



**UniCredit Jelzálogbank Zrt.**  
**Unconsolidated Financial Statements**  
**and Independent Auditor's Report**  
**for the year ended 31 December 2009**

Budapest, 2 February 2010

## **UNICREDIT JELZÁLOGBANK Zrt.**

### **Unconsolidated Financial Statements for the year ended 31 December 2009**

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### **Independent Auditor's Report**

To the shareholder of UniCredit Jelzálogbank Zrt.

We have audited the accompanying financial statements of UniCredit Jelzálogbank Zrt. (hereinafter referred to as "the Bank"), which comprise the income statement and statement of financial position as at 31 December 2009, the statements of comprehensive income, 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the UniCredit Jelzálogbank Zrt. as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Budapest, 2 February 2010

KPMG Hungária Kft.

John Varsanyi  
Partner



UNICREDIT JELZÁLOGBANK ZRT.

Unconsolidated balance sheet  
as at 31 December 2009

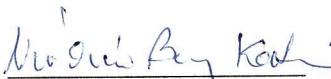
(HUF million)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
<b>Assets</b>			
Available for sale financial assets	11	13,086	12,616
Placements with, and loans and advances to banks	12	69,567	70,389
Loans and advances to customers	13	55,693	58,426
Property, plant and equipment	14	6	6
Intangible assets	15	53	79
Tax assets	10	368	328
Other assets	16	<u>1,332</u>	<u>2,021</u>
<b>Total assets</b>		<b><u>140,105</u></b>	<b><u>143,865</u></b>
<b>Liabilities</b>			
Deposits and loans from banks	17	61,353	63,015
Issued bonds	18	59,583	63,429
Tax liabilities	10	176	24
Other liabilities	19	4,089	4,616
Other provisions	23	<u>3</u>	=
<b>Total liabilities</b>		<b><u>125,204</u></b>	<b><u>131,084</u></b>
<b>Shareholder's Funds</b>			
Share capital	20	3,000	3,000
Capital reserve		783	783
Retained earnings		7,769	6,650
Statutory reserves	21	2,095	1,360
Valuation reserves		(232)	(866)
Net profit for the year		<u>1,486</u>	<u>1,854</u>
<b>Total Shareholder's Funds</b>		<b><u>14,901</u></b>	<b><u>12,781</u></b>
<b>Total Liabilities and Shareholder's Funds</b>		<b><u>140,105</u></b>	<b><u>143,865</u></b>

The accompanying notes (1-31) form an integral part of these financial statements.

Budapest, 2 February 2010

  
Tölli Gabriella  
chief executive officer

  
Novákné Bejczy Katalin  
Member of Board of Directors

**UniCredit Jelzálogbank Zrt.**

1.

UNICREDIT JELZÁLOGBANK ZRT.

Unconsolidated income statement  
as at 31 December 2009

(HUF million)

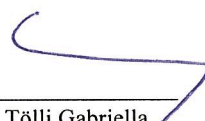
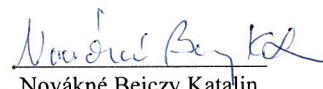
	Note	2009	2008
Interest and similar income	5	10,874	10,562
Interest expense and similar charges	5	(7,099)	(7,026)
<b>Net interest income</b>	5	<b><u>3,775</u></b>	<b><u>3,536</u></b>
Fee and commission income	6	63	69
Fee and commission expense	6	(37)	(23)
<b>Net fee and commission income</b>	6	<b><u>26</u></b>	<b><u>46</u></b>
Dividend income		0	0
Net trading income		1	23
Net gain and loss on other financial instruments		<u>1</u>	<u>0</u>
<b>Operating income</b>		<b><u>3,803</u></b>	<b><u>3,605</u></b>
Impairment and losses on credit products	23	(934)	(163)
<b>Net financial activity result</b>		<b><u>2,869</u></b>	<b><u>3,442</u></b>
Personnel expenses	7	(324)	(539)
General operating expenses	8	(559)	(448)
Other provisions	23	(3)	46
Amortization and impairment on property, plant and equipments	14	(2)	(48)
Amortization and impairment on intangible assets	15	(34)	(62)
Other income /(expenses)	9	<u>0</u>	<u>6</u>
<b>Operating costs</b>		<b><u>(922)</u></b>	<b><u>(1,045)</u></b>
<b>Profit before tax</b>		<b><u>1,947</u></b>	<b><u>2,397</u></b>
Income tax expense	10	(461)	(543)
<b>Net profit for the year</b>		<b><u>1,486</u></b>	<b><u>1,854</u></b>

The accompanying notes (1-31) form an integral part of these financial statements.

Budapest, 2 February 2010



Tólli Gabriella  
chief executive officer

Novákné Bejczy Katalin  
Member of Board of Directors

**UniCredit Jelzálogbank Zrt.**

**1.**

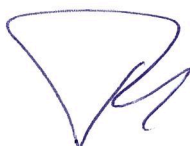
**UNICREDIT JELZÁLOGBANK ZRT.**  
**Unconsolidated statement of comprehensive income**  
**for the year ended 31 December 2009**

(HUF million)

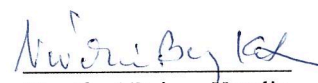
	<u>Note</u>	<u>2009</u>	<u>2008</u>
<b>Net profit for the year</b>		<b><u>1,486</u></b>	<b><u>1,854</u></b>
Movement in fair value reserve (available-for-sale financial assets)		796	(840)
Income tax on fair value reserve		<u>(162)</u>	<u>168</u>
Net movement in fair value reserve		<b><u>634</u></b>	<b><u>(672)</u></b>
<b>Total comprehensive income for the year</b>		<b><u>2,120</u></b>	<b><u>1,182</u></b>

The accompanying notes (1-31) form an integral part of these financial statements.

Budapest, 2 February 2010



  
Tölli Gabriella  
chief executive officer

  
Novákne Bejczy Katalin  
Member of Board of Directors

**UniCredit Jelzálogbank Zrt.**

**1.**

**UNICREDIT JEJZÁLOGBANK ZRT.**

**Unconsolidated statement of changes in Shareholder's equity  
as at 31 December 2009**

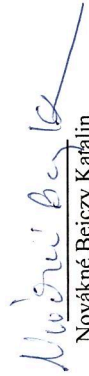
	<u>Ordinary Shares</u>	<u>Capital Reserve</u>	<u>Retained Earnings</u>	<u>Statutory reserves</u>	<u>Fair value reserve</u>	<u>Net profit</u>	<u>Total</u>
<b>Balance 1 January 2008</b>	<b>3,000</b>	<b>783</b>	<b>5,076</b>	<b>1,090</b>	<b>(194)</b>	<b>1,844</b>	<b>11,599</b>
Net profit for the previous year	-	-	1,844	-	-	(1,844)	0
Total comprehensive income for the year	-	-	-	-	(672)	1,854	1,182
Dividend to equity holder	-	-	-	-	-	-	-
Appropriations	-	-	-	-	-	-	-
Transfer from retained earnings	-	-	(270)	270	-	-	0
<b>Balance 31 December 2008</b>	<b>3,000</b>	<b>783</b>	<b>6,650</b>	<b>1,360</b>	<b>(866)</b>	<b>1,854</b>	<b>12,781</b>
Net profit for the previous year	-	-	1,854	-	-	(1,854)	0
Total comprehensive income for the year	-	-	-	-	634	1,486	2,120
Dividend to equity holder	-	-	-	-	-	-	0
Appropriations	-	-	-	-	-	-	-
Transfer from retained earnings	-	-	(735)	735	-	-	0
<b>Balance 31 December 2009</b>	<b>3,000</b>	<b>783</b>	<b>7,769</b>	<b>2,095</b>	<b>(232)</b>	<b>1,486</b>	<b>14,901</b>

(HUF million)

The accompanying notes (1-31) form an integral part of these financial statements.

