UniCredit
Jelzálogbank

# UniCredit Jelzálogbank Zrt.

## Unconsolidated Financial Statements and Independent Auditor's Report

## for the year ended 31 December 2012

Budapest, 5 February 2013

## UNICREDIT JELZÁLOGBANK Zrt.

## Unconsolidated Financial Statements for the year ended 31 December 2012

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**KPMG Hungária Kft.**
Váci út 99.
H-1139 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

# Independent Auditors' Report

Shareholders UniCredit Jelzálogbank Zrt.

## Report on the Financial Statements

We have audited the accompanying financial statements of UniCredit Jelzálogbank Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2012, the income statement, 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 policies 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 audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, 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, 5 February 2013

KPMG Hungária Kft.

Robert Stöllinger
Partner

## UNICREDIT JELZÁLOGBANK Zrt.

### Unconsolidated statement of financial position (balance sheet) as at 31 December 2012

(HUF million)

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| Available for sale financial assets | 13 | 13,878 | 10,073 |
| Placements with, and loans and advances to banks | 14 | 50,304 | 67,720 |
| Loans and advances to customers | 15 | 39,742 | 48,635 |
| Property, plant and equipment | 16 | 1 | 3 |
| Intangible assets | 17 | 4 | 19 |
| Current tax assets | 12 | 39 | 217 |
| Deferred tax assets | 12 | 107 | 235 |
| Other assets | 18 | 445 | 526 |
| **Total assets** | | **104,520** | **127,428** |
| **Liabilities** | | | |
| Deposits and loans from banks | 19 | 27,499 | 25,516 |
| Deposits from customers | 20 | 117 | 297 |
| Issued bonds | 22 | 58,493 | 83,710 |
| Current tax liabilities | 12 | 0 | 0 |
| Deferred tax liabilities | 12 | 313 | 378 |
| Other liabilities | 21 | 32 | 427 |
| **Total liabilities** | | **86,454** | **110,328** |
| **Shareholder's Funds** | | | |
| Share capital | 23 | 3,000 | 3,000 |
| Capital reserve | | 783 | 783 |
| Retained earnings | | 11,176 | 11,483 |
| Statutory reserves | 24 | 1,701 | 1,661 |
| Valuation reserves | | 142 | (559) |
| Net profit for the year after transfers | | 1,264 | 732 |
| **Total Shareholder's Funds** | | **18,066** | **17,100** |
| **Total Liabilities and Shareholder's Funds** | | **104,520** | **127,428** |

Budapest, 5 February 2013

UniCredit Jelzálogbank Zrt.
5.

Pórfy György
chief executive officer

Novákné Bejczy Katalin
Member of Board of Directors

# UNICREDIT JELZÁLOGBANK Zrt.

## Unconsolidated income statement
## for the year ended 31 December 2012

(HUF million)

| | Note | 2012 | 2011 |
|---|---|---|---|
| Interest and similar income | 6 | 7,951 | 9,056 |
| Interest expense and similar charges | 6 | (4,811) | (5,035) |
| **Net interest income** | 6 | **3,140** | **4,021** |
| Fee and commission income | 7 | 36 | 40 |
| Fee and commission expense | 7 | (16) | (131) |
| **Net fee and commission income** | 7 | **20** | **(91)** |
| Dividend income | | 0 | 0 |
| Net trading income | 11 | (57) | 139 |
| Realised loss on Early Repayment Scheme | 9 | (1,038) | (745) |
| Net gain and loss on other financial intruments | 9 | (108) | 29 |
| **Operating income** | | **1,957** | **3,353** |
| Impairment and losses on credit products | 26 | (536) | (1,008) |
| Impairment due to Early Repayment Scheme | 26 | 874 | (874) |
| **Impairment losses** | | **338** | **(1,882)** |
| **Net financial activity result** | | **2,295** | **1,471** |
| Personnel expenses | 8 | (143) | (104) |
| General operating expenses | 10 | (546) | (336) |
| Other provision | | 0 | (1) |
| Depreciation on property, plant and equipments | 16 | (1) | (2) |
| Amortization on intangible assets | 17 | (15) | (15) |
| Other income /(expenses) | | 0 | (1) |
| **Operating costs** | | **(705)** | **(459)** |
| **Profit before tax** | | **1,590** | **1,012** |
| Income tax expense | 12 | (326) | (280) |
| **Net profit for the year** | | **1,264** | **732** |

Budapest, 5 February 2013

UniCredit Jelzálogbank Zrt.
5.

Pórfy György
chief executive officer

Novákné Bejczy Katalin
Member of Board of Directors

**UNICREDIT JELZÁLOGBANK Zrt.**

**Unconsolidated statement of comprehensive income**
**for the year ended 31 December 2012**

(HUF million)

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Net profit for the year** | | **1,264** | **732** |
| Movement in fair value reserve (available-for-sale financial assets) | | 865 | (690) |
| Income tax on fair value reserve | | (164) | 434 |
| Net movement in fair value reserve | | **701** | **(256)** |
| **Total comprehensive income for the year** | | **1,965** | **476** |

Budapest, 5 February 2013

UniCredit Jelzálogbank Zrt.
5.

Pórfy György
chief executive officer

Novákné Bejczy Katalin
Member of Board of Directors

**UNICREDIT JELZÁLOGBANK HUNGARY Zrt.**

**Unconsolidated statement of changes in Shareholder's equity for the year ended 31 December 2012**

| (HUF million) | Ordinary Shares | Capital Reserve | Retained Earnings | Statutory Reserves | Available For Sale Reserve | Net profit | Total |
|---|---|---|---|---|---|---|---|
| **Balance 1 January 2011** | 3,000 | 783 | 9,105 | 2,246 | (303) | 1,794 | 16,625 |
| Net profit for the previous year | - | - | 1,794 | - | - | (1,794) | - |
| Total comprehensive income for the year | - | - | - | - | (256) | 732 | 476 |
| Dividend to equity holder | - | - | - | - | - | - | - |
| Business combination | | | | | | | |
| Appropriations | | | | | | | |
| Transfer from retained earnings | - | - | 584 | (584) | - | - | - |
| **Balance 31 December 2011** | 3,000 | 783 | 11,483 | 1,662 | (559) | 732 | 17,101 |
| Net profit for the previous year | - | - | 732 | - | - | (732) | - |
| Total comprehensive income for the year | - | - | - | - | 701 | 1,264 | 1,965 |
| Dividend to equity holder | - | - | (1,000) | - | - | - | (1,000) |
| Business combination | | | | | | | |
| Appropriations | | | | | | | |
| Transfer from retained earnings | - | - | (39) | 39 | - | - | - |
| **Balance 31 December 2012** | 3,000 | 783 | 11,176 | 1,701 | 142 | 1,264 | 18,066 |

UniCredit Jelzálogbank Zrt.
5.

Budapest, 5 February 2013

Pórfy György
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 2012**

| (HUF million) | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before tax | | **1,590** | **1,012** |
| Items not involving movement of cash: | | | |
| Depreciation and amortisation | 16, 17 | 17 | 17 |
| Net impairment and losses in credit products | 26 | (338) | 1,881 |
| Taxation paid | 12 | (326) | (280) |
| *Cash flows from operating profits before changes in operating assets and liabilities* | | **(647)** | **1,618** |
| Change in financial assets held for trading | | | |
| Change in tax assets | 12 | 142 | (171) |
| Change in other assets | | 81 | 120 |
| Change in tax liabilities | 12 | (65) | 204 |
| Change in other liabilities | 21 | (395) | (4) |
| Change in loans and advances to customers | 15 | 9,231 | 2,859 |
| Change in deposits with other banks | 14 | 17,416 | 3,709 |
| Change in deposits from customers | | (180) | 297 |
| Change in deposits from other banks | | 1,983 | (37,775) |
| *Net cash from operating activities* | | **28,213** | **(30,761)** |
| **Cash flows from investing activities:** | | | |
| Change in available for sale financial assets | 13 | (2,939) | 781 |
| *Net cash used in investing activities* | | **(2,939)** | **781** |
| **Cash flows from financing activities:** | | | |
| Change in issued mortgage bonds | 22 | (25,217) | 27,350 |
| Divident paid | | (1,000) | - |
| *Net cash from financing activities* | | **(26,217)** | **27,350** |
| **Net Increase in cash** | | - | - |
| Cash at the beginning of the year | | - | - |
| Cash at the end of the year | | - | - |

The accompanying notes (1-37) form an integral part of these financial statements.

