

**Independent Auditors' Report
issued on 2007 Unconsolidated IFRS
Financial Statement of
UniCredit Jelzálogbank Zrt.**



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Independent Auditor's Report

To the shareholder of UniCredit Jelzálogbank Zrt.

We have audited the accompanying financial statements of UniCredit Jelzálogbank Zrt. (hereinafter referred to as "the Bank"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

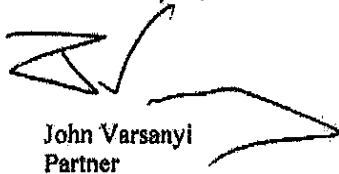


Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the UniCredit Jelzálogbank Zrt. as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Budapest, 12 February 2008

KPMG Hungária Kft.
1139 Budapest, Váci út 99.



John Varsanyi
Partner

UNICREDIT JELZÁLOGBANK ZRT


Unconsolidated balance sheet as at 31 December 2007

(HUF million)

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Assets			
Nostros with banks	13	10	374
Available for sale financial assets	14	13 130	7 823
Held to maturity investments	15	0	3 376
Placements with, and loans and advances to other banks	13	52 503	59 476
Loans and advances to customers	16	45 024	29 831
Property, plant and equipment	17	55	56
Intangible assets	18	92	238
Tax assets	12	61	39
Other assets	19	<u>1 362</u>	<u>1 427</u>
Total assets		<u>112 237</u>	<u>102 640</u>
Liabilities			
Deposits and loans from other banks	20	26 050	17 251
Issued mortgage bonds	21	69 417	70 851
Tax liabilities		16	0
Other liabilities	22	5 109	4 672
Other provisions		<u>46</u>	<u>0</u>
Total liabilities		<u>100 638</u>	<u>92 774</u>
Shareholder's Funds			
Share capital	23	3 000	3 000
Capital reserve		783	783
Other reserves		6 166	4 352
Valuation reserves		(194)	(83)
Net profit		<u>1 844</u>	<u>1 814</u>
Total Shareholder's Funds		<u>11 599</u>	<u>9 866</u>
Total Liabilities and Shareholder's Funds		<u>112 237</u>	<u>102 640</u>

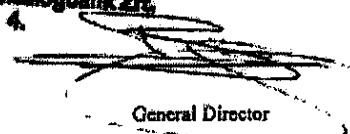
The accompanying notes (1-35) form an integral part of these financial statements.

12 February 2008



Member of Board of Directors

UniCredit Jelzálogbank Zrt.



General Director

UNICREDIT JELZÁLOGBANK ZRT


Unconsolidated income statement for the year ended 31 December 2007


(HUF million)

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Interest and similar income		10 224	9 699
Interest expense and similar charges		(6 762)	(6 328)
Net interest income	5	<u>3 462</u>	<u>3 371</u>
Fee and commission income		288	105
Fee and commission expense		(30)	(37)
Net fee and commission income	6	<u>258</u>	<u>68</u>
Dividend income			
Net trading income	7	1	6
Net gain and loss on other financial instruments disposals	8	(36)	0
Operating income		<u>3 685</u>	<u>3 445</u>
Impairment and losses on credit products	25	(54)	(84)
Net financial activity result		<u>3 631</u>	<u>3 361</u>
Personnel expenses	9	(561)	(471)
General operating expenses	10	(424)	(367)
Other provision		(46)	0
Amortization and impairment on Property, plant and equipment	17	(4)	(5)
Amortization and impairment on Intangible assets	18	(165)	(146)
Other income /(expenses)	11	(14)	(8)
Operating costs		<u>(1 214)</u>	<u>(997)</u>
Profit before tax		<u>2 417</u>	<u>2 364</u>
Income tax expense	12	(573)	(550)
Net profit for the year		<u>1 844</u>	<u>1 814</u>

The accompanying notes (1-35) form an integral part of these financial statements.

12 February 2008


 Member of Board of Directors


 General Director

UNICREDIT JELZÁLOGBANK ZRT

**Unconsolidated statement of changes in shareholder's equity
as at 31 December 2007**

	<u>Ordinary Shares</u>	<u>Capital Reserve</u>	<u>Retained Earnings</u>	<u>Other reserves</u>	<u>Valuation reserves</u>	<u>Net profit</u>	<u>Total</u>
				<u>General Reserve</u>	<u>General Risk Reserve</u>		
(HUF million)							
Balance 1 January 2006	3 000	783	1 854	381	322	1 795	8 135
Gains and losses recognised directly in equity in accordance with IAS 39	-	-	-	-	(83)	-	(83)
Net profit for the previous year	-	-	1 795	-	-	(1 795)	0
Net profit for the current year	-	-	-	-	-	1 814	1 814
Dividend to equity holder	-	-	-	-	-	-	-
Appropriations	-	-	(176)	182	(6)	-	0
Transfer from retained earnings	-	-	-	-	-	-	-
Balance 31 December 2006	3 000	783	3 473	563	316	1 814	9 866
Gains and losses recognised directly in equity in accordance with IAS 39	-	-	-	-	(111)	-	(111)
Net profit for the previous year	-	-	1 814	-	-	(1 814)	0
Net profit for the current year	-	-	-	-	-	1 844	1 844
Dividend to equity holder	-	-	-	-	-	-	-
Appropriations	-	-	(211)	180	31	-	-
Transfer from retained earnings	-	-	-	-	-	-	-
Balance 31 December 2007	3000	783	5 076	743	347	1 844	11 599

The accompanying notes (1-35) form an integral part of these financial statements.

