



**Independent Auditors' Report
issued on the 2012 Consolidated Annual Report
and Consolidated Business Report
of CIB Bank Zrt.**

This is an English translation of the statutory Consolidated Annual Report and the Consolidated Business Report, and the Independent Auditors' Report thereon issued in Hungarian. In case of any differences, the Hungarian language original prevails.





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This is an English translation of the Independent Auditors' Report on the 2012 statutory Consolidated Financial Statements of CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete statutory Consolidated Financial Statements it refers to.

Independent Auditors' Report

To the shareholder of CIB Bank Zrt.

Report on the Consolidated Financial Statements

We have audited the accompanying 2012 consolidated financial statements of CIB Bank Zrt. (hereinafter referred to as "the Bank"), which comprise the consolidated statement of financial position as at 31 December 2012, which shows total assets of MHUF 2,119,288, the consolidated statement of comprehensive income, which shows loss for the year of MHUF -151,873, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of CIB Bank Zrt. and its consolidated subsidiaries as at 31 December 2012, and of their consolidated financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matters

The 2011 consolidated financial statements of the Company were audited by another auditor, who issued an unqualified opinion in its Auditor's Report dated 29 February 2012.

Report on the Consolidated Business Report

We have audited the accompanying 2012 consolidated business report of CIB Bank Zrt.

Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Act on Accounting. Our responsibility is to assess whether this consolidated business report is consistent with the consolidated annual report prepared for the same business year. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated annual report, and did not include a review of any information other than that drawn from the audited accounting records of the Bank.

In our opinion, the 2012 consolidated business report of CIB Bank Zrt. is consistent with the data included in the 2012 consolidated annual report of CIB Bank Zrt.

Budapest, 27 February 2013

KPMG Hungária Kft.
Registration number: 000202

István Henye
István Henye
Partner, Professional Accountant
Registration number: 005674





CIB BANK

CIB BANK Ltd. and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2012
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

**Consolidated Financial Statements
for the year ended 31 December 2012**

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**Consolidated Statement of Comprehensive Income
for the year ended 31 December 2012
(million HUF)**

	Note	2012	2011
Interest income	4	117,425	129,286
Interest expense	4	(82,048)	(70,088)
Net interest income		35,377	59,198
Fee and commission income	5	34,374	39,103
Fee and commission expense	5	(7,793)	(8,562)
Net fee and commission income		26,581	30,541
Income from trading activities	6	18,305	28,287
Other operating income	7	3,083	2,164
Net banking income		83,346	120,190
Impairment losses, provisions and net loan losses	8	(155,397)	(105,719)
Operating expenses without bank tax	9	(56,067)	(55,426)
Loss before bank tax and income taxes		(128,118)	(40,955)
Bank tax	10	(11,449)	(998)
Loss before income taxes		(139,567)	(41,953)
Income tax benefit / (expense)	11	(12,306)	4,647
Net loss for the year (before appropriations)		(151,873)	(37,306)

The accompanying notes on pages 11 to 86 form part of these Consolidated Financial Statements.

**Consolidated Statement of Comprehensive Income
for the year ended 31 December 2012
(million HUF)**

	Note	2012	2011
Net loss for the year (before appropriations)		(151,873)	(37,306)
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)	13	426	171
Other comprehensive income for the year (net of taxes)	13	426	171
Total comprehensive income for the year		(151,447)	(37,135)
Attributable to Equity holders of the parent		(151,447)	(37,135)

The accompanying notes on pages 11 to 86 form part of these Consolidated Financial Statements.

**Consolidated Statement of Financial Position
as at 31 December 2012
(million HUF)**

Assets	Note	2012	2011
Cash and current accounts with central bank	15	33,014	40,069
Due from banks	16	107,698	177,928
Financial assets at fair value through profit or loss	17	26,289	7,954
Derivative financial assets	34	12,116	16,214
<i>Loans and advances to customers</i>	18	1,832,399	2,178,053
<i>Allowance for loan losses</i>	18	(314,417)	(276,520)
Net loans and advances to customers		1,517,982	1,901,533
Financial investments – Available-for-sale	21	229,202	144,737
Financial investments – Held-to-maturity	21	5,662	5,574
Non-current assets held for sale	19	1,460	1,251
Deferred tax assets	11	10,186	19,712
Current tax assets	11	13,119	19,529
Other assets	20	6,902	9,041
Repossessed properties	22	115,687	137,407
Intangible assets	23	8,178	8,569
Property, plant and equipment	24	31,793	34,854
Total assets		2,119,288	2,524,372

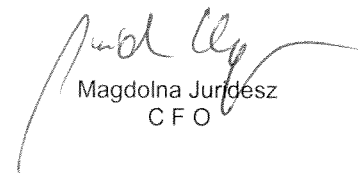
The accompanying notes on pages 11 to 86 form part of these Consolidated Financial Statements.

**Consolidated Statement of Financial Position
as at 31 December 2012
(million HUF)**

Liabilities and Shareholders' Equity	Note	2012	2011
Deposits from banks	25	433,771	711,644
Derivative financial liabilities	34	29,236	35,949
Deposits from customers	26	1,282,813	1,364,819
Liabilities from issued securities	27	80,168	107,975
Deferred tax liabilities	11	5,570	5,775
Current tax liabilities	11	3,164	3,043
Other liabilities	28	17,875	22,277
Provisions	29	6,701	5,368
Subordinated debt	30	65,626	23,411
Total liabilities		1,924,924	2,280,261
Shareholders' equity			
Share capital	31	145,000	145,000
Reserves	32	101,692	(434)
Retained earnings		(52,328)	99,545
Total shareholders' equity		194,364	244,111
Total liabilities and shareholders' equity		2,119,288	2,524,372
Commitments and contingencies	33	211,030	241,313

27 February 2013


 Fabrizio Centrone
 CEO


 Magdolna Jurdesz
 CFO

CIB Bank Ltd.

The accompanying notes on pages 11 to 86 form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2012
(million HUF)

	Note	Ordinary Shares	Retained Earnings	Capital reserve	General Reserve	Revaluation reserve	Total
Balance at 31 December 2010		105,000	130,211	1,019	6,640	(1,624)	241,246
Total comprehensive income		-	-	-	-	171	171
Issue of shares	31	40,000	-	-	-	-	40,000
Net loss for 2011		-	(37,306)	-	-	-	(37,306)
Transfers between reserves		-	6,640	-	(6,640)	-	-
Balance at 31 December 2011		145,000	99,545	1,019	-	(1,453)	244,111
Total comprehensive income		-	-	-	-	426	426
Issue of shares	31	-	-	101,700	-	-	101,700
Net loss for 2012		-	(151,873)	-	-	-	(151,873)
Balance at 31 December 2012		145,000	(52,328)	102,719	-	(1,027)	194,364



**Consolidated Statement of Cash Flows
for the year ended 31 December 2012
(million HUF)**

	2012	2011
Operating activities		
Profit (loss) before tax	(139,567)	(41,953)
Depreciation	7,031	7,297
Net unrealized (gain) / loss on financial instruments	(3,331)	(12,914)
Increase in allowance for loan losses	37,897	82,089
Increase in allowance for repossessed properties	24,725	1,202
<i>Working capital charges:</i>		
Decrease / (increase) in due from banks	5,137	124
Decrease / (increase) in financial assets at fair value through profit or loss	(17,524)	2,497
Decrease / (increase) in loans and advances to customers	355,547	130,396
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)	8,340	(9,359)
Increase / (decrease) in deposits from banks	(277,873)	58,649
Increase / (decrease) in deposits from customers and liabilities from issued securities	(110,424)	(4,337)
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	(2,949)	(502)
Income tax charged	(3,085)	(5,214)
Cash flows used in operating activities	(116,076)	207,975
Investing activities		
Purchase of financial investments	(169,118)	(27,406)
Proceeds from sale of financial investments	150,621	60,579
Acquisitions to intangible and tangible assets	(3,392)	(2,745)
Acquisitions to repossessed properties	(12,604)	(17,399)
Disposals of intangible and tangible assets	307	184
Cash flows used in investing activities	(34,186)	13,213
Financing activities		
Subordinated debt	42,215	(16,645)
Cash from share capital	101,700	40,000
Cash flows from financing activities	143,915	23,355
Net increase / (decrease) in cash and cash equivalents	41	(6,347)
Cash and cash equivalents at the beginning of year	331,102	86,559
Cash and cash equivalents at the end of year	324,755	331,102

Additional information for cash flows from operating activities

Interest received	117,739	127,758
Interest paid	77,234	66,658
Dividend received	86	60
Income tax paid	5,977	5,620

27 February 2013

Fabrizio Centrone
CEO
 Magdolna Juridesz
CFO
 CIB Bank Ltd.

The accompanying notes on pages 11 to 86 form part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Part A – Accounting policies

(1) Corporate information

The majority owner of CIB Bank Ltd. ("the Bank") is Intesa Sanpaolo Holding International S.A. /LU 1724 Luxembourg, Boulevard du Prince Henri 35./ which holds 67.6904% of the total ordinary shares of the Bank outstanding at year end (67.6905% as at 31 December 2011). The ultimate parent company of the Bank is Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that holds 32.3096% of the shares of the Bank as at 31 December 2012 (32.3095% as at 31 December 2011).

The Bank is a fully licensed Hungarian bank conducting local and international banking business both within and outside Hungary. The registered address of the Bank is 4-14 Medve utca, Budapest. The average number of active employees of the Bank and its subsidiaries was 2,905 in 2012 and 3,014 in 2011, respectively.

The Consolidated Financial Statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 27 February 2013.

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

(2) Statement of compliance

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

The original Consolidated Financial Statements has been prepared in Hungarian and it is the translation of the Hungarian version.

(3) Significant accounting policies

The significant accounting policies adopted in the preparation of these Consolidated Financial Statements are set out below:

3.1 Basis of preparation

The Consolidated Financial Statements of CIB Bank Ltd and its subsidiaries (hereafter 'Group') comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, and Consolidated Statement of Changes in Shareholders' Equity, Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements.

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

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

The official rate of exchange quoted by the Hungarian Central Bank as at 31 December 2012 the euro was EUR 1 = HUF 291.29 (2011: EUR 1 = HUF 311.13) and Swiss Franc was CHF 1 = HUF 241.06 (2011: CHF 1 = HUF 255.91).

The Group presents its consolidated Statement of Financial Position in order of liquidity.

Financial assets and financial liabilities are offset and net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the Consolidated Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation.

The Consolidated Statement of Comprehensive Income and Statement of Financial Positions are made up captions. Sub-captions and further information are detailed in the Notes to the Consolidated Financial Statements.

The Consolidated Statement of Comprehensive Income is comprised of captions showing variations in the carrying amount of assets recognised during the year with a balancing entry in valuation reserve, net of the tax effect.

The Consolidated Changes in Shareholders' Equity table presents shareholders' equity accounts and changes that occurred in the reference year and in the previous year.

The Consolidated Statement of Cash Flows registered in the reference year and in the previous year is prepared using the indirect method on the basis of which cash flows from operating activities are represented by net income adjusted for the effects of non-cash transactions. Cash flows are broken down into flows from operating activities, from investing activities and from financing activities.

3.2 Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of CIB Bank Ltd. and its subsidiaries as at 31 December each year. The financial statements of subsidiaries (including special purpose entities that the Group consolidates) are prepared for the same reporting year as the parent company, using consistent accounting policies.

All inter-company balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

Subsidiaries are those entities that are controlled by the Bank. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the Consolidated Financial Statements include the results for the part of the reporting year during which Bank has control.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(3) Significant accounting policies (continued)

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group and are shown separately in the Consolidated Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position and separately from shareholders' equity. For each business combination, the Group elects to measure any non-controlling interest in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets which are generally at fair value.

As at 31 December 2012 the Bank had the following subsidiary companies ("the Group"):

Company	Country of incorporation	Principal Business
CIB Leasing Co. Ltd.	Hungary	Financial leasing services
CIB RENT Leasing and Trading Company Ltd.	Hungary	Leasing services
CIB Real Estate Leasing Co. Ltd.	Hungary	Real estate leasing services
CIB Leasing Holding Ltd.	Hungary	Share holding of CIB Leasing Ltd.
CIB Insurance Broker Ltd.	Hungary	Insurance agency services
CIB Investment Fund Management Co. Ltd.	Hungary	Fund management
CIB Factor Ltd.	Hungary	Factoring financing services
CIL MNM Ltd.	Hungary	Property leasing services
Recovery Ltd.	Hungary	Professional services
CIB Car Ltd.	Hungary	Car trading services
Brivon Hungary Ltd.	Hungary	Property development and maintenance services

Business combinations and transactions under common control during 2012 are detailed in Note 43.

In certain instances the Group sponsors the formation of special purpose entities. The Group has consolidated the special purpose entities it controls. In assessing and determining if the Group controls such special purpose entities, judgment is made about the Group's exposure to the risks, rewards and its ability to make operational decisions.

The Group has inactive representative offices in London and in Brussels.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)***3.3 Significant accounting judgments and estimates***

The preparation of Consolidated Financial Statements requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the Statement of Financial Position and Statement of Comprehensive Income and on the potential assets and liabilities reported in the Financial Statements. Estimates are based on available information and subjective evaluations, often based on past experience, that are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature the estimates and assumptions used may vary from year to year and hence it cannot be excluded that current amount carried in the Financial Statements may significantly differ in future financial years as a result of changes in subjective evaluations made.

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

- the use of measurement models for determining the fair value of financial instruments not listed on active markets,
- the measurement of impairment losses on loans and other financial assets,
- the estimates and assumptions on the collect ability of deferred tax assets,
- the measurement of impairment on non-financial assets,
- the measurement of impairment on available-for-sale investments,
- consolidation of special purpose entities (SPEs),
- the measurement of provisions for risk and charges,
- the measurement of impairment on repossessed properties.

(a) Fair value of financial instruments

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

(b) Impairment losses on loans and advances

The Group reviews its problem loans and advances monthly to assess whether an allowance for impairment should be recorded in the Statement of Comprehensive Income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not individually identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on the internal rating of the loan or investment.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)***(c) Deferred tax assets***

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

The Group has unused tax loss carry forwards. These losses relate to the Bank and to subsidiaries that have a history of losses. Due to the current market and economic conditions the management considered per individual entities whether the Bank and subsidiaries will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets. The management also considered the fact that there was a change in Hungarian Corporate Tax Law effective from 1 January, 2012 in the deductibility of the losses carried forward. The deductibility was reduced to 50% from 100% from the profit for the period.

The management assessed whether sufficient taxable profit will be available at some of the entities in the Group to allow the benefit of all deferred tax asset to be utilised. The Group did not recognise any deferred tax assets on losses carried forward where the management believes that the profitability of the entity in the near foreseeable future is doubtful or uncertain.

(d) Impairment on non-financial assets

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

(e) Impairment on available-for-sale investments

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

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)***(f) Consolidation of special purpose entities (SPEs)***

The Group sponsors the formation of SPEs that may or may not be directly or indirectly owned subsidiaries. The Group consolidates those SPEs it controls. In assessing and determining if the Group controls SPEs judgement is exercised to determine whether

- the activities of the SPE are being conducted on behalf of the Group to obtain benefits from the SPE's operation;
- the Group has the decision making power to control or to obtain control of the SPE or its assets;
- the Group has rights to obtain the majority of the benefits of the SPE's activities and
- the Group retains the majority of the risks related to the SPE or its assets in order to obtain benefits from its activities.

(g) Provisions for risk and charges

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

(h) Impairment on repossessed properties

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

3.4 Changes in Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, management has made the following changes in judgements and estimations that have most significant effect on the amounts recognised in the Consolidated Financial Statements.

(a) Loan losses of Government Home rescue program

In June 2011 the Hungarian parliament approved a new Act called "Home Rescue Program" that was also amended in September 2011 and had a significant effect on Group performance in 2012 and 2011. The new Act was applicable for the Bank and for leasing companies (together: financial institutions).

Under the new law, eligible customers were allowed to repay in one lump sum their mortgage loans denominated in defined foreign currencies at fixed rates of CHF at 180 HUF; EUR at 250 HUF and JPY at 2 HUF, respectively. Customers had to notify their repayment intentions to the financial institutions by 30 December 2011, and those customers who fulfilled eligibility criteria set out in the legislation by 31 January 2012 were entitled to repay their loans by 28 February 2012.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

As a result of the new law the Group recognised losses on loans that were repaid by customers up to 28 February 2012 in the amount of HUF 34,818 million from which HUF 15,570 million was realised till 31 December 2011.

As at 31 December 2011 the Group recognised an additional allowance for loan losses of mortgage loans in the amount of HUF 21,280 million that were either paid in January 2012 or customers had fulfilled eligibility criteria at the end of January 2012. As a result of allowance recognition the program had no effect on the profit and loss in 2012.

(b) Government Home rescue program for 2012

According to Laws and Regulations for 2012 further legislation became in force during 2012 in relation to the Groups mortgage portfolio as follows:

Customer mortgage loans 90 days past due

Customer mortgage loans that were 90 days past due as at 30 September 2011 were subjected to conversion from foreign currency loan (EUR, CHF, JPY) to a HUF denominated loan. On conversion the Group is required to forgive 25% of the outstanding principal amount of the loans. The conversion to HUF loans occurred during 2012. The whole transaction resulted at a loss of HUF 900 million for the Group. As the 90 days past due loans were already considered impaired at 30 September 2011 the Group recognised an impairment allowance reflecting the 25% principal forgiveness in relation to these customers loans of HUF 1,998 million in the Consolidated Financial Statements as at 31 December 2011. As a result of the allowance and provision recognition the program had no significant effect on the profit and loss account of the Group for 2012.

According to the legislation the after 90 days past due customers, the Group was entitled to recover 30% of the losses from the State. This amount recovered through claiming a deduction from 2012 bank tax and recognised in the Consolidated Financial Statements in 2012.

Customer mortgage loans

Customers who were not part of the early mortgage repayment scheme and were not subject to the 90 days past due 25% principal reduction were able to apply for fixed foreign exchange rates for mortgage loan repayments should certain eligibility criteria be met in 2012. This part of the Law has been prolonged by the Government till 31 March 2013.

According to the Law eligible customers may apply to fix monthly instalments for a period up to 5 years at fixed rates of EUR/250 HUF, CHF/180 HUF and JPY/2 HUF. Differences between the fixed exchange rates and the current exchange rate each month relating to principal repayments is accumulated to a "buffer account" which accrues interest at a BUBOR linked rate. Differences between the fixed exchange rates and current exchange rates each month relating to interest repayments is paid by the Government but financial institutions are obliged to pay 50% of the difference as financial institution charge on a quarterly basis. These figures are presented on a net way in this Consolidated Statement of Comprehensive Income.

The total net loss on mortgage loans portfolio applied to fix exchange rate repayments as at 31 December 2012 amounts to HUF 122 million.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**3.5 Foreign currency transactions**

The functional and presentation currency of the Group is the Hungarian Forint (HUF). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the Consolidated Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

3.6 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose with management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets and financial liabilities recorded at fair value through profit or loss.

3.7 Date of recognition

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

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

3.8 Derecognition

A financial asset is derecognised when:

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

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

3.9 Reclassification of financial assets

Effective from 1 July 2008 the Group was permitted to reclassify in certain circumstances non derivative financial assets from the Held for trading category and into the Available-for-sale, Loan and receivables or Held-to-maturity categories. From this date it was also permitted to reclassify in certain circumstances financial instruments out of the Available-for-sale category into the Loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification that becomes the new amortised cost.

For a financial asset reclassified out of the Available-for-sale category any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the Statement of Comprehensive Income.

Reclassification is at the election of management and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

3.10 Financial asset at fair value through profit and loss

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

Included in this classification are debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.11 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in Income from trading activities. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable or when the instrument is derecognised.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)***3.12 Derivative financial instruments and hedge accounting***

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

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

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items (efficiency tests). In the case of a fair value hedge, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in the Statement of Comprehensive Income.

IAS 39 Financial Instruments: Recognition and Measurement requires hedge effectiveness to be assessed both prospectively and retrospectively. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the delta change in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the delta fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

The Group applies hedge accounting to its fixed rate assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the banking book. The Group has adopted to perform its effectiveness tests using the "Dollar offset method". A consequence of the use of such methodology is that the results can show a rather high volatility with the risk of failing the test, when the level of the delta Net Present Value (NPV) of both the hedge instrument and the hedging derivative is low and the impact on the Consolidated Statement of Comprehensive Income is not significant.