# 1. General

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 UniCredit S.p.A. ("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 31st December 2012, UniCredit Bank Hungary Zrt. (the "UniCredit Bank") held 3,000 shares.

Transactions with members of the Group 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 5 February 2013.

# 2. Basis of preparation

## 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").

## b) Basis of measurement

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.

## 2. Basis of preparation (continued)

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

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 is the HUF.

## 3. Significant accounting policies

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) Comparatives

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

### b) Cash and cash equivalents

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

### c) Financial instruments

#### a. Classification

*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.

*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.

## 3. Significant accounting policies (continued)

### b. Recognition and de-recognition

The Bank recognises financial assets and liabilities on trade date. A financial asset or financial liability is 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.

### c. 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 determined and compared with its carrying amount to assess the amount of any impairment.

## 3. Significant accounting policies (continued)

*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.

### d) Transactions in foreign currency

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.

## 3. Significant accounting policies (continued)

### e) 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 3.c. above.

### f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated amortisation 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.

### g) 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.

### h) 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:

| | Depreciation Rate<br>% |
|---|---|
| Intangible asset | 20 |
| Office equipment | 14.5 |
| Motor vehicles | 20 |

### i) 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 income statement.

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.

## 3. Significant accounting policies (continued)

### j) Loans and advances

Loans and advances originated by the Bank 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, relevant to the Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds.

### k) 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 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 5 to 6 months according to the type of clients or (in case of the retail segment) products.

### l) 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 purchased and own independent mortgage rights and other securities such as government bonds and treasury bills.

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

## 3. Significant accounting policies (continued)

### m) Equity elements

i) Statutory reserves

*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.

*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.

ii) 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 3.c. above.

### n) 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 on all instruments measured at amortised cost.

For loans and advances, the effective interest rate is established individually. When calculating the effective interest rate, all contracted cash-flows are taken into account including fees commissions, as well as possible premiums or discounts. Estimated future credit losses are however not included.

## 3. Significant accounting policies (continued)

*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. Net commissions and fees are included in the income statement as they are received and paid.

*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.

*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.

### o) 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.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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.

## 3. Significant accounting policies (continued)

### p) 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.

### q) 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.

### r) 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.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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, deposits and other transactions and balances with corporate customers |

## 3. Significant accounting policies (continued)

| | |
|---|---|
| - 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. |

The result of each segment also includes the allocated head office direct costs according to the cost allocation policy. The business segment report is presented in Note 32.

**s) 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 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below:

(i) IFRS 9 *Financial instruments* (2009) and IFRS 9 *Financial instruments* (2010) (together IFRS 9)

IFRS 9 (2009), 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.

## 3. Significant accounting policies (continued)

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.

FRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Group is currently in the process of evaluating the potential effect of these standards. Given the nature of the Group's operations, this standard is expected to have an impact on the Group's consolidated financial statements.

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

*Disclosures – Offsetting Financial Assets and Financial Liabilities* (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. If the effect or potential effect of netting arrangements, including rights of set-off is material, the Group will disclose information enabling users of the financial statements to evaluate the effect of such arrangements on the Group's financial position.

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

## 3. Significant accounting policies (continued)

(iii) IFRS 13 *Fair Value Measurement* (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

## 4. Risk Management Policies

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.

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 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 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 approved by the Management Board, the regulations themself by the Chief Executive Officer of the Bank in accordance with the formal approval of the Chief Risk Officer of UniCredit Bank.

Classified, problematic loans – restructuring, collection and work-out activity - are handled by UniCredit Bank as agent of the Bank.
Credit risk of the Bank is managed in standard approach.

*Client and transaction classification*

All outstanding loans are reviewed in general monthly, in-depth at least quarterly on an individual basis or – below a certain threshold – within a collective assessment.
Clients are classified at least yearly based on a point rating system, which incorporates qualitative and quantitative factors, or in case of private clients the classification is based on client's payment history and default events. (Expert-based model.)
The Group applies a rating masterscale consisting of 26 notches within 10 rating classes. Thereof three notches serve for the defaulted customers, the others for the performing ones. Ratings refer to the probability of default (PD) according to the (group-wide used) masterscale. (Certainly, in case of defaulted clients PD is 100%.).

Client classification is not equivalent to 'loans' classification.

## 4. Risk Management Policies (continued)

*Collateral*

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:

- Real estate collateral;
- Financial collateral held with other institutions;
- Insurance;
- Personal collateral – direct;
- Personal collateral – indirect;
- Assignment of receivables, pledge on receivables;
- Movable property 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. 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 UniCredit Bank Austria AG ("Bank Austria"), and this is also the department which carries out the regular review (at least once a year).
- Maturity haircut: maturity mismatch occurs on exceptional basis, 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.

In case of real estate collateral, the value is established by a technical expert who is independent from the credit process. 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 every 3 years for residential real estate. In case of residential real estate the Bank applies statistical revaluation.

## 4. Risk Management Policies (continued)

The price/value of financial collateral is updated on a monthly basis in the collateral system.
Eligibility of guarantees and surety is subject to proper evaluation 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 group 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 sale of that asset, however. The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank did not use the non-cash collateral for its own operation.

Loans are classified in general monthly, and going into details at least quarterly, individually or (below a certain threshold) collectively.

Individual classification is necessary if the total exposure of the client exceeds a certain limit predefined in the relevant internal regulation. In this case the classification has to be based on the expected cash-flows, evaluated and revised according to 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;
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;

## 4. Risk Management Policies (continued)

d) the value of collateral pledged in security, their liquidity and accessibility, and any changes therein;
e) the re-marketability and liquidity 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, all of the criteria indicated above have to be taken into consideration in a way where 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. Time effect of the future cash-flows has also to be taken into consideration during the evaluation.

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 individual level, but with a simplified - standardized - method: taking into account certain - statistically estimated - parameters of both the client and the loan. Any deviation from this result is allowed only by taking over the item into individual classification.

*Distressed restructuring*

Restructuring is to be considered destressed (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), i.e. if the net present value of the loan is negatively affected by the restructuring, and if without the restructuring the customer would have got defaulted with high probability. Restructuring or re-aging for business considerations (e.g., the adjustment of the repayment schedule to the cash-flow of the client) does not constitute a default signal.

## 4. Risk Management Policies (continued)

*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*

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 Group establishes impairment for incurred but not reported loss (IBNR) according to IFRS based on the Group guidelines.

For predefined sub-portfolios 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 sub-portfolio level the loss confirmation period (LCP) is defined (ranging 5-6 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 increase/decrease is booked accordingly.

*Write-off policy*

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

## 4. Risk Management Policies (continued)

*Actual tendencies in lending*

The industrial sector analysis and collateral details of loan portfolios are presented in Note 15 and the details of exposure of credit risk are presented in Note 34.

