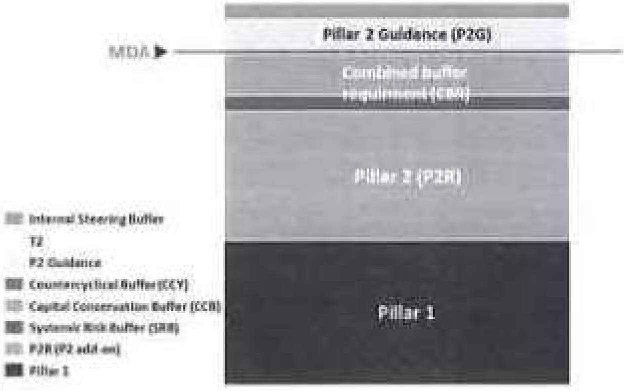
Regulation (EU) No 575/2013 (CRR), Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Hpt.) and Directive 2013/36/EU define uniform rules for the supervised institutions with respect to capital requirements. The Bank calculates its regulatory capital based on these rules with a monthly frequency and sends a quarterly report thereof to the Supervisory Authority (COREP, FINREP).

The Bank's ALM department regularly monitors capital adequacy (P1 and P2) and prepares a report for the ALCO and the parent bank at least monthly and also for the Supervisory Board quarterly. Based on its forecasts, whenever justified, it takes the necessary measures to ensure capital adequacy at all times, in line with its recovery plan.

During its planning process, the Bank regularly monitors regulatory changes and updates and calculates the required level of capital account taken of these changes.

The major business risks of the Bank are credit risk, liquidity risk, market risk (including interest and foreign exchange risk) and operational risk.

The following chart displays the structure of the Bank's potential capital requirement and capital recommendation. In 2018 it was not required to maintain P2G.



The Bank's capital level always complied with the regulatory requirements, the shareholders ensured the required level of capital, in 2018 by providing EUR 9 million of CET1 capital. No dividend was paid, the profit increases the level of CET1 capital.

Sberbank Hungary Ltd. data in HUF million

The Bank's regulatory capital:

	31.12.2018	31.12.2017
Regulatory capital	49 420	50 286
Tier1 capital	40 418	41 602
Common Equity Tier 1 capital (CET1)	37 502	38 464
Additional Tier 1 capital (AT1)	2 916	3 138
Supplementary capital (Tier 2)	9 002	8 684

Development of capital requirement:

	31.12.2018	31.12.2017
Total Risk Exposure amount (RWA)	223 290	208 233
CET1 capital adequacy ratio	16,80%	18,47%
Tier 1 capital adequacy ratio	18,10%	19,98%
Capital adequacy ratio	22,13%	24,15%

data in HUF million

6.11 Risk management policies

6.11.1 Liquidity risk

Liquidity risk is the risk of the institution not being able to comply with its obligations stemming from the expected and unexpected current and future cash flows and collaterals without impacting its daily operation or its market position. These may include, among others:

- *Short-term liquidity risk* is the risk of the Bank not being able to meet all of its payment obligations or not being able to meet its payment obligations on time. Short-term liquidity risk refers to a time horizon of 30-90 business days.

- *Long-term liquidity risk* is the risk of additional refinancing funds being accessible only at a higher market interest rate. Long-term liquidity risk refers to a time horizon of at least 1 year.

- *Concentration liquidity risk* occurs when the Bank's exposure to a single depositor, a single deposit instrument, a single market segment or a single currency is extremely high primarily on the liability side. However, the concentration of an on-balance sheet or off-balance-sheet instrument which may significantly alter the level of expected cash flow may also cause concentration liquidity risk.

The Bank measures the liquidity risks using processes and various indicators and limits (e.g. LCR, NSF, FLST, DMM, L/D, DEM, BFM, concentration indicators) in line with the international and Hungarian regulatory frameworks and the guidelines of the parent bank and manages these liquidity risks by maintaining a conservative liquidity buffer.

The liquidity buffer is the Bank's source of liquidity. The Bank continuously maintains an appropriate level of liquidity buffer, both in terms of amount, maturity and quality so that it can continue meeting its liquidity obligations.

Section 412 (1) of Regulation (EU) 575/2013 of the European Council (CRR) prescribes a general liquidity coverage requirement for credit institutions, creating at the same time the LCR indicator; according to this requirement "institutions shall hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions". This regulation is supplemented and made more specific by Commission Delegated Regulation (EU) 2015/61.

The LCR is defined as the ratio of the credit institution's liquidity buffer containing liquid assets to its net liquidity outflows during a 30-day stress period. The net liquidity outflow is the credit institution's liquidity outflows less its liquidity inflows. The liquidity coverage ratio must be expressed as a percentage value and the regulator determined its minimum level to be 100% (the Bank's internal limit is 110%); this means that the credit institution has sufficient liquid assets to cover its net liquidity outflows during a 30-day stress period. In light of this the Bank pays special attention to the LCR indicator, to its reliable calculation and to that it manages its liquidity based on this indicator.

	Total weighted amount (average)			
	31.03.2018	**30.06.2018**	**30.09.2018**	**31.12.2018**
Number of observation periods taken into account in average calculation (months)	3	3	3	3
Liquidity buffer	47 511	45 259	61 648	44 705
Net liquidity outflow	18 149	30 632	41 949	25 078
Liquidity coverage ratio (%)	285,07%	145,42%	148,11%	187,55%

The internal liquidity stress test is an integral part of the liquidity risk management limit system, during which the Bank quantifies the impacts of predefined scenarios (idiosyncratic, market-wide, combined). It is a requirement of the parent bank that the Bank meets the minimum 1 month limit in terms of the stress survival horizon. In the course of 2018 the Bank complied with this requirement.

The Asset Liability Committee (ALCO) - of which the Board of Directors is also a member - is the organizational unit responsible for the strategic management of liquidity risks. The ALCO is informed at least monthly about the Bank's liquidity position and the utilization of the limits. Asset-Liability Management (ALM) is responsible for tactical management within the approved guidelines, responsibilities and limits.

6.11.2 Market risk

Market risk is the risk that the actual asset value of the Bank's on-balance sheet and off-balance sheet positions changes as a result of the change in market prices (interest rates, equity prices, foreign exchange rates or commodity prices etc.) due to which the Bank's profit and capital may decrease.

The Bank measures and limits its exposure to market risk using various methods depending on whether the given exposure qualifies as a trading or as a banking book exposure.

Market risk – trading book

Based on criteria defined by the CRR and the FRTB, the Bank classifies as positions held with trading intent the positions intended to be resold short term, or positions intended to benefit from expected differences between buying and selling prices. The Bank performs the valuation of trading book positions at fair value at least daily.

Compared to its size the Bank's trading activity is not significant; it typically holds such positions in connection with client mandates (market execution) where clients want to hedge their risks stemming from their own operation.

Sberbank Group applies several methods for measuring and managing market risks, in line with the international risk management standards and regulatory recommendations.

On the basis of the risk appetite, the parent bank defines every year the maximum level of risk that the Bank can assume and defines, among other things, the open currency position (OCP), the value at risk (VaR, Stress VaR), the interest rate sensitivity (BPV), and the maximum loss (Stop Loss) limits.

Money Markets Trading and ALM areas are in charge of the operative management of market risks. In order to avoid conflict of interest ("Segregation of Duties"), risk exposures are monitored daily by an independent organizational unit , i.e. the Market Risk Management unit, operating independently from the business areas assuming the risk and even from the Board of Directors.

The Bank's management (Board of Directors, ALCO) receives at least monthly information about the risk exposures, while the Supervisory Board receives reports quarterly.

Equity price risk

The Bank does not assume any open commodity and equity risks.

Foreign exchange risk

The primary foreign exchange risk stems from the different structure of the Bank's assets and liabilities (both on- and off-balance sheet). As a result of the changes in foreign exchange rates the Bank may realise gains or incur losses recognized directly in profit or loss.

The Bank manages its foreign currency positions in the trading book, it holds no strategic open positions in the banking book. Assuming non-linear risks is not part of the strategy and so, for example, the Bank typically hedges its option positions back-to-back.

Market risk – banking book

The interest rate risk in the banking book represents the possibility that the income stemming from the positions in the banking book and/or the net present value of the positions change unfavourably due to the change in market interest rates.

Every on- and off-balance sheet position that does not belong to the trading book is to be considered a banking book position; that is, typically loan and deposit portfolios, the non-trading securities portfolio and interbank transactions, investments, other receivables and liabilities and non-trading derivative transactions, etc.

The Bank considers the so-called re-pricing risk as the primary interest rate risk, which is the risk stemming from the timing difference of the re-pricing structure of receivables and liabilities and off-balance sheet items. Measurements cover the yield curve risk which is the risk stemming from the changes in the shape and the slope of the yield curve.