12 February 2008



Member of Board of Directors



General Director


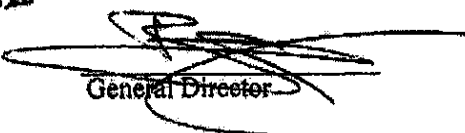
UNICREDIT JELZÁLOGBANK ZRT
Statement of Cash Flows
for the year ended 31 December 2007

(HUF million)	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net profit for the year	1 844	1 814
thereof interest received	10 224	9 699
interest paid	6 762	6 328
Adjustment to determine net cash provided by operating activities		
Depreciation	169	150
Net change in other assets and tax assets and other liabilities	761	(366)
Income taxes paid	(582)	(568)
(Increase)/Decrease in current account and deposits with banks	2 332	8 511
Increase in loans and advances to customer, net	(15 193)	(2 923)
Increase in individual mortgage rights purchased	4 642	3 680
Increase in deposits, net of withdrawals	8 799	(4 658)
Cash flow from / (used in) operating activities	<u>928</u>	<u>3 826</u>
Investing Activities		
Proceed on sale of property, plant and equipment	1	0
Purchases of intangibles and equipment	(27)	(197)
Disposal of intangibles and equipment	13	10
Increase in securities purchased	(1 689)	(4 733)
Cash flow from / (used in) investing activities	<u>(1 702)</u>	<u>(4 920)</u>
Financing activities		
Increase in mortgage bonds issued, net	(1 434)	(677)
Cash flow from / (used in) financing activities	<u>(1 434)</u>	<u>(677)</u>
Net increase /(decrease) in cash and cash equivalents	(364)	43
Cash and cash equivalents at beginning of year	374	331
Cash and cash equivalents at year end	<u>10</u>	<u>374</u>

The accompanying notes (1-35) form an integral part of these financial statements.

12 February 2008

UniCredit Jelzálogbank Zrt.

 <hr style="width: 100%;"/> Member of Board of Directors	 <hr style="width: 100%;"/> General Director
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UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

1. General

UniCredit Jelzálogbank Zrt - formerly HVB Jelzálogbank Zrt - („the Bank”) is a mortgage bank which was established in Hungary on June 1, 1998. The Bank’s ultimate holding company is Unicredito Italiano Spa. The registered office of the Bank is at 1065 Budapest, Nagymező u. 44.

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 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 2007, UniCredit Bank Hungary Zrt (formerly HVB Bank Hungary Zrt) held 3,000 shares.

Transactions with members of the Unicredit Bank include credit relationships, where the related parties are borrowers, and deposit relationships. 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 Board of Directors on 12 February 2008.

2. Significant accounting policies

a. Statement of Compliance

The financial statements have been prepared in accordance with the 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 preparation

The financial statements have been prepared on a fair value basis for derivative financial instruments, financial assets and liabilities at fair value basis through profit or loss, and 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.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

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

c. Comparatives

In case certain balances would have been restated and reclassified to provide consistency for presentation purposes, it would be disclosed.

d. Cash and cash equivalents

The amount of cash in the cash flow statement is equal to the nostros with other banks from balance sheet item and in Note 13.

e. Financial instruments

i. Classification

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

Loans and receivables are loans and receivables created by the Bank other than those created with the intention of short-term profit taking. Loans and receivables consists of loans and advances to banks and customers.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. These include certain debt instruments.

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.

Hedging instruments. There are certain derivatives that are designated as cash-flow hedges. They serve as hedges against the variability of cash flows within the framework of the Bank's asset-liability management activities. For the purpose of cash-flow hedge accounting, variable-rate interest receivables and payments on variable-rate assets and liabilities are swapped for fixed-rate interest payments, primarily by means of interest rate swaps. The effective portion of the changes in the fair values of derivatives designated as hedging instruments is recognised as a separate component of shareholder's equity (cash-flow hedge reserve) with no effect on income.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

ii. Recognition and de-recognition

The Bank recognises financial assets and liabilities from trade date. From this date any gains and losses arising from changes in fair value of the assets are recognised. All Loans and receivables are recognised when cash is 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.

iii. Measurement

Financial instruments are measured initially at cost, including transaction costs.

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 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 an impairment exists, the asset's recoverable amount is estimated.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, 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 upon 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.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

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 Available for sale reserve, whereas gains and losses arising from a change in the fair value of derivatives, designated as effective hedging instruments are recognised in the Cash flow hedge reserve. Any permanent impairment loss on available for sale financial assets and hedging derivatives is recognised in the income statement.

f. Transactions in foreign currency

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

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.

g. Securities

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

Investments that the Bank holds for the purpose of short-term profit taking are classified as trading financial assets. Debt instruments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity investments. Other investments are classified as available-for-sale financial assets.

h. Equity investments

Equity investments that the Bank holds for the purpose of short-term profit taking are classified as trading financial assets. Other equity investments are classified as available-for-sale financial assets. The measurement of these equity investments is stated in Note 2.e.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

i. Property, plant and equipment

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

j. Intangible assets and goodwill

Intangible assets are stated at historical cost less accumulated depreciation. Intangible assets are reviewed periodically and items which are considered to have no further value are depreciated in full.

k. Depreciation and amortisation

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

	<u>Depreciation Rate</u>
	%
Buildings	2 - 6
Office equipment	14.5 - 33
Motor vehicles	20

Property rights, being the right to use certain land and buildings, are amortised at a rate of 10% per year. It is the Bank's policy to review the book value of the property rights periodically to ensure that such rights are not stated at amounts greater than their realisable value.

l. Loans and advances

Loans and advances originated by the Bank are classified as loans and receivables. Purchased loans that the Bank has the intent and ability to hold to maturity are also 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 contracted cash-flows are taken into account including fees, commissions, as well as possible premiums or

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

discounts. Estimated future credit losses are however not included. The result of this calculation is charged to the income statement.

m. Impairment and losses on credit products

It is the policy of the Bank to review periodically its portfolio of loans and advances to make provisions for impairment where necessary. Impairment is based on an individual assessment of the recoverability of outstanding amounts. Increases and decreases in the provisions for impairments are charged to the income statement.

n. Independent mortgage rights

An independent mortgage right is a type of mortgage, which can be transferred to third person without the assignment of the claim.

o. Mortgage bonds

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

p. 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.

q. 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.

r. Valuation reserve

The valuation reserves are part of the Shareholder's equity. Under the IFRS principles the valuation reserves include the Cash-flow hedge reserve and Available for sales instrument reserve less deferred tax as stated in Note 2.e. above.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

s. Income

Net Interest income

Interest income and interest expense for the year are recognised on an accruals basis, together with the application of the effective interest rate method on all instruments measured at amortised cost. Interest income is not recognised on loans where there is a reasonable likelihood of non-collection.