In the case of derivatives that do not qualify for hedge accounting changes in the fair value of such derivative instrument are recognised immediately in the Statement of Comprehensive Income.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**3.13 Due from banks**

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

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

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

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

3.14 Loans and advances to customers

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

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

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

Loans that are individually assessed for impairment (over HUF 150 million) and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are credited to the allowance in the Consolidated Statement of Comprehensive Income.

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

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

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

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

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

In case customers are not cooperative the Group repossess the asset. The Group shall dispose repossessed assets during holding period of 3-5 years subsequent to the purchase. Furthermore, the Group shall consider renting aspects to existing debtors subject to case by case evaluation through either appointed or self managed company.

3.15 Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incident to ownership of the asset to the lessee are classified as finance leases. The net investment in finance leases provided by the Group is included in loans and advances to customers. A receivable is recognized over the leasing period of an amount equalling the present value of the lease payment using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the Statement of Comprehensive Income.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

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

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

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

3.16 Financial investments – Held-to-maturity

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

3.17 Financial investments - Available-for-sale

Available-for-sale financial investments are those which are designated as such or are not classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. After initial recognition, investments which are classified 'available-for-sale' are re-measured at fair value. Unrealized gains and losses on re-measurement to fair value are reported in the Consolidated Statement of Other Comprehensive Income for the period.

In the case of debt instruments classified as available-for-sale the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Consolidated Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount. The interest income is recorded as part of interest income. If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

In case of equity investments classified as available-for-sale objective evidence would also include a significant and permanent diminution in the fair value of the investment below its cost. The Group treats 'significant' generally as 10% of the individual asset and 'permanent' generally as greater than twelve months.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**3.18 Securities lending and borrowing**

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

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

3.19 Fair values

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

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

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

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

3.20 Repurchase and reverse repurchase agreements

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

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the Consolidated Statement of Financial Position. Amounts paid under these agreements are included in due from banks and other financial institutions. The difference between purchase and resale price is treated as interest income.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)
3.21 Intangible assets and property, plant and equipment

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

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises	2%	30 or 50% of gross value
Leasehold improvements	5%	individually assessed
Electronic equipments and office furniture	14.5%	individually assessed
Computer equipment	33%	10 % of gross value*
Software	20%	individually assessed
Motor vehicles	20%	30% of gross value

* The Group does not apply residual value for servers.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the Statement of Comprehensive Income in the year the asset is derecognized. The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Lands are not subject to depreciation.

3.22 Repossessed properties

Repossessed properties are usually repossessed properties under lease contracts or real estate developments/projects or construction contracts. Repossessed properties are measured at initial recognition at market value. Subsequent to initial recognition repossessed properties are stated at lower of cost or market value. Repossessed properties are derecognised when either they have been disposed of or when the repossessed property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

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

3.23 Business combinations and goodwill

Business combinations are accounted for using the purchase accounting method. This involves recognizing identifiable assets and liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the Consolidated Statement of Comprehensive Income in the year of acquisition.

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

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the Consolidated Statement of Comprehensive Income.

3.24 Inventory

Inventories are recognized at cost, which comprise all costs of purchase, costs of conversion and other costs. After initial recognition inventories are measured at the lower of cost and net realizable value.

3.25 Non-current assets held for sale

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

3.26 Deposits from banks and from customers

All money market and customer deposits are initially recognized at fair value. After initial recognition, all interest bearing deposits, other than liabilities held for trading, are subsequently measured at amortized cost, less amounts repaid. Amortized cost is calculated by taking into account any discount or premium on settlement. Premiums and discounts are amortized on an effective interest rate basis to maturity using the effective interest method and taken to interest expense. For liabilities carried at

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

amortized cost, any gain or loss is recognized in the Consolidated Statement of Comprehensive Income when the liability is derecognized.

3.27 Liabilities from issued securities

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

3.28 Revenue recognition

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

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

Fee earned for the allowance for services over a period of time are accrued over that period. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transactions. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the Consolidated Statement of Comprehensive Income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

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

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

3.29 Taxation

Current taxation is provided for in accordance with the fiscal regulations of the Republic of Hungary. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**Deferred taxation**

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

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

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

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

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

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

Current tax and deferred tax items are recognised in the Consolidated Statement of Comprehensive Income.

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

Bank tax

In August 2010 the Hungarian Parliament approved a new Act called the "bank tax" that is applicable for financial institutions for 2010-2012. Each financial institution that

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)

already had a closed financial year and related financial statements on 1 July 2010 was subject to assessment and payment of this the bank tax in 2010. On 15 November 2010 the Hungarian Parliament approved an amendment to the Bank Tax Act applicable for 2011. The amendment practically splits into two payment titles the original bank tax payment obligation for banks only.

The basis and the rate of the new bank tax that establishes the tax payable was different for the different types of financial institutions (in case of banks it is calculated on the adjusted balance sheet total, in case of financial enterprises - such as leasing companies - it is based on the net interest income and net commission income and in case of investment fund management companies on the total net asset value of the funds managed, etc.). From 2012 net interest income and net commission income can be netted from bank tax point of view at leasing companies.

For 2012 and 2011 the basis and rates are uniformly based on statutory reported financial data of the reporting entity for the period ended 31 December 2009.

The respective tax rates for 2012 were different for the types of financial institutions: e.g. for credit institutions the tax rates were 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.53% had been applied for the amount exceeds HUF 50 billion. For leasing companies 6.5% had been applied for the net of net interest income and net commission income.

In December 2011 the Law on Bank Tax was amended in conjunction with the early mortgage repayment described by Home Rescue program. The amendment of the Bank Tax Act allowed financial institutions to reduce their bank tax by 30% of losses recognised in the Statutory Income Statement for 2011 on the final repayment of mortgage loans according to the Government Home rescue program.

Further amendments to the Law on Bank Tax enabled financial institutions to reduce their bank tax by 30% of the losses recognised for 2012 on Government Home Rescue Program.

Further the bank tax is payable beyond the year 2012 based on a modification at the Law in 2012.

Bank tax is presented as operating expense in the Consolidated Statement of Comprehensive Income as it does not meet the definition of income tax under IFRS. Due to the significance of the amount concerned the bank tax is presented as a separate line on the face of the Consolidated Statement of Comprehensive Income.

3.30 Offsetting financial assets and liabilities

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

3.31 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these Consolidated Financial Statements.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**3.32 Financial guarantees**

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

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

3.33 Provisions

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

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

3.34 Operating profit

Operating profit represents profit from business operations and is defined as profit before tax adjusted with the share of profit or loss of associates.

3.35 Cash and cash equivalents

Cash and cash equivalents comprise balances with an original maturity of three months or less, including: cash and balances with the National Bank of Hungary and banks and other financial institutions, treasury bills and other eligible bills, and loans and advances to banks. Cash and cash equivalents include funds currently held at the National Bank of Hungary as statutory reserve requirements specify minimum average monthly balances and as such these funds are considered available for liquidity management purposes.

3.36 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except those that are directly attributable to the acquisition. Borrowing costs that are directly attributable to the acquisition shall be capitalised as part of the cost of the respective asset.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**3.37 Employee benefits – Share based payment transactions**

The grant-date fair value of share-based payment awards granted to employees is recognised as personnel expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-marked performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance condition at the vesting date.

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

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

3.38 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's Financial Statements are listed below. This listing of standards and interpretations issued that the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Based on our initial assessment, the Group is not expecting a significant impact from the adoption of the amendments to IAS 32.

IFRS 10 Consolidated Financial Statements

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion on respect of its investees which may lead to changes in the current accounting for these investees. The standard is effective for annual periods beginning on or after 1 January 2014.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**IFRS 11 Joint Arrangements**

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures and it is not a party to any joint arrangements. The standard is effective for annual periods beginning on or after 1 January 2014.

IFRS 12 Disclosure of Interests in Other Entities (2011)

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires disclosing of information about the nature, risks and financial effects of these interests. The Group is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated structured entities in comparison with the existing disclosures. These standards are effective for annual periods beginning on or after 1 January 2014.

IFRS 13 Fair Value Measurement (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurement or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective prospectively for annual periods beginning on or after 1 January 2013.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. The amendment is effective for annual periods beginning on or after 1 July 2012.

Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets

The amendments introduce a reputable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendment is effective for annual periods beginning on or after 1 January 2013.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(3) Significant accounting policies (continued)**IAS 19 (2011) Employee Benefits**

The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendment is effective for annual periods beginning on or after 1 January 2013.

IAS 27 (2011) Separate Financial Statements

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The amendment is effective for annual periods beginning on or after 1 January 2014.

IAS 28 (2011) Investments in Associates and Joint Ventures

The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments. The amendment is effective for annual periods beginning on or after 1 January 2014.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendment is effective for annual periods beginning on or after 1 January 2014.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
**Part B – Information on the Consolidated Statement of
Comprehensive Income**
(4) Interest income and interest expense

Interest income comprises	(million HUF)	
	2012	2011
Interest from customers	91,071	113,165
Interest income from financial investments – Available-for-sale	18,307	10,066
Interest from banks	6,292	4,753
Interest income from financial investments – Held-to-maturity	394	390
Subtotal	116,064	128,374
Interest from financial assets at fair value through profit or loss	1,361	912
Total	117,425	129,286

Interest expense comprises	(million HUF)	
	2012	2011
Interest paid to customers	65,915	42,594
Interest paid to banks	10,844	21,313
Interest paid on issued securities	5,289	6,181
Total	82,048	70,088

Interest expense related to financial liabilities not carried at fair value through profit and loss account amounts HUF 81,899 million as at 31 December 2012 and HUF 70,040 million in 2011, respectively.

(5) Fee and commission income and expense

Fee and commission income comprises	(million HUF)	
	2012	2011
Servicing fee income for loans	8,197	10,356
Account turnover fee income	9,146	9,599
Card fee income	4,515	5,116
Investment services fee income	3,549	4,033
Documentary fee income	1,419	1,752
Cash management fee income	1,563	1,863
Agent fee income	917	1,030
Other fee income	5,068	5,354
Total	34,374	39,103

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(5) Fee and commission income and expense (continued)

	(million HUF)	
Fee and commission expense comprises	2012	2011
Card fee expense	2,567	2,767
Account turnover fee expense	584	664
Investment services fee expense	254	372
Documentary fee expense	236	269
Servicing fee expenses for loans	110	286
Agent fee expense	122	88
Other fee expense	3,920	4,116
Total	7,793	8,562

(6) Income from trading activities

	(million HUF)	
Income from trading activities comprises	2012	2011
Net revaluation gain/(loss) from derivatives and trading with foreign currencies	2,726	5,607
Net realised gain/(loss) from derivatives	15,508	22,892
Net revaluation gain/(loss) on hedging instruments	103	(9)
Net revaluation gain/(loss) from trading with financial assets through profit or loss	680	(196)
Net realised gain/(loss) from trading with financial assets through profit or loss	(711)	(7)
Net gain from financial investments – Available-for-sale	(1)	-
Total	18,305	28,287

(7) Other operating income

	(million HUF)	
Other operating income / (expenditure) comprises	2012	2011
Net losses from selling of tangible and intangible assets	(212)	(222)
Dividend and similar income	86	60
Result on disposal of inventories	(15)	(32)
Result on disposal of investments	-	(12)
Income from property management	2,282	2,259
Net result on non-current asset held for sale	98	239
Other operating income / (expenditures)	844	(128)
Total	3,083	2,164

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(8) Impairment losses, provisions and net loan losses

Impairment losses, provisions and net loan losses comprises	(million HUF)	
	2012	2011
Individual impairment for loan losses	114,329	72,224
Collective impairment for loan losses	1,283	30,904
Impairment for interest on loans	10,374	2,106
Provision expense/(reversal) for financial guarantees	101	(2,223)
Provision expense/(reversal) for other commitments and contingencies	3,119	(1,715)
Result on sale of loans	1,656	1,509
Impairment losses on repossessed properties	25,310	1,151
Other impairment losses for other receivables	1,018	541
Other provision expenses	(1,793)	1,222
Total	155,397	105,719

(9) Operating expenses without bank tax

Operating expenses comprises	(million HUF)	
	2012	2011
Personnel expenses	24,205	24,767
<i>a, Salaries</i>	17,162	17,874
<i>B, Other benefits</i>	1,507	1,495
<i>c, Social contributions</i>	5,536	5,398
Depreciation	7,031	7,297
Office and Information Technology maintenance	6,214	5,346
Other taxes and obligatory fees	3,736	2,926
Material expenses	3,104	3,064
Rent and leasing	3,081	3,020
Communications	2,378	2,217
Advertising	1,213	1,386
Expert fees	731	1,039
Other expenses	4,374	4,364
Total	56,067	55,426

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(10) Bank tax

The following table illustrates the bank tax obligation of the Group in 2012 and 2011.

Company	(million HUF)	
	2012	2011
CIB Bank Ltd. ⁽¹⁾	10,902	514
CIB Leasing Co. Ltd. ^(1,2)	432	368
CIB Investment Fund Management Co. Ltd.	67	67
CIB Faktor Ltd.	48	49
Total	11,449	998

Note ⁽¹⁾:

In December 2011 the Law on Bank Tax has been amended in conjunction with the early mortgage repayment described by Home Rescue Act. The amendment of the bank tax act allowed financial institutions to reduce their bank tax by 30% of losses recognised in the Statutory Income Statement for 2011 on the final repayment of mortgage loans according to the Government Home rescue program.

Note ⁽²⁾:

Effective from 1 January 2012 the Bank Tax law has been amended for Leasing companies. The amendment allows net up interest income with net fee and commission income from taxation base point of view.

(11) Income tax benefit / (expense)

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

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

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

Income tax benefit / (expense) comprises	(million HUF)	
	2012	2011
Current income tax charge	349	(162)
A, Corporate Income tax	349	(162)
Other income type taxes	(3,434)	(5,052)
A, Local business tax	(2,984)	(4,441)
B, Innovation contribution	(450)	(611)
Deferred income tax	(9,221)	9,861
Total	(12,306)	4,647

The other income type taxes contain the local business tax and the innovation contribution (revenue driven taxes).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

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

Reconciliation between the income tax expense applicable to profit before tax at the statutory income tax rate and the income tax expense at the Group's effective income tax rate is not applicable due to the loss for the years ended 31 December.

Deferred tax assets and liabilities comprise (million HUF)	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Loans	43	2,534	5	2,050
Leasing	2,021	1,386	2,514	1,782
Properties	-	1,209	15	1,327
Securities at fair value	-	325	-	366
Carry forward unused tax losses	7,411	-	16,192	-
Other assets and liabilities	470	116	645	250
Total deferred tax to Income Statement	9,945	5,570	19,371	5,775
Deferred tax recognised in equity	241	-	341	-
Total deferred tax	10,186	5,570	19,712	5,775

The management assessed whether sufficient taxable profit will be available at some of the entities in the Group to allow the benefit of all deferred tax asset to be utilised and due to the reduction in tax deductibility reduced the deferred tax asset as at 31 December 2011 with HUF 8,096 million (assuming 19% income tax rate).

The Group did not recognise any deferred tax assets on losses carried forward where the management believes that the profitability of the entity in the near foreseeable future is doubtful or uncertain.

(12) Dividend paid

There were no dividends, declared or paid in either 2012 or 2011.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(13) Comprehensive income
A. Other comprehensive income – Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)

Net non-realised (loss)/gain on available-for-sale financial assets comprise	(million HUF)	
	2012	2011
Net gains/(losses) from changes in fair value	300	(318)
Deferred tax effect of net gains/(losses) from changes in fair value	(57)	60
Amortization to net profit	227	329
Deferred tax effect of amortization to net profit	(44)	(62)
Deferred tax effect of tax change rate	-	162
Total	426	171

(14) Share-based payment transactions

In 2012 Intesa Sanpaolo Group established an Incentive System which involves the use of Intesa Sanpaolo ordinary shares to be purchased on the market upon specific authorization. Main references of the System are the followings:

- specific remuneration rules applied to “Key personnel” meaning those whose decisions have a significant impact on the Group’s risk profile;
- the ratio of the fixed component to the variable component of remuneration, suitably balanced;
- form the variable component at least 40% must be subject to deferred payment systems for a period of at least 3 years and at least 50% must be disbursed in shares or instruments linked to shares.

The terms and conditions of the grants are as follows; share appreciation rights are settled in cash:

Grant date / employees entitled	Number of instruments	Vesting conditions
Share grant to key management personnel at 31 December 2012	58,521	Assigned in 2014 and available in 2015.

The fair value of the Intesa Sanpaolo shares was HUF 22 million at measurement date.

Employee expenses for share-based payment transactions comprise	(million HUF)	
	2012	2011
Shares granted in 2012 for 2011	17	-
Expense recognised as personnel expenses	-	-
Effect of changes in the fair value of shares	5	-
Total carrying amount of liabilities for cash-settled arrangements	22	-

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
**Part C – Information on the Consolidated Statement of
Financial Position**
(15) Cash and current accounts with central bank

Cash and current accounts with the central bank comprise notes and coins of various currencies and nostro accounts with the central bank kept in Hungarian Forint. The Bank is required to maintain a minimum average balance for the month equivalent to 2% of the Bank's total resident customer deposits, foreign customer HUF and currency (less than one year) deposits with the National Bank of Hungary, both in 2012 and 2011 respectively.

Cash and current accounts with central bank comprises	(million HUF)	
	2012	2011
Cash	9,938	8,994
Current HUF account with the National Bank of Hungary	23,076	31,075
Total (Included cash and cash equivalents Note 41)	33,014	40,069

(16) Due from banks

Due from banks comprises	(million HUF)	
	2012	2011
Foreign currency nostro accounts	10,099	13,414
Due from banks less than 90 days	97,599	159,377
Included in cash equivalents (Note 41)	107,698	172,791
Due from banks more than 90 days	-	5,137
Total	107,698	177,928

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

Financial assets at fair value through profit or loss comprises	(million HUF)	
	2012	2011
Hungarian Government securities – HUF	152	144
Hungarian Government securities – NON-HUF	14	-
Included in cash equivalents (Note 41)	166	144
Hungarian Government securities – HUF	25,778	7,115
Hungarian Government securities – NON-HUF	270	127
Bank and corporate bonds – HUF	-	3
Shares listed on stock exchange – HUF	53	524
Shares listed on stock exchange – NON-HUF	22	-
Other securities - NON-HUF	-	41
Total	26,289	7,954

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(17) Financial assets at fair value through profit or loss (continued)

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

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

(18) Loans and advances to customers
Analysis by sector

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

(million HUF)	2012	%	2011	%
Trading	195,473	10.67	224,122	10.29
Private customers	524,953	28.65	670,895	30.80
Real estate investments	459,919	25.10	548,089	25.17
Other, mostly service industries	329,802	18.00	340,248	15.62
Food processing	34,299	1.87	38,010	1.75
Transportation and communication	58,466	3.19	75,525	3.47
Light industry	53,920	2.94	64,520	2.96
Heavy industry	48,765	2.66	55,853	2.56
Financial activities	73,377	4.00	99,176	4.55
Agriculture	42,998	2.35	49,672	2.28
Chemicals and pharmaceuticals	10,427	0.57	11,943	0.55
Total	1,832,399	100.0	2,178,053	100.0

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(18) Loans and advances to customers (continued)

The leasing subsidiaries of the Bank operate in the domestic leasing market and provide finance lease products to customers. The following tables indicate the key amounts of this activity for the not past due receivables as at 31 December of the year.

Receivables from finance lease activities comprise	(million HUF)	
	2012	2011
Gross lease receivables due		
Within one year	49,719	59,615
One to five years	85,505	109,590
More than five years	40,765	50,347
Total	175,989	219,552
The present value of minimum lease payments receivables comprise		
Within one year	40,882	48,212
One to five years	70,225	89,052
More than five years	31,754	37,779
Total	142,861	175,043
Unearned finance lease income	33,128	44,509
Accumulated allowance for uncollectible minimum lease payments receivable	11,744	7,920

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

Allowance for loan losses

Allowance for loan losses comprise	(million HUF)	
	2012	2011
Opening balance	276,520	194,431
Increase of allowance during the year	282,019	189,194
Decrease of allowance during the year	(211,288)	(64,330)
Write-off	(32,834)	(42,775)
Closing balance	314,417	276,520
Allowance for loan losses comprise		
Individual allowance	298,050	247,004
Collective allowance	16,367	29,516
Total	314,417	276,520

The revaluation loss on loans specified as hedged items was HUF 747 million as at 31 December 2012.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(18) Loans and advances to customers (continued)

In 2012 and in 2011 the Group operated in a strongly recessionary environment which had an impact on the business performance and resulted in negative growth rates in all segments and significantly higher allowance for impairment.

