UniCredit Jelzálogbank Zrt.

Separate Financial Statements and Independent Auditors' Report

December 31, 2013

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the shareholders and Board of Directors of UniCredit Jelzálogbank Zrt.

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of UniCredit Jelzálogbank Zrt for the year 2013, which financial statements comprise the statement of financial position as at December 31, 2013 and the related statement of recognized and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate 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 separate 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 separate financial statements give a true and fair view of the financial position of UniCredit Jelzálogbank Zrt. as at December 31, 2013, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matters

The financial statements of UniCredit Jelzálogbank Zrt. for the year ended 31 December 2012, were audited by another auditor, whose report dated 5 February 2013, expressed an unqualified opinion on those financial statements.

Budapest, February 4, 2014

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UniCredit Jelzálogbank

UniCredit Jelzálogbank Zrt.

Separate Financial Statements
and Independent Auditor's Report

for the year ended 31 December 2013

Budapest, 4 February 2014

UNICREDIT JELZÁLOGBANK Zrt.

Separate Financial Statements for the year ended 31 December 2013

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UNICREDIT JELZÁLOGBANK Zrt.

Separate statement of financial position (balance sheet) as at 31 December 2013

(HUF million)

	Note	2013	2012
Assets			
Available for sale financial assets	13	14,945	13,878
Placements with, and loans and advances to banks	14	49,921	50,304
Loans and advances to customers	15	24,521	39,742
Property, plant and equipment	16	7	1
Intangible assets	17	0	4
Current tax assets	12	0	39
Deferred tax assets	12	112	107
Other assets	18	452	445
Total assets		**89,958**	**104,520**
Liabilities			
Deposits and loans from banks	19	18,922	27,499
Deposits from customers	20	155	117
Issued bonds	22	52,501	58,493
Current tax liabilities	12	19	0
Deferred tax liabilities	12	233	313
Other liabilities	21	29	32
Total liabilities		**71,859**	**86,454**
Shareholder's Funds			
Share capital	23	3,000	3,000
Capital reserve		783	783
Retained earnings		11,714	11,176
Statutory reserves	24	1,427	1,701
Valuation reserves		138	142
Net profit for the year after transfers		1,037	1,264
Total Shareholder's Funds		**18,099**	**18,066**
Total Liabilities and Shareholder's Funds		**89,958**	**104,520**

Budapest, 4 February 2014

UniCredit Jelzálogbank Zrt.
5.

Pórfy György
chief executive officer

Novákné Bejczy Katalin
Member of Board of Directors

UNICREDIT JELZÁLOGBANK Zrt.

Separate income statement
for the year ended 31 December 2013

(HUF million)

	Note	2013	2012
Interest and similar income	6	6,426	7,951
Interest expense and similar charges	6	(3,821)	(4,811)
Net interest income	6	**2,605**	**3,140**
Fee and commission income	7	30	36
Fee and commission expense	7	(17)	(16)
Net fee and commission income	7	**13**	**20**
Dividend income			0
Net trading income	11	146	(57)
Realised loss on Early Repayment Scheme	9	0	(1,038)
Net gain and loss on other financial intruments	9	(126)	(108)
Operating income		**2,638**	**1,957**
Impairment and losses on credit products	26	(477)	(536)
Impairment due to Early Repayment Scheme	26	0	874
Impairment losses		**(477)**	**338**
Net financial activity result		**2,161**	**2,295**
Personnel expenses	8	(148)	(143)
General operating expenses	10	(568)	(546)
Other provision		(154)	0
Depreciation on property, plant and equipments	16	(1)	(1)
Amortization on intangible assets	17	(4)	(15)
Other income /(expenses)		0	0
Operating costs		**(875)**	**(705)**
Gain / (losses) on investments		1	0
Profit before tax		**1,287**	**1,590**
Income tax expense	12	(250)	(326)
Net profit for the year		**1,037**	**1,264**

UniCredit Jelzálogbank Zrt.
5.

Budapest, 4 February 2014

Pórfy György
chief executive officer

Novákné Bejczy Katalin
Member of Board of Directors

UNICREDIT JELZÁLOGBANK Zrt.