Dividends

Dividend income is recognised in the income statement on the date that the Bank's right to receive payment has been established.

Net fee and commission income

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

Net trading income

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

Net gain and loss on other financial instruments

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

Gain and losses on other equity investments

Gain and losses on other equity investments includes the net result arising from capital transactions from equity investments related to associated companies.

t. Impairment

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

u. Income tax

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

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

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 in the carrying amounts of assets and liabilities in the IFRS balance sheet and in the balance sheet for local tax purposes.

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

v. Currencies and Effective Interest 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 otherwise stated are disclosed at fair value. Banking transactions unless otherwise stated are effected at market rates.

w. 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.

x. 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.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

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

Business segments

The Bank separates the following main business segments:

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

The result of each segment also include the head office direct costs allocated on a reasonable basis. The business segment report is presented in Note 32.

3. 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), operational risks. The Bank takes a group approach to manage risk, tailored for specific Hungarian legal and business requirements. Integrated and on-line systems ensure constant, timely monitoring of risk.

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

i) Credit risk

Credit risk is the risk of financial loss occurring as a result of a default by counterparty in their contractual obligation to the Bank. Credit risk is primarily managed by the Credit Committee. The committee establishes 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. All

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

outstanding loans are reviewed at least quarterly. Loans are classified based on a point rating system, which incorporates qualitative and quantitative factors.

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 groups of loan portfolios based on internal policies which are allocated to individually assets of these loan portfolios.

The Bank establishes the impairments for incurred but not reported loss based on the historical database for the loan portfolios.

Write-off policy

The Bank writes-off the loans or securities balance (and any related impairment losses balance) when the Bank determines that the loans or securities are uncollectible.

The industrial sector and collateral details of loan portfolios are presented in Note 16. and the details of exposure of credit risk are presented in Note 33.

ii) Liquidity risk

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

Limits regarding the maximum net outflow of funds in a particular period are in place and are approved and monitored by the Banks' Asset Liability Committee ('ALCO').

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

In line with Unicredit Group-wide standards, the Bank deals with liquidity risk as a central risk in banking business by introducing and monitoring short-term and medium-term liquidity requirements. In this context the liquidity situation for the next few days and also for longer periods is analysed against a standard scenario and against scenarios of a general and a bank-specific liquidity crisis. The degree of liquidity of customer positions and proprietary positions are 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 long-term liquidity limits of the Bank were observed at all times in 2007. The degree to which accumulated liquidity outflows are covered by accumulated inflows within the following month and year is determined on an ongoing basis. It is used as a key figure in managing the Bank's liquidity and funding.

The maturity analysis of balance sheets for 2006 and 2007 are represented in Note 27.

iii) Market risk

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

The Bank based on Bank Austria Creditanstalt Group standard (as a subgroup of Unicredit Group) uses uniform risk management procedures. These procedures provide aggregate data and make available the major risk parameters for the various trading operations at least once a day. Market risk limits control stress-oriented volume and position limits. Additional elements of the limit system are loss-warning level limits and options-related limits applied to trading and positions in non-linear products.

The bank does not perform value at risk analysis because,

- a. there is no FX position initiated by business policy, the basis point value and the value at risk is low and there is no trading book,
- b. the risk initiated by clients are transferred to the parent bank, which monitors all risk reporting.

Daily reporting includes details of volume-oriented sensitivity analysis which are compared with their respective trigger point. The most important items presented include: basis point results (interest rate / spread changes of 0.01 %) by maturity band, FX sensitivities and sensitivities in equities and emerging-market/high-yield positions (by issue, issuer and market). Market risk management is also performed with reference to specific counterparties. Interest rate analysis includes, for example, basis

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

point limits per currency and maturity band, basis point totals per currency and/or per maturity segment (total of absolute Basis Point Values - BPV). Daily reporting also presents details of credit spread by curve and maturity band. Average interest rates are presented in Note 29.

Management of balance sheet structure

Interest rate risk and liquidity risk arising from customer transactions is monitored by the Bank's treasury operations through a matched funds transfer pricing system applied throughout the Bank. 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 origination and classification. ALCO ensures that the Bank's overall maturity structure is optimised within targets, with the results from maturity transformation being reflected in the International Markets Division.

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

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 statements of foreign exchange exposures (currency structure of assets and liabilities) is presented in Note 26.

iv) Compliance with Basel II

The Bank will use the Basel II standardised approach from the beginning of 2008. Efforts will be made to switch to the A-IRB approach in order to realise the expected cost savings on the cost of capital. A high-level roll-out plan for the gradual switch to the IRB approaches is being set up on Hungarian group level and will be refined on an ongoing basis. At first phase, the Bank will introduce Foundation IRB (hereafter F-IRB) approach for corporate clients and then A-IRB will be used for retail and corporate segments starting from 2012 and 2013, respectively.

In October 2007, a local Basel II IRB project was set up at the UniCredit Bank Hungary comprising all three pillars of Basel II. The Bank's representative takes part in the team to coordinate the activity and to assure that the specialities of the mortgage bank will be taken into consideration.

The IRB roll-out will be carried out locally. This decentralized approach means that the requirements of A-IRB approach will be implemented by the UniCredit Group but

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

Strategic Risk Management of Unicredit Italiano Spa. and BA-CA will provide support during the implementation by providing guidelines and standards and in terms of coaching and advice. The Unicredit Group will be responsible for the use and development of methods and the compliance with local regulatory requirements, while the approval of the developed models and methods will be under the responsibility of the Strategic Risk Management.