The liquidation value of collateral that the Group holds relating to loans at 31 December 2012 amounts to HUF 1,756,529 million and HUF 1,864,322 million as at 31 December 2011 respectively.

The amount of restructured loans was HUF 170,489 million as at 31 December 2012. Restructured loans are those exposures where the Group renegotiates the original terms of a debt due to the deterioration of the borrower's creditworthiness. If such renegotiation results in a loss, the exposure will be classified as restructured.

As at 31 December 2012 the Group had no reverse repurchase and securities borrowing agreements. As at 31 2011 the Group received securities in the framework of reverse repurchase and securities borrowing agreement that it was allowed to sell with a fair value of HUF 197 million respectively.

(19) Non-current assets held for sale

Non-current assets held for sale contains repossessed leased assets (mainly cars and other tangible assets). Repossession is due to the insolvency of the lessees. These assets are mostly sold within one year after repossession.

(20) Other assets

Other assets comprises	(million HUF)	
	2012	2011
Accrued incomes, costs and expenses	1,733	3,296
Settlement accounts	314	891
Trade receivables	1,928	3,381
Inventories	1,046	172
Other assets	1,881	1,301
Total	6,902	9,041

Inventories contain mainly material products that are used for the banking activity.

(21) Financial investments

Financial investments - Available-for-sale comprises	(million HUF)	
	2012	2011
Hungarian Government securities – HUF Included in cash equivalents (Note 39)	183,878	118,098
	183,878	118,098
Hungarian Government securities – HUF	43,512	26,555
Equity investment – HUF	1,812	84
Total	229,202	144,737

Financial investments - Held-to-maturity comprise	(million HUF)	
	2012	2011
Hungarian Government securities - HUF	5,662	5,574
Total	5,662	5,574

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(22) Repossessed properties

	(million HUF)	
	2012	2011
Repossessed properties comprise		
Opening balance	137,407	91,493
Additions	19,844	48,165
Depreciations	(307)	(245)
Sales	(2,475)	(804)
Reclassifications due to change in legal status	(14,057)	-
Net loss from impairment adjustment	(24,725)	(1,202)
Closing balance	115,687	137,407

Repossessed properties are carried at historic cost (at fair value at initial recognition) less allowances for depreciation and impairment.

(23) Intangible assets

At 31 December 2012 and 2011 intangible assets and the related accumulated depreciation comprised the following

(million HUF)	Cost of intangible assets				
	2012	Other changes*	Disposals	Acquisitions	2011
Software licences and development	33,576	6	-	2,319	31,251
Goodwill	877	-	-	-	877
Other	1,505	-	-	-	1,505
Total	35,958	6	-	2,319	33,633

(million HUF)	Depreciation of intangible assets				
	2012	Other changes*	Disposals	Additions	2011
Software licences and development	27,389	-	-	2,716	24,673
Goodwill	56	-	-	-	56
Other	335	-	-	-	335
Total	27,780	-	-	2,716	25,064

* Other changes relate to reclassifications between intangible and tangible assets categories.

(million HUF)	Cost of intangible assets				
	2011	Other changes*	Disposals	Acquisitions	2010
Software licences and development	31,251	72	(14)	1,324	29,869
Goodwill	877	-	-	-	877
Other	1,505	170	-	-	1,335
Total	33,633	242	(14)	1,324	32,081

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(23) Intangible assets (continued)

(million HUF)	Depreciation of intangible assets				2010
	2011	Other changes*	Disposals	Additions	
Software licences and development	24,673	67	(14)	3,039	21,581
Goodwill	56	-	-	-	56
Other	335	170	-	-	165
Total	25,064	237	(14)	3,039	21,802

(million HUF)	Net book value of intangible assets	
	2012	2011
Software licences and development	6,187	6,578
Goodwill with indefinite life	821	821
Other (customer list) with indefinite life	1,170	1,170
Total	8,178	8,569

The goodwill concerns to the purchase of CIB Faktor Ltd years ago. The Group applied an impairment test on goodwill and other intangible assets, like customer list whether the carrying amount is less than its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next upcoming years. Based on the impairment test the value in use of the goodwill is higher than its' carrying amount.

Software licences and developments have definite life. The amount of internally developed software is HUF 279 million as at 31 December 2012.

(24) Property, plant and equipment

At 31 December 2012 and 2011 property, plant and equipment and the related accumulated depreciation comprised the following:

(million HUF)	Cost of property, plant and equipment				2011
	2012	Other changes*	Disposals	Acquisitions	
Land, premises	30,640	(50)	300	183	30,807
Leasehold improvements	8,358	46	427	53	8,686
Electronic equipment and office furniture	11,996	(84)	384	337	12,127
Computer equipment	8,473	59	1,360	510	9,264
Motor vehicles	696	-	40	12	724
Other	121	-	-	-	121
Total	60,284	(29)	2,511	1,095	61,729

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(24) Property, plant and equipment (continued)

(million HUF)	Depreciation of property, plant and equipment				2011
	2012	Other changes*	Disposals	Addition	
Land, premises	7,242	(8)	127	367	7,010
Leasehold improvements	4,014	10	427	1,398	3,033
Electronic equipment and office furniture	9,530	7	360	1,194	8,689
Computer equipment	7,254	(9)	1,263	814	7,712
Motor vehicles	451	-	27	48	430
Other	-	-	-	-	-
Total	28,491	-	2,204	3,821	26,874

(million HUF)	Cost of property, plant and equipment				2010
	2011	Other changes*	Disposals	Acquisitions	
Land, premises	30,807	931	(119)	80	29,915
Leasehold improvements	8,686	(1,135)	(1,600)	286	11,135
Electronic equipment and office furniture	12,127	(299)	(790)	305	12,911
Computer equipment	9,264	313	(532)	676	8,807
Motor vehicles	724	(1)	(99)	3	821
Other	121	-	(2)	-	123
Total	61,729	(191)	(3,142)	1,350	63,712

(million HUF)	Depreciation of property, plant and equipment				2010
	2011	Other changes*	Disposals	Addition	
Land, premises	7,010	196	(119)	421	6,512
Leasehold improvements	3,033	(472)	(1,600)	1,073	4,032
Electronic equipment and office furniture	8,689	(35)	(666)	1,357	8,033
Computer equipment	7,712	54	(502)	970	7,190
Motor vehicles	430	(1)	(71)	68	434
Other	-	-	-	-	-
Total	26,874	(258)	(2,958)	3,889	26,201

* Other changes relate to reclassifications between intangible and tangible assets categories.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(24) Property, plant and equipment (continued)

Net book value of property, plant and equipment	(million HUF)	
	2012	2011
Land, premises	23,398	23,796
Leasehold improvements	4,344	5,653
Electronic equipment and office furniture	2,466	3,438
Computer equipment	1,219	1,552
Motor vehicles	245	294
Other	121	121
Total	31,793	34,854

(25) Deposits from banks

Deposits from banks comprise	(million HUF)	
	2012	2011
Deposits from banks in Hungary	47,247	42,246
Deposits from banks in other countries	386,524	669,398
Total	433,771	711,644
<i>- from which related party</i>	230,083	495,299

(26) Deposits from customers

Deposits from customers comprise	(million HUF)	
	2012	2011
Deposits from customers in Hungary	1,194,836	1,229,927
Deposits from customers in other countries	87,977	134,892
Total	1,282,813	1,364,819
<i>- from which related party</i>	52,073	55,265

The revaluation gain on deposits specified as hedged items was HUF 123 million as at 31 December 2012 and HUF 350 million as at 31 December 2011 respectively.

(27) Liabilities from issued securities

Liabilities from issued securities comprise	(million HUF)	
	2012	2011
Gross amount of issued securities	91,690	115,118
Repurchased amount of issued securities	(15,429)	(12,568)
Revaluation on hedging instruments	19	(16)
Accrued interest payable from the net amount of issued securities	3,888	5,441
Net amount of liabilities from issued securities	80,168	107,975

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(27) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following sets of securities	(million HUF)	
	2012	2011
CIB EUROKAM bonds were issued in EUR since 15 April 2009 and matured on 16 April 2012. The bonds' interest was fixed to ECB prime rate + 2.5%.	-	1,431
CIB 2012/A bonds were issued in HUF since 2 February 2009 and matured on 3 February 2012. The bonds paid interest of 30.0% at maturity.	-	8,390
CIB K 2012/A bonds were issued in HUF since 2 April 2009 and matured on 2 April 2012. The bonds' interest was fixed to Hungarian National Bank prime rate + 1.5%.	-	3,640
CIB K 2012/B bonds were issued in HUF since 31 July 2009 and matured on 31 July 2012. The bonds' interest was fixed to Hungarian National Bank prime rate + 1%.	-	5,701
CIB 2013/A bonds were issued in HUF since 21 July 2010 and will mature on 31 December 2013. The bonds pay fix interest of 25.0% at maturity.	8,207	6,993
CIB 2015/A bonds were issued in HUF since 21 July 2010 and will mature on 31 December 2015. The bonds pay fix interest of 44.0% at maturity.	4,976	4,680
CIB CL 2012/A bonds were issued in HUF since 6 August 2010 and matured on 9 August 2012. The bonds bear interest at 3 month BUBOR plus 80 basis points.	-	16,654
CIB EU 12/A bonds were issued in EUR since 19 August 2010 and matured on 21 August 2012. The bonds paid fix interest of 4.0% annually.	-	27,533
CIB EU 12/B bonds were issued in EUR since 7 October 2010 and matured on 8 October 2012. The bonds paid fix interest of 3.5% annually.	-	8,729
CIB CL 2012/E bonds were issued in EUR since 31 March 2010 and matured on 30 March 2012. The bonds paid fix interest of 2.2%.	-	8,047
CIB EUROKAM 13A bonds were issued in EUR since 16 April 2010 and will mature on 16 April 2013. The bonds' interest is fixed to ECB prime rate + 1.25%.	406	381
CIB CL 2013/A bonds were issued in HUF since 3 March 2011 and will mature on 8 March 2013. The bonds bear interest at 3 month BUBOR plus 60 basis points.	5,026	3,055
CIB CL 2013/B bonds were issued in HUF since 22 September 2011 and will mature on 24 September 2013. The bonds bear interest at 3 month BUBOR plus 100 basis points.	8,314	8,120

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(27) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following sets of securities (continued)	(million HUF)	
	2012	2011
CIB EU 13/A bonds were issued in EUR since 2 May 2011 and will mature on 3 May 2013. The bonds pay fix interest of 3.5% annually.	4,382	4,482
CIB EU 13/B bonds were issued in EUR since 22 August 2011 and will mature on 26 August 2013. The bonds pay fix interest of 3.5% annually.	2,928	131
CIB CL 2014/A bonds were issued in HUF since 26 July 2012 and will mature on 9 June 2014. The bonds bear interest at 3 month BUBOR plus 80 basis points.	8,036	-
CIB CL 2014/B bonds were issued in HUF since 5 November 2012 and will mature on 6 November 2014. The bonds bear interest at 6 month BUBOR plus 80 basis points.	1,877	-
CIB CL 2015/A bonds were issued in HUF since 9 August 2012 and will mature on 10 August 2015. The bonds bear interest at 3 month BUBOR plus 100 basis points.	10,124	-
CIB ECL 2015/A bonds were issued in EUR since 10 August 2012 and will mature on 10 August 2015. The bonds bear interest at 6 month EURIBOR plus 310 basis points.	1,015	-
CIB EU 14/A bonds were issued in EUR since 10 August 2012 and will mature on 11 August 2014. The bonds pay fix interest of 3.7% annually.	11,837	-
CIB EU 14/B bonds were issued in EUR since 11 September 2012 and will mature on 12 September 2014. The bonds pay fix interest of 3.5% annually.	5,595	-
CIB FIX 15/A bonds were issued in HUF since 3 February 2012 and will mature on 3 February 2015. The bonds pay fix interest of 28% annually.	7,437	-
CIB Kincsem bonds	8	8
Total	80,168	107,975

(28) Other liabilities

Other liabilities comprise	(million HUF)	
	2012	2011
Accrued liabilities	2,318	3,975
Settlement accounts	6,565	10,614
Suppliers	4,490	3,654
Financial guarantees	2,948	2,868
Other liabilities	1,554	1,166
Total	17,875	22,277

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(28) Other liabilities (continued)

Financial guarantees comprise	(million HUF)	
	2012	2011
Opening balance	2,868	5,040
Increase during the year	1,454	1,374
Decrease during the year	(1,374)	(3,546)
Closing balance	2,948	2,868

(29) Provisions

2012 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	845	4,521	5,366
Increase of provision during the year	3,443	1,941	5,384
Decrease of provision during the year	(315)	(3,734)	(4,049)
Closing balance	3,973	2,728	6,701

2011 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	2,586	3,300	5,886
Increase of provision during the year	1,317	3,052	4,369
Decrease of provision during the year	(3,057)	(1,830)	(4,887)
Closing balance	846	4,522	5,368

Provisions for commitment and contingences were created for future credit obligations. All of the provisions expected to incur cost over one year.

(30) Subordinated debt

Subordinated debt comprises	(million HUF)	
	2012	2011
From Intesa Bank Ireland plc for 45 million EUR. The debt's expiry date is 24 October 2014 with interest payable at 3 months EURIBOR plus 0.80%;	13,108	14,001
From Intesa Bank Ireland plc for 30 million EUR. The debt's expiry date is 26 November 2021 with interest payable at 3 months EURIBOR plus 0.37%;	8,739	9,334
From Intesa Sanpaolo S.P.A for 150 million EUR. The debt's expiry date is 21 December 2019 with the interest payable at 3 months EURIBOR plus 4.06%.	43,694	-
Accrued interests	85	76
Total	65,626	23,411

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(31) Share capital

During 2012 the authorised share capital was increased by HUF 3 by Intesa Sanpaolo S.p.A. through the issuing of 3 ordinary shares of HUF 1 each.

At 31 December 2012 the fully paid share capital consisted of 145,000,000,003 ordinary shares of HUF 1 each.

During 2011 the authorised share capital was increased by HUF 40,000 million by Intesa Sanpaolo S.p.A. through the issuing of 40,000,000,000 ordinary shares of HUF 1 each.

At 31 December 2011 the fully paid share capital consisted of 145,000,000,000 ordinary shares of HUF 1 each.

There were no significant incremental costs directly attributable to the issue of shares 2012 and 2011.

(32) Reserves

The Bank has two statutory reserves, a capital reserve and a general reserve.

Capital reserve

Capital reserve contains the shareholders total capital contributions that connecting to the issue of new shares. The difference between the face value of the new shares and the paid capital contribution is recognised in the capital reserve.

General reserve

Under section 75 of Act No. CXII of 1996, an amount equal to 10% of net profit after tax as per the Bank's Hungarian statutory accounts must be transferred to a non-distributable general reserve. This general reserve may be created by credit institutions only from taxed profits. Since there is a loss in the current financial year, the general reserve must be released insofar as to cover any such losses, but is not to exceed the amount set aside in the general reserve. As the Bank realised losses in its Statutory Financial Statements for 2011 the full amount of HUF 6,640 million was used.

(33) Commitments and contingencies

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

2012	(million HUF)		
	Gross amount	Provision	Net amount
Guarantees	46,133	(2,895)	43,238
Letters of credit	5,394	(53)	5,341
Total financial guarantees	51,527	(2,948)	48,579
Loans and overdraft facilities not disbursed	166,424	(3,973)	162,451
Total	217,951	(6,921)	211,030

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(33) Commitments and contingencies (continued)

2011	(million HUF)		
	Gross amount	Provision	Net amount
Guarantees	72,988	(2,796)	70,192
Letters of credit	7,833	(72)	7,761
Total financial guarantees	80,821	(2,868)	77,953
Loans and overdraft facilities not disbursed	160,492	(846)	159,646
Total	241,313	(3,714)	237,599

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

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

The amount of long term commitments with maturity over one year is HUF 25.536 million as at 31 December 2012.

The amount of the securities in custody is HUF 841,245 million at 31 December 2012 and HUF 873,263 million in 2011, respectively.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(34. a) Derivative Financial Instruments
Derivative financial instruments as at 31 December 2012

The table shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference date or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Notional amount with remaining life			Fair value	
	Less than 1 year	Between 1 and 5 years	More than 5 years	Asset	Liability
Trading derivative instruments					
Interest rate derivatives					
Forward rate agreements	568,102	-	-	490	183
Interest rate swaps	299,222	143,443	17,650	7,725	7,518
Subtotal	867,234	143,443	17,650	8,215	7,701
Currency derivatives					
Forward exchange contracts	38,517	1,369	-	588	366
Currency swaps	564,789	1,105	-	614	1,235
Currency interest rate swaps	455,422	-	-	1,465	18,977
Foreign exchange options	2,345	-	-	230	225
Subtotal	1,061,073	2,474	-	2,896	20,803
Equity and index derivatives	36	-	-	2	1
Total trading derivative instruments	1,061,109	2,474	-	2,898	20,803
Hedging derivative instruments					
Interest rate derivatives					
Interest rate swaps	-	29,768	-	1,003	731
Total hedging derivative instruments	-	29,768	-	1,003	731
Total	1,928,433	175,685	17,650	12,116	29,236

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**(34. a) Derivative Financial Instruments (continued)**

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are often very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to the movements in exchanges rates and interest rates. The financial instruments hedged for interest rate risk include loan and advances to customers, issued securities and deposits. For the year ended 31 December 2012 the Group recognised a net loss of HUF 57 million on the hedging instrument and a net loss of HUF 189 million as at 31 December 2011 respectively. The total net gain on hedged items attributable to the hedged risks amounted to HUF 33 million as at 31 December 2012 and net gain of HUF 180 million as at 31 December 2011 respectively.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(34. b) Derivative financial instruments (continued)
Derivative financial instruments as at 31 December 2011

(million HUF)	Notional amount with remaining life			Fair value	
	Less than 1 year	Between 1 and 5 years	More than 5 years	Asset	Liability
Trading derivative instruments					
Interest rate derivatives					
Forward rate agreements	337,767	-	-	543	358
Interest rate swaps	517,094	219,970	25,815	5,854	6,360
Subtotal	854,861	219,970	25,815	6,397	6,718
Currency derivatives					
Forward exchange contracts	58,488	2,085	-	2,842	669
Currency swaps	920,901	-	-	4,363	10,281
Currency interest rate swaps	437,445	-	-	1,859	17,564
Foreign exchange options	1,882	1,824	-	582	586
Subtotal	1,418,716	3,909	-	9,646	29,100
Equity and index derivatives	663	-	-	13	1
Total trading derivative instruments	2,274,240	223,879	25,815	16,056	35,819
Hedging derivative instruments					
Interest rate swaps	24,890	20,234	-	158	130
Total hedging derivative instruments	24,890	20,234	-	158	130
Total	2,299,130	244,113	25,815	16,214	35,949

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

(35. a) Carrying amount of assets and liabilities at 31 December 2012 by earlier of contractual repricing or maturity date

Assets	Immediately rate-sensitive	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Cash and current accounts with central bank	23,076	-	-	-	-	-	9,938	33,014
Effective interest rates	5.75	-	-	-	-	-	-	4.02
Due from banks	13,918	93,691	89	-	-	-	-	107,698
Effective interest rates	0.02	3.82	3.18	-	-	-	-	3.33
Financial assets at fair value through profit or loss	-	16,306	1,560	5,984	1,599	765	75	26,289
Effective interest rates	-	5.51	5.38	5.39	5.29	6.09	-	5.46
Derivative financial assets	-	2,445	5,428	4,242	1	-	-	12,116
Loans and advances to customers	226,941	335,801	544,506	355,603	47,854	7,277	-	1,517,982
Effective interest rates	1.94	4.44	4.65	5.56	8.20	5.35	-	4.53
Financial investments	-	205,489	21,900	317	5,346	-	1,812	234,864
Effective interest rates	-	5.33	5.39	5.46	5.16	-	-	5.29
Other assets	-	-	-	-	-	-	187,325	187,325
Liabilities								
Deposits from banks	2,082	70,817	285,211	75,618	43	-	-	433,771
Effective interest rates	0.36	2.06	0.58	0.99	4.19	-	-	0.89
Derivative financial liabilities	-	8,330	18,388	2,462	56	-	-	29,236
Deposits from customers	433,798	293,607	335,253	169,677	50,478	-	-	1,282,813
Effective interest rates	2.43	5.33	5.08	6.00	6.68	-	-	4.43
Liabilities from issued securities	-	415	32,515	17,393	29,845	-	-	80,168
Effective interest rates	-	1.06	6.86	4.92	4.91	-	-	5.68
Subordinated debt	-	13,131	43,750	8,745	-	-	-	65,626
Effective interest rates	-	0.99	-	0.72	-	-	-	0.29
Other liabilities	-	-	-	-	-	-	33,310	33,310
Net repricing gap	(171,945)	267,432	(141,634)	92,251	(25,622)	8,042	165,840	194,364