When quantifying the extent of the risk, the Bank applies the generally accepted risk measurement approaches in line with regulatory recommendations and quantifies both the short term (income related) and longer-term impacts (appearing in the change of the economic value of the capital).

Risk exposures are presented separately for the relevant currencies featured in the balance sheet. Both the net interest income and the value of the economic capital are analysed based on the re-pricing table and quantification of the re-pricing gaps.

When quantifying interest rate risk, the Bank uses different scenarios representing various interest rate changes. From among these, we assume a +/- 200 basis points, prompt, parallel yield curve shock as the basic stress scenario. In order to analyse interest rate sensitivity in more detail the Bank also analyses the impact of additional scenarios which simulate the different changes in the slope and the shape of the yield curve.

To measure the banking book's interest rate risk, the Bank also applies the value at risk (VaR) method where we calculate with the historically observed volatility of the yield curve points - instead of the parallel curve shocks defined by the regulator - in such a way that the estimated interest rate shocks match the value of the shifts spread over a one-year period at a 99.9% confidence level.

The Bank applies limits in line with its risk appetite. The ALCO defines the limit proportionately to regulatory capital (maximum 15%) for the change in the value of the economic capital; and proportionately to the annual budgeted net interest income for net interest income change.

The Asset Liability Committee (ALCO) - of which the whole Board of Directors is also a member - is the organizational unit responsible for the strategic management of interest rate risks. Asset-Liability Management (ALM) is responsible for tactical management within the approved guidelines, responsibilities and limits.

The Bank primarily manages its interest rate risks through the harmonization of the pricing parameters of its assets and liabilities (re-pricing period, maturity, interest base) or with the help of derivative hedging transactions (IRS, CIRS).

The Bank distributes the risks (including interest rate and liquidity risks) among the various business lines with the help of a market-based internal transfer pricing system and so the profitability of the various profit centres is defined account taken of the risk they assumed.

Composition of assets and equity and liabilities by currency

Open positions as at 31 December 2018:

	net positions in the balance sheet	Total net positions
Net open long positions	18 394	1 044
Net open short positions	-21 394	-406
Net positions	-3 000	638

Open positions as at 31 December 2017:

	net positions in the balance sheet	Total net positions
Net open long positions	2 026	342
Net open short positions	-6 682	-445
Net positions	-4 656	-104

Value at Risk (VaR)

The Bank also applies risk-sensitive indicators to measure foreign exchange risks. The regulatory VaR model is a particularly important methodology, a so-called historical variance-covariance model that assumes the normal distribution of yields with an expected value of zero.

The model results show the expected loss, assuming a 10-day holding period and taking account of the price fluctuations in the past 250 days at a 99% confidence level.

The regulatory capital requirement under Pillar 1 is calculated based on the standardised approach defined by the CRR, while the Bank uses the modified, more conservative version of the above methodology to calculate the regulatory capital requirement under Pillar 2, where the variance-covariance matrix is derived from a stressed period instead of the past 250 days.

Results of the FX VaR:

HUF million

	31.12.2018	31.12.2017
60 day average of FX Var	18	15
60 day average of FX Stress Var	83	57

Interest sensitivity

We measure the interest sensitivity of trading book positions with the so-called BPV – Basis Point Value sensitivity, which shows the impact on profit or loss of a 1-bp shift in yields. We calculate both the net and gross exposure; in the latter case, we obviously disregard the mutual neutralisation effect of the long-term and short-term positions.

Compared to its size the Bank's trading activity is not significant; it typically holds such positions in connection with client mandates. Accordingly, the portfolio's interest sensitivity overall is very low.

Interest sensitivity of the trading book:

HUF million

	31.12.2018	31.12.2017
Total BPV gross	5,06	3,74
Total BPV net	0,58	0,24

In the case of the EVE model used to measure the interest risks of the banking book, the yield curve shocks are immediate and have lasting impacts that are immediately priced with the net present value approach. The model is hypothetical since the general interest positions (for example loans, deposits, interbank transactions) are recognised in the books at cost, so re-pricing has no direct impact on either capital or the income statement.

The interest risk sensitivity of the banking book remained within both the regulatory limit and the more stringent internal limit.

The results of the basic stress scenario according to the EVE model:

	31.12.2018	31.12.2017
impact of 200 bp parallel shift (HUF million)	2 212	2 050
in percentage of CET1	6,1%	5,3%

The NII model is an income-based approach. The model shows to what extent the Bank's net interest income/expense would change due to re-pricing during a one-year period, assuming an unchanged balance sheet structure, in the case of an immediate, 200-bp parallel yield curve shock.

Results of the basic stress scenario according to the NII model:

HUF million

	31.12.2018	31.12.2017
HUF	619	1 235
EUR	104	106
CHF	13	2
USD	29	290
Total	**740**	**1 417**

6.11.3 Credit risk

Overview

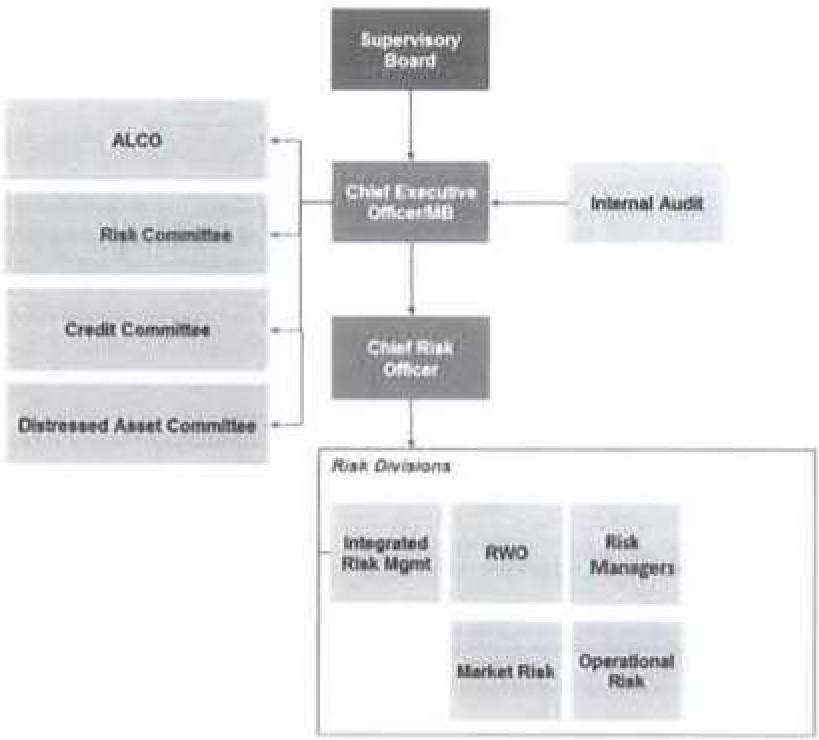
The Bank devotes significant resources to ensuring its risk management functions are comprehensive. In 2018 the risk management function was further enhanced.

The following major projects were conducted in 2018:

- Finalisation of the IFRS 9 project
- Updates in the ICAAP models, implementation of CVA
- Continuation of projects aimed at development of risk-related IT infrastructure
- Improvement of credit risk models and model management
- NPL reduction strategy continued
- Improvement of interest rate risk management and liquidity risk limit framework

Risk management framework

Risk Management is in charge of the Bank's risk management function and is the second line of defence within the Bank. For certain risk types, the tasks of the second line of defence are carried out by organisational units outside of Risk Management, having the necessary competence and resources and who have an interest in lowering the risk levels accepted by the Bank to ensure compliance with risk tolerance objectives, limits and other limitations. The units outside of Risk Management are not part of risk management.



The Bank's Risk Management area performs its work based on EU legislation in force, the Bank's risk strategy, the resolutions, policies and guidelines of the Bank's governing bodies, and it represents the interests of the shareholders. Risk Management operations are integrated into the Bank's processes.

The head of the Bank's Risk Management area is the member of the board responsible for risk management (CRO), who reports to the CEO of the Bank. He supervises the work of the Risk Management units and is a member of the Bank's special risk management committees.

The head of Risk Management complies with the qualification and business reputation requirements defined by EU legislation and other rules (fit and proper approach).

Chief Risk Officer (CRO)

The CRO is an independent member of the Board of Directors responsible for risk management and for creating and operating a comprehensive risk management framework within the entire organisation.

The CRO is independent from the business areas and does not have any management or financial responsibility in terms of operative business lines or income-generating functions.

The CRO places particular emphasis on increasing the risk awareness of the Bank's employees and on strengthening risk culture at every level.

Executive bodies and committees

Supervisory Board

The Supervisory Board, representing the shareholders, is responsible for supervising the Board of Directors and provides assistance with governing the Bank, particularly with taking key decisions.

The Supervisory Board and its subcommittees supervise the risk management process and the current risk exposure based on regular reports and special information from the CRO. The Supervisory Board approves the risk management strategy and the risk appetite declaration proposed by the Bank.