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 reputation risk is different from operational risk, whereas legal and compliance risk is included in the operational risk definition.

The Bank operates its operation risk activity according to its internal regulations based on the operation risk regulation of UniCredit Bank Hungary Zrt in tight cooperation with the centralized Operational Risk Controlling of UniCredit Bank Hungary Zrt (In form of a Service Level Agreement)

The body responsible for making decisions on OpRisk cases depends on the amount of damage. Above HUF 0.5 million the decision making body is the competent member of the Board of Managers together with the General Manager of the Bank. Below HUF 0.5 million the decision maker is the General Manager of the Bank.

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

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

4. 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 2.(m.), (n.) and risk management policy 3.(i).

ii.) Determining fair value

The fair value valuation techniques for financial assets and liabilities are described in Note 31.

iii.) Financial assets and liabilities classification

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

iv.) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Bank has determined that it expects the hedge to be highly effective over the life of the hedging instrument. In accounting for derivatives as cash flow hedges, the Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

5. Net interest income

(HUF million)	<u>2007</u>	<u>2006</u>
Interest and similar income		
Interest income from banks	5,682	6,186
Interest income from customers	3,647	2,783
Interest income on Available for sale financial assets	781	324
Interest income on Held to maturity assets	<u>114</u>	<u>406</u>
	<u>10,224</u>	<u>9,699</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

5. Net interest income (continue)

(HUF million)	<u>2007</u>	<u>2006</u>
Interest expense and similar charges		
Interest expense to banks	(742)	(419)
Interest expense to customers	(84)	(23)
Interest expense on mortgage bonds issued	<u>(5,936)</u>	<u>(5,886)</u>
	<u>(6,762)</u>	<u>(6,328)</u>
Net interest income	<u>3,462</u>	<u>3,371</u>

6. Net fee and commission income

(HUF million)	<u>2007</u>	<u>2006</u>
Fees and commission income		
Other financial fees and commissions	<u>288</u>	<u>105</u>
	<u>288</u>	<u>105</u>
Fees and commission expense		
Payment transaction fees	(1)	(1)
Custody service fees	(3)	(3)
Brokerage	(23)	(32)
Other financial fees and commissions	<u>(3)</u>	<u>(1)</u>
	<u>(30)</u>	<u>(37)</u>
	<u>258</u>	<u>68</u>

7. Net trading income

(HUF million)	<u>2007</u>	<u>2006</u>
Profit on foreign exchange	<u>1</u>	<u>6</u>
	<u>1</u>	<u>6</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

8. Net gain and loss on other financial instruments

(HUF million)	<u>2007</u>	<u>2006</u>
Gains		
Available for sale debt securities	<u>6</u>	=
	<u>6</u>	=
Losses		
Available for sale debt securities	<u>42</u>	=
	<u>42</u>	=
Net gain and loss on other financial instrument	<u>(36)</u>	=

9. Personnel expenses

(HUF million)	<u>2007</u>	<u>2006</u>
Wages and salaries	402	333
Statutory social-security contributions	120	100
Other employee benefits	23	24
Employer's contributions	<u>16</u>	<u>14</u>
	<u>561</u>	<u>471</u>

The number of employees was 38 at 31 December 2007 (2006: 36 employees).

10. General operating expenses

(HUF million)	<u>2007</u>	<u>2006</u>
Other indirect tax expense and costs of authorities	119	115
Renting costs and operating expenses of property	58	60
Advertising	1	3
Information technology costs	42	9
Material and office equipments costs	2	3
Other administrative expenses	<u>202</u>	<u>178</u>
	<u>424</u>	<u>368</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

11. Other income and expenses

(HUF million)

	<u>2007</u>	<u>2006</u>
Other income		
Proceeds on sale of property, plant and equipment	4	-
Other	<u>17</u>	4
	<u>21</u>	<u>4</u>
Other expenses		
Taxes, penalties	(4)	(1)
Cost of property, plant and equipment sold	(5)	(5)
Other	<u>(26)</u>	<u>(6)</u>
	<u>(35)</u>	<u>(12)</u>
Other operating income / expense	<u>(14)</u>	<u>(8)</u>

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 ended 31 December 2007 was 16% and an additional 4% (4% applicable to the profit earned from 1 September 2006). The Bank has to pay the additional supplementary tax to income earned from loans supplied by state.

(HUF million)	<u>2007</u>	<u>2006</u>
Tax expense for the year		
Current tax expense	581	550
Adjustments for prior years	<u>1</u>	=
	<u>582</u>	<u>550</u>
Deferred tax charge		
Total income tax expense in income statement	<u>(9)</u>	=
	<u>573</u>	<u>550</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

Reconciliation of effective tax rate

	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		2,417		2,364
Income tax using the domestic corporate tax rate	20.0	483	17.3	411
Supplementary corporate tax for banks	4.6	111	7.8	184
Adjustments for prior years	0	1		
Tax effects of income/expenses exempt from corporate tax	0.3	6	(4.5)	(12)
Income/expenses giving rise to permanent differences:				
- Equity contribution in kind				
- General Risk Reserve	(0.3)	(6)	(0)	(1)
- Other	<u>(1.0)</u>	<u>(22)</u>	<u>1.4</u>	<u>(32)</u>
	<u>23.6</u>	<u>573</u>	<u>23.3</u>	<u>550</u>

Balances related to taxation

(HUF million)	<u>2007</u>	<u>2006</u>
Tax assets		
Tax assets for the year	4	18
Deferred tax assets	57	21
Tax liabilities		
Tax liabilities for the year	16	-