Separate statement of comprehensive income
for the year ended 31 December 2013

(HUF million)

	Note	2013	2012
Net profit for the year		**1,037**	**1,264**
Movement in fair value reserve (available-for-sale financial assets)		(5)	865
Income tax on fair value reserve		1	(164)
Net movement in fair value reserve		**(4)**	**701**
Total comprehensive income for the year		**1,033**	**1,965**

Budapest, 4 February 2014

UniCredit Jelzálogbank Zrt.
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Pórfy György
chief executive officer

Novákné Bejczy Katalin
Member of Board of Directors

UNICREDIT JELZÁLOGBANK HUNGARY Zrt.

Separate statement of changes in Shareholder's equity for the year ended 31 December 2013

(HUF million)	Ordinary Shares	Capital Reserve	Retained Earnings	Statutory Reserves	Available For Sale Reserve	Net profit	Total
Balance 1 January 2012	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
Net profit for the previous year			1,264			(1,264)	-
Total comprehensive income for the year					(4)	1,037	1,033
Dividend to equity holder			(1,000)				(1,000)
Business combination							
Appropriations							
Transfer from retained earnings			274	(274)			
Balance 31 December 2013	3,000	783	11,714	1,427	138	1,037	18,099

Budapest, 4 February 2014

UniCredit Jelzálogbank Zrt.
5.

Pórfy György
chief executive officer

Novákné Bejczy Katalin
Member of Board of Directors

UNICREDIT JELZÁLOGBANK Zrt.

Separate statement of cash flows
for the year ended 31 December 2013

(HUF million)	Note	2013	2012
Cash flows from operating activities:			
Profit before tax		**1,287**	**1,590**
Items not involving movement of cash:			
Depreciation and amortisation	16, 17	(2)	17
Net impairment and losses in credit products	26	477	(338)
Taxation paid	12	(250)	(326)
Cash flows from operating profits before changes in operating assets and liabilities		**225**	**(647)**
Change in financial assets held for trading			
Change in tax assets	12	35	142
Change in other assets		(7)	81
Change in tax liabilities	12	(61)	(65)
Change in other liabilities	21	(3)	(395)
Change in loans and advances to customers	15	14,744	9,231
Change in deposits with other banks	14	383	17,416
Change in deposits from customers		38	(180)
Change in deposits from other banks		(8,577)	1,983
Net cash from operating activities		**6,552**	**28,213**
Cash flows from investing activities:			
Change in available for sale financial assets	13	(1,072)	(2,939)
Net cash used in investing activities		**(1,072)**	**(2,939)**
Cash flows from financing activities:			
Change in issued mortgage bonds	22	(5,992)	(25,217)
Divident paid		(1,000)	(1,000)
Net cash from financing activities		**(6,992)**	**(26,217)**
Net Increase in cash		-	-
Cash at the beginning of the year		-	-
Cash at the end of the year		-	-

The accompanying notes (1-38) 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 2013, 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 4 February 2014.

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"), as adopted by the EU.

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 are 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 classified 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 when 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

Initial 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 monthly, 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.

Subsequent Measurement

Fair value measurement principles

The fair value measurement principles, applied by the Group, are described in Note 5.

3. Significant accounting policies (continued)

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 impairment loss on available for sale financial assets 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.

e) 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 impaired in full.

f) 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 impaired in full.
There are no intangible assets which have an indefinite useful life.

g) 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 %
Intangible asset	20
Office equipment	14.5
Motor vehicles	20

3. Significant accounting policies (continued)

h) 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.

i) 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.

j) 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.

3. Significant accounting policies (continued)

k) 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.

l) 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 (based on the Bank's financial statements, prepared in accordance with the local GAAP) 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. The total General Risk Reserve, created until 2012 from the based on the Bank's risk weighted assets (1.25%) is reclassified to Retained Earnings according to a recent change of the 1996/CXII Act on Banking. This decision was based on the domestic implementation of the regulations of CRD IV / CRR.

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.