Board of Directors

The Board of Directors coordinates the strategic objectives of the Bank with the Supervisory Board and regularly discusses the status of strategy implementation with the Supervisory Board. Management is based on the principles of good corporate governance as well as open debate between the Board of Directors, the Supervisory Board and members of the committees.

Risk management is the primary responsibility of the CRO, while the Board of Directors, as a collective body, has additional control tasks, including the supervision of risk management functions and approving relevant risk management policies.

Asset-Liability Committee (ALCO)

The Asset-Liability Committee (ALCO) is responsible for managing the balance sheet with a holistic approach, and as a key decision-making body it is also responsible for the existing and future interest and foreign exchange risks within the banking book. Moreover, its task is to optimise the Bank's risk/return profile to maintain proper liquidity and financing and to comply with regulatory capital management requirements.

ALCO closely monitors the evolution of risk-weighted assets, capital levels, P&L forecasts and the regulatory environment since these are key drivers of regulatory capital requirements.

Risk Committee

The Risk Committee (RiCo) is responsible for controlling the Bank's current and potential future risk exposures and for developing and implementing the risk strategy, which includes defining and controlling risk appetite. The Risk Committee deals with risk management, risk regulation, risk models and methodologies and the comprehensive risk management for the entire Bank within the framework of the ICAAP.

Credit Committee

The Credit Committee (CRC) is the central decision-making body responsible for collective credit decisions in terms of individual transactions/limits. It processes all the transactions at its level of authorisation. Within the Credit Committee, the chairman of the CRC (the CRO, board member responsible for risk management) is entitled to reject proposals irrespective of voting results ("veto right").

Distressed Asset Committee (DAC)

The DAC is the body responsible for drafting strategies pertaining to non-performing transactions and special transactions exhibiting a high risk of non-performance.

The main topics/responsibilities of the DAC are contained in its own rules of procedure; these include, among others, the acceptance of strategies and restructuring plans, the assessment of recovery indicators and the review of reports on implementing the action plans.

Risk Strategy

The Board of Directors evaluates and defines the risk strategy for the entire Bank, reflecting the current business model, while the Supervisory Board approves this risk strategy.

The purpose of the Bank's Risk Strategy is to define the general framework for the continuous and prudent management of risks related to the Bank's business model. It describes the basic principles that ensure the Bank's overall capital and liquidity adequacy as well as the appropriate defence approach by integrating risk management into the business activity, performing the strategic planning for the entire organisation and developing it in line with business risks. The Strategy takes the ICAAP principles and results into account.

The Bank's risk strategy is efficiently incorporated into daily operations through the following four pillars:

The risk management function has a homogeneous structure within the Bank with the usual roles and responsibilities. Every activity covered by risk management is documented in the Bank's regulations. The Bank defines the accepted structure of various risks based on its risk appetite and risk profile. The central part of the risk management function is an efficient governance model independent from business areas. All of these components ensure that the Bank efficiently applies the risk strategy throughout the organisation. The continuous improvement of the methods used for measuring and managing risks is integrated into the risk strategy during the annual update process.

Regulatory requirements

Compliance with regulatory requirements relies on three pillars in line with the Basel III rules:

Pillar 1: SBHU's minimum capital requirement

Under Pillar 1, the Bank uses the following methods to define the minimum capital requirement.
• Credit risk: Standardized Approach;
• Settlement risk: Standardized Approach;
• Market risk: Standardized Approach;
• Operational risk: Standardized Approach.

Pillar 2: Internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP)

ICAAP is one of the key components of the risk management and control activity covering the entire Bank, including all risk types and risk portfolios, primarily focusing on the implementation of risk management and risk control from the perspective of Pillar 2. The main objective of the ICAAP framework is to ensure alignment with the legislative (regulatory) and internal expectations and requirements with the ultimate objective of developing and applying appropriate risk and capital management, thereby assuring the sustainable development of the Bank and ensuring capital adequacy in line with its operations to cover all material and relevant risks. ILAAP supplements the ICAAP process from the perspective of the Bank having appropriate liquidity and being eligible for financing.

Pillar 3: Disclosure requirements

Every year the Bank complies with the disclosure requirements defined based on the CRR. The document is accessible at www.sberbank.hu.

ICAAP framework

The Bank's general risk tolerance is defined based on the requirements described under Pillar 2 and the internal capital defined based on Pillar 2. The risk coverage capital is defined with appropriate, risk sensitive measurement methods and by aggregating all of the relevant risk types. This forms the basis of risk management as part of an appropriate limit system.

The process developed by the Bank for managing its risk tolerance must be suitable for determining, quantifying, managing and monitoring all material risks. Moreover, using the process developed for managing risk tolerance, the capital suitable for hedging the assumed risk can be properly estimated based on two approaches: going concern and gone concern. This process ensures that the internal capital requirement and the Bank's regulatory capital are covered by the available capital at all times.

Risk tolerance is closely related to the Bank's strategic business goals, its risk appetite and risk profile as well as its capital adequacy, and ensures multidirectional interaction among these components.

The process includes the following mutually interrelated phases/components:

Identification of risks and assessment of materiality

Based on the comprehensive risk assessments performed each year, the Bank determines the risks that are present within the Bank's banking operations and defines their significance and potential threat. This process includes both a quantitative assessment of the various risk types and an assessment of the methods and systems used to monitor and manage existing risks (qualitative assessment). So this risk assessment concept provides a comprehensive overview of SBHU's risk profile.

Based on the results of the risk materiality assessment, material risks are managed based on the policies, procedures and guidelines approved by the governing body or the committees concerned on the basis of the periodic assessment and/or general supervisory process.

The assessment methodology used for measuring significant risks can be determined on a case-by-case basis depending on the nature of the risk. The Bank applies both quantitative and qualitative methods for fundamental risks (including stress tests) which are documented in dedicated methods and manuals.

Quantitative definition of risks as per the ICAAP

Risk quantification is an integral part of the management process of individual risks. Quantification helps to define the size of the risk capital requirement needed to jointly cover expected and unexpected risks.

When defining the capital requirement the Bank applies the gone concern approach.

According to the risk strategy and the risk identification rules, the level of refinement and the comprehensive nature of the calculation must follow the best market practice, taking into account the volume, volatility and materiality of the underlying risk. The Bank applies Value-at-Risk-type models for credit risk (IRB approach) and for operational and market risks. The Standardised Approach is used in the case of the trading book since the exposure is insignificant based on its share of the general risk exposure. This approach is regularly validated against the banks' internal VaR model.

Credit risk

The internal ratings-based approach is one of the standard VaR models proposed under Pillar 1 (single factor model) by the regulator. Accordingly, it defines the internal capital required to cover credit risk as a credit loss, where the actual loss will most likely not be any higher. The internal ratings-based model focuses on losses stemming from non-performance, and it is based on the estimated values of the PD, LGD and EaD parameters.

The internal ratings-based model does not cover certain semi-credit risks; for more information on this, please refer to the detailed internal policies. For portfolios where the Bank does not have the necessary data (PD or LGD) to apply the internal ratings-based model, the Standardised Approach is used. Whenever possible, however, the Bank applies the internal ratings-based approach.

The value at risk of loans is calculated at a 99,9% confidence level.

Market risk

Market risk is the risk that the actual asset value of the Bank's on-balance sheet and off-balance sheet positions changes as a result of market price changes (interest rates, equity prices, foreign exchange rates or commodity prices, etc.), which may lower the Bank's profit and capital.

Market risk – trading book

The Bank classifies as positions held with trading intent the positions intended to be resold short term, or positions intended to benefit from expected differences between buying and selling prices. The Bank's trading activity is not significant compared to its size, but it applies a complex system to measure and manage market risks in line with international risk management standards.

Market risk – banking book

When quantifying the extent of the risk, the Bank applies the generally accepted risk measurement approaches in line with regulatory recommendations and quantifies both the short term (income related) and longer-term impacts (appearing in the change of the economic value of the capital). When quantifying interest rate risk, the Bank uses scenarios representing various interest rate changes. From among these, we assume a +/- 200 basis points, prompt, parallel yield curve shock as the basic stress scenario. In order to analyse interest rate sensitivity in more detail the Bank also analyses the impact of additional scenarios which simulate the different changes in the slope and the shape of the yield curve.

Operational risk

The Bank defines the capital requirement to be allocated to operational risks using the Standardised Approach under both pillars.

Liquidity risk

Liquidity risk is the risk of the institution not being able to comply with its obligations stemming from the expected and unexpected current and future cash flows and collaterals without impacting its daily operation or its market position. These may include, among others. The Bank measures the liquidity risks using processes and various indicators and limits in line with the international and Hungarian regulatory frameworks and the guidelines of the parent bank, and manages these liquidity risks by maintaining a conservative liquidity buffer.

Other risks

The Bank allocates an additional risk capital requirement to other risks on top of the internal capital requirement already estimated. It defines the amount allocated to other risks based on the amount of previously identified losses (if available) and the expert opinion on the imminent adverse impact of risks, also using the results of the stress test.