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

(35. b) Carrying amount of assets and liabilities at 31 December 2011 by earlier of contractual repricing or maturity date

Assets	Immediately rate-sensitive	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Cash and current accounts with central bank	31,075	-	-	-	-	-	8,994	40,069
Effective interest rates	7.00	-	-	-	-	-	-	5.43
Due from banks	16,344	157,923	3,661	-	-	-	-	177,928
Effective interest rates	0.33	4.55	1.55	-	-	-	-	4.10
Financial assets at fair value through profit or loss	-	154	206	3,747	881	2,401	565	7,954
Effective interest rates	-	8.24	9.34	9.83	8.8	9.73	-	8.94
Derivative financial assets	-	5,312	4,832	5,647	423	-	-	16,214
Loans and advances to customers	291,585	432,534	637,401	476,951	42,478	20,584	-	1,901,533
Effective interest rates	1.74	4.85	5.36	6.10	6.33	5.41	-	4.90
Financial investments	-	134,486	7,569	2,915	5,257	-	84	150,311
Effective interest rates	-	8.11	9.74	8.21	9.00	-	-	8.22
Other assets	-	-	-	-	-	-	230,363	230,363
Liabilities								
Deposits from banks	1,799	186,294	440,960	81,821	770	-	-	711,644
Effective interest rates	3.24	2.31	2.16	1.18	2.28	-	-	2.09
Derivative financial liabilities	-	11,766	20,656	3,175	352	-	-	35,949
Deposits from customers	426,889	390,911	392,090	117,414	37,510	5	-	1,364,819
Effective interest rates	2.01	5.68	5.95	4.21	6.36	3.79	-	4.5
Liabilities from issued securities	-	11,161	44,267	36,261	16,286	-	-	107,975
Effective interest rates	-	6.10	6.44	3.83	5.30	-	-	5.35
Subordinated debt	-	14,059	-	9,352	-	-	-	23,411
Effective interest rates	-	2.38	-	2.07	-	-	-	2.26
Other liabilities	-	-	-	-	-	-	36,463	36,463
Net repricing gap	(89,684)	116,218	(244,304)	241,237	(5,879)	22,980	203,543	244,111

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(36. a) Carrying amount of assets and liabilities by maturity date

The maturity profile of the Bank's assets and liabilities as at 31 December 2012 were

Assets	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Cash and current accounts with banks	33,014	-	-	-	-	33,014
Due from banks	107,609	89	-	-	-	107,698
Financial assets at fair value through profit or loss	16,306	1,560	5,951	1,632	840	26,289
Derivative financial assets	1,244	2,059	2,692	5,631	490	12,116
Loans and advances to customers	242,160	79,457	197,536	442,518	556,311	1,517,982
Financial investments	205,489	21,754	361	5,447	1,813	234,864
Non-current assets held for sale	-	-	1,460	-	-	1,460
Tax assets	-	-	-	23,305	-	23,305
Other assets	1,733	-	1,360	3,809	-	6,902
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	-	-	-
Total Assets	607,555	104,919	209,360	598,030	599,424	2,119,288
Liabilities						
Deposits from banks	23,744	76,604	29,074	216,248	88,101	433,771
Derivative financial liabilities	5,521	15,492	2,916	3,681	1,626	29,236
Deposits from customers	629,490	271,461	171,745	56,880	153,237	1,282,813
Liabilities from issued securities	8	50,26	24,236	50,898	-	80,168
Tax liabilities	-	-	-	8,734	-	8,734
Other liabilities	2,318	-	6,565	8,992	-	17,875
Provisions	-	-	-	6,701	-	6,701
Subordinated debt	22	57	6	13,108	52,433	65,626
Total Liabilities	661,103	368,640	234,542	365,242	295,397	1,924,924
Net position	(53,548)	(263,721)	(25,182)	232,788	304,027	194,364

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(36. b) Carrying amount of assets and liabilities by maturity date

The maturity profile of the Bank's assets and liabilities as at 31 December 2011 were

Assets	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Cash and current accounts with banks	40,069	-	-	-	-	40,069
Due from banks	172,791	-	5,137	-	-	177,928
Financial assets at fair value through profit or loss	154	206	441	4,187	2,966	7,954
Derivative financial assets	4,478	3,532	3,944	3,991	269	16,214
Loans and advances to customers	316,695	71,496	245,193	547,114	721,035	1,901,533
Financial investments	134,487	7,569	2,596	5,575	84	150,311
Non-current assets held for sale	-	-	1,251	-	-	1,251
Tax assets	-	-	-	39,241	-	39,241
Other assets	3,296	-	5,745	-	-	9,041
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	-	-	-
Total Assets	671,970	82,803	264,307	137,407	43,423	180,830
				737,515	767,777	2,524,372
Liabilities						
Deposits from banks	36,311	117,027	33,909	417,555	106,842	711,644
Derivative financial liabilities	10,477	18,642	2,266	3,637	927	35,949
Deposits from customers	724,756	333,027	120,959	46,616	139,461	1,364,819
Liabilities from issued securities	8	16,437	63,688	27,842	-	107,975
Tax liabilities	-	-	-	8,818	-	8,818
Other liabilities	3,975	-	18,302	-	-	22,277
Provisions	-	-	-	5,368	-	5,368
Subordinated debt	58	-	18	14,001	9,334	23,411
Total Liabilities	775,585	485,133	239,142	523,837	256,564	2,280,261
Net position	(103,615)	(402,330)	25,165	213,678	511,213	244,111

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(37) Analysis of financial liabilities' gross contractual cash flows by remaining contractual maturities

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

	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
2012						
Liabilities						
Deposits from banks	23,787	76,994	30,958	221,252	98,357	451,348
Derivative instruments	5,521	15,492	2,916	3,681	1,626	29,236
Deposits from customers	630,052	275,388	182,764	96,827	187,939	1,372,970
Liabilities from issued securities	8	5,624	26,840	55,297	-	87,769
Subordinated debt	33	463	1,579	22,380	58,827	83,282
Total undiscounted financial liabilities	659,401	373,961	245,057	399,437	346,749	2,024,605
2011						
Liabilities						
Deposits from banks	36,515	118,957	42,906	439,825	122,493	760,696
Derivative instruments	10,477	18,642	2,266	3,637	927	35,949
Deposits from customers	725,590	337,878	129,755	87,369	179,950	1,460,542
Liabilities from issued securities	8	18,112	65,457	30,907	-	114,484
Subordinated debt	86	-	450	15,336	10,990	26,862
Total undiscounted financial liabilities	772,676	493,589	240,834	577,074	314,360	2,398,533

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
Part D – Additional Information
(38) Related Party Transactions
(a) Companies (Intesa Sanpaolo Group)

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

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

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

All transactions with companies in the Intesa Sanpaolo Group are conducted at market rates. Balances and commitments at 31 December 2012 constitute 0.8% of total assets and 16.7% of total liabilities, and are set out below.

(million HUF)	2012			
	Parent	ISP Group Companies	Subsidiaries	Total
Assets				
Cash and current accounts	6,818	216	57,631	64,665
Loans and advances to customers / Due from banks	6,969	932	413,124	421,025
Financial investments	22	-	-	22
Derivative financial assets	2,168	257	42	2,467
Financial asset at fair value through profit or loss	-	-	975	975
Other assets	140	3	1,554	1,697
Liabilities				
Current accounts	2	62	408,819	408,883
Deposits from customers / banks	150,886	131,186	71,881	353,953
Subordinated debt	43,750	21,876	-	65,626
Derivative financial liabilities	3,975	1,339	42	5,356
Liabilities from issued securities	-	-	975	975
Other liabilities	-	-	1,304	1,304
Commitments				
Guarantees	-	14	215	229
Loan commitments	-	-	236,413	236,413
Interest rate derivatives	414,833	48,908	-	463,741
Currency derivatives	136,843	855	3,330	141,028
Interest expenses, net	(2,574)	(6,720)	(197)	(9,491)

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(38) Related Party Transactions (continued)

(million HUF)	2011			Total
	Parent	ISP Group Companies	Subsidiaries	
Assets				
Cash and current accounts	11,870	232	55,130	67,232
Loans and advances to customers / Due from banks	20,122	251	423,321	443,694
Fair value of derivatives	1,466	557	96	2,119
Financial asset at fair value through profit or loss	-	-	500	500
Other assets	144	3	2,249	2,396
Liabilities				
Current accounts	685	171	69,643	70,499
Deposits from customers / banks	221,388	328,320	414,146	963,854
Subordinated debt	-	23,411	-	23,411
Derivative financial liabilities	667	590	96	1,353
Liabilities from issued securities	-	-	500	500
Other liabilities	-	-	2,249	2,249
Commitments				
Guarantees	-	14	124	138
Loan commitments	-	-	202,228	202,228
Interest rate derivatives	53,367	107,284	-	160,651
Currency derivatives	113,819	1,063	4,004	118,886
Interest expenses, net	(2,916)	(9,132)	(1,241)	(13,289)

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

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

(b) Key management personnel

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(38) Related Party Transactions (continued)

Members of the Bank's Board of Directors at 31 December 2012:

Dr. Surányi György (chairman) – Intesa Sanpaolo Group
Fabrizio Centrone (deputy chairman) – Intesa Sanpaolo Group
Giampiero Trevisan – Intesa Sanpaolo Group
Paolo Sarcinelli – Intesa Sanpaolo Group
Eduardo Bombieri – CIB Bank Ltd.
Jonathan Charles Locke – CIB Bank Ltd.
dr. Gábor Király – CIB Bank Ltd.
Gábor Plank – CIB Bank Ltd.

Members of the Bank's Supervisory Board as at 31 December 2012:

Ivan Sramko (chairman) – Intesa Sanpaolo Group
Massimo Malagoli (deputy chairman) – Intesa Sanpaolo Group
Prof. Avv. Emilio Tosi – Intesa Sanpaolo Group
Giorgio Spriano – Intesa Sanpaolo Group
Antonio Furesi – Intesa Sanpaolo Group
Christophe Velle – Intesa Sanpaolo Group
Dr. Sándor Tóth – CIB Bank Ltd.
Mária Tölgyesi – CIB Bank Ltd.
Dr. Zoltán Hodosi – CIB Bank Ltd.

Members of the Bank's Management Committee as at 31 December 2012:

Fabrizio Centrone (CEO) – CIB Bank Ltd.
Eduardo Bombieri (deputy CEO) – CIB Bank Ltd.
dr. Király Gábor (deputy CEO) – CIB Bank Ltd.
Plank Gábor (deputy CEO) – CIB Bank Ltd.
Jonathan Charles Locke (deputy CEO) – CIB Bank Ltd.
Giorgio Gavioli – CIB Bank Ltd.
Magdolna Juridesz – CIB Bank Ltd.
Boglárka Kőszegi – CIB Bank Ltd.
Zsuzsanna Németh – CIB Bank Ltd.
Andrea Wéber – CIB Bank Ltd.
Krisztián Horváth – CIB Bank Ltd.
Dávid Csont – CIB Bank Ltd.
Alessio Cioni – CIB Bank Ltd.
Csongor Németh – CIB Bank Ltd.
Dr. Áron Vitályos – CIB Bank Ltd.
Zoltán Tóth – CIB Bank Ltd.
Pavol Tavec – CIB Bank Ltd.
Zoltán Csordás – CIB Bank Ltd.
Attila Bukovszki – CIB Bank Ltd.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(38) Related Party Transactions (continued)

	(million HUF)	
	2012	2011
Assets		
Current accounts	1	4
Loan	95	120
Liabilities		
Current accounts	281	267
Deposits	151	63
Commitments		
Loans and overdraft facilities not disbursed	13	14
Compensation		
Salaries and other short-term benefits	1,108	1,689

There were changes and extension in the Group's key management members during 2012 and 2011.

(39) Average balances

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

(million HUF)	2012		2011	
	Average carrying amount	Average interest rate (%)	Average carrying amount	Average interest rate (%)
Financial assets				
Cash and current accounts with central bank	88,962	4.31	84,593	2.90
Due from banks and subordinated loans	83,455	2.5	67,713	2.64
Financial assets at fair value through profit or loss	20,825	5.95	16,482	5.30
Loans and advances to customers	1,895,160	4.79	2,228,382	5.13
Financial investments	258,829	6.68	155,134	6.16
Other assets	289,380	-	245,200	-
Financial liabilities				
Deposits from banks	566,651	1.58	717,454	1.92
Deposits from customers	1,342,287	4.88	1,339,881	3.65
Liabilities from issued securities	89,968	5.58	113,771	5.51
Subordinated debt	23,466	1.70	30,946	2.00
Other liabilities	392,628	-	345,863	-

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(40) Fair value of financial assets and liabilities

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

31 December 2012 (million HUF)	Exposed to cash flow risk		Exposed to fair value risk	
	Book value	Fair value	Book value	Fair value
Financial assets				
Due from banks	13,918	13,918	93,780	93,775
Loans and advances to customers	1,452,869	1,493,657	65,113	64,504
Financial investments – Held-to-maturity	317	307	5,345	5,463
Financial liabilities				
Deposits from banks	337,177	337,523	96,594	96,635
Deposits from customers	606,336	620,377	676,477	680,115
Subordinated debt	65,626	67,305	-	-
Liabilities from issued securities	34,798	34,803	45,370	45,817

31 December 2011 (million HUF)	Exposed to cash flow risk		Exposed to fair value risk	
	Book value	Fair value	Book value	Fair value
Financial assets				
Due from banks	21,491	21,529	156,437	156,425
Loans and advances to customers	1,834,783	1,830,031	66,750	69,024
Financial investments – Held-to-maturity	318	305	5,256	5,106
Financial liabilities				
Deposits from banks	557,991	558,882	153,653	154,007
Deposits from customers	611,088	615,050	753,731	753,102
Subordinated debt	23,411	23,508	-	-
Liabilities from issued securities	38,982	39,007	68,993	68,334

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

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

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

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

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(40) Fair value of financial assets and liabilities (continued)

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

31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	12,116	-	12,116
Financial assets at fair value through profit or loss	9,279	17,010	-	26,289
Financial investments - Available-for-sale	11,796	217,406	-	229,202
Financial liabilities				
Derivative financial liabilities	-	29,236	-	29,236

31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	16,214	-	16,214
Financial assets at fair value through profit or loss	7,625	329	-	7,954
Financial investments - Available-for-sale	21,809	122,928	-	144,737
Financial liabilities				
Derivative financial liabilities	-	35,949	-	35,949

During the reporting period ending 31 December 2012 and 2011 there were no transfers between Level 1 and Level 2 fair value measurements or any transfers into Level 3 fair value measurement.

(41) Cash and cash equivalents

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

Cash and cash equivalents comprise	(million HUF)	
	2012	2011
Cash and current account with central bank (Note 15)	33,014	40,069
Due from banks (Note 16)	107,698	172,791
Financial assets at fair value through profit or loss (Note 17)	166	144
Financial investments (Note 21)	183,878	118,098
Total	324,756	331,102

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012****(42) Reclassification based on IAS 39**

Following the amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets (issued in October 2008 and effective from 1 July 2008) the Group reclassified municipal bonds from Available-for-sale category toward Loan and advances to customers with the carrying value of HUF 61,185 million. The transfer value was the fair value at 30 September 2009 on reclassification date. The nominal value of the bonds was HUF 62,759 million on reclassification date. The average effective margin of the bonds is 1.1%.

The amount of Available-for-sale reserve was HUF (1,574) million at the reclassification date which will be amortised until maturity. It was determined by the Group that the market for these assets is no longer active and the Group no longer intends to trade. The management also considered the credit risk of these assets as significant for measurement purposes. This reclassification has only been performed where the Group, at the reclassification date, has the clear intention and ability to hold the financial asset until maturity.

The fair value of the bonds would be HUF 49,304 million and thus the valuation loss would be HUF 11,881 million as at 31 December 2012. The fair value of the bonds would be HUF 53,586 million and thus the valuation loss would be HUF 7,599 million as at 31 December 2011 respectively if the Group had not reclassified it from the Available-for-sale to Loan and advances to customers' category. The nominal value of the bonds was HUF 52,179 million as at 31 December 2012 and HUF 56,762 million as at 31 December 2011 respectively.

The total estimated cash inflow till 2020 on the bond amounts to HUF 60,241 million.

(43) Business combinations and transactions under common control**Business combinations and transactions under common control in 2012**

CIB Reál Ltd. merged with Recovery Ltd. such that the merging companies ceased to exist with the effect of the merger and the sole legal successor of the merged entities is Recovery Zrt. The last day of the existence of the merging companies was 31 December 2011. The effective date of the merge was 1 January 2012.

In December 2012 the Bank acquired 100% ownership in CIB Faktor Ltd. and CIB Insurance Broker Ltd. as a transaction under common control.

Business combinations and transactions under common control in 2011

On 1 January 2011 CIB Support Ltd merged into CIB Bank Ltd. leaving CIB Bank Ltd as the legal successor of CIB Support Ltd.

CIB Credit Ltd., CIB Property Ltd. and CIB Residential Property Ltd. merged into CIB Leasing Ltd. such that the merging companies ceased to exist with the effect of the merger and the sole legal successor of the merged entities is CIB Leasing Ltd. The last day of the existence of the merging companies was 31 December 2010. The effective date of the merge was 1 January 2011. CIB Leasing Holding Ltd. acquired 98.1569% of the shares of the legal successor.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012****(43) Business combinations and transactions under common control (continued)**

CIL Buda Square Ltd. and Óbuda Dunapart Ltd. merged into Recovery Ltd. such that the merging companies ceased to exist with the effect of the merger and the sole legal successor of the merged is Recovery Ltd. The last day of the existence of the merging companies was 31 December 2010. The effective date of the merge was 1 January 2011.

All mergers and demergers were presented in the Financial Statements using the pooling of interests method both for 2012 and 2011 respectively.

(44) Events after the reporting period

The Group sold its investment in CIB Investment Fund Management Ltd on 14 January 2013 within Intesa Sanpaolo Group to Eurizon Capital S.A.

(45) Segment report

For management purposes the Group is organised into operating segments based on services and products. The management monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following segments could be distinguished as being separate from each other

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

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

45) Segment report as at 31 December 2012 (continued)

	2012			
	Retail banking	Corporate banking	Treasury/Bank	Other
Net interest income	32,956	17,721	(22,359)	7,059
Net Commission Income	17,287	9,294	-	-
Trading Income	-	-	18,305	-
Other operating income	-	-	-	3,083
Net banking income	50,243	27,015	(4,054)	10,142
Allowance for loan losses	(28,920)	(102,613)	-	(23,864)
Segment result	21,323	(75,598)	(4,054)	(13,722)
Unallocated cost	-	-	-	(67,127)
Profit before tax	-	-	-	(139,567)
Income tax	-	-	-	(12,306)
Profit for the year	-	-	-	(151,873)
Segment assets	521,240	996,742	380,117	211,000
Loan and advances to customers	521,240	996,742	-	-
Deposit with banks	-	-	107,698	-
Securities	-	-	260,303	847
Derivative financial assets	-	-	12,116	-
Other assets	-	-	-	210,153
Unallocated assets	-	-	-	10,186
Total asset	521,240	996,742	380,117	221,186
Segment liabilities	804,731	506,198	528,935	79,792
Deposit from customers and liabilities	804,731	506,198	-	52,052
From issued securities	-	-	499,697	-
Deposit from banks	-	-	29,238	-
and subordinated debt	-	-	-	27,740
Derivative financial liabilities	-	-	-	5,569
Other	-	-	-	85,361
Unallocated liabilities	-	-	-	-
Total liabilities	804,731	506,198	528,935	85,361
Total shareholders' equity	-	-	-	194,364

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(45) Segment report as at 31 December 2011 (continued)

	2011			
	Retail banking	Corporate banking	Treasury/Bank	Other
Net Interest Income	43,851	28,442	(28,415)	15,320
Net Commission Income	22,326	8,215		
Trading Income			28,287	
Other operating Income				2,164
Net banking income	66,177	36,657	(128)	17,484
Allowance for loan losses	(57,911)	(45,435)	-	(2,373)
Segment result	8,266	(8,778)	(128)	15,111
Unallocated cost				
Profit before tax				(56,424)
Income tax				(41,953)
Profit for the year				4,647
Segment assets	673,148	1,228,385	352,323	(37,306)
Loan and advances to customers	673,148	1,228,385		2,504,660
Deposit with banks			177,928	1,901,533
Securities			158,181	177,928
Derivative financial assets			16,214	158,265
Other assets				16,214
Unallocated assets				250,720
Total asset	673,148	1,228,385	352,323	19,712
				2,524,372
Segment liabilities	819,828	597,701	771,004	85,953
Deposit from customers and liabilities				
From issued securities				
Deposit from banks	819,828	597,701		
and subordinated debt				
Derivative financial liabilities			735,055	735,055
Other			35,949	35,949
Unallocated liabilities				30,688
Total liabilities	819,828	597,701	771,004	5,775
Total shareholders' equity				2,280,261
				244,111

Part E – Information on risks

(46) Risk management

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

The most significant business risks to which the Group is exposed are credit, interest rate, liquidity and foreign exchange risks. It is also subject to operating risks.