3. Significant accounting policies (continued)

m) 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.

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.

n) 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.

3. Significant accounting policies (continued)

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.

o) 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.

p) 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.

3. Significant accounting policies (continued)

q) 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
- 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 33.

3. Significant accounting policies (continued)

r) Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).

3. Significant accounting policies (continued)

s) Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 4 February 2013.

- **IFRS 9 "Financial Instruments" and subsequent amendments** (effective date was not yet determined),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"**
  – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the entity's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"**, would not significantly impact the financial statements, if applied as at the balance sheet date.

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, 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 Hungary Zrt.
Classified, problematic loans – restructuring, collection and work-out activity - are handled by UniCredit Bank Hungary Zrt. as agent of the Bank.
Credit risk of Jelzálogbank 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 the 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 "loan 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 at own bank;
- 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 BA, and this is also the department which carries out the regular review
- 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 consider, otherwise; 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 other 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 distressed (and thus resulting in a default event) in case of restructuring of principal and interest which is necessary because of the client's poor financial situation, and which results in a certain degree of debt forgiveness (that of principal, interests or fees, deferred payments),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 collection of outstanding.

Impairment loss

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

The Bank allocates 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. There are no new disbursements in the Bank, risk management's focus is on portfolio management.

Private portfolio:
In the private portfolio the effects of the economic turmoil was still present in 2013 and the limitations based on legal regulation were perceivable, but the pace of portfolio quality deterioration was more moderate than in 2012.
The Bank lays emphasis on all elements of collection and 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.

The Group maintained actively its contract signed in 2012 with the National Asset Management Company (Nemzeti Eszközkezelő, NET) and, on basis of individual assessment and decision, allows debtors fulfilling the criteria set forth in the respective legal regulations to participate in the program whereby the NET purchases the mortgaged real estate, pays the purchase price to the Bank as repayment to the outstanding loan and the Bank releases the rest of the loan, with the debtor continuing to remain in the property as renter.

Corporate and small business portfolio
In 2013 the Bank continued to lay special emphasis on the monitoring, restructuring, collection and work-out activity in the corporate and small business segment. There were no significant changes in the non-performing portfolio, the portfolio quality is stabile.

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. UniCredit 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.

4. Risk Management Policies (continued)

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 assets and liabilities and the exposure to interest rate risk are represented in Notes 28 and 29.

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 UniCredit Group's new Internal Model (IMOD). These procedures provide aggregate data and make available the major risk parameters for the various trading operations daily. Besides Value at Risk ("VaR"), other factors of equal importance are stress-oriented volume and position limits.

4. Risk Management Policies (continued)

Additional elements of the limit system are loss-warning level limits and options-related limits applied to trading and positioning in non-linear products.

IMOD, the UniCredit 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, equity position risk (both general and specific risk) and exchange rate risk. The VaR position of the Bank is presented in Note 35.

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

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

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

The daily reporting also includes details of volume-oriented sensitivities which are compared with the respective limits. The most important detailed presentations include: basis point 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.

4. Risk Management Policies (continued)

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 UniCredit Group. This makes it possible to attribute credit, market and liquidity risk and contribution margins to the bank's business divisions in line with the principle of causation. ALCO ensures that the 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.

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.

4. Risk Management Policies (continued)

iv) Compliance with Basel II

The implementation of Basel II, and respectively the European Capital Requirement Directive, in the future Basel III and CRDIV/CRR is managed as a group issue, and covered mainly with group-wide solutions.

The Bank calculates the capital requirement of credit risk according to the standardised approach, IRB implementation is not planned.

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, client 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.

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

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

UniCredit Bank Hungary's Management Board is responsible for the effective oversight over operational risk exposure of the Bank. The operational risk office will notify the Management Board of UniCredit Bank (partly via Internal Control Business Committee/ICBC) about significant operational risks, their changes as well as relevant breaches to policies and limits. The Management Board shall have an overall understanding of operational risk control framework and of how operational risk effects the Bank.