Budapest, 2 February 2010

  
Tólli Gabriella  
chief executive officer

  
Novákné Bejczy Katalin  
Member of Board of Directors

**UNICREDIT JELZÁLOGBANK ZRT.**

**Unconsolidated statement of cash flows  
for the year ended 31 December 2009**

(HUF million)	<u>Note</u>	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities:</b>			
Profit before tax		<b>1,947</b>	<b>2,397</b>
Items not involving movement of cash:			
Depreciation and amortisation	14, 15	36	111
Scrapped and transferred fixed assets			
Profit on disposal of property, plant and equipment			
Net impairment and losses in credit products	23	935	117
Net loss/(gain) from cashflow hedging assets			
Foreign exchange loss/(gain) on subordinated loans			
Taxation paid	10	(461)	(543)
<i>Cash flows from operating profits before changes in operating assets and liabilities</i>		<b>2,457</b>	<b>2,082</b>
Change in financial assets held for trading			
Change in tax assets	10	(202)	(99)
Change in other assets		688	(659)
Change in tax liabilities	10	152	8
Change in other liabilities	19	(528)	(493)
Change in unrestricted nostros with Central Bank			
Change in loans and advances to customers	13	1,802	(13,565)
Change in deposits with other banks	12	822	(17,876)
Change in deposits from customers			
Change in deposits from other banks		(1,662)	36,965
Change in financial liabilities held for trading			
<i>Net cash from operating activities</i>		<b>(1,072)</b>	<b>4,281</b>
<b>Cash flows from investing activities:</b>			
			1,300
Proceed on sale of property, plant and equipment		5	0
Proceed on sale of intangible assets			
Addition of property, plant and equipment	14	(7)	0
Addition of intangible assets	15	(7)	(49)
Change in equity investments			
Change in held to maturity investments			
Change in available for sale financial assets	11	326	(326)
<i>Net cash used in investing activities</i>		<b>317</b>	<b>(375)</b>
<b>Cash flows from financing activities:</b>			
Change in issued mortgage bonds		(3,846)	(5,988)
<i>Net cash from financing activities</i>			
<b>Net Increase in cash</b>			
Cash at the beginning of the year		<u>0</u>	<u>0</u>
Cash at the end of the year		<u>0</u>	<u>0</u>



# UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **1. General**

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UniCredit Jelzálogbank Zrt. (“the Bank”) is a mortgage bank which was established in Hungary on June 1, 1998. The Bank’s ultimate holding company is Unicredito Italiano Spa (hereafter: “the Group”). The registered office of the Bank is at 1054 Budapest, Szabadság tér 5-6.

The Bank’s operations are regulated by Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds. In accordance with the Act, the Bank may grant loans covered by mortgages on real estate located either in the territory of Hungary or any EEA Member State and issue mortgage bonds. The Bank may not collect deposits from the public.

The Bank’s registered capital consists of 3,000 ordinary shares with a par value of 1,000,000 Hungarian Forint (HUF) per share. As at 31<sup>st</sup> December 2009, UniCredit Bank Hungary Zrt. held 3,000 shares.

Transactions with members of the UniCredit Bank include credit relationships, where the related party is both a borrower and depositor. Such transactions are conducted under substantially the same terms and conditions as are applied to third parties, unless otherwise stated.

The financial statements were authorised by the Supervisory Board on 2 February 2010.

## **2. Significant accounting policies**

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The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **a) Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”), and all applicable interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (“IFRIC”), as adopted by the EU.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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### **b) Basis of preparation**

The financial statements have been prepared on a fair value basis for derivative financial instruments, available-for-sale financial assets, except those for which a reliable measurement of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost, net of accumulated impairment losses (if applicable), or historical cost.

The financial statements are presented in millions of Hungarian Forint ("HUF").

### **c) Comparatives**

Certain items previously reported in the prior years' financial statements have been restated and reclassified to provide consistency for presentation purposes.

### **d) Cash and cash equivalents**

Cash and cash equivalents include nostros with other banks and are carried at cost in the balance sheet.

### **e) Financial instruments**

#### **i. Classification**

*Trading financial assets and financial liabilities* are those that the Bank principally holds for the purpose of short-term profit taking. These include shares, bonds, certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All non-hedge derivatives in a net receivable position (positive fair value), are classified as trading financial assets. All trading derivatives in a net payable position (negative fair value), are classified as trading financial liabilities.

*Loans and receivables* are loans and receivables created by the Bank other than those created with the intention of short-term profit taking. They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables consist of loans and advances to banks and customers, including mortgage rights purchased.

*Held-to-maturity investments* are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale. These include certain debt instruments.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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*Available-for-sale financial assets* are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or trading financial assets. Available-for-sale instruments include certain debt and equity investments.

### **ii. Recognition and de-recognition**

The Bank recognises financial assets and liabilities on trade date. They are initially measured at fair value (except for items not subsequently measured at fair value through profit or loss) plus transaction costs that are directly attributable to its acquisition or issue. From this date any gains and losses arising from changes in fair value of the assets are recognised either in income statement or in equity. All loans and receivables are recognised when funds are advanced to the counterparty.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

### **iii. Measurement**

Financial instruments are measured initially at fair value, including transaction costs that are directly attributable to the acquisition or issue.

Subsequent to initial recognition, all trading financial assets and liabilities and all available-for-sale financial assets are measured at fair value, except that, where no quoted market price exists in an active market and fair value cannot be reliably measured, these are stated at cost (including transaction costs) less impairment.

All non-trading financial assets, loans and receivables and held-to-maturity investments are measured at amortised cost, using the effective interest method, less accumulated impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and are amortised. Financial assets, with the exception of loans which are reviewed quarterly, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indicator of impairment exists, the asset's recoverable amount is estimated.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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### *Fair value measurement principles*

The fair value of financial instruments is based on their quoted price in an active market for that instrument at the balance sheet date, without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available or the market is not active, the fair value of the instrument is estimated using pricing models or discounted cash-flow techniques.

Where discounted cash-flow techniques are used, the estimated future cash-flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at balance sheet date.

The fair value of derivatives that are not exchange-traded are estimated at the amount that the Bank would receive under normal business conditions to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

### *Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of trading financial assets and financial liabilities are recognised in the income statement. Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised in the valuation reserve, in equity. Any permanent impairment loss on available for sale financial assets and hedging net of derivatives is recognised in the income statement.

### **f) Transactions in foreign currency**

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("functional currency"). The accounting records of the Bank are also maintained in this currency, which the HUF.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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### **g) Securities**

Securities can be held for short-term profit taking, available-for-sale or held-to-maturity purposes. The principles governing the recognition and recording of each category of securities are stated in Note 2.e. above.

### **h) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment are reviewed periodically and items which are considered to have no further value are depreciated in full.

### **i) Intangible assets and goodwill**

Intangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Intangible assets are reviewed periodically and items which are considered to have no further value are depreciated in full. There are no intangible assets which have an indefinite useful life.

### **j) Depreciation and amortisation**

Depreciation is charged to write off the cost of all such assets which are to be depreciated to the income statement over their anticipated useful lives. All of the above assets, with the exception of land and assets under construction, are depreciated on a straight line basis. The annual rates of depreciation used are as follows:

	<u>Depreciation Rate</u>
	%
Intangible asset	20
Office equipment	14.5
Motor vehicles	20

### **k) Impairment on non-financial assets**

If there is objective evidence that a non-financial asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e., the present value of future cash flow expected to originate from the asset. Any value adjustment is recognised in the profit and loss.

If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no impairment losses recognised in prior years.

## **2. Significant accounting policies (continued)**

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### **l) Loans and advances to customers**

Loans and advances originated by the Bank and purchased loans that the Bank has the intent and ability to hold to maturity are classified as loans and receivables.

Loans and advances are reported net of impairments for credit losses to reflect the estimated recoverable amounts.

Income for the period on loans and receivables is determined using the effective interest rate method. The effective interest rate is established individually for all loans and receivables. When calculating the effective interest rate, all estimated cash-flows are taken into account including fees, commissions, as well as possible premiums or discounts. Estimated future credit losses are however not included. The result of this calculation is accounted to the income statement.

Purchased independent mortgage rights are also classified as Loans and advances. An independent mortgage right is a type of mortgage, which can be transferred to third person without the assignment of the claim.

### **m) Impairment and losses on credit products**

It is the policy of the Bank to review periodically (at least quarterly) its portfolio of loans and advances to make impairments, where necessary. Impairment is based on an individual assessment of the recoverability of outstanding amounts. Increases and decreases in impairments are charged to the income statement.

Incurred but not reported impairment ("IBNR") is calculated for the performing portfolio, based on the expected loss within one year, taking also into account the loss confirmation period, which ranges from 4 to 6 months according to the type of clients or (in case of the retail segment) products.

### **n) Issued bonds**

The Bank's primary source of funds is generated from issuance of mortgage bonds. Mortgage bonds are secured bonds. The Bank may issue such a bond only if it has sufficient collateral, which may include independent mortgage rights and other securities such as government bonds and treasury bills.

Issued mortgage bonds are classified as financial liabilities and initially measured at cost plus directly attributable transaction costs, and subsequently measured at their amortised cost.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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### **o) General reserve**

In accordance with Section 75 of Hungarian Act No. CXII of 1996, a general reserve equal to 10% of the net post tax income is required to be made in the Hungarian statutory accounts. Increases in the general reserve, as calculated under Hungarian Accounting and Banking Rules are treated as appropriations from retained earnings, and are not charged against income.