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

13. Placements with, and loans and advances to other banks

(HUF million)	<u>2007</u>	<u>2006</u>
Loans and advance to other banks		
Nostros with other banks	<u>10</u>	<u>374</u>
	<u>10</u>	<u>374</u>
Maturity less than one year	5,101	7,219
Maturity more than one year	<u>47,402</u>	<u>52,257</u>
	<u>52,503</u>	<u>59,476</u>

14. Available for sale financial assets

(HUF million)	<u>2007</u>	<u>2006</u>
State bonds	<u>13,372</u>	<u>7,927</u>
	13,372	7,927
Impairment loss	<u>(242)</u>	<u>(104)</u>
	<u>13,130</u>	<u>7,823</u>

15. Held to maturity investments

(HUF million)	<u>2007</u>	<u>2006</u>
State bonds	-	3,376
	=	<u>3,376</u>

The net market value of the held-to-maturity securities portfolio as at 31 December 2007 is HUF 0 million (2006: HUF 3,376 million).

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

16. Loans and advances to customers

(HUF million)	<u>2007</u>	<u>2006</u>
<i>Private and commercial:</i>		
Maturity less than one year	3,697	1,456
Maturity more than one year	<u>41,540</u>	<u>28,534</u>
	45,237	29,990
Provision for impairment and losses on credit products (Note 25)	<u>(213)</u>	<u>(159)</u>
	<u>45,024</u>	<u>29,831</u>

A. Analysis by industrial sector

(HUF million)	<u>2007</u>	%	<u>2006</u>	%
Real estate finance	4,365	9.65	5,687	18.96
Private clients	26,908	59.48	17,160	57.24
Financial activities	11,933	26.38	5,702	19.01
Trade	499	1.10	340	1.13
Agriculture	614	1.36	88	0.29
Catering trade	887	1.96	883	2.94
Other	<u>31</u>	<u>0.07</u>	<u>130</u>	<u>0.43</u>
Total	<u>45,237</u>	<u>100.00</u>	<u>29,990</u>	<u>100.00</u>

B. Collateral for the above loans

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

(HUF million)	<u>2007</u>	<u>2006</u>
<u>Against individually impaired</u>	<u>630</u>	<u>556</u>
Warrant and guarantees	16	0
Cautions	34	16
Property	580	540
Debt securities	0	0
Equities	0	0
Others	0	0

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

Collateral for the above loans continued

(HUF million)	<u>2007</u>	<u>2006</u>
<u>Against collectively impaired</u>	<u>65</u>	<u>27</u>
Warrant and guarantees	0	6
Cautions	5	7
Property	60	14
Debt securities	0	0
Equities	0	0
Others	0	0
<u>Against past due but not impaired</u>	<u>970</u>	<u>610</u>
Warrant and guarantees	7	47
Cautions	794	339
Property	169	224
Debt securities	0	0
Equities	0	0
Others	0	0
<u>Against neither past due nor impaired</u>	<u>80,719</u>	<u>73,101</u>
Warrant and guarantees	851	915
Cautions	13,318	3,594
Property	16,265	11,765
Debt securities	0	2,462
Equities	0	0
Others	50,285	54,365

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

17. Property, plant and equipment

	Acquisition cost at the beginning of the year	Accumulated depreciation and amortisation at the beginning of the year	Additions	Disposals net	Depreciation and amortisation	Carrying amount at the end of the year
Movement in property, plant and equipment						
(HUF million)						
<u>2007</u>						
Land and buildings	48	0	-	-	1	47
Office equipment	3	3	1	-	1	-
Motor vehicles	12	3	6	5	2	8
Capital work in progress	-	-	7	7	-	-
	<u>63</u>	<u>6</u>	<u>14</u>	<u>12</u>	<u>4</u>	<u>55</u>
<u>2006</u>						
Land and buildings	-	-	48	-	-	48
Office equipment	3	3	-	-	-	-
Motor vehicles	16	2	3	5	4	8
Capital work in progress	5	-	51	56	-	-
	<u>24</u>	<u>5</u>	<u>102</u>	<u>61</u>	<u>4</u>	<u>56</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

18. Intangible assets

		(HUF million)					
<u>Movement in intangible assets</u>							
		Acquisition cost at the beginning of the year	Accumulated depreciation and amortisation at the beginning of the year	Additions	Disposals net	Depreciation and amortisation	Carrying amount at the end of the year
<u>2007</u>							
Software		<u>653</u>	<u>415</u>	<u>19</u>	=	<u>165</u>	<u>92</u>
<u>2006</u>							
Software		<u>515</u>	<u>415</u>	<u>19</u>	=	<u>165</u>	<u>92</u>
		<u>515</u>	<u>269</u>	<u>138</u>	=	<u>146</u>	<u>238</u>
		<u>515</u>	<u>269</u>	<u>138</u>	=	<u>146</u>	<u>238</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

19. Other assets

(HUF million)	<u>2007</u>	<u>2006</u>
Accrued income and prepaid expenses	1,362	1,427
Other	=	=
	<u>1,362</u>	<u>1,427</u>

20. Deposits and loans from other banks

(HUF million)	<u>2007</u>	<u>2006</u>
Maturity less than one year	8,986	5,581
Maturity more than one year	<u>17,064</u>	<u>11,670</u>
	<u>26,050</u>	<u>17,251</u>

21. Issued mortgage bonds

(HUF million)	<u>2007</u>	<u>2006</u>
Maturity less than one year	9,680	4,129
Maturity more than one year	<u>59,737</u>	<u>66,722</u>
	<u>69,417</u>	<u>70,851</u>

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

22. Other liabilities

(HUF million)	<u>2007</u>	<u>2006</u>
Accrued income and prepaid expenses	3,795	3,309
Other taxes payable	4	-
Other	<u>1,310</u>	<u>1,363</u>
	<u>5,109</u>	<u>4,672</u>

23. Share capital

(HUF million)	<u>2007</u>	<u>2006</u>
Authorised and issued share capital	3,000	3,000