Risk aggregation

During the risk quantification phase of the process developed to manage risk tolerance, the Bank assesses the amount of internal capital needed to cover individual material risks. This is followed by the risk aggregation phase during which the internal capital needed to cover all of the Bank's material risks can be estimated.

The Bank's total capital requirement (total internal capital) can be estimated by aggregating the internal capital requirement of the different material risks (including the capital buffer). When aggregating internal capital requirements we assume that the losses stemming from the different risks are in perfect correlation. The assumption is conservative, but for the time being the Bank does not have sufficient experience or enough data to make a reliable assessment of the advantages of diversification. The Bank continuously collects data so that it can define these potential advantages later on.

The entire internal capital requirement is compared with the risk coverage capital. The capital available for the Bank must be higher than both of these.

Stress tests

The Bank performs stress tests as one of the basic tools for managing material risks. Stress tests are carried out separately for each material risk. The purpose of stress tests is to determine the Bank's vulnerability in the case of extreme adverse circumstances, to formulate corrective measures and to ensure the long-term stability of the Bank. Stress tests are also used to determine the Bank's sensitivity to factors that are not part of the quantification of internal capital. Moreover, for risks where the VaR model is not applied, the results of the stress tests may also form the basis for assessing internal capital. However, as a general rule, stress test results do not define the level of internal capital since they model extreme conditions.

The Bank performs at least one stress test every year. In the case of sudden market changes the Bank analyses the potential impacts of the change on its economic position and decides based on the obtained results whether stress tests need to be performed more frequently.

Capital allocation

The targeted risk profile of the Bank is achieved by allocating the risk coverage capital, which takes place as part of the risk tolerance model. The Bank allocates capital to cover every basic risk as well as the other risks that have been classified as material during the identification and assessment of risks. The allocation ensures that the Bank's risk coverage capital provides appropriate protection in the event of adverse circumstances.

Credit risk

The credit risk of Sberbank in Hungary stems primarily from credit type products, although it has some other on-balance sheet and off-balance sheet commitments.

Credit risk management devotes considerable effort every year to identifying and measuring credit risks as accurately as possible, introducing appropriate controls and optimising lending processes from the perspective of risk management.

In the course of 2018 the following significant progress was made:

Corporate and SME

In 2018 the following main developments and projects were launched to revise and develop current lending processes and risk management methods with the objective of improving efficiency:

- The new SME and corporate lending policy was developed and implemented, defining key risk parameters, standards and the risk appetite related to the Bank's lending activity, taking account of group-level expectations at both segment and portfolio level.
- An IT project supporting credit-monitoring activity was also launched.
- A new rating model was introduced for rating real estate project clients and transactions.
- Lending processes related to the large corporate and SME segments were reviewed in order to improve efficiency.

Retail

- The automated solution for supporting credit decisions in the Retail segment went live in March 2018 and was implemented in the Methodus decision engine application.
- We introduced a new rating model for personal loans, which screens clients applying for this product a lot more efficiently.
- The preparation of client ratings in the retail segment was automated with the help of an interface call running in the background.
- Preparatory steps were taken to launch a project that also includes the reorganisation of micro-business risk management.

Risk measurement

To quantify the credit risk of SBHU's loan transactions the Bank has implemented bank-level risk models. One of the key risk indicators is the PD (Probability of Default), which defines the probability of the client's default within 12 months based on qualitative and quantitative performance indicators. The LGD (Loss Given Default), the CCF (Credit Conversion Factor) and the EAD (Exposure at default) depend on transaction specific characteristics.

SBHU has its own PD models, which can be applied to credit applicants where the Banking Group is present. The Bank uses a generic model for cross-border transactions and for clients for whom there is no country-specific model.

Risk measurement components

Debtors' credit risk has two components – Expected Loss (EL) covered by provisions, and Unexpected Loss (UL) covered by capital. EL is the loss expected from the given transaction within 12 months. UL comes from the variance around the expected loss. Expected loss can be broken down into the following three components:

$$EL = PD \times LGD \times EAD$$

These three components are defined as follows:

- PD (Probability of Default) is the probability of a client defaulting within one year. Probabilities of default are classified into rating classes with the help of the SBHU master-scale.
- LGD (Loss given Default) represents the estimated amount of the expected loss on a non-performing loan at the time the default occurs, projected to the expected exposure at default. The Bank never assumes that 100% of the outstanding debt can be recovered by selling the collateral or through other means; instead, a lower value is realistically expected. When defining the LGD rate, the costs incurred during the collection, when selling collateral as well as other economic losses are also taken into account. The LGD is determined based on the collateral type and other transaction-specific characteristics. The risk models determining the LGD rate have been developed based on the results of the completed collection procedures of non-performing clients.
- EAD (Exposure at Default) is the exposure that the Bank expects when the default occurs. It is defined by transaction-specific rates such as the expected drawdown rate or the expected market price of derivative transactions.

Rating process

During the client/transaction rating process only the models approved by SBHU board members (previously by SBEU) can be used. The PD value defined by the Rating "master-scale" is used for the second pillar capital calculation, risk pricing and to select the lending process. At SBEU, the rating is based on the annual PD, which disregards the total cycle price of the loan. Therefore SBHU uses the same 12-month expected loss approach.

data in HUF million

Breakdown of the Bank's credit risk rating grades by PD range:

lower border	averege PD	higher border	risk classes	Risk category
0,00%	0,02%	0,03%	1	high grade
0,03%	0,04%	0,04%	2	high grade
0,04%	0,05%	0,06%	3	high grade
0,06%	0,07%	0,08%	4	high grade
0,08%	0,10%	0,11%	5	high grade
0,11%	0,13%	0,16%	6	high grade
0,16%	0,18%	0,22%	7	high grade
0,22%	0,25%	0,30%	8	high grade
0,30%	0,35%	0,41%	9	high grade
0,41%	0,48%	0,56%	10	standard grade
0,56%	0,66%	0,78%	11	standard grade
0,78%	0,91%	1,07%	12	standard grade
1,07%	1,25%	1,47%	13	standard grade
1,47%	1,73%	2,02%	14	standard grade
2,02%	2,38%	2,79%	15	average grade
2,79%	3,27%	3,84%	16	average grade
3,84%	4,51%	5,29%	17	average grade
5,29%	6,20%	7,28%	18	average grade
7,28%	8,54%	10,03%	19	average grade
10,03%	11,77%	13,81%	20	below average grade
13,81%	16,20%	19,01%	21	below average grade
19,01%	22,31%	26,19%	22	below average grade
26,19%	30,73%	36,06%	23	below average grade
36,06%	42,32%	49,66%	24	below average grade
49,66%	58,28%	100,00%	25	below average grade
100,00%	100,00%	100,00%	26	impaired

Corporate and SME credit risk monitoring and governance

SBHU regularly monitors its receivables in line with the approved processes. Based on the predefined early warning signs the process identifies clients with low creditworthiness, and with the help of appropriate evaluation it detects the critical characteristics that may lead to changes in the commitment and the client's risk profile. Depending on the risk level, receivables with performance problems are forwarded to the designated areas as restructuring and workout cases for further management. During the process the Bank monitors the quality of the credit exposure within a specific period, and performs measurements if differences are observed.

Lending process

The Bank applies uniform lending processes by client segment based on a standard methodology and approach, and performs an independent risk rating while clearly segregating risk and business objectives, using uniform standards and principles, and applies standardised credit application and risk management tools that support risk analysis and decision-making in line with the predefined conditions.

The partner risk category, the level of exposure and the underlying transaction are the main processing parameters in the course of evaluating transactions and taking decisions.

The methodology used during the lending process is standardised in the system. Given the high degree of complexity of the credit decision process and as a result of the incomplete system support at present, in particular with respect to the active business activities with a low risk profile, the back-testing points were incorporated into the process to support efficiency.

The purpose of the method is to reduce manual work and further operational risks.

Reducing risk concentration

A comparative back-testing, monitoring and limit framework has been applied for credit risks. Risk rating models ensure regular evaluations.

Credit risks are managed by numerous control points and processes. The overall risk assumption process is developed and fine-tuned on a regular basis, reflecting the evolution of credit risks identified within the Bank. Control points have been incorporated into internal policies and they also function in practice. The Risk Committee and the management of the Bank are regularly informed about developments related to credit risks, and they are able to manage and control processes based on relevant reports.

Within the corporate segment, the SME segment shows trends similar to 2017. Thanks to strong acquisition activity, both the number of clients in the business segment and their overall exposure have increased. Most of the growth came from the top segment. The change in risk-weighted assets was negligible due to the high coverage rate.

Back-testing is carried out based on reports that have been developed to measure and quantify specific risks. Portfolio level limits were set up to reduce risk concentration.