### **p) General risk reserve**

Under Section 87 of Hungarian Act No. CXII of 1996 a General Risk Reserve of 1.25% of the risk weighted assets may be made. Under Hungarian law the amount of the general risk reserve is charged to the income statement and is a tax deductible expense. This amount has been reversed from the Hungarian statement of income in these IFRS financial statements and has been treated as an appropriation of retained earnings.

### **q) Valuation reserve**

Valuation reserves are part of the Shareholder's equity. Under the IFRS principles Valuation reserves include Available for Sale Instrument Reserve less deferred tax as stated in Note 2.e. above.

### **r) Income**

#### *Net Interest income*

Interest income and interest expense for the year are recognised on an accruals basis, with the application of the effective interest rate method.

#### *Net fee and commission income*

Net fee and commission income consists of income from services, provided on a fee and commission basis as well as expenses incurred for services provided by third parties and related to the Bank's fee-earning business. Commissions and fees are included in the income statement as they arise.

#### *Net trading income*

Net trading income includes gains and losses arising from disposals and changes in the fair value of trading financial assets and liabilities.

# UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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### *Net gain and loss on other non-trading financial instruments*

Net gain and loss on other financial instruments relate to non-trading financial assets and equity investments and includes the realized result at derecognition.

#### **s) Impairment**

The carrying amounts of the assets are reviewed at each balance sheet date to determine, whether there is any indication of impairment. Any resulting impairment loss is recognised in the income statement.

An asset's recoverable amount is the higher of its value in use and its fair value less costs to sell. The value in use is the present value of the future cash flows to be generated by an asset from its continuing use in the business. If the asset's carrying amount exceeds its recoverable amount, the asset is impaired. It is written down to its recoverable amount and an impairment loss is recognised.

#### **t) Income tax**

Income tax on the profit or loss for the year consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date. The profit for the year is adjusted according to the relevant tax regulations to calculate the taxable income.

Deferred tax is provided using the balance sheet liability method, in respect of which temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are recognised in full. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the difference between the carrying amounts of assets and liabilities in the IFRS balance sheet and in the balance sheet for local tax purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **u) Currencies and Market Rates**

The Bank conducts transactions in the ordinary course of business in various currencies including HUF and uses various financial instruments at its disposal. Financial assets and financial liabilities on and off balance sheet are denominated in these currencies and, unless stated otherwise, are disclosed at fair value. Banking transactions unless otherwise stated are effected at market rates.



Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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### **v) Events after the balance sheet date**

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. These events fall into two categories: those that provide evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).

All adjusting events after balance sheet date have been taken into account in the preparation of the financial statements of the Bank. Where there were material non-adjusting events that occurred after the balance sheet date, the appropriate disclosure thereof has been made in the financial statements.

### **w) Segment reporting**

Segment information is presented in respect of the Bank's business segment. The format, business segments, is based on the Bank's management and internal reporting structure.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

#### **Business segments**

The Bank separates the following main business segments:

- Retail                                      Includes the loans, deposits and other transactions and balances with retail customers (included the purchase of independent mortgage rights and the agricultural land financing).
- Corporate                                   Includes the loans and other transactions and balances with corporate customers
- Others                                        Includes Assets Liabilities Management activities that contains the Bank's funding and centralised risk management activities through borrowings, investing in liquid assets such as short-term placements and government bonds.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **2. Significant accounting policies (continued)**

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The result of each segment also include the head office direct costs allocated on a reasonable basis. The business segment report is presented in Note 30.

The secondary segmentation is not relevant at the Bank because the real estates financed by the Bank are located in Budapest and around Budapest.

### **x) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Bank, with the exception of:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of *held to maturity*, *available for sale* and *loans and receivables*. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

**2. Significant accounting policies (continued)**

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The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated, instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

*Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 consolidated financial statements, with retrospective application required. The amendments are not expected to have a significant impact on the consolidated financial statements.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies**

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The most significant business risks to which the Bank is exposed are credit risk, liquidity risk, market risk (includes interest rate and foreign exchange rate risks), and operational risks. The Bank takes a group-wide approach to manage risk, tailored for specific Hungarian legal and business requirements. Integrated and on-line systems ensure constant, timely monitoring of risk.

The Bank's policies for managing each of the major risks are reviewed regularly by the respective business areas, internal audit, senior management and the Management Board.

#### **i) Credit risk**

Credit risk is the risk of financial loss occurring as a result of a default by counterparty in their contractual obligation to the Bank.

Credit risk is primarily managed by the Credit Risk Officer and the competent Credit Committee. The Group guidelines are approved by the Management Board of UniCredit Bank Hungary and the Bank separately Credit regulations including the approval process, portfolio limit concentration guidelines, approval of discretionary limits, formulation of standards for the measurement of credit exposures and the risk rating of clients based on the assessment of management quality and financial statements are submitted by the Credit Risk Officer and approved in general by the Management Board of UniCredit Hungary, in details by the Chief Risk Officer. The credit regulations of the Bank are in line with UniCredit Bank Hungary's, and are approved by Management Board or Chief Executive Officer of the Bank.

#### *Client classification*

All outstanding loans are reviewed at least yearly, and monitored quarterly.

Clients are classified based on a point rating system, which incorporates qualitative and quantitative factors, or in case of retail clients the classification is based on scorecards.

The Bank applies a rating masterscale consisting of 26 notches within 10 rating classes, of which three notches serve for the defaulted customers, the others for the performing ones. The latter refers to the probability of default (PD) according to the (group-wide used) masterscale. (In case of defaulted clients, PD is 100%.)

### **3. Risk Management Policies (continued)**

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#### *Collaterals*

Principles and methods for the valuation of collateral securing the transactions of the Bank involving risk-taking, as well as certain legal stipulations affecting the collateral applied by the Bank and the principles for the monitoring of collateral are set out in the collateral valuation rules.

General principle is that the collateral:

- shall be legally binding and recoverable;
- shall be directly accessible and appropriate to be liquidated in time.

The Bank accepts and registers in its system the following types of collateral:

- Financial collaterals held at own bank;
- Financial collateral held with other institutions;
- Insurance;
- Personal collateral – direct;
- Personal collateral – indirect;
- Real estate collateral;
- Assignment of receivables;
- Tangible asset collateral;
- Other collateral

The basis for the valuation of collateral is the market value adjusted by the following factors:

- Collateral haircut: a percentage showing the expected loss (in%) of the market value in case of realisation of the collateral. The haircut is separately defined for every collateral type.
- Currency haircut: in case of mismatch between the currency of the loan and that of the collateral, the Bank applies currency haircut to take into account currency risk. The extent of haircut for each currency is specified centrally by the Market Risk Department of the Group, and this is also the department which carries out the regular review (at least once a year).
- Maturity haircut: maturity mismatch occurs if the term of the collateral/collateral agreement is shorter than that of the agreement for the commitment. In such cases a haircut must be applied.

### **3. Risk Management Policies (continued)**

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For real estate collateral, the value is established by a from the credit process independent technical expert. The value of real estate shall be reviewed regularly, in compliance with the legal provisions: at least once a year for non-residential real estate and once in every 3 years for residential real estate. For residential real estate the Bank applies a statistical revaluation methodology.

Eligibility of guarantees and surety is subject to an external valuation of the guarantor according to the respective internal rules.

#### *Loan classification*

The Bank assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash-flows of the asset that can be estimated reliably.

Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications, that a borrower will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Bank of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults in the Bank.

Assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances have to be evaluated as well, taking into account the possibility of expected loss at the sell of that asset.

However, the Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operation.

Loans are classified at least quarterly, individually or (below a certain threshold) collectively.

Individual classification is necessary if the total exposure of the client exceeds a certain predefined limit. In this case the classification has to be based on the evaluation and revision of the following aspects:

- a) the credit rating of the customer or the partner: the financial position, stability and income-generating capacity of the customer or partner affected by the financial or investment service and issuer of the security, and any changes thereto;

### **3. Risk Management Policies (continued)**

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- b) compliance with the rules of repayment (delay): delays in the repayment of the principal and its interests arising in connection with the repayment of the receivable;
- c) the country risk relating to the customer (in respect of both political and transfer risks) and any changes thereto;
- d) the value of collateral pledged in security, their liquidity and accessibility, and any changes therein;
- e) the liquidation value of the item (the market conditions of supply and demand, the available market prices and participation in the issuer's equity capital in proportion to the investment);
- f) the future payment obligation recognized as a loss arising from the item.