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

24. Commitments and contingent liabilities

At 31 December 2007, the Bank had the following commitments and contingent liabilities (at nominal values):

(HUF million)	<u>2007</u>	<u>2006</u>
Loan and overdraft facilities granted not disbursed	2,106	1,906
Guarantees	-	40

25. Impairments and provisions

Impairments and provisions on credit products

	Loans	Total financial instruments
Balance 31 December 2006	<u>159</u>	<u>159</u>
Write-offs	-	-
Amounts released	(51)	(51)
Additional impairment provisions	105	105
Merger effect	=	=
As at 31 December 2007	<u>213</u>	<u>213</u>
Net movement in impairment provisions	<u>54</u>	<u>54</u>
Write-offs	-	-
Merger effect	-	-
Net amount charged to the income statement	<u>54</u>	<u>54</u>
Receivables write-off	-	-
Effect of f/x rate fluctuation	-	-
Total charged to the income statement, excluding the effect of f/x rate fluctuation	<u>54</u>	<u>54</u>

Impairment and provision on investments, garanties and unutilised loans were not allocated.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

26. Currency structure of assets and liabilities

(HUF million)	Assets	Equity and liabilities	Off Balance sheet net position	Total Net foreign currency exposure long/(short)
---------------	--------	------------------------	--------------------------------	--

The currency structure of assets and liabilities as at 31 December 2007 is as follows:

<u>Currency:</u>				
Euro	20,975	20,956	-	19
Swiss Francs	<u>9,040</u>	<u>9,014</u>	-	<u>26</u>
Total foreign currency:	30,015	29,970	-	45
Hungarian Forint	<u>82,222</u>	<u>82,267</u>	-	<u>(45)</u>
Total	<u>112,237</u>	<u>112,237</u>		

The currency structure of assets and liabilities as at 31 December 2006 is as follows:

<u>Currency:</u>				
Euro	19,597	19,544	-	53
Swiss Francs	<u>1,606</u>	<u>1,571</u>	-	<u>35</u>
Total foreign currency:	21,203	21,115	-	88
Hungarian Forint	<u>81,437</u>	<u>81,525</u>	-	<u>(88)</u>
Total	<u>102,640</u>	<u>102,640</u>	-	

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

27. Maturity analysis as at 31 December 2007

(HUF million)

	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	without maturity	Total
Nostris with banks	10	-	-	-	-	-	10
Available for sale financial assets	-	-	-	3,219	9,911	-	13,130
Held to maturity investments	-	-	-	-	-	-	-
Placements with, and loans and advances to other banks	2,361	422	2,318	14,048	33,354	-	52,503
Loans and advances to customers	1,490	656	1,551	19,992	21,335	-	45,024
Property, plant and equipment	-	-	-	55	-	-	55
Intangible assets	-	-	-	92	-	-	92
Tax assets	-	-	-	-	-	61	61
Other assets	537	674	96	53	2	-	1,362
Total assets	4,398	1,752	3,965	37,459	64,602	61	112,237
Deposits and loans from other banks	8,986	-	-	13,542	3,522	-	26,050
Issued mortgage bonds	-	-	9,680	56,737	3,000	-	69,417
Tax liabilities	-	-	-	-	-	16	16
Other liabilities	1,430	1,797	1,882	-	-	-	5,109
Other provisions	46	-	-	-	-	-	46
Shareholder's funds	-	-	-	-	-	11,599	11,599
Total liabilities and shareholder's Funds	10,462	1,797	11,562	70,279	6,522	11,615	112,237
Maturity gap	(6,064)	(45)	(7,597)	(32,820)	58,080	(11,554)	

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

27. Maturity analysis as at 31 December 2006

(HUF million)

	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	without maturity	Total
Nostros with banks	374	-	-	-	-	-	374
Available for sale financial assets	-	-	3,993	1,735	2,199	(104)	7,823
Held to maturity investments	-	-	3,376	-	-	-	3,376
Placements with, and loans and advances to other banks	4,319	437	2,463	14,321	37,936	-	59,476
Loans and advances to customers	340	236	1,961	14,497	12,797	-	29,831
Property, plant and equipment	-	-	-	-	-	56	56
Intangible assets	-	-	-	-	-	238	238
Tax assets	-	-	-	-	-	39	39
Other assets	695	154	527	37	-	14	1,427
Total assets	5,728	827	12,320	30,590	52,932	243	102,640
Deposits and loans from other banks	5,582	-	-	7,557	4,112	-	17,251
Issued mortgage bonds	-	1,300	2,829	56,837	9,885	-	70,851
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Hedging derivative liabilities	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	-	-
Other liabilities	1,432	1,398	1,842	-	-	-	4,672
Other provisions	-	-	-	-	-	-	-
Shareholder's funds	-	-	-	-	-	-	-
Total liabilities and shareholder's Funds	7,014	2,698	4,671	64,394	13,997	9,866	102,640
Maturity gap	(1,286)	(1,871)	7,649	(33,804)	38,935	(9,623)	

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

28. Interest rate sensitivity - interest re-pricing as at 31 December 2007
(HUF million)

	Up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Non interest bearing	Total
Nostros with banks	10	-	-	-	-	-	10
Available for sale financial assets	-	-	-	3,266	10,106	(242)	13,130
Held to maturity investments	-	-	-	-	-	-	-
Placements with, and loans and advances to other banks	3,316	4,009	27,998	17,180	-	-	52,503
Loans and advances to customers	8,361	2,601	26,186	7,483	393	-	45,024
Property, plant and equipment	-	-	-	-	-	55	55
Intangible assets	-	-	-	-	-	92	92
Tax assets	-	-	-	-	-	61	61
Other assets	-	-	-	-	-	1,362	1,362
Total assets	11,687	6,610	54,184	27,929	10,499	1,328	112,237
Deposits and loans from other banks	8,986	-	2,901	10,641	3,522	-	26,050
Issued mortgage bonds	3,800	-	20,630	41,987	3,000	-	69,417
Tax liabilities	-	-	-	-	-	16	16
Other liabilities	-	-	-	-	-	5,109	5,109
Other provisions	-	-	-	-	-	46	46
Shareholder's funds	-	-	-	-	-	11,599	11,599
Total liabilities and shareholder's Funds	12,786	-	23,531	52,628	6,522	16,770	112,237
On balance sheet interest sensitivity gap	(1,099)	6,610	30,653	(24,699)	3,977	(15,442)	