The Board of Directors of the Bank, within the rules as established by the National Bank of Hungary, the Hungarian Financial Supervisory Authority and Intesa Sanpaolo S.p.A, sets risk management policies. The Management Committees of the Group implement the execution of these policies.

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

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management.

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

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

Concentration arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risk the Group procedures focus on maintaining a diversified portfolio.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)
(a) Credit risk

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

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

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

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

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

(million HUF)	2012	2011
Cash and balances with central bank	33,014	40,069
Due from banks and subordinated loans	107,751	178,005
Financial assets at fair value through profit and loss	26,288	7,954
Derivative financial assets	12,118	16,416
Loans and advances to customers	1,832,399	2,178,053
Financial investments – Available-for-sale	229,202	144,737
Financial investments – Held-to-maturity	5,662	5,574
Other assets	4,534	7,764
Total maximum exposure	2,250,968	2,578,572
Total maximum exposure to credit risk	1,940,149	2,356,058
Financial guarantees	51,527	80,821
Commitments	166,424	160,492

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

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

(million HUF)	2012	2011
Italy	209	269
Hungary	1,789,935	2,119,130
Euro Zone countries	20,208	33,212
- of which PIGS countries	1,140	1,361
European but Non-Euro Zone countries	21,609	24,943
Other regions	438	499
Total	1,832,399	2,178,053

PIGS countries includes the followings: Greece, Portugal, Ireland and Spain. An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements is provided in Note 16.

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

The main types of collateral obtained are as follows:

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

The Credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality of the loans and advances to customers based on the Group's credit rating system.

Performing Loans	2012 (million HUF)	2011 (million HUF)
A – Excellent	6,095	667
B – Stable	308,927	175,754
C – Acceptable	444,631	534,428
D – High Risk	135,850	251,907
Other	53,548	85,502
Retail	231,012	583,998
Total Performing Loans	1,180,063	1,632,256
Non-performing Loans		
Corporate loans	496,620	408,457
Retail loan	155,716	137,340
Total Non-performing Loans	652,336	545,797
Tangible collateral at fair value	261,793	315,743

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

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

	AAA/AA-	A+/A-	BBB+/BB B-	BB+/BB -	Not rated	Total
2012	38,622	11,903	15,616	36,037	5,520	107,698
2011	41,666	52,552	4	73,944	9,762	177,928

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

2012	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Large corporate loans	862,734	1,874	2,918	210,733	1,078,259
Mid corporate loans	274,779	4,287	2,462	102,861	384,389
Retail loans	415,981	27,076	13,787	126,018	582,862
Total	1,553,494	33,237	19,167	439,612	2,045,510

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

2011	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Large corporate loans	57,999	9,215	5,044	289	72,547
Mid corporate loans	25,970	8,317	3,478	1,168	38,933
Retail loans	55,186	17,318	6,689	277	79,470
Total	139,155	34,850	15,211	1,734	190,950

Of the total aggregate amount of gross past due but not individually impaired loans and advances to customers, the liquidation value of collateral that the Group held as at 31 December 2012 HUF 167,730 million and was HUF 173,536 million as at 31 December 2011, respectively.

The Group implemented ISP Group non-performing definition in September 2012. According to the harmonized rules loans are reported as impaired if

- any payments are overdue by more than 90 days with material due amount (Past due),
- the loan has been restructured causing present value loss to the Bank (Restructured),
- the client is in temporary financial difficulties and its loans may not be paid back fully (Substandard),
- the client is insolvent (Doubtful).

These harmonized rules increased the NPL rate by 3% point. The Group addresses impairment into two types: individually assessed allowances and collectively assessed allowances.

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

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

(b) Liquidity risk

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

The intention of the CIB Group is to promote CIB's long standing philosophy of safe, sound and conservative liquidity risk management and to give the right guidance to ensure continuous and safe liquidity levels within the Group. The Liquidity Policy illustrates the tasks of the various corporate functions, the rules and set of control and management processes to ensure prudent control of liquidity risk, preventing crisis situations. The Liquidity Policy is closely related to the Contingency Funding Plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations.

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

The liquidity ratio during the year was as follows

Liquidity ratio	(%)	
	2012	2011
31 December	13.74	13.38
Daily average during the period	15.89	11.77
Highest	18.77	17.31
Lowest	11.56	7.24

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

The maturity profile of the Group's financial liabilities at 31 December 2012 is presented in Note 37.

(c) Market risk - Trading

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

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

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

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

VAR – 2012	(million HUF)				
	Foreign exchange	Interest rate	Equity	Correlation Effect	Total
31 December	66	23	1	(17)	73
Daily average during the period	64	47	13	(34)	90
Highest	169	118	34	0	210
Lowest	12	9	1	0	22

VAR – 2011	(million HUF)				
	Foreign exchange	Interest rate	Equity	Correlation Effect	Total
31 December	84	63	20	(77)	90
Daily average during the period	33	43	9	(27)	58
Highest	113	91	25	-	131
Lowest	8	22	2	-	27

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

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

Position limits enables the monitoring of exposures real time, and as a robust measurement technique, can be relied upon in case of error in the VaR model. Separate position limits and sub-limits are in place for foreign exchange, equity and interest rate positions.

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)
(d) Market risk – Non-trading
Interest rate risk

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

Interest rate risk is managed by the Treasury in the Group day-to-day operation supervised by Risk Management, by the senior management and by the Parent Company. On the tactical horizon interest risk is managed by the Asset-Liability Committee, which proposes position and sensitivity limits, and monitors such limits to restrict the effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities. Strategic decisions are made by the Board of Directors by determining the risk tolerance.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Consolidated Statement of Comprehensive Income.

The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating and fixed rate non-trading financial assets and financial liabilities held at 31 December 2012. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2012 for the effects of the assumed changes in interest rates. The Group uses for the sensitivity of equity calculations, among others, the modified duration method.

2012	Increase in basis points	Sensitivity of net interest income	(million HUF)				Total
			0 to 6 months	6 months to 1 year	Sensitivity of equity		
					1 year to 5 years	Over 5 years	
HUF	+ 200	1,409	(74)	86	(129)	(71)	(188)
EUR	+ 100	412	183	(4)	(102)	42	119
USD	+ 25	(13)	4	2	(3)	-	3
CHF	+ 25	(120)	14	(87)	-	(2)	(75)
Others	+ 25	-	1	-	-	-	1

2012	Decrease in basis points	Sensitivity of net interest income	(million HUF)				Total
			0 to 6 months	6 months to 1 year	Sensitivity of equity		
					1 year to 5 years	Over 5 years	
HUF	(200)	(1,409)	73	(89)	136	86	206
EUR	(100)	36	(21)	3	79	(39)	22
USD	(25)	7	(5)	(2)	3	-	(4)
CHF	(25)	(13)	(2)	62	-	2	62
-Others	(25)	-	-	-	-	-	-

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

2011	Increase in basis points	Sensitivity of net interest income	(million HUF)				Total
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	
HUF	+ 200	(426)	(308)	(362)	175	(70)	(565)
EUR	+ 100	(432)	112	(40)	(11)	51	112
USD	+ 25	(5)	11	-	-	-	11
CHF	+ 25	(38)	(13)	(28)	15	(2)	(28)
Others	+ 25	-	-	-	-	-	-

2011	Decrease in basis points	Sensitivity of net interest income	(million HUF)				Total
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	
HUF	(200)	426	313	373	(182)	85	589
EUR	(100)	(17)	(112)	40	11	(57)	(118)
USD	(25)	(16)	(11)	-	-	-	(11)
CHF	(25)	(4)	3	33	(7)	2	31
Others	(25)	-	-	-	-	-	-

Foreign exchange risk

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

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

Statutory limits do not permit the Bank to have gross open currency positions against the Hungarian Forint exceeding 30% of its solvency capital at any time. It is the policy of the Group that the Bank should only take currency positions within strictly defined limit rules.

Statutory limits do not permit the Bank to have net currency positions mismatch between the asset and liability side regardless of the foreign currency at more than 60% against one another based on statutory stand alone financial statements. The management of the bank monitors this ratio on a daily basis.

The Board of Directors establishes and monitors specific regulations based on statutory and internal limits, and the strategy approved by the Board of Directors. Adherence to these limits, including intra-day limits, is monitored continuously.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

The currency structure of the Group's assets, liabilities and equity as at 31 December 2012 and 2011 is as follows (currency equivalents in million HUF)

2012	HUF	CHF	EUR	USD	Other	Total
Cash and current accounts with central bank	32,016	41	714	178	65	33,014
Due from banks	69,454	377	27,171	8,365	2,331	107,698
Financial assets at fair value through profit or loss	25,982	-	255	52	-	26,289
Derivative financial assets	12,116	-	-	-	-	12,116
Loans and advances to customers	366,003	589,166	552,843	7,982	1,988	1,517,982
Financial investments – Available-for-sale	228,355	-	-	-	-	228,355
Financial investments Held-to-maturity	6,509	-	-	-	-	6,509
Non-current assets held for sale	1,460	-	-	-	-	1,460
Tax assets	23,305	-	-	-	-	23,305
Other assets	6,761	45	63	33	-	6,902
Repossessed property	115,687	-	-	-	-	115,687
Intangible assets	8,178	-	-	-	-	8,178
Property, plant and equipment	31,793	-	-	-	-	31,793
Total assets	927,619	589,629	581,046	16,610	4,384	2,119,288
2012	HUF	CHF	EUR	USD	Other	Total
Deposits from banks	41,571	120,472	270,257	719	752	433,771
Derivative financial liabilities	29,236	-	-	-	-	29,236
Deposits from customers	926,488	58,592	255,507	34,665	7,561	1,282,813
Liabilities from issued securities	54,005	-	26,163	-	-	80,168
Tax liabilities	8,728	-	3	2	1	8,734
Other liabilities	12,900	88	3,847	873	167	17,875
Provisions	6,701	-	-	-	-	6,701
Subordinated debt	-	-	65,626	-	-	65,626
Total liabilities	1,079,629	179,152	621,403	36,259	8,481	1,924,924
Share capital	145,000	-	-	-	-	145,000
Reserves	102,930	(1,238)	-	-	-	101,692
Retained earnings	(52,328)	-	-	-	-	(52,328)
Total equity	195,602	(1,238)	-	-	-	194,364
Total liabilities and equity	1,275,231	177,914	621,403	36,259	8,481	2,119,288
Net on- Statement of Financial Position	(347,612)	411,715	(40,357)	(19,649)	(4,097)	
FX position of derivatives	374,698	(424,262)	26,740	19,669	3,155	
<i>Off-balance</i>	<i>158,881</i>	<i>1</i>	<i>45,861</i>	<i>6,046</i>	<i>241</i>	<i>211,030</i>

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(46) Risk management (continued)

2011	HUF	CHF	EUR	USD	Other	Total
Total assets	918,728	858,268	710,129	29,601	7,646	2,524,372
Total liabilities and equity	1,356,248	331,084	792,579	39,040	5,421	2,524,372
Net on-Statement of Financial Position	(437,520)	527,184	(82,450)	(9,439)	2,225	-
FX position of derivatives	374,384	(460,232)	78,450	9,680	(2,282)	-
<i>Off-balance</i>	<i>169,277</i>	<i>42</i>	<i>60,765</i>	<i>7,176</i>	<i>339</i>	<i>237,599</i>

(e) Operational risk

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risks include legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.

Operational Risk and Fraud Management is responsible for the monitoring of CIB Group's operational risk exposure and reporting it to the Board of Directors, Supervisory Committee, Audit Committee and Management Committee (MC). Operational Risk and Fraud Management belongs to the Risk Management Department, which is entirely independent from the business units of the Bank, and reports to the Chief Risk Officer.

From January 2008 both the Bank and on a consolidated level, the CIB Group calculates capital requirement based on The Standardised Approach (TSA).

CIB has a Group Operational Risk Committee. The goal of this Committee is to provide a framework for regular information flow among its members, hereby promoting the measurement and management of operational risk. The Committee meets quarterly where it reviews the Bank's operational risk exposure and the ongoing risk mitigation actions.

Intesa Sanpaolo Group has defined the overall operational risk management framework by setting up a Group policy and organisational process for measuring, managing and controlling operational risk. The Group has adopted Intesa Sanpaolo Group's operational risk management framework, taking into consideration the local idiosyncrasies.

There are two distinct approaches in the measurement of operational risks, quantitative and qualitative:

The quantitative component is based on the assessment of historical data on internal events, recorded by organisational units, checked by Operational Risk Management and managed by a dedicated intranet based IT system. The model also takes into consideration external events from operational risk data.

In 2004 CIB started collecting operational risk loss data of all events over HUF 50 thousand. In 2012 395 events causing HUF 1,512 million effective operational loss over the threshold of HUF 50 thousand were recorded into the loss database, excluding the boundary with credit losses. In 2011 445 events caused HUF 2,030 million operational loss respectively.

Part F – Information on capital

(47) Capital and capital management

Basel II

The original Basel Accord was agreed in 1988 by the Basel Committee on Banking Supervision. The 1988 Accord, now referred to as Basel I, helped to strengthen the soundness and stability of the international banking system as a result of the higher capital ratios that it required.

Basel II is a revision of the existing framework, which aims to make the framework more risk sensitive and representative of modern banks' risk management practices. There are four main components to the new framework:

- It is more sensitive to the risks that firms face: the new framework includes an explicit measure for operational risk and includes more risk-sensitive risk weightings against credit risk.
- It reflects improvements in firms' risk-management practices, for example the internal ratings-based approach (IRB) allows firms to rely to a certain extent on their own estimates of credit risk.
- It provides incentives for firms to improve their risk-management practices, with more risk-sensitive risk weightings as firms adopt more sophisticated approaches to risk management.
- The new framework aims to leave the overall level of capital held by banks collectively broadly unchanged.

It affects banks and building societies and certain types of investment firms. The new framework consists of three 'pillars'.

- Pillar I of the new standards sets out the minimum capital requirements firms will be required to meet for credit, market and operational risk.
- Under Pillar II, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar I and must take action accordingly.
- The aim of Pillar III is to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management.

The new Basel Accord has been implemented in the European Union via the Capital Requirements Directive (CRD). The CRD came into force on the 1 January 2007, and being transposed into Hungarian law, banks applying it from 1 January 2008.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(47) Capital and capital management (continued)**Internal Capital Adequacy Assessment Process (ICAAP)**

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

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

The Bank continuously focusing on the following risks:

Credit Risk

Risk that customers may not be able to meet their contractual payment obligations. Credit risk includes default risk, country risk and settlement risk.

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and regulatory risk, but excludes business and reputation risk.

Market Risk

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

Residual Risk

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

Asset Risk

Asset risk arises from the potential loss due to the change of value of the owned or repossessed real estate and movable assets.

Model Risk

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

Concentration Risk

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**

(47) Capital and capital management (continued)Banking book – Interest Rate Risk

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

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

Liquidity Risk

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

Country Risk

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

Settlement Risk

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

Reputation Risk

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

Strategic Risk

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

High Risk Portfolio

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

Applied methodologies

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

The Group continuously improves the applied methodologies to be prepared for implementing advanced methodologies in a proper time frame.

In relation to Pillar 2 the Group implemented advanced methodology that will be reviewed and improved periodically.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2012**
(47) Capital and capital management (continued)
Capital management

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

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To strengthen the Bank's capital position the shareholders increased the Share Capital of the Bank by HUF 3 as the face value of the issue shares in 2012. The total capital contribution that was paid by the shareholders was HUF 101,700 million in 2012. The difference between the face value of the shares and the total paid contribution was registered as Reserves.

Regulatory capital	2012	2011
Share capital	145,000	145,000
Reserves	234,650	114,388
Current year's profit or (loss)	(130,522)	(48,204)
Total shareholder's equity	249,128	211,184
Deduction items:		
Intangible assets	(6,056)	(6,526)
Tier 1 Capital	243,072	204,658
Subordinated capital	57,675	17,734
Revaluation reserve	65	111
Deductions from Tier 2 Capital	(67,742)	(1,059)
Tier 2 Capital	(10,002)	16,786
Total Capital	233,070	221,444
Risk weighted assets for Credit risks	1,502,581	1,853,983
Risk weighted assets for Market risks	29,813	39,175
Risk weighted assets for Operating risks	257,550	253,050
Risk weighted assets	1,789,944	2,146,208
Tier 1 capital ratio	13.58%	9.54%
Total capital ratio	13.02%	10.32%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interests less accrued dividends, net long positions in own shares and goodwill. The other components of regulatory capital are Tier 2 capital, which includes subordinated long term debts, preference shares and revaluation reserves.

The minimum capital requirement is 8% under Pillar1.

The capital ratios have been calculated based on the consolidated financial figures according to the Hungarian Accounting and Reporting Standards.



CIB Bank Ltd. and its subsidiaries

Business Report

For the year ended 31 December 2012

based on CIB Bank's consolidated audited IFRS financial statements

CIB Bank Zrt.

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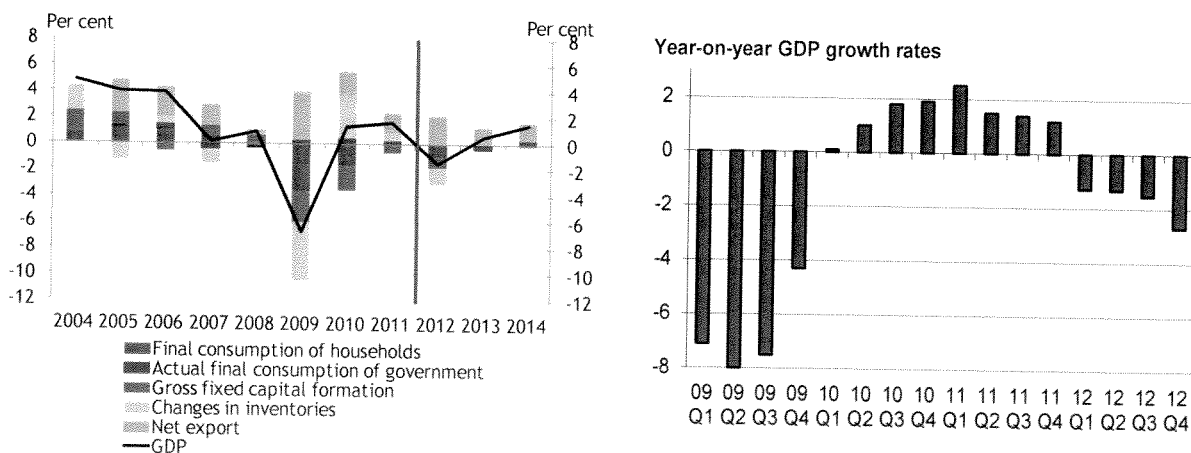
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I. Business environment

Macro and micro environment

1. GDP

Hungary entered into a recessionary year in 2012 following the preceding year's modest (already slowing) GDP growth. In each quarters of last year GDP dropped compared to the preceding quarter, while the preliminary Q4 GDP figure showed a worse-than-expected deepening recession at -2.7% YY. The full-year preliminary figure showed a 1.7% contraction after the year-on-year growth rate fluctuated between -0.7% and -1.5% in Q1-Q3 last year. Export growth has deteriorated further throughout 2012 and it was unable to compensate for the weakness of household and government consumption and investments. The deceleration of the economies of Hungary's main export partners (especially Germany) continued to take its toll on the growth rate of exports. GDP was also significantly influenced by the contraction of agricultural performance, primarily due to summer drought. This made the downward revision of Q2 data necessary (after the release of the Q3 figures) and also affected the moderate positive shift of other economic sectors in Q3. Some signs of improvement have emerged in communication and information technology in H2 2012. Investments have remained on a downward trend. Household consumption and government consumption both failed to support growth. The former has remained dampened by strict lending conditions, austerity measures (including cuts in social transfers and tax rebates) and constantly high unemployment. EUR/HUF and CHF/HUF volatility also prompted a proportion of households with foreign currency debts to set aside more savings throughout the period. These factors more than counterbalanced any potential positive impact of the lower in the personal income tax to a (nominally) 16% flat since the beginning of 2011.