For the purpose of evaluation, the criterion set out in point e) applies to the classification of investments, stocks received in payment for claims and off-balance sheet liabilities, and the criterion set out in point f) typically applies to the classification of off-balance sheet liabilities. In the process of classifying items into asset qualification categories all of the criteria applied as indicated above have to be taken into consideration in a way where first the amount of loss expected in the future in relation to the item shall be assessed on the basis of points a)-c) and points e)-f) as a result of the lack of return, the future payment obligations recorded as a loss, and the expected costs of enforcement of the collateral. Subsequently, the value of collaterals relating to the given item shall be deducted from the probable future loss, following the order of enforcement, and, based on the ratio of the loss likely to remain and the direct cost of the item (direct cost net of instalment payments), it can be determined into which asset qualification category belonging to the appropriate weight range the item should be classified. Within the weight range defined as per the above, the required level of value adjustment and risk provisions pertaining to an item subject to individual valuation shall be specified in consideration of the other aspects, factors and circumstances.

Collective impairment can be applied if the total exposure of the client does not reach the predefined limit. Impairment is calculated in this case also at the individual level, but with a simplified – standardized - method: taking into account only the past due days and the collateral coverage of the loan. Any deviation from this result is permitted only by determining an individual classification.

#### *Distressed restructuring*

Restructuring is to be considered distressed (and thus resulting in a default event) in case of restructuring of principal and interest which is necessary because of the client's poor financial situation, and which results in a certain degree of debt forgiveness (that of principal, interests or fees, deferred payments). Restructuring or rescheduling for business considerations (e.g., the adjustment of the repayment schedule to the cash-flow of the client) does not constitute a default signal.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies (continued)**

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In the private individual segment the Bank considers a restructuring distressed where the Bank recognises the customer is already having a payment delay, and an agreement is concluded, which makes the repayment burden easier for a defined period by capitalizing the unpaid debt.

#### *Impaired loans and securities*

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans or securities agreements.

#### *Past due but not impaired loans*

These are defined as loans and securities where the contractual interests and principal payments are past due but the Bank believes that impairment is not necessary on the basis of the level of security/collateral available or the stage of collection of amounts owed to the Bank.

#### *Impairment loss*

The Bank establishes impairment losses that represent its estimate of the incurred losses in its loan portfolio. The main components of this impairment loss are a specific loss component that relates to individually significant exposures, and collective loan impairment losses established for individually non-significant loans based on internal policies.

The Bank establishes an impairment for incurred but not reported loss ("IBNR") based on the parent Group guidelines.

For predefined subportfolios the expected loss is calculated based on the following formula:

$$EL = EaD * PD * LGD$$

Where

EL is expected loss,

EaD is exposure at default,

PD is probability of default (within one year), and

LGD is loss given default.

Also at the subportfolio level, the loss confirmation period (LCP) is defined (ranging 4-6 months), which shows the average time period between the deterioration of the client's financial situation and its detection by the Bank.

IBNR is calculated by multiplying EL by LCP, and the increase/decrease is booked accordingly.



Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies (continued)**

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#### *Write-off policy*

The Bank writes-off a loan or security balance (and any related impairment losses balance) when they prove to be uncollectible.

The industrial sector and collateral details of loan portfolios are presented in Note 13 and the details of exposure of credit risk are presented in Note 30.

Due to the global financial crisis and economic recession, the Bank took several measures for the retail and corporate loan portfolio. As for the existing retail transactions the Bank gives to the customer the possibility for extension of the maturity and a grace period to the clients in the frame of the agreement with the Hungarian Ministry of Finance, free of charge.

As for new retail loans, the Bank implemented stricter risk parameters. In case of existing corporate portfolio the Bank strengthened its monitoring activity concentrating on the liquidity positions of our corporate clients. The Group reviewed our lending policy differentiated by sectors and defined a selective risk approach for new transactions in the most endangered sectors.

#### ii) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

The objective of prudential liquidity management is to ensure that the Bank has the ability to generate sufficient funds to meet all cash flow obligations as these fall due. Effective liquidity management is critical to maintain market confidence, and protect the capital base while permitting effective growth. In managing its liquidity the Group takes into account various legal requirements and limitations.

Limits regarding the maximum net outflow of funds in a particular period (typically short-term) are in place and are monitored daily. Long-term fundedness is approved and monitored by the Banks' Asset Liability Committee ('ALCO').

In line with UniCredit Group-wide standards, the Bank deals with liquidity risk as a central risk in banking business by introducing and monitoring short-term and medium-term liquidity requirements. In this context the liquidity situation for the next few days and also for longer periods is analysed against a standard scenario and against various scenarios of a general and a bank-specific liquidity crisis. The degree of liquidity of customer positions and proprietary positions is analysed on an ongoing basis. Procedures, responsibilities and reporting lines in this area have been laid down in the liquidity policy, which includes a contingency plan in the event of a liquidity crisis.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies (continued)**

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Short-term and long-term liquidity limits of the Bank were observed continuously in 2009. The degree to which accumulated liquidity outflows are covered by accumulated inflows within the following month and year is determined on an ongoing basis. It is used as a key figure in managing the Bank's liquidity and funding.

The maturity analysis of balance sheets for 2008 and 2009 are represented in Note 18.

#### iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

Market risk management encompasses all activities in connection with Bank's MIB operations and management of the balance sheet structure. Risk positions are aggregated at least daily, analysed by the independent risk management unit and compared with the risk limits set by the Management Board and the ALCO designated by the Management Board. At the Bank market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily presentation of results of MIB's operations.

The Bank based on Bank Austria Group standard (as a subgroup of UniCredit Group) uses uniform risk management procedures. These procedures provide aggregate data and make available the major risk parameters for the various trading operations at least once a day. Besides Value at Risk ("VaR"), other factors of equal importance are stress-oriented volume and position limits. Additional elements of the limit system are loss-warning level limits and options-related limits applied to trading and positioning in non-linear products.

The risk model ("NoRISK") was developed by Bank Austria and adopted by the Bank and has been used for several years. The "NoRISK" internal risk model is used for computing economic capital in Hungary, but the capital requirement is calculated by the regulatory standard method. The computation of economic capital takes into account the statutory parameters (confidence interval of 99%, 10-day holding period) and additionally the multiplier determined as part of the model review is applied. The system comprises all major risk categories: interest rate risk, credit spread risk, equity position risk (both general and specific risk) and exchange rate risk.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies (continued)**

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Regular and specific stress scenario calculations complement the information provided to ALCO and the Management Board. Stress scenarios are based on assumptions of extreme movements in individual market risk parameters. The Bank analyses the effect of such fluctuations and a liquidity disruption in specific products and risk factors on the Bank's results.

In addition to the risk model results, income data from market risk activities are also calculated and communicated on a daily basis. Such data are presented over time and compared with current budget figures. Reporting includes marking to market of all investment positions regardless of their treatment/classification in the IFRS-based financial statements ("total return"). The results are reported directly to the Group's trading and risk management units, and also via the access-protected Intranet application "ERCONIS" maintained centrally in Vienna, analysed by portfolio, income statement item and currency.

The Bank uses the "MARCONIS" intranet-based system developed by the Bank Austria to comprehensively and systematically review the market conformity of its trading transactions.

The daily reporting also includes details of volume-oriented sensitivities which are compared with the respective limits. The most important detailed presentations include: basis point results (interest rate / spread changes of 0.01 %) by maturity band, FX sensitivities and sensitivities in equities and emerging-market/high-yield positions (by issue, issuer and market). Risk management is performed with details varying according to the risk-takers. In the interest rate sector, for example, basis point limits per currency and maturity band, basis point totals per currency and/or per maturity segment (total of absolute Basis Point Values - BPV) are used for risk management. By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by curve and maturity band (the Bank currently uses credit spread curves for its risk calculations). The interest rate repricing analysis are presented in Note 26.

#### Management of balance sheet structure

Interest rate risk and liquidity risk from customer transactions is attributed to Bank's treasury operations through a matched funds transfer pricing system applied throughout the UniCredit Group. This makes it possible to attribute credit, market and liquidity risk and contribution margins to the bank's business divisions in line with the principle of causation. ALCO ensures that the Bank's overall maturity structure is optimised.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies (continued)**

Products for which the material interest-rate and capital maturity is not defined, such as variable-rate sight and savings deposits, are modelled in respect of investment period and interest rate sensitivity by means of analyses of historical time series, and taken into account in the Bank's overall risk position.

Interest rate sensitivities are determined and taken into account in hedging activities, which results in a positive contribution to profits from customer business.

#### Foreign exchange rate risk

The Bank has assets and liabilities (on and off-balance sheet) denominated in several foreign currencies, and it is therefore exposed to foreign exchange rate risk. Foreign exchange rate risk arises when a mismatch occurs in the spot and forward asset/liability structure within a currency.

The statement of foreign exchange exposures (currency structure of assets and liabilities) is presented in Note 24.

#### iv) Compliance with Basel II

The Basel II implementation has been established as a group-wide project overseen by UniCredit Italiano Spa. (hereafter: "UniCredit Group") with regard to group-wide topics and decisions. The Bank has also joined this Basel II project. Close cooperation ensures consistency within the Group, during the implementation of Basel II. UniCredit Group standards prepared by the UniCredit Group in cooperation with the major legal entities are used as an instrument for common implementation with a view to meet the legal requirements and ensuring group-wide control.