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

28. Interest rate sensitivity - interest re-pricing as at 31 December 2006 (HUF million)	Up to 1 month				1-3 months				3-12 months				1-5 years				over 5 years				Non interest bearing				Total													
	Up to 1 month				1-3 months				3-12 months				1-5 years				over 5 years				Non interest bearing				Total													
Nostros with banks	374	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	374
Available for sale financial assets	-	-	-	3,993	-	-	-	1,735	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,823
Held to maturity investments	-	-	-	3,376	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,376	
Placements with, and loans and advances to other banks	4,742	-	-	21,524	2,843	-	30,224	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,476	
Loans and advances to customers	9,051	-	-	13,077	2,734	-	4,969	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,831		
Property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56		
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	238		
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39		
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,427		
Total assets	14,167	5,577	41,970	36,928	2,342	4,112	17,251	70,851	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866
Deposits and loans from other banks	5,582	-	-	4,112	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issued mortgage bonds	3,785	-	-	16,079	43,587	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other provisions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholder's funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities and shareholder's Funds	9,367	1,300	19,473	47,750	10,212	7,870	12,882	70,851	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866	102,640	1,427	1,656	4,672	9,866
On balance sheet interest sensitivity gap	4,800	4,277	22,497	(10,822)	(7,870)	(12,882)	(70,851)	(102,640)	(1,427)	(1,656)	(4,672)	(9,866)	(102,640)	(1,427)	(1,656)	(4,672)	(9,866)	(102,640)	(1,427)	(1,656)	(4,672)	(9,866)	(102,640)	(1,427)	(1,656)	(4,672)	(9,866)	(102,640)	(1,427)	(1,656)	(4,672)	(9,866)	(102,640)	(1,427)	(1,656)	(4,672)	(9,866)	

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

29. Interest rate risk- average interest rates

In 2007 and 2006 average domestic and foreign currency rates were as follows; with amounts expressed in %:

	EUR		CHF		HUF	
	2007	2006	2007	2006	2007	2006
Assets						
Securities (incl. financial assets at fair value through profit or loss, available for sale and held to maturity securities)	-	-	-	-	7.35	8.73
Placements with, and loans and advances to other banks	4.37	3.16	3.89	-	10.95	10.82
Loans and advances to customers	5.73	5.01	4.55	5.07	13.41	14.15
Liabilities						
Deposits and loans from other banks	4.36	3.11	2.43	1.55	7.97	7.29
Deposits from customers	-	-	-	-	-	-
Issued bonds	4.25	2.76	-	-	8.59	8.63

30. Balances and P/L outstandings with related parties

(HUF million) 2007

Assets

Nostros and placements with banks	2,228
Placements with, and loans and advances to other banks	28,376
Other assets	24
Total	<u>30,628</u>

Liabilities

Deposits and loans from other banks	26,050
Other liabilities	66
Total	<u>26,116</u>

P/L

Interest and similar income	963
Interest expense and similar charges	(743)
Fee and commission expense	(34)
Operating costs	<u>(60)</u>
Total	<u>126</u>

The above balances are outstanding with UniCredit Bank Hungary Zrt.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

31. Fair value information

(HUF million)	2007		2006	
	Fair Value	Carrying amount	Fair Value	Carrying amount
Nostros with banks	10	10	374	374
Available for sale financial assets	13,835	13,130	8,266	7,823
Held to maturity investments	-	-	3,601	3,376
Placements with, and loans and advances to other banks	55,668	52,503	64,628	59,476
Loans and advances to customers	46,027	45,024	30,312	29,831
Property, plant and equipment	55	55	56	56
Intangible assets	91	92	237	238
Tax assets	61	61	-	21
Other assets	453	1,362	185	1,445
Financial Assets & Derivatives	116,200	112,237	107,659	102,640
Deposits and loans from other banks	26,105	26,050	17,296	17,251
Issued mortgage bonds	74,779	69,417	76,222	70,851
Tax liabilities	16	16	-	-
Other liabilities	219	5,109	48	4,672
Other provision	46	46	-	-
Financial Liabilities	101,165	100,638	93,566	92,774

Estimation of fair values

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. Expected future cash flows, even for homogeneous categories of loans, are estimated on a single deal basis and discounted at current market rates. The estimated fair values of loans also reflect changes in interest rates.