In the private portfolio the effects of the economic turmoil is still present in 2012 and the limitations and programs imposed by respective legislation were perceivable, the pace of portfolio quality deterioration was more moderate than in 2011.
The Bank lays emphasis on all elements of collection and – in addition to the programs prescribed by law – it continuously offers the possibility of renegotiation to its private individual clients in payment delay due to the negative effects of the unfavourable exchange rate movements or unfavourable economic conditions.

*Early Repayment Program*

The Home protection Act (Act LXXV of 2011) became effective in September 2011. The Act grants an option to the borrowers to repay their fx mortgage loans at preferential fx rates. Only those borrowers may take part in the scheme who had borrowed loans in CHF, EUR, or JPY at exchange rates below the repayment rates. The repayment rates are: 180 CHF/HUF; 250 EUR/HUF; 2 JPY/HUF. The difference between the amount at market rate and at the preferential rate is the loss of the financing banks. The program started at the end of September 2011, and the customers had the possibility to repay their loans within 60 days after the announcement of their intention, which could take place until end of 2011. The repayment period ended on 29th February 2012. In 2011 the Bank allocated risk cost provision amounting of 874 MHUF for the projected losses to be realized due to the program 2012. This provision was released in 2012 and the loss (1,038 MHUF) was booked under loss on loans and receivables (see Note 9 and Note 26). The high volume of performing deals leaving the portfolio due to this program increased the ratio of non-performing deals significantly. (No active lending activity in the Bank according to the current business strategy.)

*Other programs supporting debtors*

In 2012 the Bank contracted with the National Asset Management Company (Nemzeti Eszközkezelő-NET). The Bank's intent is to support its socially disadvantaged private clients indepted in foreign currency – mainly in CHF – and simultaneously to decrease its non-performing private portfolio. The Bank financed newly built flats in Budapest – legal framework for applying this device is very restricted, no contract between NET and a client was signed in 2012.

In the corporate and small business segment in 2012 the Bank continued to lay special emphasis on the monitoring, restructuring, and collection and work-out activity. The pace of deterioration stopped, there were hardly any new defaulted loans in this segment.

## 4. Risk Management Policies (continued)

ii) Liquidity risk

Liquidity risk is the risk of meeting due obligations associated with its financial liabilities in time regarding each currencies.

The objective of prudential liquidity management is to ensure that the Group has the ability to generate sufficient funds to meet all cash flow obligations as these fall due. Effective liquidity management is gaining importance in recent years ensuring market confidence, and protect the capital base while permitting effective growth. The Group has created its own short term and structural liquidity models similar to the efforts of the Basel Committee. The Group takes into account also the local legal requirements of asset-, deposit coverage ratio and foreign funding adequacy ratio limitations and monitors the Basel3 liquidity ratios besides its own internal regulations in managing liquidity.

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

In line with UniCredit Group-wide standards, the Group 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 scenarios of several general and 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.

Short-term and structural liquidity limits of the Group were observed continuously in 2012. 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 was used as a key figure in managing the Group's liquidity and funding. Beyond the limits on ratios, absolute gap limits were introduced to decrease central funding and liquidity dependency.

The maturity analysis of non-derivative liabilities and the exposure to interest rate risk are represented in Notes 28 and 29.

## 4. Risk Management Policies (continued)

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 default) will affect the Group's income or the fair value of its holdings of financial instruments.
Market risk management encompasses all activities in connection with Group's Treasury and Asset-Liability Management ("ALM") operations and management of the statement of financial position 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 Group market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily presentation of results of Markets's operations.

The Bank uses the risk management procedures of Bank Austria Group (as a subgroup of UniCredit Group) that complies with UniCredit standards and implements the Group's new Internal Model (IMOD). Besides Value at Risk ("VaR"), other factors of equal importance are stress-oriented volume and position limits.

IMOD, the Group-wide pure historic VaR model has been used from 1st January 2011. It is currently implemented in the "NoRISK" system of Bank Austria. 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 (both general and specific risk) and exchange rate risk. The VaR position of the Bank is presented in Note 35.

## 4. Risk Management Policies (continued)

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 web application "ERCONIS" maintained centrally in Vienna, analysed by portfolio, income statement item and currency.

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 values (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) by delta equivalents. 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 BPV and credit spread points analysis are presented in Note 36.

Management of statement of financial position structure

Interest rate risk and liquidity risk from customer transactions is attributed to Group's treasury operations through a matched funds transfer pricing system applied throughout the 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 Group's overall maturity structure is optimised.

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 Group's overall risk position.

## 4. Risk Management Policies (continued)

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 27.

iv) Compliance with Basel II

The implementation of Basel II, and respectively the European Capital Requirement Directive has been established as a group-wide project overseen by the Group with regard to group-wide topics and decisions. There is a special Basel II project in Hungary accordingly, and the Bank is participating in this project as well. Close cooperation ensures consistency within the Group, during the implementation and ongoing compliance of Basel II. Group standards prepared by the 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, IRB implementation is not planned.

## 4. Risk Management Policies (continued)

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.

Strategic risk, business risk and reputational risk are different from operational risk, whereas legal and compliance risk are included in the operational risk definition.[1]

The Bank manages its operational risks in standardized approach since 1. January 2008.

Controlling of the operational risk activity is outsourced to UniCredit Bank. Operational risk events and losses of the Bank are collected in a separate system which is defined on group-wide standards.

UniCredit 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. The Bank's internal operational risk regulation is based on these regulations, and has to be approved by the Management Board of the Bank as well.

By this regulation is ensured:

- 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 and Reputational Risk Controlling unit, Compliance and Internal Audit.

[1] However, due to the increasing importance of reputational risk and in compliance with the group-rules reputational risk was nominated at organizational level: Operational Risk Committee of the Hungarian Group became Operational and Reputational Risk Committee, and Operational Risk Controlling became Operational and Reputational Risk Controlling in 2012.

## 4. Risk Management Policies (continued)

The Operational and Reputational Risk Committee is responsible for making decisions on Operational Risk.

Members of the Committee are the Management Board members, representing: CEO's Division, Corporate, Investment Banking and Private Banking Division, Retail 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 Chief Executive Officer of the Bank is a member of this Committee. The Operational and Reputational 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.

The centralized Operational Risk Controlling has to operate the framework at the Hungarian Group level 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, including the Bank.

## 5. Use of estimates and judgements

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 3.(j.), (k.) and risk management policy 4.(i.).

ii.) Determining fair value

As far as valuation prices and techniques of financial instruments are concerned, the Group follows a measurement using a three-level fair valuation hierarchy, that reflects the significance of the inputs used in measuring fair values and contains the following three levels:

## 5. Use of estimates and judgements (continued)

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities,
Level 2 – inputs, other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices),
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classification of financial instruments is described in Note 32.

Fair Valuation is supplemented by a Fair Valuation Reserve that inter alia covers the effect of widened bid-ask spreads and the deteriorated liquidity of respective securities. The fair value valuation techniques for loans and advances, and deposits are described in Note 31.

iii.) Financial assets and liabilities classification

The Group's accounting policies determine the different accounting categories for the classification of financial assets and liabilities. The criteria for classification is described in accounting policies 3.(c.) and (e.).

iv.) Effects of sovereign debt crisis and earlier credit crunch in valuations

a) Debt securities classified as Available for Sale, were not impaired, as the Group does not doubt neither the issuers' (Hungarian Government, local Mortgage Banks) ability not their willingness to fulfil their due payments. The few price losses observed through market prices, hence, were realised in the AFS Reserves in the Equity statement.

b) The Group was not engaged in securitization, nor does it possess financial instruments particularly hit by the 2008 market, nor the Greek default, such as asset-backed securities, credit derivatives and structured OTC products (e.g. CDOs, ABCP, SIV), or assets affected by recent sovereign crises.

c) The Group is exposed towards the Hungarian Government, but the vast majority of those exposures are liquidity reserves, mostly short term government bonds and bills.