The Bank uses the Basel II standardised approach from the beginning of 2008.

#### v) Operational risk

Operational risk is the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events.

Operational risk events are those resulting from inadequate or failed internal processes, personnel and systems or from systemic and other external events: internal or external fraud, employment practices and workplace safety, clients claims, products distribution, fines and penalties due to regulation breaches, damage to Bank's physical assets, business disruption and system failures, process management.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies (continued)**

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Strategic risk, business risk and reputational risk are different from operational risk, whereas legal and compliance risk are included in the operational risk definition.

The Bank's Management Board is responsible for the effective oversight over operational risk exposure. The operational risk office will notify the Management Board about considerable operational risks, their changes as well as relevant breaches to policies and limits. The Management Board shall have an overall understanding of the operational risk control framework and of how operational risk affects the Bank.

The Bank's Management Board ensures that:

- the operational risk control process is sound and fully communicated and implemented in specific policies process and procedures within the business units taking into account the appropriateness and effectiveness;
- operational risk managers in the business lines are appointed and given adequate support in order to perform their duties;
- the relevant committees are informed of changes in risk profiles and exposure, supported by the operational risk office;
- major operational risk drivers are identified, also examining reports from the Operational Risk Office, Compliance and Internal Audit.

The Bank's Management Board is responsible for approving all the material aspects of the operational risk framework, including the operational risk rulebook, the appointment of the office responsible for its implementation and operational risk control.

In the Bank, the Operational Risk Committee is responsible for making decisions on Operational Risk.

Members of the Operational Risk Committee are the Management Board members, representing: CEO's Division, Corporate Division, Retail Division, Markets Division, Global Banking Services Division, Risk Management Division, and Finance Division. Representatives of Internal Audit, Human Resources, Legal Department, and Identity & Communication are also invited.

The Operational Risk Committee holds its meeting at least quarterly or more frequently if necessary.

Besides the responsibilities stated in internal regulation, in reviewing the operational risk framework, the Internal Audit Department is responsible for evaluating its functionality and effectiveness, as well as its compliance with the regulatory requirements. At least annually, it analyses the operational risk data collection, management and storage process to ensure the data quality.

## UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### **3. Risk Management Policies (continued)**

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The centralized Operational Risk Controlling has to operate the whole framework and to coordinate the decentralized activity of operational risk management carried out by the nominated divisional and administrative operational risk managers in each business unit.

In the capital requirement calculation UniCredit Jelzálogbank Zrt. applies the standardized method.

### **4. Use of estimates and judgements**

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These disclosures supplement the commentary on risk management policy.

#### *i.) Impairment for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 2.(m.), (n.) and risk management policy 3.(i).

#### *ii.) Determining fair value*

The fair value valuation techniques for financial assets and liabilities are described in Note 28.

#### *iii.) Financial assets and liabilities classification*

The Bank's accounting policies determine the different accounting categories for the classification of financial assets and liabilities. The criteria of them is described in accounting policies 2.(e.)(i)

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

**5. Net interest income**

(HUF million)	<u>2009</u>	<u>2008</u>
Interest and similar income from Central Bank		
Interest income from banks	5,142	5,023
Interest income from customers	4,772	4,541
Interest income on Available for sale financial assets	<u>960</u>	<u>998</u>
	<u>10,874</u>	<u>10,562</u>
	<u>2009</u>	<u>2008</u>
Interest expense and similar charges		
Interest expense to Central Banks	(1)	-
Interest expense to banks	(1,407)	(1,222)
Interest expense to customers	(76)	(88)
Interest expense on issued bonds	<u>(5,615)</u>	<u>(5,716)</u>
	<u>(7,099)</u>	<u>(7,026)</u>
Net interest income	<u>3,775</u>	<u>3,536</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

**6. Net fee and commission income**

(HUF million)	<u>2009</u>	<u>2008</u>
Fees and commission income		
Other financial fees and commissions	<u>63</u>	<u>69</u>
	<u>63</u>	<u>69</u>
Fees and commission expense		
Payment transaction fees	(3)	(1)
Custody service fees	(3)	(3)
Brokerage	-	(18)
Other financial fees and commissions	<u>(31)</u>	<u>(1)</u>
	<u>37</u>	<u>(23)</u>
	<u>26</u>	<u>46</u>

**7. Personnel expenses**

(HUF million)	<u>2009</u>	<u>2008</u>
Wages and salaries	228	384
Statutory social-security contributions	69	114
Other employee benefits	16	26
Employer's contributions	<u>11</u>	<u>15</u>
	<u>324</u>	<u>539</u>

The number of employees (in full time equivalent ) was 14 on 31 December 2009 (2008: 31 employees).



UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

**8. General operating expenses**

(HUF million)	<u>2009</u>	<u>2008</u>
Other indirect tax expense and costs of authorities	134	98
Renting costs and operating expenses of property	38	60
Advertising	-	1
Information technology costs	68	58
Material and office equipments costs	2	2
Other administrative expenses	<u>317</u>	<u>229</u>
Total	<u>559</u>	<u>448</u>

**9. Other income and expenses**

(HUF million)	<u>2009</u>	<u>2008</u>
Other income		
Service transfer fees received	2	-
Proceeds on sale of property, plant and equipment	5	-
Other	<u>1</u>	<u>21</u>
	<u>8</u>	<u>21</u>
Other expenses		
Service transfer fees paid	(2)	-
Taxes, penalties	-	(5)
Cost of property, plant and equipment sold	(5)	-
Other	<u>(1)</u>	<u>(10)</u>
	<u>(8)</u>	<u>(15)</u>
Other operating income / expense	=	<u>6</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

**10. Taxation**

The tax charge for the year is based on the profit for the year according to the statutory accounts of the Bank as adjusted for relevant taxation regulations. The corporate income tax rate in Hungary for the year ended 31 December 2009 was 16% and an additional 4%. The Bank has to pay the additional supplementary tax to income earned on special loans.

(HUF million)	<u>2009</u>	<u>2008</u>
<b>Tax expense for the year</b>		
Current tax expense	308	543
Adjustments for prior years	<u>5</u>	<u>5</u>
	<u>313</u>	<u>548</u>
<b>Deferred tax charge</b>	<u>148</u>	<u>(5)</u>
<b>Total income tax expense in income statement</b>	<u>461</u>	<u>543</u>

**Reconciliation of effective tax rate**

	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		1,947		2,397
Income tax using the domestic corporate tax rate	20.0	389	20.0	479
Supplementary corporate tax for banks	5.9	115	4.8	115
Adjustments for prior years	0.2	5	0.2	5
Tax effects of income/expenses exempt from corporate tax	(0.8)	(16)	(1.6)	(39)
Deferred tax due to change in corporate tax rate	(0.4)	(8)		
Income/expenses giving rise to permanent differences:				
- Other	<u>(1.2)</u>	<u>(24)</u>	<u>(0.7)</u>	<u>(17)</u>
	<u>23.7</u>	<u>461</u>	<u>22.7</u>	<u>543</u>

Notes to the unconsolidated financial statements for the year ended 31 December 2009

**10. Taxation (continued)**

<b>Balances, related to taxation</b> (HUF million)	<b>Assets</b>	<b>Liabilities</b> <b>2009</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b> <b>2008</b>	<b>Net</b>
Current tax assets / (liabilities) for the year	272		272	74		74
Deferred tax assets / (liabilities)						
Available-for-sale securities	54		54	216		216
Allowances for loan losses (IBNR)	25		25	14		14
Legal reserve		(176)	(176)		(24)	(24)
Effect of items, increasing / (decreasing) the local tax base	<u>17</u>		<u>17</u>	<u>24</u>		<u>24</u>
Total deferred tax assets / (liabilities)	<u>96</u>	<u>(176)</u>	<u>(80)</u>	<u>254</u>	<u>(24)</u>	<u>230</u>
<b>Total tax assets / (liabilities)</b>	<b><u>368</u></b>	<b><u>(176)</u></b>	<b><u>192</u></b>	<b><u>328</u></b>	<b><u>(24)</u></b>	<b><u>304</u></b>



Notes to the unconsolidated financial statements for the year ended 31 December 2009

**11. Available for sale financial assets**

(HUF million)	<u>2009</u>	<u>2008</u>
Government bonds	<u>13,086</u>	<u>12,616</u>
	<u>13,086</u>	<u>12,616</u>

The balance of the AFS reserve including deferred tax in the shareholder's equity was HUF (232) million.