A high level of concentration risk is taken into account for the portfolio due to the significant aggregate exposure of the client groups. The Bank is striving to diversify the portfolio in the SME segment in the course of product-based lending. The implemented Credit Policy also pays attention to the problems caused by portfolio concentration and attempts to reduce them by regulating regular monitoring.

Although the overall credit risk is considered high compared to the Bank's other risk components based on both quantitative and qualitative assessments, due chiefly to the main distribution of credit risks affecting the entire portfolio, the overall portfolio quality is continuously improving thanks to prudent controls. The economic environment is positive and the centrally managed lending programmes facilitate the development of the credit market. Thanks to the workout activity of past years the credit portfolio has continued to stabilise following a thorough consolidation of the portfolio.

Country and transfer risks

Business is clearly focused on areas where either SBHU or the parent bank is present on the market with their own activities. The country limit methodology framework has been implemented, which is based on the strategy of cross-border risk appetite. Every operation is performed via sub limits allocated from the total limit at bank level. Monitoring, allocation and review processes take place centrally under SBHU's responsibility.

Retail credit risk management and monitoring

Lending process

- Implementation and closure of the project aimed at reframing retail lending:
- Introduction of re-optimised process
- Automated data upload through Central Credit Information System (KHR) interface
- Automated client rating
- Automated legal compliance/internal risk framework check
- Introduction of new personal loan rating model
- Preparation of comprehensive development and optimisation project in micro-business segment prepared based on the successful retail project mentioned above, including the redevelopment of the risk framework and limit calculation

Risk Monitoring

We comprehensively analyse retail and micro-business product groups on a monthly basis and share the results at the GRC meeting held in Hungary and with the headquarters in Vienna by sending them the regular PQR/Vintage report.

Portfolio overview - credit risks

Risk controlling uses the fair value of the assets for calculating the relevant exposure. From an accounting perspective, exposures are recorded based on the carrying amount.

In the course of 2018 total exposures related to the Bank's credit risks did not change significantly, but there was significant restructuring from off-balance sheet assets to on-balance sheet assets, and also among the various segments.

Forbearance

To comply with Sberbank principles, internal credit policies contain special requirements and standards related to restructuring.

We have reviewed and updated the current internal policies related to restructuring so that they fully comply with the requirements of the EBA and of Article 99 (4) of Regulation (EU) No. 575/2013 pertaining to reports on restructuring and non-performing exposures.

A **forborne exposure**[1] is a receivable originating from a transaction[2] for which the Bank gave a discount/concession in view of the debtor's financial difficulties. This can happen if the following two criteria are met:

[1] Restructured receivable according to Decree 39/2016 (X.11) of MNB

[2] According to Decree 39/2016 (X.11) of MNB the receivable: loans containing concession, provided to the obligor at the request of the debtor or obligor (hereinafter collectively: obligor) or the institution, purchased receivables and receivables stemming from other transactions considered cash loans or from other financial services, as well as commitments related to lending that may become a receivable based on the customer's decision (hereinafter collectively: receivable)

- The debtor experiences or might experience difficulties in meeting their financial obligations (they have "financial difficulties"), and
- The Bank and the debtor mutually agree on some discount/concession, which may be one of the following options:
    - The previous contractual terms are modified
    - The Bank or SBEU Group partly or completely refinances the outstanding transaction: the original contract is replaced (either in full or in part) by a contract structured in such a way that it can handle the risk more securely within the SBEU Group as the debtor was unable to fulfil the original conditions.
    - Activation of conditions previously laid down in the contract ("integrated forbearance clauses") based on the Bank's approval, which modify the contractual terms.

Based on the above, the purpose of granting discounts/concessions for clients is to enable them to return to a sustainable servicing of debt.

We classify restructured transactions into the following categories:

- performing restructured (including transactions during their probationary period and those cured from their non-performing status)
- non-performing restructured.

The following transactions are classified as performing:

- the exposure was performing prior to the restructuring, and
- the granted concession does not reclassify the transaction as non-performing.

An exposure previously classified as restructured has to meet the following conditions to be removed from the restructured status:

- **It should be classified as "performing":** the exposure must be considered as "performing" (including reclassification from "non-performing")
- **Minimum two-year probationary period must have elapsed:** at least 2 years have passed since the exposure last (in the case of multiple ratings) received the "performing forborne" or "forborne upgraded to performing" rating.
- **Debtor regularly paid repayment instalment during last year:** since the start of the second half of the probationary period (at the latest) the debtor has regularly paid a substantial part of the interest and principal debt.
- **Debtor has no arrears beyond 30 days:** none of the debtor's exposures is past due by more than 30 days at the end of the probationary period.

All of the conditions described above must be fulfilled simultaneously to terminate the restructured status of any exposure. Even if just one of the conditions is not met, the probationary period must be extended until the end of the next quarter. The restructured status of a non-performing exposure cannot be terminated.

Sberbank Hungary Ltd. data in HUF million

The following table presents SBHU's exposures classified as restructured as at 31 December 2018:

31.12.2018	performing forborne exposures	non-performing forborne exposures	Total forborne exposures
Loans and other commitments (excluding hft)	7 639	2 767	10 406
Loan promisorry notes	118	0	118
Total	**7 757**	**2 767**	**10 524**

31.12.2017	performing forborne exposures	non-performing forborne exposures	Total forborne exposures
Loans and other commitments (excluding hft)	8 650	3 848	12 498
Loan promisorry notes	137	0	137
Total	**8 787**	**3 848**	**12 635**

Non-performing loan portfolio (NPL)

The quality of the loan portfolio is protected by regular reviews and the continuous monitoring of credit exposure.

The purpose of the monitoring process is to:

- identify symptoms and threats
- carry out preventive activities to preserve the quality of the loan portfolio
- maximise recovery of the Bank's assets

The early recognition of risks is a key part of risk management and is aimed at avoiding or mitigating the Bank's expected credit loss. The sooner negative developments are identified and the more consistent the implemented solutions are, the more adequate the restructuring options will be and the more likely they will be successful.

If the monitoring process reveals signs about the borrower suggesting that the borrower may not be able to meet their contractual obligations and repay their loan, the transaction is forwarded to the Restructuring and Workout (RWO) Department.

Sberbank Hungary Ltd. data in HUF million

According to SBHU's internal policies, default occurs when the Bank observes one of the following events at the client:

Default events (non-retail clients)	
1	**Days past due** – A significant obligation of the borrower is past due for more than 90 days.
2	**Bankruptcy** – The Debtor, the Court or a third-party files for/initiates bankruptcy or a debt settlement procedure against the Debtor.
3	**Enforcement** – Enforcement proceedings are in progress against the Debtor.
4	**Liquidation** – The debtor is the subject of liquidation proceedings. The client is given a rating of 26.
5	**Non-performing restructuring** – If restructuring is due to the fact that the debtor is unable to meet their contractual financial obligations.
6	**Write-off** – The client's debts have been written off in part or in full.
7	**Sale** – The receivable had to be sold at a loss (with a significant credit-related economic loss).
8	**Impairment** – Impairment or general risk provision had to be recognised due to a deterioration in the loan quality.
9	**Default of money market transactions** – Decision to close an open position prematurely.
10	**Cross-default (bank group)** – The client's default vis-à-vis another member of the SBEU Group (SBAG and subsidiaries).
11	**Payment difficulties, expected cash flow problems** – The obligors will probably not be able to meet their payment obligations in view of their cash flow problems, resulting in a client default.
12	**Cross-default (client group)** – Default of a debtor group member.
13	**The debtor will probably not be able to meet their financial obligations in the future (Unlikeliness to pay – UTP)** – This category indicates some financial difficulties of the debtor and some "other" deterioration of the loan quality not covered by the other default categories.

Default events (retail clients)	
1	**Days past due** – A significant obligation of the borrower is past due for more than 90 days (according to Section 11.2.1.1. of the policy).
2	**Write-off** – The client's debts have been written off (with a significant, credit-related economic loss) according to Section 11.2.1.2.
3	**Sale** – The receivable had to be sold at a loss according to Section 11.2.1.3.
4	**Fraud** – Fraud committed by the client – confirmed by Compliance or the Fraud Committee as a fraud – resulting in a client default.
5	**Impairment** – Individual or collective impairment or risk provision had to be recognised (for first time or repeatedly) due to a deterioration in the loan quality according to Section 11.2.1.8.
6	**Non-performing restructuring** – If restructuring is due to the fact that the debtor is unable to meet their contractual financial obligations.
7	**Probable cash flow problems** – The obligors will probably not be able to meet their payment obligations in view of cash flow problems, resulting in a client default.
8	**The debtor will probably not be able to meet their financial obligations in the future (Unlikeliness to pay – UTP)** – This category indicates some financial difficulties of the debtor and some "other" deterioration of the loan quality not covered by the other default categories.
9	**Cross default due to joint and several obligation** – The reason for the default is the default of the joint and several obligation. (Joint and several obligation: an exposure where two or more obligors have the joint and several liability to repay the loan (joint and several debtor) not including guarantees and guarantors.)