## 6. Net interest income

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Interest and similar income | | |
| Interest income from Central Bank | 2 | 1 |
| Interest income from banks | 3,766 | 4,378 |
| Interest income from customers | 3,121 | 3,897 |
| Interest income on Available for sale financial assets | 1,062 | 780 |
| | 7,951 | 9,056 |

| | 2012 | 2011 |
|---|---|---|
| Interest expense and similar charges | | |
| Interest expense to banks | (548) | (391) |
| Interest expense to customers | (20) | (11) |
| Interest expense on issued bonds | (4,243) | (4,633) |
| | (4,811) | (5,035) |
| Net interest income | 3,140 | 4,021 |

## 7. Net fee and commission income

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Fees and commission income | | |
| Other financial fees and commissions | 36 | 40 |
| | 36 | 40 |
| Fees and commission expense | | |
| Payment transaction fees | - | (19) |
| Custody service fees | (4) | (6) |
| Other financial fees and commissions | (12) | (106) |
| | (16) | (131) |
| | 20 | (91) |

## 8. Personnel expenses

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Wages and salaries | 94 | 70 |
| Statutory social-security contributions | 37 | 23 |
| Other employee benefits | 10 | 10 |
| Employer's contributions | 2 | 1 |
| | 143 | 104 |

The number of employees (in full time equivalent) was 11,7 on 31 December 2012. (2011: 10,8 employees).

## 9. Net gain and loss on other financial instruments

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Gain | | |
| Available-for-sale debt securities | 1 | 29 |
| Loss | | |
| Loans and receivables | (1,038) | (745) |
| Available-for-sale debt securities | (109) | - |
| | (1,146) | (716) |

Increase in the loss is due to the realised fixed rate redemption loss. However, this loss is compensated with the release of impairment made in 2011 (presented in Note 26). The related Home protection program is presented in the Risk policies under Early Repayment Program section.

## 10. General operating expenses

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Other indirect tax expense and costs of authorities | 292 | 122 |
| Renting costs and operating expenses of property | 17 | 15 |
| Information technology costs | 71 | 39 |
| Material and office equipments costs | 1 | 1 |
| Other administrative expenses | 165 | 159 |
| Total | **546** | **336** |

## 11. Net trading income

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Profit on foreign exchange | (57) | 139 |

## 12. 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 2012 for the tax base was 10% up to 500 million HUF; for the tax base exceeding 500 million HUF the rate was 19%. The Bank has to pay the additional supplementary tax to income earned on special loans.

| (HUF million) | 2012 | 2011 |
|---|---|---|
| **Tax expense for the year** | | |
| Current tax expense | 448 | 141 |
| Adjustments for prior years | 1 | - |
| | 449 | 141 |
| **Deferred tax charge** | (123) | 139 |
| **Total income tax expense in income statement** | **326** | **280** |

**Reconciliation of effective tax rate**

| | 2012 | 2012 | 2011 | 2011 |
|---|---|---|---|---|
| | (%) | (HUF million) | (%) | (HUF million) |
| Profit before tax | - | 1,590 | - | 1,012 |
| Income tax using the domestic corporate tax rate | 16.9 | 268 | 14.6 | 147 |
| Supplementary corporate tax for banks | 4.5 | 72 | 8.1 | 82 |
| Adjustments for prior years | 0.1 | 1 | - | - |
| Tax effects of income/expenses exempt from corporate tax | (0.1) | (1) | - | - |
| General risk reserve | - | - | 6.5 | 66 |
| Income/expenses giving rise to permanent differences: | | | | |
| - Other | (0.9) | (14) | (1.5) | (15) |
| | 20.5 | 326 | 27.7 | 280 |

## 12. Taxation (continued)

| **Balances, related to taxation** (HUF million) | **Assets** | **Liabilities 2012** | **Net** | **Assets** | **Liabilities 2011** | **Net** |
|---|---|---|---|---|---|---|
| Current tax assets / (liabilities) for the year | (39) | - | (39) | ( 217) | - | (217) |
| Deferred tax assets / (liabilities) | | | | | | |
| Available-for-sale securities | - | 33 | 33 | (132) | - | (132) |
| Allowances for loan losses (IBNR) | (78) | - | (78) | (99) | - | (99) |
| Legal reserve | - | 91 | 91 | - | 117 | 117 |
| Effect of items, increasing / (decreasing) the local tax base | (29) | 189 | 160 | (4) | 261 | 257 |
| Total deferred tax assets / (liabilities) | (107) | 313 | 206 | (235) | 378 | 143 |
| **Total tax assets / (liabilities)** | **(146)** | **313** | **167** | **(452)** | **378** | **(74)** |

## 12. Taxation (continued)

| **Movements in temporary differences during the year – 2012** (HUF million) | Opening balance | Recognised in profit and loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| Available-for-sale securities | (132) | - | 165 | 33 |
| Allowances for loan losses (IBNR) | (99) | 21 | - | (78) |
| Legal reserve | 117 | (26) | - | 91 |
| Effect of items, increasing / (decreasing) the local tax base | 257 | (118) | 21 | 160 |
| **Total deferred tax assets / (liabilities)** | **143** | **(123)** | **186** | **206** |

| **Movements in temporary differences during the year – 2011** (HUF million) | Opening balance | Recognised in profit and loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| Available-for-sale securities | (71) | - | (61) | (132) |
| Allowances for loan losses (IBNR) | (26) | (73) | - | (99) |
| Legal reserve | 174 | (57) | - | 117 |
| Effect of items, increasing / (decreasing) the local tax base | (12) | 269 | - | 257 |
| **Total deferred tax assets / (liabilities)** | **65** | **139** | **(61)** | **143** |

## 13. Available for sale financial assets

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Government bonds | 13,878 | 10,073 |
| | 13,878 | 10,073 |

The balance of the AFS reserve including deferred tax in the shareholder's equity was HUF 142 million.

## 14. Placements with, and loans and advances to other banks

| (HUF million) | 2012 | 2011 |
|---|---|---|
| **Loans and advance to other banks** | | |
| Nostros with other banks | 2,234 | 195 |
| Maturity less than one year | 6,860 | 11,653 |
| Maturity more than one year | 41,210 | 55,872 |
| Total | 50,304 | 67,720 |

## 15. Loans and advances to customers

| (HUF million) | 2012 | 2011 |
|---|---|---|
| *Private and commercial:* | | |
| Maturity less than one year | 16,354 | 15,923 |
| Maturity more than one year | 27,884 | 37,847 |
| | 44,238 | 53,770 |
| Provision for impairment and losses on credit products (Note 26.) | (4,496) | (4,261) |
| Impairment due to Early Repayment Scheme | (-) | (874) |
| | (4,496) | (5,135) |
| | 39,742 | 48,635 |

A. Analysis by industrial sector

| (HUF million) | 2012 | % | 2011 | % |
|---|---|---|---|---|
| Real estate finance | 12,521 | 28.3 | 13,929 | 25.9 |
| Private clients | 29,974 | 67.75 | 37,719 | 70.15 |
| Trade | - | - | - | - |
| Agriculture | 685 | 1.55 | 927 | 1.72 |
| Catering trade | 1,020 | 2.31 | 1,090 | 2.03 |
| Community | 38 | 0.09 | 42 | 0.08 |
| Other | - | - | 63 | 0.12 |
| Total | 44,238 | 100.00 | 53,770 | 100.00 |

The total amount is presented net of provision for impairment losses.