**12. Placements with, and loans and advances to other banks**

(HUF million)	<u>2009</u>	<u>2008</u>
<b>Loans and advance to other banks</b>		
Nostros with other banks	24	5
Maturity less than one year	5,399	18,343
Maturity more than one year	<u>64,144</u>	<u>52,041</u>
Total	<u>69,567</u>	<u>70,389</u>

Notes to the unconsolidated financial statements for the year ended 31 December 2009

### 13. Loans and advances to customers

(HUF million)	<u>2009</u>	<u>2008</u>
<i>Private and commercial:</i>		
Maturity less than one year	14,284	4,748
Maturity more than one year	<u>42,723</u>	<u>54,061</u>
	<u>57,007</u>	<u>58,809</u>
Provision for impairment and losses on credit products (Note 23)	(1,314)	(383)
	<u>55,693</u>	<u>58,426</u>

#### A. Analysis by industrial sector

(HUF million)	<u>2009</u>	%	<u>2008</u>	%
Real estate finance	14,115	24.76	16,660	28.33
Private clients	40,814	71.59	39,684	67.48
Trade			484	0.82
Agriculture	1,025	1.80	983	1.67
Catering trade	948	1.66	927	1.58
Community	27	0.05	10	0.02
Other	<u>78</u>	<u>0.14</u>	<u>61</u>	<u>0.1</u>
Total	<u>57,007</u>	<u>100.00</u>	<u>58,809</u>	<u>100.00</u>

The total amount contains loans without provision for impairment and losses.

#### B. Collateral for the above loans

The estimate value of collateral and other security for the loans were as follow:

(HUF million)	<u>2009</u>	<u>2008</u>
<u>Against individually impaired</u>	<u>624</u>	<u>937</u>
Guarantees	129	-
Frozen bank deposits	92	10
Property/Real estate	403	927

Notes to the unconsolidated financial statements for the year ended 31 December 2009

**13. Loans and advances to customers (continued)**

Collateral for the above loans continued

(HUF million)	<u>2009</u>	<u>2008</u>
<u>Against collectively impaired</u>	<u>577</u>	<u>515</u>
Guarantees	6	15
Frozen bank deposits	78	150
Property/Real estate	493	350
<u>Against past due but not impaired</u>	<u>1,128</u>	<u>1,832</u>
Guarantees	40	13
Frozen bank deposits	197	258
Property/Real estate	891	1,561
<u>Against neither past due nor impaired</u>	<u>93,447</u>	<u>91,181</u>
Guarantees	762	730
Frozen bank deposits	3,699	15,154
Property/Real estate	24,889	31,840
Debt securities	3,678	-
Others (independent mortgage rights)	60,419	43,457

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**14. Property, plant and equipment**

	Acquisition cost at the beginning of the year	Accumulated depreciation and amortisation at the beginning of the year	Additions	Disposals net	Depreciation and amortisation	Carrying amount at the end of the year
(HUF million)						
<u>2009</u>						
Land and buildings	-	-	-	-	-	-
Office equipment	4	(4)	-	-	-	-
Motor vehicles	9	(3)	7	5	2	6
Capital work in progress	=	=	7	7	=	=
	<u>13</u>	<u>7</u>	<u>14</u>	<u>12</u>	<u>2</u>	<u>6</u>
<u>2008</u>						
Land and buildings	48	(1)	-	-	47	-
Office equipment	4	(4)	-	-	-	-
Motor vehicles	9	(1)	-	-	2	6
Capital work in progress	=	=	=	=	=	=
	<u>61</u>	<u>(6)</u>	=	=	<u>49</u>	<u>6</u>



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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**15. Intangible assets**

<u>Movement in intangible assets</u>		(HUF million)				
	Acquisition cost at the beginning of the year	Accumulated depreciation and amortisation at the beginning of the year	Additions	Disposals net	Depreciation and amortisation	Carrying amount at the end of the year
<u>2009</u>						
Software	<u>721</u>	<u>642</u>	<u>8</u>	=	<u>34</u>	<u>53</u>
<u>2008</u>						
Software	<u>672</u>	<u>642</u>	<u>8</u>	=	<u>34</u>	<u>53</u>
Software	<u>672</u>	<u>580</u>	<u>49</u>	=	<u>62</u>	<u>79</u>
	<u>672</u>	<u>580</u>	<u>49</u>	=	<u>62</u>	<u>79</u>

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**16. Other assets**

(HUF million)	<u>2009</u>	<u>2008</u>
Trade receivables and advances	3	-
Accrued interest income	1,329	1,276
Other	-	745
	<u>1,332</u>	<u>2,021</u>

**17. Deposits and loans from other banks**

(HUF million)	<u>2009</u>	<u>2008</u>
Maturity less than one year	58,888	46,346
Maturity more than one year	2,465	16,669
	<u>61,353</u>	<u>63,015</u>

**18. Issued bonds**

(HUF million)	<u>2009</u>	<u>2008</u>
Maturity less than one year	14,860	17,797
Maturity more than one year	44,723	45,632
	<u>59,583</u>	<u>63,429</u>

**19. Other liabilities**

(HUF million)	<u>2009</u>	<u>2008</u>
Accrued expenses and prepaid income	4,015	3,717
Provisions and financial guarantees and unutilised loans	1	-
Trade payable	15	-
Other taxes payable	14	-
Other	44	899
	<u>4,089</u>	<u>4,616</u>

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**20. Share capital**

(HUF million)	<u>2009</u>	<u>2008</u>
Authorised and issued share capital	3,000	3,000

Share capital consists of 3,000 ordinary shares with a par value of HUF 1,000,000 each. 100% of the issued shares are held by UniCredit Bank Hungary Zrt.

**21. Statutory reserves**

	General Reserve	General Risk Reserve	Regulatory Reserve	Total
Balance at 31 December 2008	916	444	-	<b>1,360</b>
Appropriations from retained earnings	83	458	194	<b>735</b>
Balance at 31 December 2009	999	902	194	<b>2,095</b>

**22. Commitments and contingent liabilities**

At 31 December 2009, the Bank had the following commitments and contingent liabilities (at nominal values):

(HUF million)	<u>2009</u>	<u>2008</u>
Loan and overdraft facilities granted not disbursed	274	1,929

## 23. Impairments and provisions

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### Impairments and provisions on credit products

	Loans	Guarantees and unutilised loans	Total financial instruments
<b>Balance 31 December 2008</b>	<b><u>383</u></b>	<b><u>0</u></b>	<b><u>383</u></b>
Write-offs	-	-	-
Amounts released	(189)	-	(189)
Additional impairment and provisions	1,120	1	1,121
Effect of f/x rate fluctuation	=	=	=
<b>As at 31 December 2009</b>	<b><u>1,314</u></b>	<b><u>1</u></b>	<b><u>1,315</u></b>
Net movement in impairment and provisions	931	1	932
Write-offs	-	-	-
<b>Net amount charged to the income statement</b>	<b><u>931</u></b>	<b><u>1</u></b>	<b><u>932</u></b>
Receivables written-off	2	-	2
<b>Total charged to the income statement, excluding the effect of f/x rate fluctuation</b>	<b><u>933</u></b>	<b><u>1</u></b>	<b><u>934</u></b>

## 23. Impairments and provisions (continued)

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### Impairments and provisions on credit products

	Loans	Total financial instruments
<b>Balance 31 December 2007</b>	<b><u>213</u></b>	<b><u>213</u></b>
Write-offs	-	-
Amounts released	(95)	(95)
Additional impairment	265	265
<b>As at 31 December 2008</b>	<b><u>383</u></b>	<b><u>383</u></b>
Net movement in impairment provisions	<u>163</u>	<u>163</u>
Others	-	-
<b>Net amount charged to the income statement</b>	<b><u>163</u></b>	<b><u>163</u></b>
Receivables written-off	-	-
Effect of f/x rate fluctuation	7	7
<b>Total charged to the income statement, excluding the effect of f/x rate fluctuation</b>	<b><u>170</u></b>	<b><u>170</u></b>

**24. Currency structure of assets and liabilities**

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The currency structure of assets and liabilities as at 31 December 2009 is as follows:

(HUF million)	Assets	Equity and Liabilities	Total Net foreign currency exposure long/(short)
<b><u>Currency:</u></b>			
Euro	23,718	23,918	(200)
Swiss Francs	41,560	41,830	(270)
Total foreign currency:	65,278	65,748	(470)
Hungarian Forint	74,827	74,357	470
Total	<u>140,105</u>	<u>140,105</u>	

The currency structure of assets and liabilities as at 31 December 2008 is as follows:

(HUF million)	Assets	Equity and liabilities	Total Net foreign currency exposure long/(short)
<b><u>Currency:</u></b>			
Euro	22,701	22,659	42
Swiss Francs	<u>30,220</u>	<u>30,138</u>	<u>82</u>
Total foreign currency:	52,921	52,797	124
Hungarian Forint	<u>90,944</u>	<u>91,068</u>	(124)
Total	<u>143,865</u>	<u>143,865</u>	