In case of the above mentioned events, the receivable is presented in stage 3.

The recovery from default starts, when there are no more default causer factors, meaning the customer does not breach any non-performing status trigger, 3 consequitive months before the start of the recovery. At the end of the recovery period, the receivable can be transferred from stage 3 to stage 2.

During the recovery period, it must be measured whether the customer can perform its liabilities or not.

The length of the recovery period for any of the default events depends on the frequency of the exposure's repayment:

Sherbank Hungary Ltd. data in HUF million

Frequency of repayment	Recovery period
Monthly	6 months
Quarterly	9 months
Half year	12 months
Yearly	24 months

If a customer has more deals with different payment schedules, the longest recovery period will be the standard.

In case of non-performing restructuring the followings must be fulfilled to reach recovery:

- the recovery starts when the restructuring takes action (refinancing concluded)
- the recovery period can not be shorter than 12 month, counting from the last existing factor:
    - from the moment of the restructuring,
    - from the moment, that the exposure was graded or become non-performing
    - if the restructuring contains grace period, the expiry of it.
    - in addition, the recovery period can not be shorter, than that period during the debtor performs payment in a significant amount. A significant payment is the amount of a defaulted debt or a written off amount, if the debt was not default. Or the period, when the debtor performed the repayment of the restructuring obligation.

The table below shows the evolution of the non-performing loan portfolio for the financial years 2017 and 2018:

Client exposures (HUF)	31.12.2018	31.12.2017	01.01.2017
NPL volume	26 024	30 388	32 130
NPL ratio	10,62%	14,09%	15,41%

Impairment

The Bank's credit risk is the risk that the debtor of the loan causes a financial loss for the Bank by not meeting some of their credit-related obligations. To cover these losses, the Bank recognises impairment in line with the provisions of IFRS 9.

Also in line with the provisions of the standard, the Bank applies the expected loss model to determine the required amount of impairment and provisions, i.e. it takes into account the loss events that occurred after the initial recognition or that are expected to occur during the life of the exposure.

At the end of each month the Bank examines whether there is any objective evidence that a financial asset or group of financial assets may be impaired.

The following events may serve as objective evidence:

- Significant financial difficulty of the debtor
- The recovery of the loan is only probable by claiming the collateral securing the loan
- The debtor's obligations are past due for more than 90 days
- The loan had to be restructured, for example due to substantial changes in conditions, interest rate decreases, etc. (with the exception of changes driven by the market or due to technical reasons)
- The collateral value has substantially decreased and no other cash flows are available for the loan repayment
- The client is unwilling to cooperate, despite prevailing payment difficulties
- It is likely that bankruptcy proceedings or some other financial reorganisation will be initiated against the borrower
- The client has no regular monthly income
- The client's rating has deteriorated to default or pre-default rating categories, etc.

Every credit exposure, on-balance sheet and off-balance sheet items must be taken into account when recognising impairment and provisions, irrespective of their credit ratings. This means the Bank not only rates the transactions where a significant deterioration in credit quality can be observed, or where the credit risk itself is high. The valuation covers every financial asset with the exception of assets measured at fair value through profit or loss.

Off-balance sheet exposures should be taken into account for calculating impairment and provisions depending on the likelihood of their drawdown. The Bank applies the CCF values permitted by the regulator based on the CRR to quantify this amount.

The Bank classifies its exposures into one of the stages defined by IFRS 9 (Stage 1, Stage 2, Stage 3 and POCI), taking account of their deterioration compared with the credit quality upon initial recognition, which also defines the method for recording impairment and provisions.

Significant increase in credit risk (SICR)

If a significant increase in credit risk is observed compared with the initial recognition of the financial asset, then the financial asset will be categorised into the Stage 2 category in line with the provisions of IFRS 9.

The Bank determines a significant increase in credit risk after considering several parameters together, during which it takes into account, among other things, the classification of the given transaction during regular monitoring, its current default and any restructuring, if applicable.

Signs observed when classifying exposures into Stage 2:

Classification criteria	Retail segment	Non-Retail segment
Monitoring status: red or black, or clients on watch list	Stage 2 (if data is available)	Stage 2
Forbearance flag	Stage 2	Stage 2
DPD > 30 days	Stage 2	Stage 2
SICR indicator: Significant increase in credit risk	Stage 2 (if reliable rating data is available)	Stage 2
Collective assessment (based on extraordinary decision supported by the Risk Committee and approved by the Board of Directors)	Stage 2 (at portfolio level, based on expert evaluation)	Stage 2 (at portfolio level, based on expert evaluation)

If both initial and current client rating information is available when evaluating a significant increase in credit risk, the deterioration of the rating by at least 7 notches in absolute terms is also taken into account as a factor indicating the significant increase in credit risk (SICR indicator).

For transactions without a rating an average rating was determined based on the data of the performing portfolio with a rating, and this value is reviewed at least on an annual basis.

We indicate low risk portfolios with internal rating grades 1 to 8. In their case, the SICR indicator is not taken into account when classifying them into stages. However, the Bank always examines the other criteria of Stage 2 classification for these transactions as well.

Transactions for which the Bank has already determined a significant increase in credit risk once can only be reclassified back from Stage 2 to Stage 1 if not a single factor indicating the significant increase in credit risk or indicating default exists with respect to the current cycle or the previous reporting cycle.

The Bank determines the need to recognise impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not significant individually. A threshold has been determined to differentiate exposures that are individually significant and not significant, which is based on the client's total exposure to the Bank. For recording impairment and provisions the Bank considers receivables to be individually significant where the total value of the client's on-balance sheet and off-balance-sheet exposures exceeds HUF 100,000,000. In addition, individual assessment is also performed for contingent liabilities due to litigated receivables and equity investments, as these are also managed individually. Moreover, irrespective of the above significance threshold, the Bank may classify any client/client group into the category to be assessed individually.

For individually significant exposures, the Bank uses the discounted cash flow (DCF) method to determine the required level of impairment and provisions. Accordingly, if objective evidence exists, the impairment loss is equivalent to the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. When calculating the present value of estimated future cash flows, the cash flows originating from any regular future income and cash flows that can be expected from enforcing collateral must always be included (reduced by the cost of acquiring and selling the collateral) depending on whether the Bank assumes a going concern or liquidation of the debtor.

In the going concern approach we assume that the client will repay the principal and the interest, so the debtor's economic difficulties are only temporary and they will be able to repay the exposure from the future cash flows of their core activities. By contrast, in the gone concern approach we assume that we can only collect the debt by enforcing the collateral.

When calculating collective impairment – contrary to the method described for recognising individual impairment – we estimate cash flows at portfolio level. In such cases, assets with similar credit risk characteristics are grouped into a given portfolio. Accordingly, cash flows can mostly be assessed in the given portfolio based on past experiences, taking account of their future evolution based on the lifetime component of the applied impairment models. Determining the appropriate risk parameters used for the calculation is crucially important when calculating collective impairment.

When determining future expected cash flows, some macroeconomic factors are also considered (for example: unemployment rate, net average wages, industrial output, GDP, etc.).

We estimate the difference between the carrying amount and future cash flows not only for the next 12 months but also with the LECL approach, meaning we quantify the expected loss resulting from a default event occurring during the lifetime of the financial instrument in the cases where the standard requires us to do so.

Sberbank Hungary Ltd. data in HUF million

For exposures classified in Stage 1 the Bank uses the 12-month expected loss approach, while for exposures classified in Stage 2 and Stage 3 it uses the lifetime expected loss approach.

We calculate the amount of impairment and provisions to be assessed collectively at the end of each month, and we recalculate it if any of the applied parameters changes significantly.

Sberbank Group has a uniform process for developing, verifying, approving and back-testing risk models in accordance with IFRS 9. The applied methodology and the assumptions are reviewed on an annual basis to reduce any possible difference between the losses recognised based on the assessment and the losses actually incurred.

Concentration risk

Concentration risks of receivables from customers in the balance sheet and memorandum accounts shown in the following tables are grupped by the risk factors listed as follows:

- customers' geographical region
- composition according to main currencies
- customers' industrial classification

The following tables show the on-balance and off-balance gross exposures broken-down by categories above.