B. Collateral for the above loans

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

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Against individually impaired | 1,066 | 1,447 |
| Guarantees | 79 | 78 |
| Cautions | 8 | 37 |
| Property/Real estate | 979 | 1,332 |

## 15. Loans and advances to customers (continued)

Collateral for the above loans continued

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Against collectively impaired | 1,405 | 1,259 |
| Guarantees | 2 | 9 |
| Cautions | 34 | 72 |
| Property/Real estate | 1,368 | 1,178 |
| Others | 1 | - |
| Against past due but not impaired | 624 | 671 |
| Guarantees | - | 9 |
| Cautions | 11 | 3 |
| Property/Real estate | 613 | 659 |
| Against neither past due nor impaired | 67,013 | 86,951 |
| Guarantees | 17 | 625 |
| Cautions | 82 | 209 |
| Property/Real estate | 23,079 | 27,253 |
| Debt securities | - | 3,730 |
| Others (independent mortgage rights) | 43,835 | 55,134 |

## 16. Property, plant and equipment

Movement in property, plant and equipment

(HUF million)

| | Acquisition cost at the beginning of the year | Accumulated depreciation at the beginning of the year | Additions | Disposals net | Depreciation | **Carrying amount at the end of the year** |
|---|---|---|---|---|---|---|
| 2012 | | | | | | |
| Land and buildings | - | - | - | - | - | **-** |
| Office equipment | 3 | 3 | - | - | - | **-** |
| Motor vehicles | 7 | 4 | 1 | 2 | 1 | **1** |
| Capital work in progress | - | - | - | - | - | **-** |
| | 10 | 7 | 1 | 2 | 1 | **1** |
| 2011 | | | | | | |
| Land and buildings | - | - | - | - | - | **-** |
| Office equipment | 3 | 3 | - | - | - | **-** |
| Motor vehicles | 7 | 2 | - | - | 2 | **3** |
| Capital work in progress | - | - | - | - | - | **-** |
| | 10 | 5 | - | - | 2 | **3** |

## 17. Intangible assets

Movement in intangible assets (HUF million)

| | Acquisition cost at the beginning of the year | Accumulated amortisation at the beginning of the year | Additions | Disposals net | Amortisation | **Carrying amount at the end of the year** |
|---|---|---|---|---|---|---|
| 2012 | | | | | | |
| Software | 728 | 709 | - | - | 15 | **4** |
| | 728 | 709 | - | - | 15 | **4** |
| 2011 | | | | | | |
| Software | 728 | 694 | - | - | 15 | **19** |
| | 728 | 694 | - | - | 15 | **19** |

## 18. Other assets

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Trade receivables and advances | 53 | 216 |
| Accrued interest income | 392 | 310 |
| | 445 | 526 |

## 19. Deposits and loans from other banks

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Maturity less than one year | 25,182 | 21,704 |
| Maturity more than one year | 2,317 | 3,812 |
| | 27,499 | 25,516 |

## 20. Deposits from customers

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Maturity less than one year | 117 | 297 |
| | 117 | 297 |

## 21. Other liabilities

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Accrued expenses and prepaid income | 30 | 416 |
| Trade payable | - | 6 |
| Other taxes payable | 2 | 4 |
| Other | - | 1 |
| | **32** | **427** |

## 22. Issued bonds

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Maturity less than one year | 9,917 | 17,711 |
| Maturity more than one year | 48,576 | 65,999 |
| | 58,493 | 83,710 |

**Development of the Bank's mortgage bond portfolio in 2012**

The stock of mortgage bonds decreased in all currencies (HUF, EUR, CHF) in 2012. The shrinkage of the foreign currency denominated mortgage bond portfolio resulted from the impact of the early prepayment scheme on the structure of the collateral book, while the outstanding amount of forint denominated mortgage securities decreased in line with the normal contraction of the subsidized HUF mortgage loan volume.

The Bank's outstanding mortgage bond volume stood at HUF 56,795,260,000 (without accrual) on December 31, 2012 versus the end-2011 stock of HUF 81,932,750,000 (based on NBH official currency rates). HUF denominated mortgage bonds represented 68,54% (54,80% end-2011) of the total portfolio, EUR denominated instruments took 7,69% (17,09% end-2011), while the ratio of CHF mortgage bonds was 23,77% (28,11% end-2011).
The share of fixed coupon bonds increased to 65,20% from 46,26% (end-2011) within the total portfolio, while the ratio of floating rate mortgage instruments decreased to 34,80% from 53,74% (end-2011).

Outstanding foreign currency mortgage bonds (UCJBC 2013/1, UCJBC 2021/1 and UCJBE 2021/1) are paying floating rate with three-month reference rates (EURIBOR or CHFLIBOR) and UCJBV 2020/A pays a six-month coupon linked to BUBOR reference. Premiums over the reference rates are moving 200bps and 335bps depending on the maturities and the denomination of certain series. Outstanding fixed coupon mortgage bonds are paying 8.0% (UCJBF2013/A; UCJBF2015/A; UCJBF 2017/A) or 9.0% (UCJBF2014/A; UCJBF2016/A) annual coupons.

In order to maintain the balance of the collateral book, which was heavily distorted by the early prepayment scheme, the Bank re-purchased CHF 17mn each from UCJBC 2013/1 and UCJBC 2021/1 on March 14 and March 20, 2012. EUR denominated mortgage bond stock declined by EUR 30mn due to the maturities of HVBE 2012/1 and UCJBE 2012/2 series. Also, a total of HUF 5,1bn was re-purchased from UCJBV 2020/A (March 19 and September 19).

Only HUF denominated mortgage bond issues took places during 2012: the total gross issue amount reached HUF 5,73bn versus the due principal payments of HUF 6,6bn. UCJBF 2015/A was re-opened twice with the total amount of HUF 30m in H1 2012, while UCJBF 2017/A - a new 5-year instrument - was also introduced in two steps with the total volume of HUF 5,70bn in H2 2012.
In terms of mortgage bond funding cost developments 2012 showed a mixed picture: mortgage bond spread over the government bond yield curve amounted to 140-150bps in H1 2012, while it moved down to 90-100bps in H2 of the year.

## 23. Share capital

| (HUF million) | 2012 | 2011 |
|---|---|---|
| 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.

## 24. Statutory reserves

| | General Reserve | General Risk Reserve | Regulatory Reserve | **Total** |
|---|---|---|---|---|
| Balance at 31 December 2011 | 1,162 | 500 | - | **1,662** |
| Appropriations from retained earnings | 153 | (114) | - | **39** |
| Other | - | - | - | - |
| Balance at 31 December 2012 | 1,315 | 386 | - | **1,701** |

General Risk Provision release is due to the decrease of corrected Balance Sheet total, which is the basis of the provision calculation. (Note 37.)