Data source: NBH, CSO

GDP forecasts calculated by market participants for 2013 fall mostly between -0.5% and 1.1%, primarily given the ongoing uncertainty surrounding the growth prospects of Hungary's main export partners and due to Hungary's low potential growth rate as suggested by state of the labour market and investments. The uncertainty surrounding domestic corporations' reaction to the rapidly changing external environment and new domestic policy actions also contributes to this situation. The EU Commission's projection (updated in November 2012) suggested 0.3% GDP growth for Hungary in 2013. The IMF's preliminary comments following the 2013 January staff visit indicate an expectation of economic stagnation for Hungary in 2013. The government's macroeconomic forecast (underlying the budget plan) includes a growth assumption of 0.9% for 2013 (to be revised probably in Q2 2013).

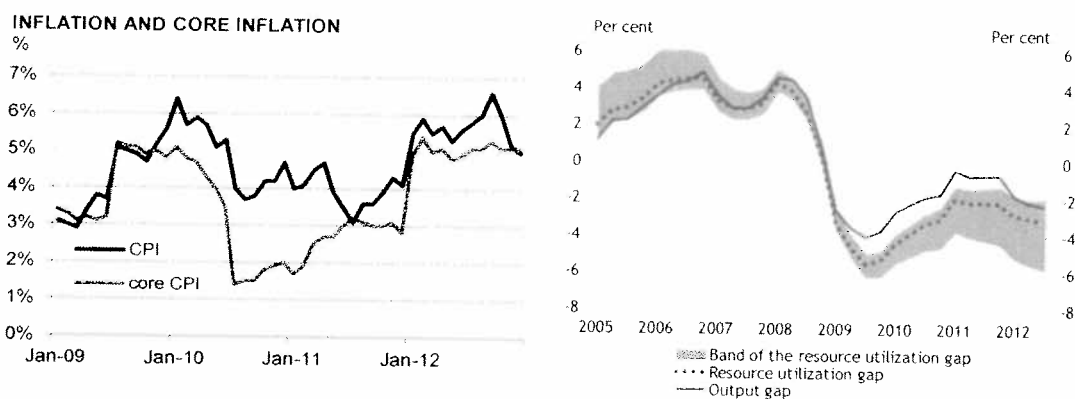
2. Budget and external balance

The 2012 budget plan and its execution was less affected by major one-off revenues as seen during the preceding year (when especially the transfer of private pension savings distorted the annual budget picture), but the revenue side has remained boosted by special sectoral crisis taxes including the bank tax. Still, the deteriorating GDP-growth outlook has continuously weighed on budget plans. Hence the government was eventually forced to revise the 2012 fiscal target (and the 2013 plan as well) compared to the targets outlined in the convergence program. Given the macroeconomic outlook and also the government's commitment to keep the deficit below the Maastricht-level of 3% of GDP, the amendment was accepted by the EU. The official deficit target for 2012 was revised from 2.5% of GDP to 2.7% of GDP, which is now identical to the new 2013 fiscal target. While the EU's official forecasts in November showed a projection of 2.5% deficit for 2012 despite the revision, the Commission projects a rise in the deficit in 2013 – though still below the 3% threshold. This is an important move forward from earlier, more pessimistic projections not only because of the meeting of the commitments laid down in Hungary's convergence plan, but also because of the ongoing excessive deficit procedure. Hungary has been under the excessive deficit procedure ever since joining the EU in 2004 and potential further breaching of the 3% limit could have threatened with the losing of EU cohesion funds in the order of around EUR 2 billion. According to the preliminary monthly central budget data for December 2012 the annual deficit came close to 2.1% of GDP without the balance of municipalities (which is to be included in the ESA balance calculation). Hence the adjusted 2012 fiscal plan was probably met. Still, the sovereign debt rate as a percentage of GDP has probably shown only modest improvement below the 80% threshold (down from 80.8% in Q4 2011) as a result of the forint's year-end weakening and the GDP's contraction throughout the year in 2012.

The weakness of domestic demand (both from the state sector and from households) was accompanied by a continued favourable development in external balance indicators in 2012. The cumulated current account balance reached a surplus of EUR 1.2 billion in Q3 following two full-year surpluses in the time series in 2010 and 2011. The improvement in the current account was primarily a result of a surge in the trade balance to above EUR 6 billion (cumulated) in the same period. (The full-year trade surplus approached that of the preceding year and may have come close to EUR 7 billion in 2012.) This also indicated an ongoing improvement in the country's net financing capacity.

3. Inflation

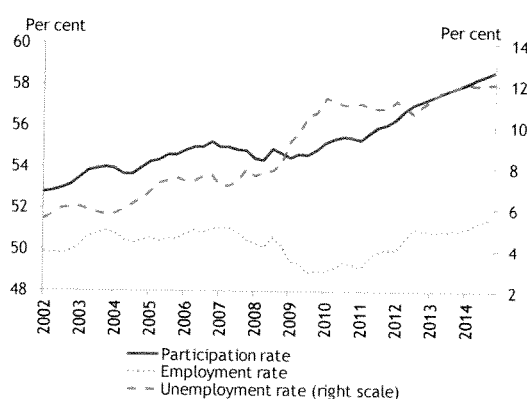
Inflation as measured by average CPI was 5.7% in 2012, significantly above the 2011 average inflation level. Despite the ongoing lack of domestic demand effects and wage-side pressures, inflation was boosted by tax measures (including the rise of VAT from 25% to 27% in January 2012, excise taxes hikes and also crisis taxes being passed through). As a result, inflation jumped and hovered at 5-6% in H1 last year and even hit and exceeded 6% in some months of H2. Inflation peaked at 6.6% (the highest level of the preceding more than 4 years) in September and retreated to 5.0% by December. Despite the negative output gap and below-average capacity utilization underlying (core) inflation also jumped and hit an average of 5.1% in 2012.



Data source: CSO, NBH

4. Labour market

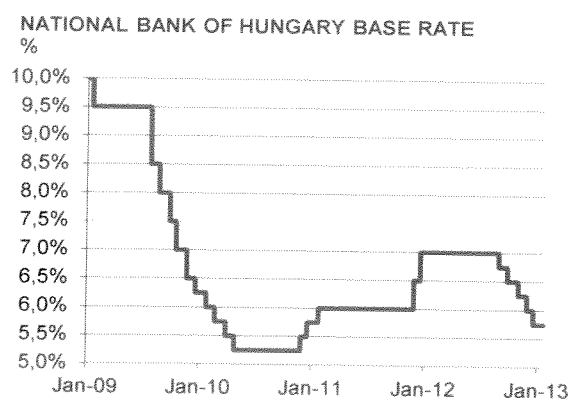
The unemployment rate returned to above 11% at the beginning of 2012 and started showing gradual improvement from spring. However, this improvement came to a halt in August/September (at 10.4%) and unemployment gradually climbed back to 10.7% by the end of the year. This essentially matched the rate seen one year before. Participation rate as well as the overall activity rate continued rising gradually last year. The participation rate hits 57%, which is 2 percentage points above the pre-crisis level. However, this development was strongly affected by state-subsidized employment in addition to changes in pension rules and the introduction of stricter rules of unemployment benefits. As a result, the number of the employed at the end of 2012 matched the pre-crisis peaks a tad above 3.9 million. This implies a rise of 58 thousand during the course of 2012. Also, the number of new jobs posted in 2012 was mostly state-subsidised ones. The average year-on-year growth rate in gross wages has picked up to 4.6% in the January-November period, which shows a slight moderation in wage rise, but still distorted by one-off measures including family benefits.



Data source: NBH, CSO

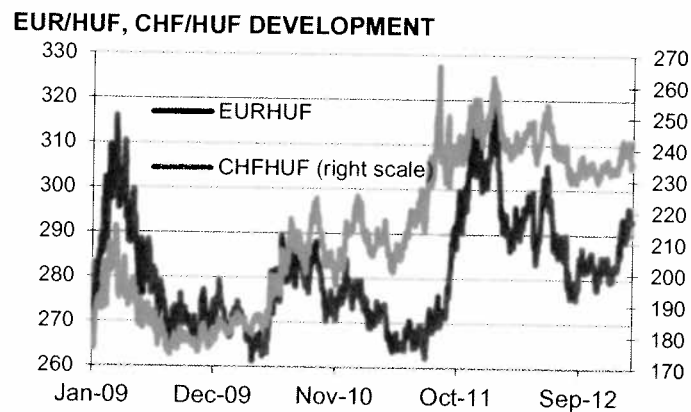
5. Monetary policy

The National Bank of Hungary ("NBH") launched an easing cycle in August 2012, after having left its main policy rate unchanged at 7% for more than half-a-year. Since August, the base rate was cut by 25 bps in each month, thus moving the base rate to 5.75% by the year-end. The central bank's rate-setting body was deeply divided at each rate-cut decision: the easing moves were supported by the four external council members versus the president and the two vice-presidents. Pro-rate-cut arguments were primarily based on Hungary's weak economic performance, weak demand conditions and the view that inflation had been boosted by temporary upward shifts, while contra-arguments highlighted inflationary risks that may prevent driving CPI back to the 3% target as well as highlighting financial market / financial stability risks amid the lack of credit progress in talks with international lenders (IMF/EU).



Data source: NBH

The EUR/HUF exchange rate started last year's session around historical peaks (at 300-320) but returned to sub-300 at the end of January and remained there for most of H1 2012. The FX market was supported by elevated hopes of a new agreement with the IMF and also by a wave of improvement in global market sentiment. While expectations of a precautionary agreement with the IMF were more and more seriously weakened later in the course of the year, government bonds attracted sufficient demand (with several auctions boosted by additional forint-denominated bond sales) and the forint went on strengthening in H2 2012. With the exception of a selling wave during the last two weeks of the year, the forint fluctuated below EUR/HUF 290 in H2 2012, even visiting sub-280 territories in August. In tandem with the new easing cycle, government bond yields moved down by 175-190bps along the entire yield curve in H2. In addition, the stock of Hungarian (forint-denominated) government bonds owned by foreign entities rose by nearly 32% in 2012 to reach beyond HUF 5000 by the end of the year. In tandem with the forint's appreciation and the divergence of the EUR/CHF pair from the SNB's defence line of 1.20, the CHF/HUF cross rate also showed a relative appreciation of the forint in H1 2012, while the second half of the year delivered a mostly range-bound flat market trend at CHF/HUF 230-237. (Most risks to the stability of the financial intermediary system still stem from the CHF/HUF rate due to FX-based mortgage loans, but risks have been decreased with the introduction of a system of exchange-rate fixing for repayments up to 2017).



Data source: Bloomberg

6. Changes in the banking environment

The main challenges for the Hungarian banking sector in 2012 were

- deteriorating external environment as a result of the protracted euro area sovereign debt crisis;
- the economic outlook of Hungary is deteriorating further;
- government actions and high level of NPL portfolio have a significant negative effect on the profitability of the Hungarian banks;
- high ratio of non-performing loans due to the deterioration of corporate and household portfolio quality, as a consequence of the continued recession;
- dynamic outflow of external funds of the banking sector continued, however banking sector liquidity improved parallel to financial markets.

As a result of the deepening debt crisis of EMU periphery the chance of a new financial crisis and a global recession increased. Due to the crisis banks are more prudent in their lending practices, their risk appetite decreased. At the same time, due to decreasing corporate investments and consumer spending, the demand for new loan financing remained very low. As a consequence the turnaround in the banking sector's lending activity in both retail and corporate segments is delayed further, contributing to a slower-than-expected economic recovery in Hungary.

Current credit conditions, particularly in corporate lending may have effect on credit contraction. Credit supply constraints are driven primarily ability to borrow, general contraction of investments to the country to observed. As corporate lending and household lending are also driven predominantly by demand factors, especially on the post crises risk appetite of the banking sector. The state interest rate subsidy scheme reduces the initial interest costs markedly (to 8-9 per cent), which may boost credit demand.

The biggest challenge of the domestic financial intermediary system is to manage the deteriorating portfolio quality. New defaults weigh on profitability through loan loss provisioning. High NPL ratio reduces itself willingness to lend, deteriorates liquidity, increases maturity mismatch and diverts funds from lending.

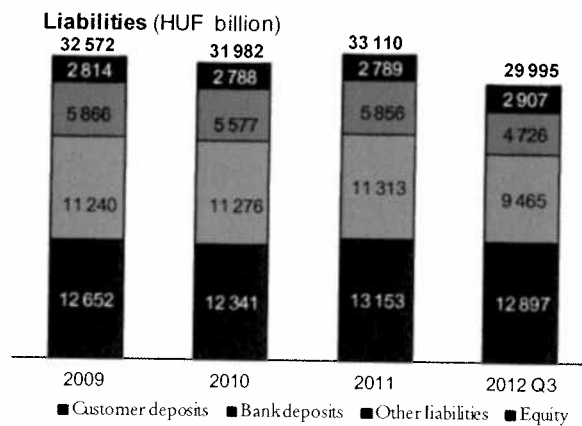
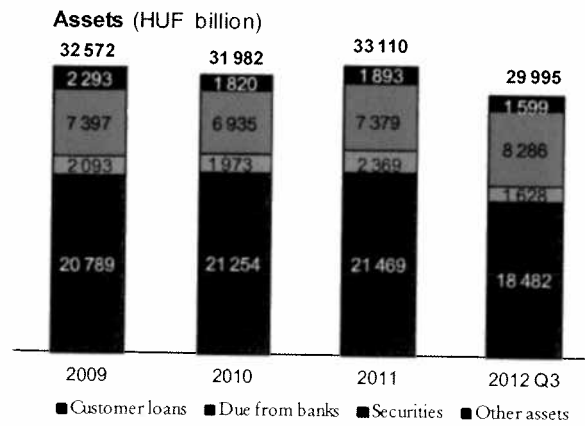
Total assets and liabilities

Based on the most recent available figures (as of Sept 2012) the bank sector's overall total assets decreased by 9.4% to HUF 29,995 billion compared to December 2011, due to the decrease of the loan portfolio.

The gross loan portfolio decreased by 13.9% (HUF 2,987 billion) compared to December 2011 (-8.7% excluding the foreign exchange effect). Early FX mortgage repayment had a significant part within the contraction; however the lending capacity of Hungarian banks remained under pressure also because of liquidity constraints on the market and due to low profitability. While Hungarian banking sector shows a continuous decrease in customer loans, lending in other countries of the region are improving (Poland, Czech Republic and Slovakia) or at least stagnating (Romania, Bulgaria).

Loans to households decreased continuously during the year by 15.4% (excluding FX effect: 10.5%) as new disbursement is significantly lower than the maturing volumes, and early mortgage repayment transactions also had a negative impact on retail loan volume. New mortgage disbursements in January and February 2012 showed some increase, due to the refinancing connected to the early mortgage repayment, but excluding it the demand for new loans remained at a very low level during the year. The sector is still characterised by high volume of foreign currency loans (61.1% as of Sept, 2012).

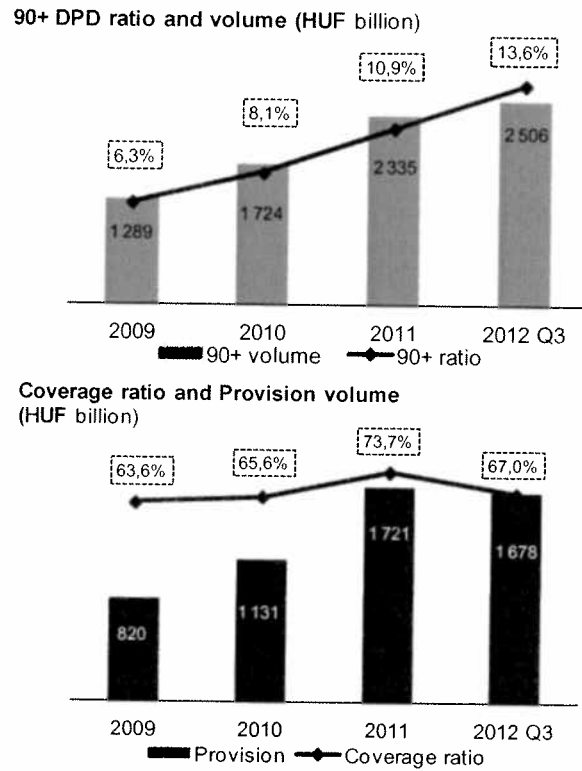
The volume of deposits from customers decreased by 1.9% compared to the end of 2011, amounted to HUF 12,897 billion at the end of September 2012. Both retail and corporate customers contributed to the decrease of 2012, corporate deposit decreased by 4.6%, retail deposit by 3.2%, while other deposits increased by 6.2% compared to December 2011. At the same time the net asset value of investment funds increased by 1.5% (HUF 43 billion) compared to the end of last year and totaled to HUF 3,029 billion.



Data source: NBH, HAS

Credit quality

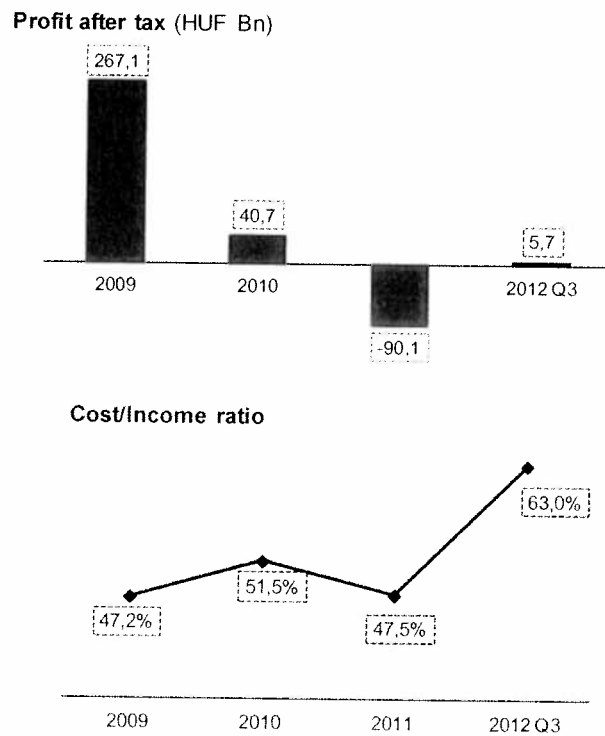
Portfolio quality deterioration continued in 2012, 90+ past due ratio rose by 2.7% points and reached 13.6% by Sept 2012. Despite significant new provisions the coverage ratio (Loan loss provisions / 90+ PD) decreased by 6.7%-points to 67.0%. Volume of corporate loans with more than 90 days past due within total loan showed an increase of 4.0%-points and was 18.6% at the end of September 2012. The retail segment's portfolio quality continued to deteriorate as well; it grew by 2.7% points to 15.7% as of Q3 2012.



Data source: HFSA

Profitability

The profitability of the banking sector further decreased in 2012 Q3 compared to the same period of last year. Profit after tax in local Gap totaled to HUF 5.7 billion (HUF 77 billion in 2011 Q3). Revenue contraction exceeded the cost saving capability of the sector, as a consequence Cost /Income ratio increased to 63% as of Q3 2012. In addition the level of new provisions is still high due to the deterioration of loan portfolio.



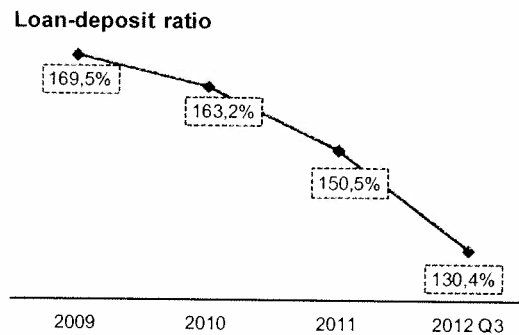
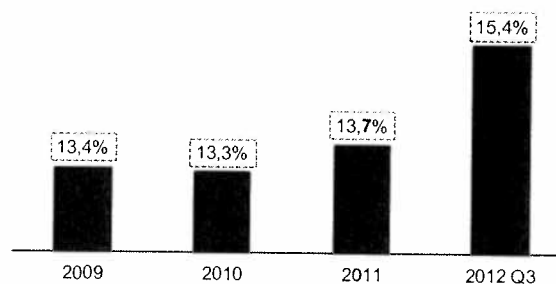
Data source: NBH, HAS

Liquidity

The amount of securities increased by HUF 907 billion (+12.3%) primarily as a result of the significant increase in the volume of NBH bonds in 2012.