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**25. Residual contractual maturities of financial liabilities**

<i>HUF million</i>	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<b>31 December 2009</b>								
<i>Non-derivative liabilities</i>								
	Trading liabilities	-	-	-	-	-	-	-
	Deposits from banks	61,353	(61,541)	(45,397)	(19)	(13,606)	(2,519)	-
	Deposits from customers	-	-	-	-	-	-	-
	Debt securities issued	59,583	(79,597)	(12)	(1,951)	(18,408)	(43,601)	(15,625)
	Subordinated liabilities	-	-	-	-	-	-	-
		<u>120,936</u>	<u>(141,138)</u>	<u>(45,409)</u>	<u>(1,971)</u>	<u>(32,014)</u>	<u>(46,119)</u>	<u>(15,625)</u>
<i>Derivative liabilities</i>								
	Trading	-	-	-	-	-	-	-
	Outflow	-	-	-	-	-	-	-
	Inflow	-	-	-	-	-	-	-
	Risk management	-	-	-	-	-	-	-
	Outflow	-	-	-	-	-	-	-
	Inflow	-	-	-	-	-	-	-
	Unrecognised loan commitments	-	-	-	-	-	-	-
		<u>120,936</u>	<u>(141,138)</u>	<u>(45,409)</u>	<u>(1,971)</u>	<u>(32,014)</u>	<u>(46,119)</u>	<u>(15,625)</u>

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**25. Residual contractual maturities of financial liabilities (continued)**

<i>HUF million</i>	Note	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<b>31 December 2008</b>								
<i>Non-derivative liabilities</i>								
Trading liabilities	-	-	-	-	-	-	-	-
Deposits from banks	-	63,015	(64,441)	(46,390)	(86)	(472)	(17,493)	-
Deposits from customers	-	-	-	-	-	-	-	-
Debt securities issued	-	63,429	(78,262)	(52)	(16,127)	(7,561)	(47,437)	(7,085)
Subordinated liabilities	-	<u>126,444</u>	<u>(142,704)</u>	<u>(46,442)</u>	<u>(16,214)</u>	<u>(8,033)</u>	<u>(64,930)</u>	<u>(7,085)</u>
<i>Derivative liabilities</i>								
Trading	-	-	-	-	-	-	-	-
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Risk management	-	-	-	-	-	-	-	-
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Unrecognised loan commitments	-	-	-	-	-	-	-	-
		<u>126,444</u>	<u>(142,704)</u>	<u>(46,442)</u>	<u>(16,214)</u>	<u>(8,033)</u>	<u>(64,930)</u>	<u>(7,085)</u>



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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**26. Exposure to interest rate risk – non-trading portfolios**

<i>HUF million</i>	Note	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<b>31 December 2009</b>							
Cash and cash equivalents		-	-	-	-	-	-
Loans and advances to banks		69,567	31,165	5,359	13,227	19,744	72
Loans and advances to customers		55,693	2,719	18,808	25,866	8,039	261
Investment securities		13,086	-	-	2,510	3,454	7,122
		<u>138,346</u>	<u>33,884</u>	<u>24,167</u>	<u>41,603</u>	<u>31,237</u>	<u>7,455</u>
Deposits from banks		(61,353)	(45,359)	(2,154)	(11,375)	(2,465)	-
Deposits from customers		-	-	-	-	-	-
Debt securities issued		(59,583)	(4,063)	(10,300)	(14,860)	(30,360)	-
Subordinated liabilities		-	-	-	-	-	-
		<u>(120,936)</u>	<u>(49,422)</u>	<u>(12,454)</u>	<u>(26,235)</u>	<u>(32,825)</u>	<u>-</u>
Effect of derivatives held for risk management		-	-	-	-	-	-
		<u>17,410</u>	<u>(15,538)</u>	<u>11,713</u>	<u>15,368</u>	<u>(1,588)</u>	<u>7,455</u>

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**26. Exposure to interest rate risk – non-trading portfolios (continued)**

<i>HUF million</i>	Note	Carrying amount	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<b>31 December 2008</b>							
Cash and cash equivalents		-	-	-	-	-	-
Loans and advances to banks		70,389	28,398	6,744	19,833	15,305	109
Loans and advances to customers		58,426	8,823	21,039	21,923	6,482	159
Investment securities		12,616	-	327	-	5,594	6,695
		<u>141,430</u>	<u>37,220</u>	<u>28,110</u>	<u>41,756</u>	<u>27,381</u>	<u>6,963</u>
Deposits from banks		(63,015)	(46,346)	(2,503)	-	(14,166)	-
Deposits from customers		-	-	-	-	-	-
Debt securities issued		(63,429)	(3,972)	(13,947)	(10,950)	(28,060)	(6,500)
Subordinated liabilities		-	-	-	-	-	-
		<u>(126,444)</u>	<u>(50,318)</u>	<u>(16,450)</u>	<u>(10,950)</u>	<u>(42,226)</u>	<u>(6,500)</u>
Effect of derivatives held for risk management		-	-	-	-	-	-
		<u>14,986</u>	<u>(13,098)</u>	<u>11,660</u>	<u>30,806</u>	<u>(14,845)</u>	<u>463</u>

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**27. Balance sheet and Income statement items with related parties**

(HUF million)	2009	2008
<b>Assets</b>		
Nostros and placements with banks	-	5
Loans and receivables with bank	52,865	51,519
Other assets	<u>58</u>	<u>38</u>
<b>Total</b>	<b><u>52,923</u></b>	<b><u>51,557</u></b>
<b>Liabilities</b>		
Deposit from banks	61,353	63,015
Debt certificates including bonds	34,367	-
Other liabilities	<u>2,199</u>	<u>51</u>
<b>Total</b>	<b><u>97,919</u></b>	<b><u>63,066</u></b>
<b>Income Statement</b>		
Interest and similar income	1,618	1,046
Interest expense and similar charges	(4,711)	(1,223)
Fee and commission expense	(26)	(3)
Operating costs	<u>(131)</u>	<u>(139)</u>
<b>Total</b>	<b><u>(3,250)</u></b>	<b><u>(319)</u></b>

The above balances are with UniCredit Bank Hungary Zrt., UniCredit Bank Czech Republic and UGIS.

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**28. Fair value information**

(HUF million)	2009		2008	
	Fair Value	Carrying amount	Fair Value	Carrying amount
Available for sale financial assets	13,791	13,791	13,335	12,616
Placements with, and loans and advances to other banks	71,173	69,687	72,010	70,389
Loans and advances to customers	57,763	55,772	61,573	58,426
<b>Financial Assets &amp; Derivatives</b>	<u>142,727</u>	<u>139,250</u>	<u>146,918</u>	<u>141,431</u>
Deposits and loans from other banks	61,437	61,393	63,070	63,015
Issued mortgage bonds	63,476	59,587	65,614	63,429
Deposits and loans from customers	1	1		
<b>Financial Liabilities</b>	<u>124,914</u>	<u>120,981</u>	<u>128,684</u>	<u>126,444</u>

\* Carrying amounts include accrued interests in line with the definition of the Fair Values.

Notes to the unconsolidated financial statements for the year ended 31 December 2009

## **28. Fair value information (continued)**

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### **Estimation of fair values for the Fair Value Report to the Notes**

The following description summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

*Loans and advances:* Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated taking into account credit risk and any indication of impairment. (Past due and doubtful loans are exhibited with book value.) Expected future cash flows, even for homogeneous categories of loans, are estimated on a single deal basis and discounted at current market rates. The estimated fair values of loans also reflect changes in interest rates.

*Investments carried at cost and derivatives:* Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs, where available. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow techniques, where applicable. For investments and fixed assets, where no reliable market price or model price is available, the book value is taken as fair value.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

*Bank and customer deposits:* For demand deposits and deposits with no defined maturities, fair value is deemed to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using market interest rates. The value of long-term relationships with depositors is not taken into account in estimating fair values.

*Long-term debt:* The fair value is based on quoted market prices, if available. For debt instruments without quoted prices the fair value is estimated as the present value of future cash flows, discounted at market interest rates available at the balance sheet date.

In line with the above detailed fair value computation, i.e. gross present value, the respective accrued interest is added to the carrying value for a good comparison.