## 25. Commitments and contingent liabilities

At 31 December 2012, the Bank had the following commitments and contingent liabilities (at nominal values):

| (HUF million) | 2012 | 2011 |
|---|---|---|
| Loan and overdraft facilities granted not disbursed | 316 | 22 |

## 26. Impairments and provisions

### Impairments and provisions on credit products

| | Loans | Guarantees and unutilised loans | **Total financial instruments** |
|---|---|---|---|
| **Balance 31 December 2011** | 5,135 | - | **5,135** |
| Write-offs | (46) | - | **(46)** |
| Amounts released | (843) | - | **(843)** |
| Additional impairment and provisions | 1,297 | - | **1,297** |
| Release of impairment due to Early Repayment Scheme | (874) | - | **(874)** |
| Effect of f/x rate fluctuation | (173) | - | **(173)** |
| **As at 31 December 2012** | **4,496** | - | **4,496** |
| Net movement in impairment and provisions | 408 | | **408** |
| Release of impairment due to Early Repayment Scheme | (874) | | (874) |
| Write-offs | 46 | | 46 |
| **Net amount charged to the income statement** | **(420)** | | **(420)** |
| Receivables written-off | 82 | | 82 |
| **Total charged to the income statement, excluding the effect of f/x rate fluctuation** | **(338)** | | **(338)** |

## 26. Impairments and provisions (continued)

### Impairments and provisions on credit products

| | Loans | Guarantees and unutilised loans | **Total financial instruments** |
|---|---|---|---|
| **Balance 31 December 2010** | 2,927 | - | **2,927** |
| Write-offs | (1) | - | **(1)** |
| Amounts released | (1,268) | - | **(1,268)** |
| Additional impairment and provisions | 2,268 | - | **2,268** |
| Impairment due to Early Repayment Scheme | 874 | - | **874** |
| Effect of f/x rate fluctuation | 335 | - | **335** |
| **As at 31 December 2011** | **5,135** | - | **5,135** |
| Net movement in impairment and provisions | 999 | - | **999** |
| Impairment due to Early Repayment Scheme | 874 | - | **874** |
| Write-offs | 1 | - | 1 |
| **Net amount charged to the income statement** | **1,874** | - | **1,874** |

## 27. Currency structure of assets and liabilities

The currency structure of assets and liabilities as at 31 December 2012 is as follows:

| (HUF million) | Assets | Equity and Liabilities | Total Net foreign currency exposure long/(short) |
|---|---|---|---|
| **Currency:** | | | |
| Euro | 20,596 | 20,307 | 289 |
| Swiss Francs | 25,952 | 25,150 | 802 |
| Total foreign currency: | 46,548 | 45,457 | 1,091 |
| Hungarian Forint | 57,972 | 59,063 | (1,091) |
| **Total** | **140,520** | **140,520** | |

The currency structure of assets and liabilities as at 31 December 2011 is as follows:

| (HUF million) | Assets | Equity and Liabilities | Total Net foreign currency exposure long/(short) |
|---|---|---|---|
| **Currency:** | | | |
| Euro | 22,875 | 23,056 | (181) |
| Swiss Francs | 38,960 | 39,610 | (650) |
| Total foreign currency: | 61,835 | 62,666 | (831) |
| Hungarian Forint | 65,593 | 64,762 | 831 |
| **Total** | **127,428** | **127,428** | |

## 28. Residual contractual maturities of financial liabilities

| *HUF million* | 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 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | | |
| *Non-derivative liabilities* | | | | | | | | |
| Trading liabilities | | - | - | - | - | - | - | - |
| Deposits from banks | | 27,499 | (27,610) | (5,351) | (10,695) | (9,201) | (2,363) | - |
| Deposits from customers | | 117 | (117) | (117) | - | - | - | - |
| Debt securities issued | | 58,493 | (68,011) | - | (234) | (11,493) | (36,018) | (20,266) |
| Subordinated liabilities | | - | - | - | - | - | - | - |
| | | **86,109** | **(95,738)** | **(5,468)** | **(10,929)** | **(20,694)** | **(38,381)** | **(20,266)** |
| *Derivative liabilities* | | | | | | | | |
| Trading | | - | - | - | - | - | - | - |
| Outflow | | - | - | - | - | - | - | - |
| Inflow | | - | - | - | - | - | - | - |
| Risk management | | - | - | - | - | - | - | - |
| Outflow | | - | - | - | - | - | - | - |
| Inflow | | - | - | - | - | - | - | - |
| Unrecognised loan commitments | | - | (316) | (291) | - | - | (25) | - |
| | | **86,109** | **(96,054)** | **(5,759)** | **(10,929)** | **(20,694)** | **(38,406)** | **(20,266)** |

## 28. Residual contractual maturities of financial liabilities (continued)

| *HUF million* | 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 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | | |
| *Non-derivative liabilities* | | | | | | | | |
| Trading liabilities | | - | - | - | - | - | - | - |
| Deposits from banks | | 25,516 | (25,820) | (16,603) | (42) | (5,162) | (4,013) | - |
| Deposits from customers | | 297 | (297) | (297) | - | - | - | - |
| Debt securities issued | | 83,710 | (99,915) | (21) | (549) | (19,594) | (46,064) | (33,687) |
| Subordinated liabilities | | - | - | - | - | - | - | - |
| | | **109,523** | **(126,032)** | **(16,921)** | **(591)** | **(24,756)** | **(50,077)** | **(33,687)** |
| *Derivative liabilities* | | | | | | | | |
| Trading | | - | - | - | - | - | - | - |
| Outflow | | - | - | - | - | - | - | - |
| Inflow | | - | - | - | - | - | - | - |
| Risk management | | - | - | - | - | - | - | - |
| Outflow | | - | - | - | - | - | - | - |
| Inflow | | - | - | - | - | - | - | - |
| Unrecognised loan commitments | | - | (22) | - | - | - | - | (22) |
| | | **109,523** | **(126,054)** | **(16,921)** | **(591)** | **(24,756)** | **(50,077)** | **(33,709)** |

## 29. Exposure to interest rate risk – non-trading portfolios

| *HUF million* | Note | Carrying amount | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | |
| Cash and cash equivalents | | - | - | - | - | - | - |
| Loans and advances to banks | | 50,304 | 7,490 | 19,921 | 13,569 | 9,271 | 53 |
| Loans and advances to customers | | 39,742 | (18) | 13,803 | 19,183 | 6,230 | 544 |
| Investment securities | | 13,878 | 410 | - | 7,092 | 6,376 | - |
| | | 103,924 | 7,882 | 33,724 | 39,844 | 21,877 | 597 |
| Deposits from banks | | (27,499) | (5,385) | (15,941) | (6,173) | - | - |
| Deposits from customers | | (117) | (117) | - | - | - | - |
| Debt securities issued | | (58,493) | (1,694) | (19,769) | (7,500) | (29,530) | - |
| Subordinated liabilities | | - | - | - | - | - | - |
| | | (86,109) | (7,196) | (35,710) | (13,673) | (29,530) | - |
| Effect of derivatives held for risk management | | - | - | - | - | - | - |
| | | **17,815** | **686** | **(1,986)** | **26,171** | **(7,653)** | **597** |

## 29. Exposure to interest rate risk – non-trading portfolios (continued)

| *HUF million* | Note | Carrying amount | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| Cash and cash equivalents | | - | - | - | - | - | - |
| Loans and advances to banks | | 67,720 | 9,607 | 28,646 | 12,789 | 16,668 | 10 |
| Loans and advances to customers | | 48,635 | (1,090) | 1,857 | 38,658 | 8,930 | 280 |
| Investment securities | | 10,073 | 657 | - | - | 9,416 | - |
| | | 126,428 | 9,174 | 30,503 | 51,447 | 35,014 | 290 |
| Deposits from banks | | (25,516) | (16,619) | (8,897) | - | - | - |
| Deposits from customers | | (297) | (297) | - | - | - | - |
| Debt securities issued | | (83,710) | (6,444) | (39,366) | (6,600) | (31,300) | - |
| Subordinated liabilities | | - | - | - | - | - | - |
| | | (109,523) | (23,360) | (48,263) | (6,600) | (31,300) | - |
| Effect of derivatives held for risk management | | - | - | - | - | - | - |
| | | **16,905** | **(14,186)** | **(17,760)** | **44,847** | **3,714** | **290** |