Geographical concentration

Concentration of on-balance exposures from customers broken down by geographical region	31.12.2018				
	Domestic	Russia	EU	outside EU	Total
high grade	5 951	0	0	37	5 988
standard grade	77 220	138	8 597	2 078	88 033
average grade	104 030	44	6 636	37	110 747
below average grade	14 694	14	55	55	14 818
impaired	24 633	1	860	58	25 552
Total	**226 528**	**197**	**16 148**	**2 265**	**245 138**

Concentration of off-balance exposures from customers broken down by geographical region	31.12.2018				
	Domestic	Russia	EU	outside EU	Total
high grade	7 456	3 615	0	0	11 071
standard grade	64 864	8 039	5 140	1 984	80 027
average grade	19 277	0	2	0	19 279
below average grade	2 402	0	0	0	2 402
impaired	1 030	0	0	0	1 030
Total	**95 029**	**11 654**	**5 142**	**1 984**	**113 809**

Concentration of on-balance exposures from customers broken down by geographical region	31.12.2017				
	Domestic	Russia	EU	outside EU	Total
high grade	1 980	0	3	36	2 019
standard grade	67 502	107	12 357	63	80 029
average grade	88 490	21	139	230	88 880
below average grade	15 281	10	28	97	15 416
impaired	28 372	0	930	70	29 372
Total	**201 625**	**138**	**13 457**	**496**	**215 716**

data in HUF million

Concentration of off-balance exposures from customers broken down by geographical region	31.12.2017				
	Domestic	Russia	EU	outside EU	Total
high grade	11 718	7 754	0	6	19 478
standard grade	73 458	3 662	6 227	1	83 348
average grade	30 691	0	1	2	30 694
below average grade	1 185	0	0	0	1 185
impaired	68	0	0	0	68
Total	**117 120**	**11 416**	**6 228**	**9**	**134 773**

Concentration of on-balance exposures from customers broken down by geographical region	01.01.2017				
	Domestic	Russia	EU	outside EU	Total
high grade	463	0	0	38	501
standard grade	30 460	12	13 577	3 797	47 846
average grade	107 025	92	565	328	108 010
below average grade	20 805	1	922	57	21 785
impaired	30 042	1	238	115	30 396
Total	**188 795**	**106**	**15 302**	**4 335**	**208 538**

Concentration of off-balance exposures from customers broken down by geographical region	01.01.2017				
	Domestic	Russia	EU	outside EU	Total
high grade	1 307	0	0	7	1 314
standard grade	61 831	3 409	1	4 078	69 319
average grade	19 998	0	0	0	19 998
below average grade	919	0	0	0	919
impaired	190	0	0	1	191
Total	**84 245**	**3 409**	**1**	**4 086**	**91 741**

The Bank's activity focuses mainly on domestic customers, which has not changed in recent years. The vast majority of EU transactions consist of deals realized together with other members of the Group in the EU. Based on the fundamentals of the ownership of the Group, the risks to Russia also appear as part of the banking strategy, typically in the form of trade finance transactions.

Currency concentration

Concentration of on-balance exposures from customers broken down by currencies	31.12.2018					
	HUF	EUR	CHF	USD	Other	Total
high grade	5 192	759	0	37	0	5 988
standard grade	61 786	24 761	48	1 438	0	88 033
average grade	78 543	30 900	1 289	15	0	110 747
below average grade	14 059	537	171	51	0	14 818
impaired	19 722	1 920	3 903	6	1	25 552
Total	**179 302**	**58 877**	**5 411**	**1 547**	**1**	**245 138**

data in HUF million

Concentration of off-balance exposures from customers broken down by currencies	31.12.2018 HUF	EUR	CHF	USD	Other	Total
high grade	6 391	4 680	0	0	0	11 071
standard grade	24 239	55 717	0	71	0	80 027
average grade	17 280	1 993	0	6	0	19 279
below average grade	2 098	304	0	0	0	2 402
impaired	793	237	0	0	0	1 030
Total	**50 801**	**62 931**	**0**	**77**	**0**	**113 809**

Concentration of on-balance exposures from customers broken down by currencies	31.12.2017 HUF	EUR	CHF	USD	Other	Total
high grade	1 545	441	0	33	0	2 019
standard grade	52 882	25 365	203	1 579	0	80 029
average grade	70 544	18 142	182	12	0	88 880
below average grade	12 241	1 808	1 317	50	0	15 416
impaired	23 537	1 677	4 144	13	1	29 372
Total	**160 749**	**47 433**	**5 846**	**1 687**	**1**	**215 716**

Concentration of off-balance exposures from customers broken down by currencies	31.12.2017 HUF	EUR	CHF	USD	Other	Total
high grade	4 691	14 781	0	6	0	19 478
standard grade	30 326	53 005	0	17	0	83 348
average grade	21 327	9 301	0	66	0	30 694
below average grade	1 163	22	0	0	0	1 185
impaired	65	2	1	0	0	68
Total	**57 572**	**77 111**	**1**	**89**	**0**	**134 773**

Concentration of on-balance exposures from customers broken down by currencies	01.01.2017 HUF	EUR	CHF	USD	Other	Total
high grade	463	1	0	37	0	501
standard grade	19 477	21 339	247	6 783	0	47 846
average grade	89 334	16 361	531	1 784	0	108 010
below average grade	15 210	3 631	2 869	75	0	21 785
impaired	23 949	2 323	4 116	7	1	30 396
Total	**148 433**	**43 655**	**7 763**	**8 686**	**1**	**208 538**

Concentration of off-balance exposures from customers broken down by currencies	01.01.2017 HUF	EUR	CHF	USD	Other	Total
high grade	1 307	0	0	7	0	1 314
standard grade	15 378	42 633	0	11 308	0	69 319
average grade	14 323	3 790	1	307	1 577	19 998
below average grade	904	15	0	0	0	919
impaired	155	35	1	0	0	191
Total	32 067	46 473	2	11 622	1 577	91 741

Sberbank Hungary Ltd. data in HUF million

The majority of the Bank's exposure to customers is denominated in HUF or EUR; there is a lesser degree of USD-based risk-taking; CHF exposures are remnants of old, gradually decreasing risk takings. The Bank strives to ensure the presence of the appropriate natural hedge in its foreign currency transactions and does not provide speculative foreign currency loans.

Industry concentration

	31.12.2018					
Concentration of on-balance exposures from customers broken down industry	**high grade**	**standard grade**	**average grade**	**below average grade**	**impaired**	**Total**
Agriculture, forestry and fishing	88	2 059	1 839	687	104	4 777
Mining and quarrying	0	0	6	0	0	6
Manufacturing	379	14 888	9 043	496	1 914	26 720
Electricity, gas, steam and air condition supply	0	6 644	538	4	59	7 245
Water supply	0	29	837	20	5	891
Construction	555	1 525	2 930	521	1 469	7 000
Wholesale and retail trade	3 363	6 579	14 128	1 810	2 007	27 887
Transport and storage	39	1 380	3 383	307	181	5 290
Accommodation and food service activities	102	66	3 147	173	91	3 579
Information and communication	129	3 661	13 349	83	111	17 333
Financial and insurance activities	37	1 147	482	163	12	1 841
Real estate activities	79	2 618	32 627	1 194	3 271	39 789
Professional, scientific and tech. activities	182	531	3 072	386	113	4 284
Administrative and support service activities	237	1 650	711	128	654	3 380
Public administration and defence, compulsory	0	2 782	0	17	0	2 799
Education	798	738	415	19	19	1 989
Human health services and social work act.	0	218	737	49	288	1 292
Arts, entertainment and recreation	0	32	159	67	59	317
Other services	0	26	440	102	20	588
Foreign organizations, bodies	0	0	0	0	0	0
Individulas	0	41 460	22 904	8 592	15 175	88 131
Total	**5 988**	**88 033**	**110 747**	**14 818**	**25 552**	**245 138**

Sberbank Hungary Ltd. data in HUF million

Concentration of off-balance exposures from customers broken down industry	31.12.2018 high grade	standard grade	average grade	below average grade	impaired	Total
Agriculture, forestry and fishing	67	216	792	139	0	1 214
Mining and quarrying	0	0	30	0	0	30
Manufacturing	248	7 189	1 603	142	199	9 381
Electricity, gas, steam and air condition supply	0	0	2 147	0	0	2 147
Water supply	0	0	34	11	0	45
Construction	4 380	14 954	3 535	143	697	23 709
Wholesale and retail trade	2 003	37 420	3 744	235	0	43 402
Transport and storage	176	5 228	761	52	0	6 217
Accommodation and food service activities	106	91	198	59	0	454
Information and communication	186	2 218	422	11	0	2 837
Financial and insurance activities	3 645	1 852	3	0	2	5 502
Real estate activities	1	184	1 452	285	129	2 051
Professional, scientific and tech. activities	139	8 936	3 257	73	0	12 405
Administrative and support service activities	90	228	507	160	0	985
Public administration and defence, compulsory	0	700	0	2	0	702
Education	0	0	57	0	0	57
Human health services and social work act.	0	43	123	1	0	167
Arts, entertainment and recreation	0	1	50	8	0	59
Other services	0	11	58	0	0	69
Foreign organizations, bodies	30	756	506	1 081	3	2 376
Total	**11 071**	**80 027**	**19 279**	**2 402**	**1 030**	**113 809**