In overall the sector's loan-to-deposit ratio (net customer loan / customer deposits) improved from 150.5% as of December 2011 to 130.4% by September 2012 which is primarily due to the decrease in the customer loan portfolio.

The new liquidity measures by the Hungarian National Bank introduced in 2011 also contributed to the improving liquidity. The balance sheet coverage ratio (Liquid Assets / Total Assets) should be kept over 10%, while the limit for deposit coverage ratio (Liquid Assets / Customer Deposits) is 20%.

**Capital Adequacy Ratio (%)**

Data source: NBH, HAS

Data source: HFSA, Credit institutions operating as joint-stock companies and Special Financial Institutions aggregate figures

Capital

Despite the lower level of profitability the capital position of the banking sector is still adequate. Capital Adequacy Ratio increased by 1.7% to 15.4% as of September 2012 due to the capital increases in several banks.

Capital injections by parent banks, steady deleveraging and the appreciation of the Forint resulted in higher capital adequacy ratio, despite persistently high risk costs and fiscal burdens on the banking sector.

7. Government Actions

Sector Burdens

The Hungarian banking sector has been through several government actions during the previous years.

- **Extraordinary bank tax**

The extraordinary bank tax of almost HUF 200 billion per year for the whole banking sector has remained in place in 2012. The tax burden is well in excess of those levied in other countries of the European Union and has led to deterioration in the profits of banking sector players, in addition to harming their growth prospects. The extraordinary bank tax has also significantly damaged the banking sector's ability to create return on equity and to support the real economy through its lending activities, thereby making the sector less competitive in a regional context.

- **Transaction duty**

The banking sector's fiscal burdens increased due to the new transaction tax. The Transaction Duty Act came into effect from 1 January 2013. The transaction duty rate is 0.2% of the transaction amount, except cash withdrawal transactions, where 0.3%, but capped at HUF 6,000 per transaction. All debit transactions are subject to the duty except for money transfer between the accounts of the same customer.

Home rescue program

The Government adopted numerous new regulations also in 2012 aiming the improvement in the position of households with foreign currency denominated loans.

- **MR3**

Customers with 90 days past due mortgage loans as of 30 September 2011 were eligible for foreign currency loan (EUR, CHF, JPY) conversion. On conversion the financial institution was required to forgive 25% of the outstanding total exposure amount of the loans. In the compulsory program HUF 23 billion foreign currency loans were converted, the total amount of conversion (including voluntary conversion) was more than HUF 55 billion.

- **NAMA**

Debtors who are socially most in need and unable to repay their mortgage loans may initiate with the National Asset Management Company (NAMA) the purchase of their homes provided as collateral for the mortgage loan. NAMA buys the property at a discounted price and offers a rent-back to the debtor at a preferential rental fee.

- **Buffer Account (Debt servicing at a fixed exchange rate)**

Under this program, the debtor's instalments are reduced for maximum 60 months. During this period the debtors pay their FX mortgage loans instalments at a fix exchange rate (fixed rate: 180 HUF/CHF, 250 HUF/EUR, 2.5 HUF/JPY), while the difference of the current exchange rate and the fixed rate will be paid after the grace period. The FX rate difference on capital part is worn by the debtor, while the FX difference on interest is shared equally between the loan provider bank and the state. By the end of November more than 105 thousand debtors (23.3% of the eligible customers) entered the program (Source: HFSA).

II. Business strategy and priorities

Throughout 2012, CIB Bank, in conjunction with its affiliates, has continued to execute its strategy, the key elements of which include organization development and business methodology implementation to ensure long-term sustainable growth and respond to the changing business environment. This approach is based on group-based operations, with all their inherent synergies, and a segment-based business model.

CIB offers numerous channels to customers for providing direct feedback, and mid-term plans are focused on ensuring that the Group becomes the primary financial services provider for customers by providing the best overall value proposition in the market. In line with the above strategy, CIB also aims to adopt a coordinated, reasoned and focused approach in fine-tuning its business model. Key elements of this approach include simplification of banking processes and enhancement of customer satisfaction.

With that said, CIB Group strives to distinguish itself from competitors in all segments by adopting high-quality banking processes and offering service excellence to customers. The Group has continued to execute its "New Bank" program throughout 2012. Key elements of the program include development of commercial capabilities; achieving operational excellence; Basel II; Workout and problem assets management; excellence in finances; excellence in IT; excellence in human resources management; responsible lending compliance and regulatory compliance.

The position of the Group is being solid in the corporate area, for CIB Group a retail and SME segments continue to be key business areas for growth. A major step was the introduction of a dedicated network of contacts for micro enterprises in our branch network throughout Hungary at the end of 2012. To secure the bank's future revenues and maintain its market position, commercial capability enhancement will continue to be a focus area in the years to come. CIB places extra focus on the development of its retail business, and, accordingly, it aims to become a primary retail bank for its customers. This goes hand in hand with the ability to further improve deposit collection efficiency and provide high-quality asset management services. On the lending side, in addition to maintaining its major position in the market, the bank aims to develop mortgage and loan products for the retail segment that give a boost to house renewal projects. CIB Group continues to improve its bank assurance franchise through which the bank diversifies its service portfolio with a full range of insurance products.

The second priority in CIB's mid-term strategy lies in the financing of the real economy and consequently the further development of its products and services for SME and Micro enterprise sectors. As a start CIB developed a dedicated SME network in its main branches through which the bank wishes to further promote its complex banking and leasing services. Apart from corporate loans and leasing services CIB Bank provides other methods of financing available for enterprises e.g. through its factoring business line.

While the above sectors are currently its main areas of focus, CIB has set out new goals to maintain the performance of its large corporate business line. During the coming years CIB will leverage the synergies inherent in its ownership by Intesa Sanpaolo, thereby increasing its presence in the multinational sector. The main rationale is to operate a uniformed and therefore transparent and cost-effective service structure. Consequently CIB is one of the first banks in Hungary, aimed at improving its capabilities at serving multinational companies in the areas of cash management and trade financing. Beyond these objectives, boosting the effectiveness of customer relationship management, increasing corporate deposit ratio and deepening cross-selling activities are also a priority.

In order to help ensure the quality of the Group's loan portfolio, the Group had formerly set up a special non-performing loan Recovery unit. This unit is to ensure a solid basis to maximize recovery originating from non-performing assets of Group portfolio. Developing the Recovery unit, CIB aims to further develop its recovery processes and capabilities that will help to protect the value of the balance sheet and maintain a healthy balance between growth and sustainable loss rates in order to effectively manage the overall stability of the institution.

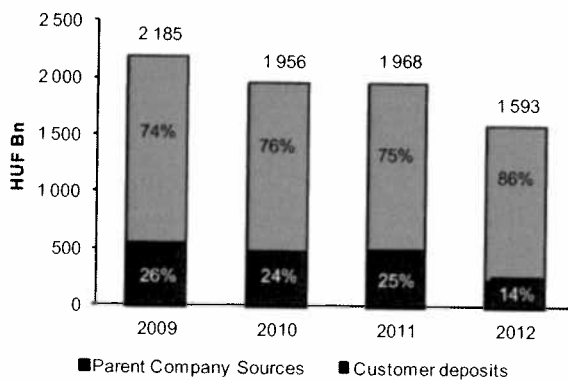
III. Strengths and potential risks of CIB Group

Main strengths

1. Solid liquidity position

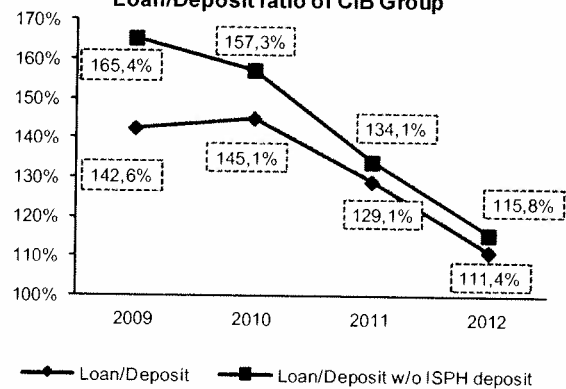
CIB Group has a strong liquidity position as the parent company has ensured a consistent commitment towards CIB's funding over the past years. The high degree dependency on Intesa Sanpaolo has begun to decrease over the past years as CIB has focused hard on enhancing its self-funding capacity. As a consequence the share of Intesa Sanpaolo funding within the total deposit fell from 26% as of December 2009 to 14% as of December 2012. Efforts in the previous years to increase the customer deposit base and the deleveraging have improved the loan-to-deposit ratio of the CIB Group from 165.4% in December 2009 to 115.8% in December 2012.

Parent Company Sources and Customer Deposits



Data source: CIB Group, IFRS

Loan/Deposit ratio of CIB Group

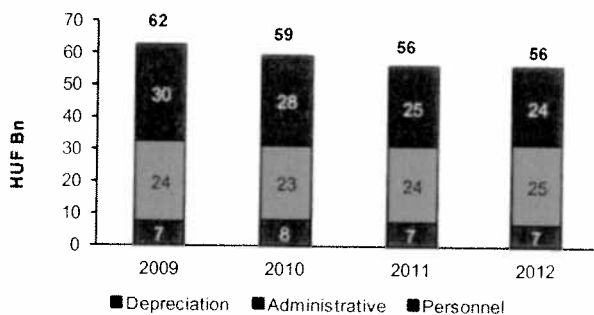


Data source: CIB Group, IFRS

2. Cost efficiency

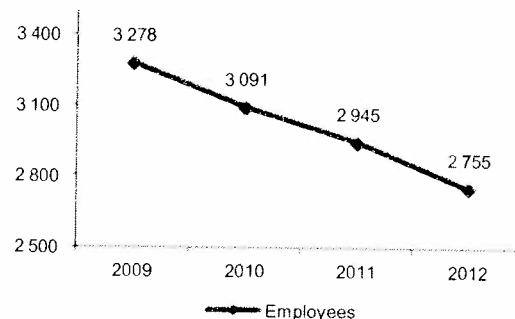
The Group has initiated and begun the execution of a wide-ranging cost management programs that resulted 16% decrease in staff number compared to 2009 and lower operating costs. To mitigate the consequences of worsening credit quality CIB Group created a group-wide recovery platform and improved the collection and restructuring process. This led to significant additional expenses, which were necessary to improve overall recovery rate on NILs. Overall cost savings reached 10.6% compared to 2009, despite the additional workout expenses.

Operating Expenses



Data source: CIB Group, IFRS

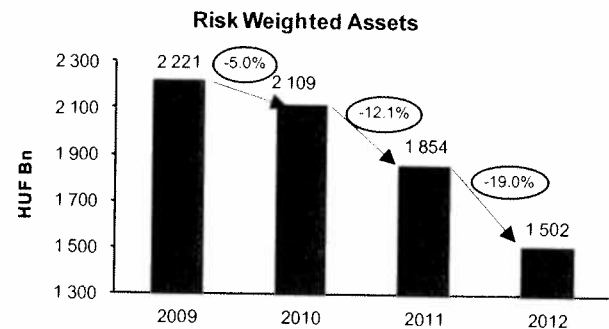
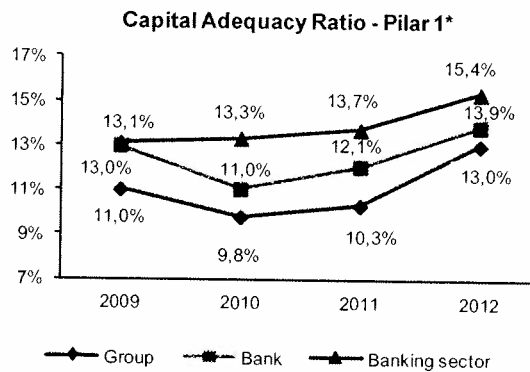
Staff number



Data source: CIB Group, IFRS

3. Capital adequacy

The capital adequacy ratio of CIB Group under Tier 1 is higher than the regulatory minimum of 8% and totaled 13.0% at the end of December 2012. To offset the losses CIB's owner increased the Group's equity by HUF 101.7 billion in 2012. The capital adequacy ratio of the Bank is 13.9% under Tier 1 being slightly under the sector's average. Further actions to maintain stable capital adequacy still remained a top priority for the Group.



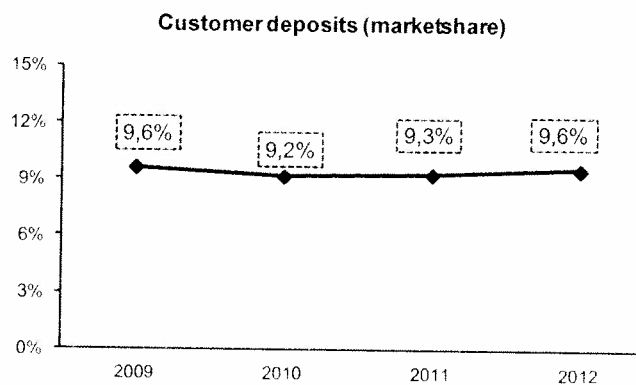
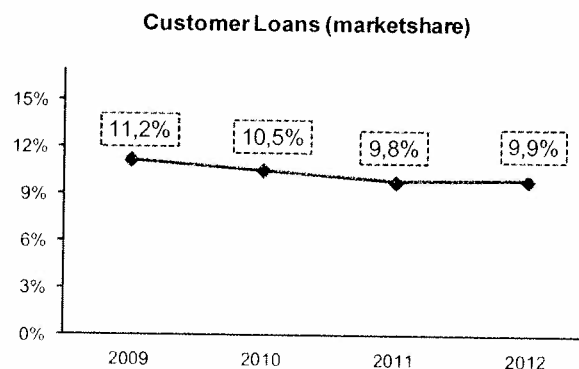
* September 2012 figure for the Banking sector

Data source: HFSA, CIB Group, HAS

Data source: HFSA, CIB Group, HAS. Solvency capital / Risk Weighted Assets

4. Strong market position

CIB Group has a solid client base across the country in all market segments including retail, local corporate, SME and micro businesses through its banking and leasing network. The Group is one of the largest players in corporate lending where it had 14.0% market share at the end of December 2012 and in the retail deposits market (10.1% share in December 2012). Its customer base totaled to almost 640,000 customers by the end of December 2012.



Data source: HFSA, CIB Group, HAS

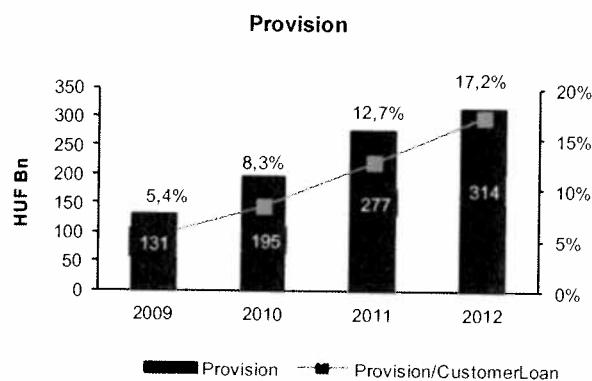
5. Clearly Defined Organizational Structure & Strong Governance

CIB Group has clearly defined organizational structure and strong governance model to ensure transparency, accountability and integrity of its operations. The Group's organizational structure consists of business units, control and support units to enable efficient management across all of the Group's entities. Key executive decision making is further enhanced by operational committees that decide and review spectrum of matters concerning commercial risk assumption, liquidity, distressed asset management, legal, regulatory and compliance related subjects. Furthermore operational management is enhanced by set of controls and decision making mechanisms concerning Board of Directors, Supervisory Board and Audit Committee. To comply with new local and EU-based regulatory frameworks the Group also established Compensation committee consisting of non-executive Board Members.

Potential risks

1. Credit risk

The effects of the unfavourable economic environment have negatively impacted asset quality across all segments – and the related cost of risk. The Group applied prudent provisioning policy so overall provision volumes have cumulatively increased by more than HUF 180 billion during the three years. The provisions-to-customer loans ratio increased from 5.4% to 17.2% by December 2012 from December 2009.



Data source: CIB Group, IFRS

2. Interest income and expenses

Net Interest Income of the Group dropped by 35% compared to the same period of last year. Low demand for new financing over the past years caused the continuous erosion of the Group's customer loan portfolio. This together with the increasing proportion of Non Performing Loans resulted in a drop of interest income. On the liabilities side bank deposits became more expensive driven by increasing CDS prices that led to the increase of interest expenses.

3. Foreign currency exchange and liquidity risk

Foreign currency loans make up almost 72% of the total loan portfolio while foreign currency deposits (including issued securities) represent 25% of total deposits that indicates a significant foreign exchange mismatch in CIB Group's balance sheet. Despite the fact that from the beginning of 2009 the Bank ceased the disbursement of CHF loans, CIB Group still depends on the swap markets that represent an extra risk in case of a serious liquidity shock. However the bank receives continuous support through credit line and swap facilities from its parent company and more than 87% of its swap book is medium term.

4. Repossessed collateral risk

To minimise credit losses the Group started the repossession of real estate collaterals behind non performing loans in 2009. By the end of December 2012 the Group had a repossessed real estate portfolio of HUF 115.7 billion, which could potentially lead to impairments if the decrease of real-estate prices continues.

5. Regulatory environment

Home rescue program

The Government adopted numerous new regulations during 2011 at aiming the improvement in the position of households with foreign currency denominated loans. Although the main part of the program was closed in 2012 (early repayment at preferential rate and 25% haircut on non-performing mortgage portfolio), the availability of the **buffer account** construction (debt servicing at a fixed exchange rate being lower than current market rates for 5 years) was lengthened.

Tax burdens

The extraordinary **banking sector tax** was expected to be halved in 2013, however due to the government efforts to keep the budget deficit under control the tax was extended at their original amount to indefinite period of time.

The new **transactional duty** came into effect in 2013 and will cause additional tax burden.

6. Slow market recovery in Hungary

The European and global economic recovery turned out to be slower than expected. Hungary is an open, export-driven economy that depends largely on the strength and stability of demand from its main trading partners and this may affect customer demand for financial services to a great extent. Domestic demand is likely to decrease further, as a result of which the Hungarian banking sector will continue to operate in a very weak economic environment in the coming future.

As Hungary depends on the external financial markets to a great extent the sovereign crisis in the EMU and the unusual economic measures of the government could lead again to a significant jump of CDS prices, increased swap costs and deteriorating local currency that would affect the funding cost of the banking sector negatively.

IV. Outlook for the Bank Group

No improvement is foreseen for 2013 as the asset quality is expected to deteriorate further, due to tentative economic recovery and material exposure to troubled commercial real estate / construction sector and foreign currency denominated mortgages. However deterioration in the retail book could subside somewhat if government-sponsored aid schemes for households prove successful. Low level of demand for financing and the lengthened banking sector tax will also effect the Group negatively.

1. No recovery in banking sector

The Hungarian economy is expected stagnate in 2013, due to the vulnerability of the country's economy. Demand for new loans will remain at a low level as investments and retail consumption are still decreasing. The residential real estate market will be under pressure in the future that also deteriorates business environment of the retail mortgage market and negatively influences the banking sectors' risk appetite in this field. The commercial real-estate market will suffer from the excess capacities that were built in the pre-crisis years, which makes the banks extremely cautious in financing new real-estate projects. The leasing market, where CIB is one of the largest players, was strongly affected by the crisis, due to both the shrinking of the market and the deterioration in portfolio quality. The new disbursement of the sector in 2012 was 0.5% below the level of the previous year its level had already been severely affected by the crisis and amounted to only HUF 350 billion.

2. Profitability remains under pressure

Profitability of the Hungarian banking sector will remain under pressure due to shrinking loan portfolio, credit quality and taxation related issues. The high volume of non-performing loan portfolio will significantly affect the profitability of the banks including CIB through further impairments, lower income generation and increased costs of work-out activities.

The decrease in the loan portfolio and the profitability of the banking sector may lead the Bank to impose further efficiency improving measures.

The new transaction duty, which came into effect on 1 January 2013, exerts additional burden on the banking system and may cause a decrease in customer transaction volume, negatively affecting the transactional revenue of the Bank. In addition to the new tax, the extraordinary banking sector tax that was expected to be halved from 2013 will be in effect in its original amount.

V. Evaluation on the performance of CIB Group including net assets, financial and earning position ⁽¹⁾

Assets

The balance sheet total of CIB Group amounted to HUF 2,119 billion (-16.0%) as of December 2012. The lower balance was primarily a consequence of shrinking customer loan portfolio.