## 30. Fair valuation hierarchy

**Securities**

| **31 December 2012** | | **Notional amount** | | **Total** |
|---|---|---|---|---|
| **Bonds** | **Level 1** | **Level 2** | **Level 3** | |
| (HUF million) | 13,500 | - | - | **13,500** |
| **Own Issues** | **Level 1** | **Level 2** | **Level 3** | |
| (HUF million) | - | 38,930 | 17,869 | **56,799** |

| **31 December 2011** | | **Notional amount** | | **Total** |
|---|---|---|---|---|
| **Bonds** | **Level 1** | **Level 2** | **Level 3** | |
| (HUF million) | 9,700 | - | - | **9,700** |
| **Own Issues** | **Level 1** | **Level 2** | **Level 3** | |
| (HUF million) | - | 44,900 | 37,033 | **81,933** |

## 31. Balances outstanding with related parties

| (HUF million) | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| Loans and receivables with bank | 40,051 | 55,518 |
| Loans and receivables with customers | 10,057 | 10,737 |
| **Total** | **50,108** | **66,255** |
| **Liabilities** | | |
| Deposit from banks | 27,494 | 25,511 |
| Debt certificates including bonds | 49,598 | 69,096 |
| Other liabilities | - | 237 |
| **Total** | **77,092** | **94,844** |
| **Income Statement** | | |
| Interest and similar income | 1,959 | 2,331 |
| Interest expense and similar charges | (3,635) | (3,912) |
| Fee and commission expense | (12) | (104) |
| Administrative costs | (144) | - |
| Operating costs | - | (133) |
| **Total** | **(1,832)** | **(1,818)** |

The above balances are with UniCredit Bank, UniCredit Global Information Services, Európa Ingatlanbefektetési Alap and Bank Austria.

## 32. Fair value information

| (HUF million) | 2012 Fair Value | 2012 Carrying amount | 2011 Fair Value | 2011 Carrying amount |
|---|---|---|---|---|
| Available for sale financial assets | 13,878 | 13,878 | 10,073 | 10,073 |
| Placements with, and loans and advances to other banks | 48,867 | 50,304 | 64,616 | 67,720 |
| Loans and advances to customers | 42,424 | 39,742 | 51,348 | 48,635 |
| **Financial Assets & Derivatives** | 105,169 | 103,924 | 126,037 | 126,428 |
| | | | | |
| Deposits and loans from other banks | 27,497 | 27,499 | 25,497 | 25,516 |
| Issued mortgage bonds | 59,796 | 58,493 | 82,485 | 83,710 |
| Deposits and loans from customers | 117 | 117 | 297 | 297 |
| **Financial Liabilities** | 87,410 | 86,109 | 108,279 | 109,523 |

* All the above listed carrying amounts contain interest accrued.

## 32. Fair value information (continued)

**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 derivates*: 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.

## 33. Segment report

| | Total Bank | | Retail | | Corporate | | Others | |
|---|---|---|---|---|---|---|---|---|
| (HUF million) | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Net Interest Income | **3,140** | **4,021** | **1,193** | **2,186** | **474** | **591** | **1,473** | **1,244** |
| Net fee and commission income | 20 | (90) | 41 | 41 | (4) | (18) | (17) | (113) |
| Trading profit | (57) | 139 | - | - | - | - | (57) | 139 |
| Balance of other oper.inc./exp. | (1,017) | (739) | - | - | - | - | (1,017) | (739) |
| **REVENUES** | **2,086** | **3,331** | **1,234** | **2,227** | **470** | **573** | **382** | **531** |
| Staff Expenses | (143) | (104) | (16) | (33) | - | - | (127) | (71) |
| Other Administrative Expenses | (546) | (337) | (31) | 154 | (3) | (2) | (512) | (489) |
| W/d on tang./intang. assets | (16) | (17) | (9) | (9) | - | - | (7) | (8) |
| **Direct Expenses** | **(705)** | **(458)** | **(56)** | **(112)** | **(3)** | **(2)** | **(646)** | **(568)** |
| Indirect Expenses | - | - | (21) | (22) | (4) | (4) | 25 | 26 |
| Overhead Expenses | - | - | (358) | (327) | (8) | (7) | 366 | 334 |
| **OPERATING EXPENSES** | **(705)** | **(458)** | **(435)** | **(237)** | **(15)** | **(13)** | **(255)** | **(208)** |
| **GROSS OPERATING RESULT** | **1,381** | **2,873** | **799** | **1,990** | **455** | **560** | **127** | **323** |
| **Cost / Income Ratio** | **33.8%** | **13.7%** | - | - | - | - | - | - |
| Provision for risk and charges | | (1) | - | - | - | - | | (1) |
| Goodwill impairment | - | - | - | - | - | - | - | - |
| **P/L and net w/d on loans** | **317** | **(1,889)** | **328** | **(1,852)** | **(11)** | **(37)** | - | - |
| P/L and net w/d on investment | (108) | 29 | - | - | - | - | (108) | 29 |
| Integration costs | - | - | - | - | - | - | - | - |
| **RESULT BEFORE TAXES** | **1,590** | **1,012** | **1,127** | **138** | **444** | **523** | **19** | **351** |
| Income taxes | (326) | (280) | | | | | | |
| **RESULT AFTER TAXES** | **1,264** | **732** | | | | | | |
| **ROE** | **7.3%** | **4.2%** | | | | | | |
| Interest Bearing Assets | 99,081 | 124,934 | | | | | | |
| Interest Bearing Liabilities | 92,838 | 112,503 | | | | | | |

## 34. Exposure to credit risk

| (HUF million) | Loans and advances to customers 2012 | 2011 | Placements with , and loans and advances to other banks 2012 | 2011 |
|---|---|---|---|---|
| **Individally impaired** | | | | |
| Grade 1 - Bonis | - | - | - | - |
| Grade 2 – Past Due | - | 61 | - | - |
| Grade 3 – Ristrutturati | 63 | - | - | - |
| Grade 4- Incaglio | 1,180 | 1,697 | - | - |
| Grade 5- Sofferenze | 2,222 | 2,156 | - | - |
| Gross amount | **3,465** | **3,914** | - | - |
| Allowance for impairment | (1,980) | (2,049) | - | - |
| Carrying amount | **1,485** | **1,865** | - | - |
| **Collectively impaired** | | | | |
| Grade 1 - Bonis | - | - | - | - |
| Grade 2 – Past due | 243 | 450 | - | - |
| Grade 3 – Ristrutturati | - | 49 | - | - |
| Grade 4 - Incaglio | 919 | 936 | - | - |
| Grade 5 -Sofferenze | 2,873 | 1,928 | - | - |
| Gross amount | **4,035** | **3,363** | - | - |
| Allowance for impairment | (2,105) | (1,689) | - | - |
| Carrying amount | **1,930** | **1,674** | - | - |
| **Past due but not impaired** | | | | |
| Grade 1 - Bonis | 1,595 | 2,151 | - | - |
| Grade 2 – Past Due | - | - | - | - |
| Grade 3 - Ristrutturati | - | - | - | - |
| Grade 4 - Incaglio | - | - | - | - |
| Grade 5 -Sofferenze | - | - | - | - |
| Carrying amount | **1,595** | **2,151** | - | - |
| Past due comprises | | | | |
| 0-30 | 1,496 | 1,701 | - | - |
| 30-60 | 99 | 293 | - | - |
| 60-90 | - | 157 | - | - |
| 90-180 | - | - | - | - |
| over 180 days | - | - | - | - |
| Carrying amount | **1,595** | **2,151** | - | - |

## 34. Exposure to credit risk (continued)

| (HUF million) | 2012 | 2011 | 2012 | 2011 |
|---|---|---|---|---|
| **Neither past due nor impaired** | | | | |
| Grade 1 - Bonis | 34,704 | 42,945 | 43,832 | 59,367 |
| Grade 2 – Past Due | - | - | - | - |
| Grade 3 - Ristrutturati | 28 | - | - | - |
| Grade 4 - Incaglio | - | - | - | - |
| Grade 5 - Sofferenze | - | - | - | - |
| Carrying amount | 34,732 | 42,945 | 43,832 | 59,367 |
| IBNR | (411) | (1,397) | - | - |
| **Total** | 39,742 | 48,635 | 43,832 | 59,367 |

The categories for loan classification are as follows:

General remarks:

- All categories are considered at client level.
- Past due days are defined according to the Basel II. definition.