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**29. Segment report**

	Total Bank			Retail			Corporate			Others		
	2009	2008		2009	2008		2009	2008		2009	2008	
(HUF million)												
Net Interest Income	3,775	3,536		2,468	2,368		235	205		1,072	963	
Net fee and commission income	26	47		66	69		(2)	-		(38)	(22)	
Trading profit	1	23		-	-		-	-		1	23	
Balance of other oper.inc./exp.	-	5		-	-		-	-		-	5	
<b>REVENUES</b>	<b>3,802</b>	<b>3,611</b>		<b>2,534</b>	<b>2,437</b>		<b>233</b>	<b>205</b>		<b>1,035</b>	<b>969</b>	
Staff Expenses	(324)	(53)	9)	(126)	(222)		(9)	(18)		(189)	(299)	
Other Administrative Expenses	(559)	(448)		(63)	(97)		(6)	(10)		(490)	(341)	
W/d on tang./intang. assets	(36)	(110)		(12)	(24)		(2)	(3)		(22)	(83)	
<b>Direct Expenses</b>	<b>(919)</b>	<b>(1,097)</b>		<b>(201)</b>	<b>(343)</b>		<b>(17)</b>	<b>(31)</b>		<b>(701)</b>	<b>(723)</b>	
Indirect Expenses	-	-		(262)	(235)		(38)	(43)		300	278	
Overhead Expenses	-	-		(373)	(415)		(33)	(37)		406	452	
<b>OPERATING EXPENSES</b>	<b>(919)</b>	<b>(1,197)</b>		<b>(836)</b>	<b>(993)</b>		<b>(88)</b>	<b>(111)</b>		<b>5</b>	<b>7</b>	
<b>GROSS OPERATING RESULT</b>	<b>2,883</b>	<b>2,514</b>		<b>1,698</b>	<b>1,444</b>		<b>145</b>	<b>94</b>		<b>1,040</b>	<b>976</b>	
<b>Cost / Income Ratio</b>	<b>24.2%</b>	<b>(30.4%)</b>		-	-		-	-		-	-	
Provision for risk and charges	(3)	46		-	-		-	-		(3)	46	
Goodwill impairment	-	-		-	-		-	-		-	-	
<b>P/L and net w/d on loans</b>	<b>(934)</b>	<b>(163)</b>		<b>(942)</b>	<b>(174)</b>		<b>8</b>	<b>11</b>		-	-	
P/L and net w/d on investment	1	-		-	-		-	-		1	-	
Integration costs	-	-		-	-		-	-		-	-	
<b>RESULT BEFORE TAXES</b>	<b>1,947</b>	<b>2,397</b>		<b>(756)</b>	<b>1,270</b>		<b>153</b>	<b>105</b>		<b>1,038</b>	<b>1,022</b>	
Income taxes	(461)	(543)		-	-		-	-		-	-	
<b>RESULT AFTER TAXES</b>	<b>1,486</b>	<b>1,854</b>										
<b>ROE</b>	<b>10.0%</b>	<b>15.7%</b>										
Interest Bearing Assets	123,137	97,753										
Interest Bearing Liabilities	120,935	126,444										

Notes to the unconsolidated financial statements for the year ended 31 December 2009

**30. Exposure to credit risk**

(HUF million)	Loans and advances to customers		Placements with , and loans and advances to other banks	
	2009	2008	2009	2008
<b>Individually impaired</b>				
Grade 2 - to be monitored	537	406	-	-
Grade 3 - below average	1,588	724	-	-
Grade 4 - doubtful	627	42	-	-
Gross amount	2,752	1,172	-	-
Impairment	<u>(633)</u>	<u>(138)</u>	-	-
Carrying amount	<u>2,119</u>	<u>1,034</u>	-	-
<b>Collectively impaired</b>				
Grade 2 - to be monitored	555	-	-	-
Grade 3 - below average	440	355	-	-
Grade 4 - doubtful	491	267	-	-
Grade 5 - bad	<u>212</u>	<u>33</u>	-	-
Gross amount	1,698	655	-	-
Impairment	<u>(553)</u>	<u>(153)</u>	-	-
Carrying amount	<u>1,145</u>	<u>502</u>	-	-
<b>Past due but not impaired</b>				
Grade 1 - problem free	-	-	-	-
Grade 2 - to be monitored	2,336	2,109	-	-
Carrying amount	2,336	2,109	-	-
Past due comprises				
0-30	-	109	-	-
30-60	1,978	1,993	-	-
60-90	89	7	-	-
90-180	141	-	-	-
over 180 days	128	-	-	-
Carrying amount	2,336	2,109	-	-
<b>Neither past due nor impaired</b>				
Grade 1 - problem free	47,170	41,505	67,198	55,125
Grade 2 - to be monitored	1,737	13,368	-	-
Carrying amount	48,907	54,873	67,198	55,125
IBNR	(128)	(92)	-	-
<b>Total</b>	<b><u>54,379</u></b>	<b><u>58,426</u></b>	<b><u>67,198</u></b>	<b><u>55,125</u></b>

### **30. Exposure to credit risk (continued)**

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The categories for loan classification are as follows:

Problemfree (Grade 1): no loss can be expected, the loan will be repaid, and or the payment does not exceed 15 days or - in case of private individuals - 30 days, and/or will be recovered.

To be monitored (Grade 2): minimal loss (up to 10% of principal), or need special attention.

Below average (Grade 3): assets carrying higher risk than usual, the loss ranges from 11% to 30% of principal.

Doubtful (Grade 4): the payment delay is permanent or regular, the loss does not exceed 70% of principal.

Bad (Grade 5): the loss is expected to higher than 70% of the book value, or there is a bankruptcy proceeding against the client, and the collaterals are not expected to cover the loss.



### **31. Regulatory capital**

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The Hungarian Financial Supervisory Authority's guidance is based on the European Commission's directive, the Basel Committee's work and the guideline on Pillar 2 published by the Committee of European Banking Supervisors. The Basel Committee emphasizes the importance of setting quantitative and qualitative capital targets, adequately proactive capital planning and strong senior management involvement in, and responsibility for, capital planning. HFSA requires monthly reports from banks and financial institutions concerning the capital requirement and solvency ratio. The European Common Reporting (COREP) charts are used as a standard form to be reported from 1 January 2008.

Main elements for the calculation of Risk Weighted Assets are the followings:

Tier 1 capital, which includes ordinary share capital, share premium, general reserve, general risk provision, retained earnings, negative differences due to consolidation, less intangible asset adjustments. Under Hungarian law the amount of the general risk reserve is charged to the income statement and is a tax deductible expense. This amount has been treated as an appropriation of retained earnings.

Tier 2 capital containing fair value reserve for available-for-sale equity securities and qualifying subordinated liabilities. These two elements create the regulatory capital which is reduced by the amount of investments in financial institutions, large exposure limit and certain other regulatory items, if any.

The most significant business risks to which the Bank is exposed are market interest rate, liquidity, foreign exchange rate and credit risks. Integrated and on-line systems ensure constant, timely monitoring of risk. The Bank's policies for managing each of the major financial risks are reviewed regularly by the respective business areas, internal audit, senior management and the respective Boards of Directors.

Various limits are applied to elements of the capital base. The amount of qualifying subordinated loan capital may not exceed 50 percent of original own funds.

There also are restrictions on the amount of large exposure limits. The amount of the exposure against a customer or a customer group cannot exceed 25 percent of the bank's regulatory capital; the total amount of large risk taken by the bank may not exceed the eightfold amount of the bank's regulatory capital.

Banking operations are categorised in banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank implemented Basel II Standard method from 1 January 2008. The Bank follows the instructions, requirements and methods given by the national regulator and its parent bank. The purpose of Basel II was to create standards and regulations on how much capital financial institutions must have put aside. Banks need to put aside capital to reduce the risks associated with its investing and lending practices.

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Notes to the unconsolidated financial statements for the year ended 31 December 2009

**31. Regulatory capital (continued)**

The Bank intends to use the standardized approach in the future.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with gearing and the advantages and security afforded by a sound capital position.

	<u>2009</u>	<u>2008</u>
<b>Tier 1 Capital</b>		
Ordinary share capital	3,000	3,000
Share premium	783	783
General reserve	999	916
General risk provision the 1,25 percentages of the corrected balance sheet total	867	393
Retained earnings	8,467	6,911
P/L according to the balance sheet	747	1,556
Less intangible adjustments	(52)	(79)
<b>Tier 1 Total</b>	<b><u>14,811</u></b>	<b><u>13,480</u></b>
<b>Tier 2 Capital</b>		
Fair value reserve for available-for-sale equity securities	36	-
<b>Tier 2 Total</b>	<b><u>36</u></b>	<b><u>=</u></b>
<b>Total regulatory capital</b>	<b><u>14,847</u></b>	<b><u>13,480</u></b>
Large exposure limit	-	(4,715)
<b>Modified adjusted capital</b>	<b>14,847</b>	<b>8,765</b>
<b>Risk Weighted Assets</b>	<b>89,213</b>	<b>61,213</b>
Credit risk	82,870	54,870
Market risk	-	-
Operational risk	6,343	6,343
<b>Capital adequacy (%)</b>	<b>16.64%</b>	<b>14.32%</b>