Customer Loans

At the end of December, 2012 CIB Group's consolidated gross loan portfolio was HUF 1,832 billion (-15.9%; -11.7% fx adjusted). Within the total portfolio the proportion of retail loans (mortgage, car financing and others) reached 32.4% by the end of December 2012, negatively affected by the fixed rate mortgage conversion, while real estate financing accounted for 21.5% (-1.1%) of the portfolio. The share of large corporate and SME loans increased slightly during the current year. Demand for new financing was low through the whole period although retail new disbursements increased by more than 88% (supported by the refinancing of fixed rate mortgage conversion deals, without this effect no improvement can be seen) and lease financing could also show some improvement compared to the very low levels of the previous years. Sale of non-performing loans reduced the customer loans balance by almost HUF 50 billion.

Loan portfolio quality

In line with the situation on the Hungarian banking market the credit quality of CIB Group's loan portfolio also deteriorated. The share of 90-days past due loans increased by 3.8% points to 25.1%. The most notable increase occurred in the retail segment, where the share of 90-days past-due portfolio rose by 5.2% points compared to December 2011 and reached 23.6% by the end of December 2012, negatively affected by fixed rate mortgage conversion that lowered the performing loan portfolio by HUF 125 billion. In case of real estate finance the worsening of the portfolio continued in line with the crisis of the sector and the share of 90-days past due portfolio reached 26.9% (+3.4%) by the end of 2012. During the year of 2012 CIB provisioned HUF 128 billion to cover potential losses from non performing loans.

Securities

The Group held securities portfolio of HUF 261 billion by December 2012 (+65%) of which trading portfolio amounted to HUF 26.3 billion; available-for-sale portfolio reached HUF 228.4 billion, while held to maturity portfolio was HUF 5.7 billion. The majority of the security portfolio (99.3% of total securities held) consisted of Hungarian government bonds. The Group also holds municipality bonds amounting to HUF 50 billion that are classified as customer loan.

Repossessed properties, Tangible and Intangible Assets

As part of the recovery strategy CIB Group continued to repossess real-estates in 2012 that previously served as collateral for non-performing loan. As a result of this the value of fixed and intangible assets reached HUF 157.1 billion of which the repossessed properties was HUF 115.7 billion.

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 141 billion (-34.9%) by the end of December of which 11% was placed within Intesa Sanpaolo Group.

⁽¹⁾ Compared to December 2011 in case of IFRS Balance Sheet and to the same period of 2011 in case of IFRS P&L figures

Liabilities

Customer Deposits

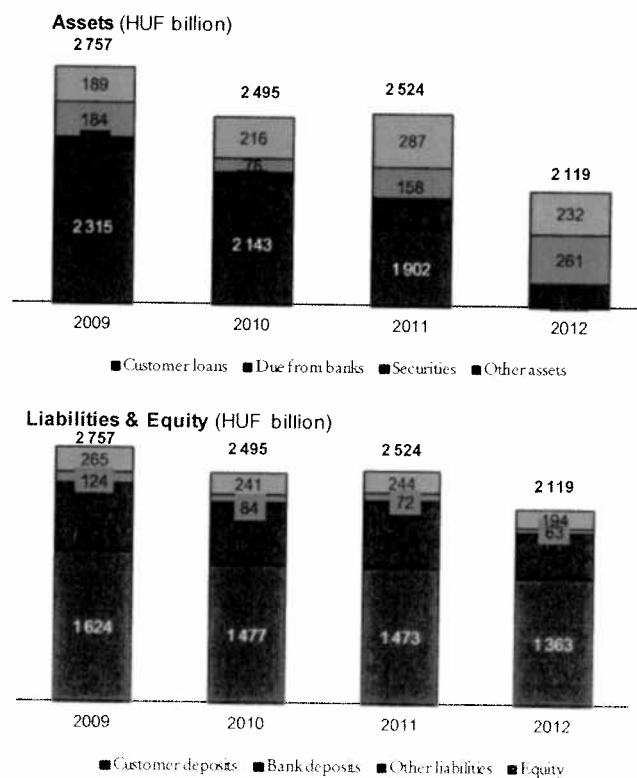
Total customer deposits, including issued bonds, amounted to HUF 1,363 billion (-7.5%) by the end of December 2012. The balance was negatively affected by the withdrawal of some large corporate deposit and the fixed rate mortgage conversion, which significantly eroded consumer savings. Consumer funds (including issued bonds and investment funds) were HUF 870 billion at the end of December 2012 (+1.5%) and their share within total customer deposits amounted to 63.8%.

Deposit from banks

Interbank funds – including subordinated deposits – totaled to HUF 499 billion (-32.1%) as of December 2012. Most of the funds came from the Group's parent company, accounting for almost 60% of the total of interbank deposits. Medium term lines from ISP amounted to HUF 270 billion (-37%), as the shrinking loan portfolio made the repayment of some ISP financing possible. Short term loans from ISP decreased to HUF 79 billion (-43.3%) as the improving liquidity position of the Group made possible the repayment of short term ISP funds.

Equity

CIB Group's total shareholders' equity was HUF 194.4 billion (-20.4%) following the equity increase of HUF 101.7 billion received from the parent company during 2012 to offset the losses of the current year.



Data source: CIB Group, IFRS

Profit and loss

The Group closed the year of 2012 with a loss of HUF 152.9 billion, due to the effects of deteriorating external environment, high ratio of non-performing loan portfolio and increasing funding cost and the extraordinary bank tax.

Revenues

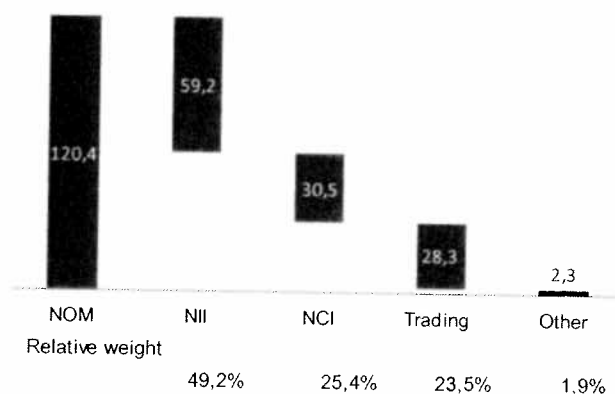
Total revenue of CIB Group amounted to HUF 83.2 billion (-30.9%), out of which Net Interest Income was HUF 35.4 billion (-40.2%), Net Commission Income was HUF 26.6 billion (-13.0%), while Trading Income totalled to HUF 18.3 billion (-35.3%).

Net interest income decrease is partly a result of volume drop as a consequence of mortgage conversion and portfolio run-off, and partially due to lower spreads because of substantially higher funding cost and increase of assets non-producing interest due to deterioration of the portfolio. Global spread (Net Interest Margin / Average Total Assets) of 1.5% decreased by 83 bps compared to the same period of last year.

Net commission income decrease was a consequence of lower fees on customer transaction activity (current account transactions, cash management services, brokerage and insurance fees).

Trading lower income was the consequence of derivative portfolio revaluation losses, connected to basis swap deals, as decreasing swap costs in the second half of the year resulted in the drop of the fair value of these deals.

Breakdown of revenues - 2011



Breakdown of revenues - 2012



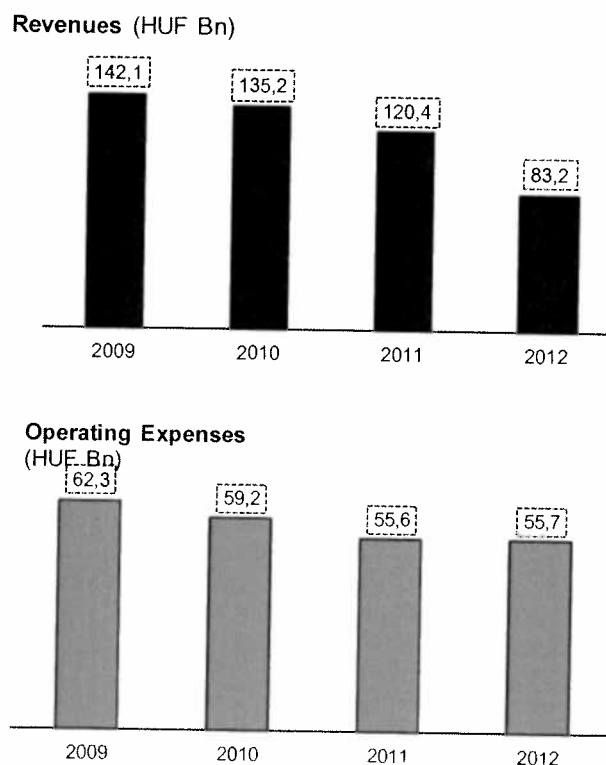
Data source: CIB Group, IFRS

Operating Expenses

Total operating expenses of the Group amounted to HUF 56 billion in 2012 without the extraordinary bank tax. The net of operating expenses without miscellaneous tax and fee related expenses decreased compared to the same period last year. Ordinary expenses kept on shrinking as CIB's management implemented a cost-reduction program in the past years. As a result personnel expenses decreased by 2.3% in 2012 in line with the lower staff number (by 190 persons), while ordinary administrative expenses dropped by 7.5% compared to the previous year. On the other hand higher cost of loan recovery activity caused 47% increase in workout expenses that almost eliminated the savings of ordinary expenses. One-off expenses connected to branch closures also contributed to the increase of administrative expenses. The cost-to-income ratio rose to 66.9% in 2012 (20.6% points higher than in 2011) as cost reduction initiatives could not offset the effect of declining revenues.

Extraordinary Bank Tax

Total extraordinary bank tax of the Group for financial year 2012 amounted to HUF 12 billion. On the various government mortgages rescue programs the Bank could recover HUF 569 million.



Data source: CIB Group, IFRS

Allowances and provisions

The amount of new allowances and provisions reached HUF 155.6 billion compared to HUF 105.7 billion in 2011. Out of the total, loan loss provisions reached HUF 128 billion, more than half of the new provisioning came from the project finance segment, due to deterioration of portfolio quality in line with the extended recession and its impact on valuations across many asset classes. On the other hand new provisions in the retail business decreased compared to last year by 48% as year 2011 was negatively impacted by mortgage conversion losses. The cost of credit (Provisioning / Loan volume) amounted to an extraordinary 10.2% in 2012.

In addition to loan loss provisions the Group recorded HUF 25 billion impairment on its repossessed assets portfolio, that is also a legacy of the project financing activities of the pre-crisis period. The impairment was necessary as appetite for Hungarian real estate, especially larger development assets with no or limited rental income, from domestic or foreign buyers remains limited and will remain so in the medium term.

VI. Operations of the subsidiaries in 2012¹⁾

As part of the efficiency improvement program the Group started the simplification of its company structure in 2010 that continued in 2011 and 2012 resulting in a reduced number of subsidiaries.

The Group structure was the following at each 31 December:

(number of companies)	2012	2011
Companies for providing services and products to Group's customers	7	7
Companies responsible for the management of repossessed assets	4	4
Companies responsible for the management of Group's operating premises	0	1
Total	11	12

1. Companies for providing services and products to Group's customers

- **CIB Leasing Zrt.**

The business profile of the company, founded in 2000, is closed-end financial lease – primarily related to motor vehicles – and to provide financing to the purchase of vehicles and machinery. At the end of 2010 CIB Credit Zrt, CIB Property Zrt, and CIB Residential Property Zrt merged into CIB Leasing Zrt making the company the only entity in CIB Group providing financial leasing services. The operation of the company was significantly affected by the performance of the Leasing market. New volume on the market decreased by 0.5% compared to 2011, and amounted to HUF 350 billion in 2012. With a market share of 10.7% (as of December 2012) CIB Leasing subsidiaries were the largest players on the market. The total assets of the company in December 2012 were HUF 253 billion, significantly affected by the decreasing customer loan portfolio. Net results for the year 2012 was HUF 25.5 billion loss, due to the decrease of net interest income and high provision building.

- **CIB Rent Zrt.**

The company is specialised in operative leasing transactions. The total assets of the company at the end of 2012 were HUF 14.3 billion, while net profit reached HUF 82 million.

- **CIB Real Estate Leasing Zrt.**

The company started its operation in May 2001 with business activity of financial leasing of real estates. At the end of 2012 total assets of CIB Real Estate Leasing Zrt. amounted to HUF 10 billion, while its net result was a loss of HUF 323 million.

- **CIB Leasing Holding Kft.**

The company was established by a demerger from CIB Rent Zrt. in 2010, executes the owner rights in CIB Leasing Zrt and has no other activity. Total assets of the company reached HUF 25.1 billion by the end of the year, which includes only its shareholding in CIB Leasing Zrt, the company had a loss of HUF 12 billion in 2012, due to HUF 11.5 billion impairment of its investments

- **CIB Insurance Broker Kft.**

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2012 total assets of CIB Insurance Broker Kft. amounted to HUF 1.1 billion, while its net result was HUF 251 million.

¹⁾ Balance Sheet and P&L figures are based on the HAS stand alone financial statements

- **CIB Investment Fund Management Zrt.**

The objective of the company is to offer flexible and low cost funds that invest on domestic and international financial markets for its clients and for the customers of CIB Bank Ltd. The company started its first investment fund in 1997 and by widening its product range continuously it built up the CIB Investment Fund family, which includes currently 19 funds with significantly different investment policy. Net asset value of the investment funds reached HUF 172 billion by end of 2012. The company closed year 2012 with a profit of HUF 578 million. In January 2013 CIB Investment Fund Management Zrt was sold to Eurizon Capital (a member of ISP Group).

- **CIB Factor Zrt.**

The company became part of CIB Group in 2004. Its main activity is the factoring of receivables and the cross-selling of products with the SME division of the Bank. At the end of 2012 total assets of the company reached HUF 15.8 billion, while net results amounted to HUF 227 million.

2. Companies responsible for the management of repossessed assets

- **Recovery Ltd.**

Recovery Ltd. (previously Expert Ltd.) is the main vehicle for the repossession of real estates. On 31 December 2011 CIB REAL Zrt. (a company dealing with the management of Group's operating premises) merged with Recovery Kft. The sole legal successor of the merged entities is Recovery Zrt. Total assets of the company closed at HUF 134.5 billion, because of continued asset purchases. Due to financing cost of the real estate portfolio and because of some impairment connected to the previously repossessed real estates, the company closed the year with a loss of HUF 27.1 billion.

- **CIB Car Ltd.**

The company was founded in year 2006, to deal with vehicle trading. Total assets at the end of 2012 were HUF 0.8 billion, while the annual result was a profit of HUF 46 million.

- **CIL MNM Ltd.**

CIL MNM Ltd. was established in 2006. Its main activity is to operate and let real-estates. Total assets and net results of the company in 2012 were immaterial.

- **Brivon Hungary Ltd.**

Brivon Hungary Ltd. was established in 2009 as an SPV, who holds a significant share in a residential project as the only asset. Total assets of the company were HUF 18.3 billion, while net result for 2012 amounted to HUF 2.7 billion loss, due to the interest expenses paid to finance its assets and because of the impairment recorded on the real estate.

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

The Group sold its investment in CIB Investment Fund Management Ltd on 14 January 2013 within Intesa Sanpaolo Group to Eurizon Capital S.A.

VIII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of financial instruments. The purpose of the HUF 325 billion in cash and cash equivalents is to ensure immediate liquidity above the unencumbered high quality security portfolio. The portfolio of securities held for trading of a value of HUF 26.2 billion, serves several purposes at the same time: these investments (besides serving customers with securities) represent a short-term profit-earning opportunity for the Bank, while also serving as a secondary source of liquidity besides its cash-type assets. The majority of the securities portfolio that totals HUF 234.8 billion is available for sale (AFS), while a lesser proportion of HUF 5.6 billion belongs to the held-to-maturity category. The Group holds a municipality bond portfolio up to HUF 52 billion that is treated as Loans and advances to customers.

The derivative transactions concluded by the Group cover the following derivatives: (1.) FX forward (stock-exchange and OTC) contracts (2.) FX swaps, (3.) FX options, (4.) interest rate swaps and (5.) forward rate agreements. The Group performs such transactions mainly for hedging purposes. In the latter case the primary objective is not to hedge individual transactions (with a few exceptions see below), but to reduce the bank's global FX and interest rate risk position.

IX. Risk-management and hedging policy of the Group

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

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

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

The liquidity policy determines the fundamental principles, goals, and available means of and procedures for liquidity management. Beyond these, it also regulates the permissible extent of liquidity limits, as well as the means and the organisational framework for monitoring them. When elaborating the liquidity strategy, the bank's senior management takes into consideration the likely future development of business volumes, and the cost and other attributes of available funds.

The liquidity crisis policy specifies the procedures to be followed and the range of means that may be employed in an unexpected but possible crisis situation, and the order in which these may be applied depending on the causes and nature of the crisis. In these regulations, the bank also quantifies the maximum acceptable extent of losses based on a stress test that simulates the crisis situation.

The Group applies hedge accounting to some specific assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the Banking Book. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument. The Group in accordance with IFRS and Intesa Sanpaolo Group policies designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). In the case of derivatives that do not qualify for hedge accounting, changes in the fair value of such derivative instrument are recognised immediately in the income statement.

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

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

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

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

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

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

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

Special emphasis is also placed on the management of liquidity and cash-flow risks, due to the high importance of maintaining the Bank's solvency and ensuring the safety of customer deposits at all times. Over the past year, as a result of the crisis that began in 2008, the bank's asset-side activity fell considerably. In the second part of the year, we had considerable superfluous liquidity, which enabled us to repay to the parent bank the funds utilised during the crisis. Also as a result of the crisis, the Group had to contend with the substantially higher costs of using the FX and basis swap market.

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

XI. Research and development

In 2012 the Group had no own research and development and not participated in the financing of any research projects.

In 2011 the Group participated in the following key areas:

- The effect of corporate crediting on innovation and growth;
- International lessons of EUR introduction and its domestic conditions from macro economy and banking sector's point of view;
- Tendency of retail funds types;
- The models of getting out from crisis in the case of major central-European banks

XII. Employment policy of the Group

In 2012, we continued the implementation of our human resources strategy defined in the year before. Through launching key HR initiatives, our aim is to build an organization which functions as a motivated, cooperative, effective and strong community.

Along with the HR initiatives, in 2012 we continued the headcount rationalization process, in terms of cost efficiency. The reduction was implemented in full compliance with the provisions of the Labor Code. We also continued to support the re-employment of our former colleagues through a professional outplacement program in cooperation with an expert service provider, resulting in almost 90% of the participants of the outplacement program being able to find new employment possibilities.

In summary, the Human Resources Division primarily concentrated on the below focus areas in 2012, which are an integral part of the comprehensive cultural development process launched in the Bank Group:

- introducing a new performance management system;
- human capital development through structured career planning and game changing opportunities for talents;
- working out a new reward strategy;
- strengthening employee engagement;
- HR excellence through leading edge solutions and customer satisfaction.

In order to strengthen employee engagement and loyalty, we continued our specific programs, which became the trademark of the Bank Group's overall cultural change process in the second half of the year.

Through our initiatives, in 2012 we worked to make CIB a more attractive workplace, which we can be proud of, and thus build a strong and attractive employer brand which will help us to find and keep talented colleagues in order to achieve our business goals.

With the aim to make our key HR processes more efficient and up-to-date on the one hand, and to improve the quality of HR reporting on the other, we initialized a comprehensive review in 2012. We have produced the new training, recruitment-selection, rewarding and labour policies which are to be approved in 2013.

XIII. Sites of operation

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

XIV. Environmental protection

Considering the nature of our Company's activities, the protection of the environment does not have a significant impact on our financial position. Nevertheless, our Company is consciously striving to reduce its environmental impact, both direct and indirect, to the minimum. The Bank Group made significant efforts again in 2012 to engage its employees in the various environmental programs and energy conservation initiatives that it had launched. In line with the practice of previous years, these initiatives focus on energy efficiency primarily through communication and engagement, while providing a unified framework for all related activities.

At the start of 2012 we expanded our selective waste collection program to include new buildings of ours. The objective of this program is to find a solution for the selective management of waste generated in our buildings by establishing a state-of-the-art waste management system, thus reducing

the quantity of communal waste and improving our energy balance sheet. It is a further goal of the program to motivate colleagues to take responsibility, through intensive communication on selective waste collection.

It is a significant change in terms of our corporate governance that the CIB Group has adopted the environmental sustainability guidelines of the parent company that must be observed in relation to all external and internal events, and it also began the practical implementation of sustainability guidelines on paper use.

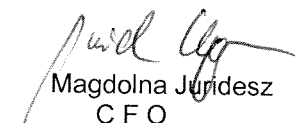
Overall, we are pleased to report that in 2012 we succeeded in significantly reducing both our energy use and our paper consumption.

Budapest, 27 February 2013



Fabrizio Centrone
CEO

Representatives of the credit institution



Magdolna Juridesz
CFO