**Bonis (performing) loans:** Loans belonging to client who have no overdue debt or it does not exceed 90 days, and who have no other "unlikely to pay" default event.

**Impaired loans**:

**Past due:** Loans belonging to clients who have an overdue amount between 90 and 180 days on any of their loans, and who have no "unlikely to pay" default event.

**Restuctured (Ristrutturati)**: Renegotiated / restructured loans, if the effect of the restructuring is NPV negative (NPV = Net Present Value), or if at the time of restructuring the a material part of the loan had already been overdue more than 180 days, or at the time of restructuring the client had an "unlikely to pay" default event.

**Doubtful (incagli) loans**: Loans belonging to client who has an overdue debt on any loan more than 180 days but less than 365 days; or who has an "unlikely to pay" default event (excluding work-out); or who after restructuring got again overdue with the restructured loan more than 30 days but not exceeding 365 days.

**Non-performing (sofferenze) loans**: Loans belonging to client who are in delay with any of their loans by more than 365 days, or who are in the work-out phase.

## 35. Summary of VAR position

The internal model based VaR (1 day, confidence interval of 99 %) for 2012 moved in a range of HUF 390 million and HUF 619 million, following a fairly stable path during the year. The average VaR was HUF 527 million, a little bit lower than a year before. Due to the fact the Bank has not got Trading book, Vega and Equity risks are not applicable.
The Credit spread risk and Interest rate risk were the main drivers of the VaR although the credit spread risk decreased significantly from 2011 to 2012. The Bank has been keeping in its books only governmental bonds and own mortgage bonds.
The FX risk is far below the other component but also contributed the total market risk of the Bank.

VaR as at 31 December 2012 (HUF million)

| **Risk Category** | **Year-end** | **Average** | **Minimum** | **Maximum** |
|---|---|---|---|---|
| Exchange rate risk | 19 | 12 | 0,065 | 24 |
| Interest rate risk | 89 | 60 | 34 | 99 |
| Credit spread | 468 | 465 | 364 | 593 |
| Vega risk | - | - | - | - |
| Equity risk | - | - | - | - |
| Overall | 527 | 506 | 390 | 619 |

VaR as at 31 December 2011 (HUF million)

| **Risk Category** | **Year-end** | **Average** | **Minimum** | **Maximum** |
|---|---|---|---|---|
| Exchange rate risk | 1 | 2 | 0,02 | 13 |
| Interest rate risk | 82 | 58 | 21 | 222 |
| Credit spread | 578 | 492 | 203 | 806 |
| Vega risk | - | - | - | - |
| Equity risk | - | - | - | - |
| Overall | 594 | 479 | 192 | 828 |

In addition to VaR, risk positions of the Group and its subsidiaries are limited through volume limits. As part of daily risk reporting, detailed “Trader Reports” are prepared for a number of portfolios, with updated and historical information made available to all risk-takers and the respective heads of departments. The comprehensive statistical data on VaR made available in addition to limit-relevant 99 % quantile figures include the average of scenario results beyond the 99 % quantile mark, providing an indication of the magnitude of events for which the probability of occurrence is very low.

## 36. Summary of interest sensitivity

As at the end of 2011 and 2012, the entire interest rate position of the Bank for currencies was composed as follows:

**BPV (currencies with position below EUR 500 are excluded)**

| | **As at 31 December 2012 (HUF mn)** | | | | | | Annual Statistics | | |
|---|---|---|---|---|---|---|---|---|---|
| Currency | Up to 3 month | 3 month to 1 year | 1 year to 3 years | 3 years to 10 years | Over 10 years | Total | Maximum | Minimum | Average |
| CHF | 0.13 | (0.03) | (0.06) | (0.35) | (0.17) | (0.49) | (0.32) | (2.58) | (1.01) |
| EUR | (0.14) | (0.01) | 0.01 | (0.12) | 0.08 | (0.17) | 0.27 | (0.43) | (0.04) |
| HUF | (0.11) | (0.02) | 0.82 | (0.78) | 2.80 | 2.72 | 5.37 | 0.64 | 1.73 |
| **Total** | **0.38** | **0.05** | **0.90** | **1.24** | **3.05** | **3.39** | | | |

| | **As at 31 December 2011 (HUF mn)** | | | | | | Annual Statistics | | |
|---|---|---|---|---|---|---|---|---|---|
| Currency | Up to 3 months | 3 months to 1 year | 1 year to 3 years | 3 years to 10 years | Over 10 years | Total | Maximum | Minimum | Average |
| CHF | (0.05) | (0.80) | (0.26) | (0.92) | (0.03) | (2.06) | 0.88 | (2.71) | (1.34) |
| EUR | (0.08) | (0.10) | (0.03) | (0.08) | 0.00 | (0.30) | 0.41 | (0.41) | (0.05) |
| HUF | 0.02 | (0.24) | 0.50 | 1.81 | (0.04) | 2.05 | 3.82 | (2.67) | 1.31 |
| **Total** | **0.15** | **1.15** | **0.79** | **2.82** | **0.07** | **4.40** | | | |

In the last two years the Bank has got positions only in HUF, EUR and CHF.

The Bank daily reporting presents details of credit spread by curve and maturity band and the Bank has only governmental bonds and own issued mortgage bonds. The total CpV position slightly decreased from € 78k to € 75k by 2012 year-end.

## 37. Regulatory capital

The Hungarian Financial Supervisory Authority's ("HFSA") 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.
The combined value of a credit institution's exposures to a single client or a group of connected clients, after taking into account the effect of the credit risk mitigation:

*a)* may not exceed twenty-five percent of the credit institution's own funds, or

*b)* where that client is a credit institution, investment firm or where a group of connected clients includes one or more credit institutions or investment firms, forty-two billion forints or the amount defined in Paragraph *a)*, whichever the higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation, to all connected clients that are not credit institutions or investment firms does not exceed twenty-five percent of the credit institution's own funds.

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.

## 37. Regulatory capital (continued)

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. 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. HFSA gave the permission for the 0% risk weight calculation at the fully consolidated Hungarian group members of the Bank. This means the Bank could now apply 0% for UniCredit Bank in COREP report.

| | 2012 | 2011 |
|---|---|---|
| **Tier 1 Capital** | | |
| Ordinary share capital | 3,000 | 3,000 |
| Share premium | 783 | 783 |
| General reserve | 1,314 | 1,162 |
| General risk provision the 1,25 percentages of the corrected balance sheet total | 386 | 531 |
| Retained earnings | 9,616 | 10,616 |
| P/L according to the balance sheet | 1,042 | 69 |
| Less intangible adjustments | (4) | (19) |
| **Tier 1 Total** | **16,137** | **16,142** |
| **Tier 2 Capital** | | |
| Fair value reserve for available-for-sale equity securities | 84 | - |
| **Tier 2 Total** | 84 | - |
| **Total regulatory capital** | **16,221** | **16,142** |
| Large explosure limit | (6,196) | (265) |
| **Modified adjusted capital** | **10,025** | **15,877** |
| **Risk Weighted Assets** | **45,352** | **53,338** |
| Credit risk | 37,692 | 46,072 |
| Market risk | - | - |
| Operational risk | 7,660 | 7,266 |
| **Capital adequacy (%)** | **22.10%** | **29.77%** |