Concentration of on-balance exposures from customers broken down industry	31.12.2017 high grade	standard grade	average grade	below average grade	impaired	Total
Agriculture, forestry and fishing	3	1 557	2 062	355	131	4 108
Mining and quarrying	0	0	0	0	0	0
Manufacturing	272	7 349	7 739	668	2 528	18 556
Electricity, gas, steam and air condition supply	0	6 296	866	5	39	7 206
Water supply	0	20	834	81	6	941
Construction	67	3 513	1 542	587	353	6 062
Wholesale and retail trade	622	11 660	17 492	1 125	1 563	32 462
Transport and storage	20	1 790	3 016	378	130	5 334
Accommodation and food service activities	0	56	1 341	265	195	1 857
Information and communication	104	1 594	780	144	77	2 699
Financial and insurance activities	33	2 221	762	30	1 973	5 019
Real estate activities	11	5 962	22 375	3 088	3 149	34 585
Professional, scientific and tech. activities	25	500	2 950	1 697	223	5 395
Administrative and support service activities	46	223	1 618	102	644	2 633
Public administration and defence, compulsory	0	0	5	39	0	44
Education	0	1 045	438	11	19	1 513
Human health services and social work act.	0	38	611	94	269	1 012
Arts, entertainment and recreation	0	0	1 097	72	90	1 259
Other services	0	0	379	59	22	460
Foreign organizations, bodies	0	0	0	0	0	0
Individulas	816	36 205	22 973	6 616	17 961	84 571
Total	**2 019**	**80 029**	**88 880**	**15 416**	**29 372**	**215 716**

data in HUF million

Concentration of off-balance exposures from customers broken down industry	31.12.2017 high grade	standard grade	average grade	below average grade	Impaired	Total
Agriculture, forestry and fishing	0	684	752	125	1	1 562
Mining and quarrying	0	0	0	0	0	0
Manufacturing	322	11 722	3 233	88	30	15 395
Electricity, gas, steam and air condition supply	6 203	0	2 489	0	0	8 692
Water supply	0	10	38	5	0	53
Construction	10 073	20 926	5 895	226	35	37 155
Wholesale and retail trade	1 384	35 314	7 609	264	0	44 571
Transport and storage	50	5 404	695	72	0	6 221
Accommodation and food service activities	0	42	243	22	0	307
Information and communication	162	346	301	27	0	836
Financial and insurance activities	29	6 012	178	0	0	6 219
Real estate activities	51	452	4 304	4	0	4 811
Professional, scientific and tech. activities	1 105	397	2 672	114	0	4 288
Administrative and support service activities	99	223	1 066	87	0	1 475
Public administration and defence, compulsory	0	700	2	7	0	709
Education	0	800	90	0	0	890
Human health services and social work act.	0	8	92	0	0	100
Arts, entertainment and recreation	0	0	55	9	0	64
Other services	0	0	58	13	0	71
Foreign organizations, bodies	0	308	922	122	2	1 354
Total	**19 478**	**83 348**	**30 694**	**1 185**	**68**	**134 773**

Concentration of on-balance exposures from customers broken down industry	01.01.2017 high grade	standard grade	average grade	below average grade	Impaired	Total
Agriculture, forestry and fishing	0	1 140	3 866	422	146	5 574
Mining and quarrying	0	3 738	106	0	0	3 844
Manufacturing	0	8 232	6 115	882	1 765	16 994
Electricity, gas, steam and air condition supply	0	6 422	2 975	105	0	9 502
Water supply	0	0	635	18	3	656
Construction	0	1 570	2 427	538	453	4 988
Wholesale and retail trade	39	11 492	16 776	1 368	2 639	32 314
Transport and storage	0	736	2 147	253	149	3 285
Accommodation and food service activities	0	61	1 572	390	287	2 310
Information and communication	0	1 114	699	118	75	2 006
Financial and insurance activities	37	63	26	51	2 040	2 217
Real estate activities	49	1 353	17 705	6 326	2 916	28 349
Professional, scientific and tech. activities	0	552	2 112	2 319	229	5 212
Administrative and support service activities	0	176	2 629	115	107	3 027
Public administration and defence, compulsory	0	0	79	0	0	79
Education	0	1 635	67	311	24	2 037
Human health services and social work act.	0	74	465	96	286	921
Arts, entertainment and recreation	43	0	1 133	72	71	1 319
Other services	0	0	255	98	22	375
Foreign organizations, bodies	0	0	0	0	0	0
Individulas	333	9 488	46 221	8 303	19 184	83 529
Total	**501**	**47 846**	**108 010**	**21 785**	**30 396**	**208 538**

Sberbank Hungary Ltd. data in HUF million

Concentration of off-balance exposures from customers broken down by industry	high grade	standard grade	01.01.2017 average grade	below average grade	Impaired	Total
Agriculture, forestry and fishing	0	161	743	71	70	1 045
Mining and quarrying	0	4 078	0	0	0	4 078
Manufacturing	0	5 277	2 028	41	3	7 349
Electricity, gas, steam and air condition supply	0	6 629	746	0	0	7 375
Water supply	0	0	40	0	0	40
Construction	0	6 394	5 023	103	78	11 598
Wholesale and retail trade	23	39 137	5 413	308	0	44 881
Transport and storage	0	659	537	97	0	1 293
Accommodation and food service activities	0	26	171	31	0	228
Information and communication	0	529	198	4	0	731
Financial and insurance activities	1 240	119	10	1	0	1 370
Real estate activities	20	319	1 262	57	37	1 695
Professional, scientific and tech. activities	7	974	2 004	60	0	3 045
Administrative and support service activities	0	646	1 173	31	0	1 850
Public administration and defence, compulsory	0	760	4	0	0	764
Education	0	0	35	1	0	36
Human health services and social work act.	0	17	122	2	0	141
Arts, entertainment and recreation	0	0	45	20	0	65
Other services	0	0	69	18	0	87
Individuals	24	3 594	375	74	3	4 070
Total	**1 314**	**69 319**	**19 998**	**919**	**191**	**91 741**

The sectoral distribution of the Bank's risk exposures corresponds to the market average; mainly finances sectors with typically high need for financing (real estate, trade, manufacturing) with loans; off-balance sheet transactions are dominating in trade sectors (trade finance) and in the real estate market (guarantee schemes).

6.11.4 Operational risk

The risk of incurring losses due to errors or non-compliance of internal procedures (processes), staff or systems and the risk of incurring losses due to external events are considered operational risks. The Sberbank Europe Group and so Sberbank Hungary as well use the standardised measurement method based on gross business line revenues to determine the capital requirement for operational risk.

Within the Sberbank Europe Group, risk management comprises the following processes in general: risk identification; measurement and evaluation of risk exposures; ensuring appropriate capital monitoring and planning; taking appropriate measures to control and mitigate risks. Operational risks are measured both quantitatively and qualitatively (for example: collection of loss data, monitoring external loss events, risk self-assessments, monitoring risk-mitigating measures).

The most important component of the 3-layer defence line is the operational risk manager (Business Line Operational Risk Managers (BLORMs)). The main methodology components are (also) determined centrally with the involvement of the parent bank, but the identification of risks and problems within the various areas is decentralised through the BLORMs and they are also responsible for checking the implementation of risk-mitigating measures.

In 2018 the Bank mainly fine-tuned its risk measurement methods (in particular, the methods used for risk evaluation) and improved the quality of internal loss data collection, it regularly monitored the operation of internal controls and developed its capital calculation procedure under Pillar II (ICAAP).

In the future, operational risk management will focus on the following activities:

- continuous development of risk evaluation methodology
- continuous development of internal controls
- development of outsourcing processes
- monitoring of internal capital requirement
- improving the quality of loss data and developing data collection practices

A monthly report is prepared and submitted to the Risk Committee about operational risk losses, risk evaluation results and the implementation of internal controls, as well as about the utilisation of internal limits determined with respect to operational risk appetite.

Operational risk losses can be classified into one of the following main categories:

- Internal fraud: an intentional action where at least one internal party was involved.
- External fraud: losses stemming from the intentional activity of a third party alone, aimed at fraud, misappropriation or the evasion of legal regulations
- Employer practice and occupational safety: losses incurred due to the violation of employer, healthcare or occupational safety requirements; losses stemming from individual litigated claims related to labour law; losses caused by social or cultural discrimination
- Client, business practice, marketing and product policy: losses resulting from unintentional or negligent breach of professional obligations vis-à-vis clients (including confidence or professional requirements) or losses stemming from product features or product design
- Losses affecting tangible assets: depreciation caused by natural disasters or other events
- Business disruption and system failures: losses stemming from business disruption or the shutdown or failure of production systems
- Execution, performance and process management: damage caused by the incorrect processing of transactions or the management of processes related to commercial clients and suppliers

6.12 Approval for issue

The general meeting of the Bank will approve the annual financial statements for issue on 29 May 2019.

Budapest, 13 May 2019

Richard Szabó
Chairman - CEO

Éva Tudiscone Gyöngyösy
CFO