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

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

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

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

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

32. Segment report

HUF million	Total Bank		Retail		Corporate		Treasury		Others	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Net Interest Income	3,462	3,371	2,432	2,389	239	282	57	25	734	675
Net fee and commission income	258	68	286	99	-	-	(23)	(35)	(5)	4
Trading profit	1	6	-	-	-	-	1	6	-	-
Balance of other oper. inc./exp.	(13)	(8)	-	(6)	-	(2)	-	-	(13)	-
REVENUES	3,708	3,437	2,718	2,482	239	280	35	(4)	716	679
Staff Expenses	(561)	(471)	(162)	(133)	(25)	(25)	-	-	(374)	(313)
Other Administrative Expenses	(424)	(368)	(97)	(59)	(7)	(5)	-	-	(320)	(304)
W/d on tang./intang. assets	(170)	(150)	(67)	(47)	(9)	(8)	-	-	(94)	(95)
Direct Expenses	(1,155)	(989)	(326)	(239)	(41)	(38)	-	-	(788)	(712)
Indirect Expenses	-	-	(198)	(198)	(38)	(33)	-	-	236	231
Overhead Expenses	-	-	(531)	(465)	(38)	(36)	-	-	569	501
OPERATING EXPENSES	(1,155)	(989)	(1,055)	(902)	(117)	(107)	-	-	17	20
GROSS OPERATING RESULT	2,553	2,448	1,663	1,580	122	173	35	(4)	733	699
Cost / Income Ratio	(31.1%)	(28.8%)	-	-	-	-	-	-	-	-
Provision for risk and charges	(46)	-	-	-	-	-	-	-	(46)	-
Goodwill impairment	-	-	-	-	-	-	-	-	-	-
P/L and net w/d on loans	(54)	(84)	(60)	(5)	7	(79)	-	-	(1)	-
P/L and net w/d on investment	(36)	-	-	-	-	-	(36)	-	-	-
Integration costs	-	-	-	-	-	-	-	-	-	-
RESULT AFTER TAXES	2,417	2,364	1,603	1,575	129	94	(1)	(4)	686	699
Income taxes	(570)	(550)	-	-	-	-	-	-	-	-
RESULT AFTER TAXES	1,847	1,814	-	-	-	-	-	-	-	-
ROE	16.8 %	18.6 %	-	-	-	-	-	-	-	-
Interest Bearing Assets	89,199	84,963	74,713	72,152	14,486	12,811	-	-	-	-
Interest Bearing Liabilities	-	-	-	-	-	-	-	-	-	-

According to the owner's regulations the table contains the annual average business volumes of Retail and Corporate segments.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

33. Exposure to credit risk

HUF million	Loans and advances to customers		Placements with , and loans and advances to other banks	
	2007	2006	2007	2006
Individually impaired				
Grade 1 - problem free	0	0	-	-
Grade 2 - to be monitored	92	16	-	-
Grade 3 - below average	489	540	-	-
Grade 4 - doubtful	89	0	-	-
Grade 5 - bad	<u>0</u>	<u>27</u>	-	-
Gross amount	671	583	-	-
Allowance for impairment	<u>(135)</u>	<u>(129)</u>	-	-
Carrying amount	536	454	-	-
Collectively impaired				
Grade 1 - problem free	0	0	-	-
Grade 2 - to be monitored	81	0	-	-
Grade 3 - below average	19	22	-	-
Grade 4 - doubtful	63	7	-	-
Grade 5 - bad	<u>51</u>	<u>37</u>	-	-
Gross amount	214	66	-	-
Allowance for impairment	<u>(66)</u>	<u>(31)</u>	-	-
Carrying amount	148	35	-	-

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

HUF million	Loans and advances to customers		Placements with , and loans and advances to other banks	
	2007	2006	2007	2006
Past due but not impaired				
Grade 1 - problem free	6	1,050	-	-
Grade 2 - to be monitored	1,521	0	-	-
Grade 3 - below average	0	0	-	-
Grade 4 - doubtful	0	0	-	-
<u>Grade 5 - bad</u>	<u>0</u>	<u>0</u>	-	-
Carrying amount	1,527	1,050	-	-
Past due comprises				
0-30	1,253	879	-	-
30-60	274	171	-	-
60-90	0	0	-	-
90-180	0	0	-	-
<u>Over 180 days</u>	<u>0</u>	<u>0</u>	-	-
Carrying amount	1,527	1,050	-	-
Neither past due nor impaired				
Grade 1 - problem free	42,774	27,826	50,285	54,926
Grade 2 - to be monitored	53	466	0	0
Grade 3 - below average	0	0	0	0
Grade 4 - doubtful	0	0	0	0
<u>Grade 5 - bad</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Carrying amount	42,827	28,292	50,285	54,926
Total	45,038	29,831	50,285	54,926

35. Regulatory capital

	2007	2006
Tier 1 Capital		
Ordinary share capital	3,000	3,000
Share premium	783	783
General reserve	743	563
General risk provision the 1,25 percentages of the corrected balance sheet total	347	316
Retained earnings	5,287	3,649
P/L according to the balance sheet	1,624	1,638
Negativ differences due to consolidation	-	-
Less intangible adjustments	(92)	(238)
Total	11,692	9,711
Tier 2 Capital		
Fair value reserve for available-for-sale equity securities	-	-
Qualifying subordinated liabilities	-	-
Total	-	-
Total regulatory capital	11,692	9,711
Reducing items of the regulatory capital	-	-
Investments in financial institutions	-	-
Large exposure limit	(5,855)	(3,247)
Modified adjusted capital	5,837	6,464
Solvency indicator	-	-
Trading book	-	-
Banking book	112,423	102,723
RWA	34,704	32,401
capital adequacy (%)	16.82	19.95

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 will be used as a standard form to be reported from 1st January 2008.

Main elements for the calculation of RWA 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 adjustments.

UNICREDIT JELZÁLOGBANK ZRT.

Notes to the unconsolidated financial statements for the year ended 31 December 2007

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.

Tier 1 capital is the same as the regulatory capital as the Bank contains no fair value reserve for available-for-sale equity securities and qualifying subordinated liabilities. After deducting the amount of investments in financial institutions, large exposure limit comes out the modified adjusted capital which is divided by RWA and it gives the solvency ratio.

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 Tier 1 capital. There also are restrictions on the amount of large exposure limits. The amount of the exposure against a customer or a customer group cannot exceed 25 percent of the bank's regulatory capital; the total amount of large risk taken by the bank may not exceed the eightfold amount of the bank's regulatory capital.

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

The Bank will implement Basel II Standard method from 1st January 2008. The Bank follows the instructions, requirements and methods given by the national regulator and its parent bank. Also the UCI Group will calculate and create reports on required capital and also on solvency ratio for the whole group.

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.

There have been no material changes in the Bank's management of capital during the period.