4. Risk Management Policies (continued)

The Group's Management Board ensures that:

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

The Group'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. Internal operational risk regulations are based on the regulations of the UniCredit Bank, and has to be approved by the Management Board of UniCredit Jelzálogbank as well.

In the Group the Operational and Reputational Risk Committee is responsible for making decisions on Operational Risk.

Members of the Committee are:

- Chief Risk Officer,
- Divisional Operational Risk Managers,
- Head or representative of Identity & Communication.

Permanent invitees for the meetings are:

- Head of Organisational Department,
- Representative of Internal Audit,
- internal auditor of the Bank (Jelzálogbank) – in the related agenda.

The Operational and Reputational Risk Committee (OpRRiCo) holds its meeting at least quarterly or more frequently if necessary.

Detection, monitoring, and mitigation of operational risk, and set up of action plans are supported also by the Permanent Workgroup having its sessions quarterly, as well. Topics and proposals discussed in the Workgroup are the base for presentations towards OpRRiCo and ICBC.

4. Risk Management Policies (continued)

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.

The Bank calculates the capital requirements for operational risks according to the standardised method.

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:

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.

5. Use of estimates and judgements (continued)

iii.) 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.

iv.) 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.).

v.) 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)	2013	2012
Interest and similar income		
Interest income from Central Bank	0	2
Interest income from banks	3,242	3,766
Interest income from customers	2,382	3,121
Interest income on Available for sale financial assets	802	1,062
	6,426	7,951

	2013	2012
Interest expense and similar charges		
Interest expense to banks	(242)	(548)
Interest expense to customers	(14)	(20)
Interest expense on issued bonds	(3,565)	(4,243)
	(3,821)	(4,811)
Net interest income	2,605	3,140

7. Net fee and commission income

(HUF million)	2013	2012
Fees and commission income		
Other financial fees and commissions	30	36
	30	36
Fees and commission expense		
Payment transaction fees	(1)	-
Custody service fees	(4)	(4)
Other financial fees and commissions	(12)	(12)
	(17)	(16)
	13	20

8. Personnel expenses

(HUF million)	2013	2012
Wages and salaries	76	94
Statutory social-security contributions	54	37
Other employee benefits	16	10
Employer's contributions	2	2
	148	143

The number of employees (in full time equivalent) was 11,75 on 31 December 2013 (2012: 11,7 employees).

9. Net gain and loss on other financial instruments

(HUF million)	2013	2012
Gain		
Available-for-sale debt securities	47	1
Gain on repurchased issued Mortgage Bonds	22	0
	69	1
Loss		
Loans and receivables	-	(1,038)
Available-for-sale debt securities	(32)	(109)
Loss on repurchased issued Mortgage Bonds	(163)	-
-	(195)	(109)
	(126)	(1,146)

Increase in the loss in 2012 is due to the realised fixed rate redemption loss.

10. General operating expenses

(HUF million)	2013	2012
Other indirect tax expense and costs of authorities	277	292
Renting costs and operating expenses of property	16	17
Information technology costs	93	71
Material and office equipments costs	1	1
Other administrative expenses	181	165
Total	**568**	**546**

11. Net trading income

(HUF million)	2013	2012
Profit on foreign exchange	146	(57)

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 2013 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)	2013	2012
Tax expense for the year		
Current tax expense	334	448
Adjustments for prior years	-	1
	334	449
Deferred tax charge	(84)	(123)
Total income tax expense in income statement	**250**	**326**

Reconciliation of effective tax rate

	2013 (%)	2013 (HUF million)	2012 (%)	2012 (HUF million)
Profit before tax	-	1,287	-	1,590
Income tax using the domestic corporate tax rate	15.5	199	16.9	268
Supplementary corporate tax for banks	4.8	62	4.5	72
Adjustments for prior years	-	-	1	
Tax effects of income/expenses exempt from corporate tax	0.1	1	(0.1)	(1)
General risk reserve	-	-	-	-
Income/expenses giving rise to permanent differences:				
- Other	(0.9)	(12)	(0.9)	(14)
	19.4	250	20.5	326

12. Taxation (continued)

Balances, related to taxation (HUF million)	**Assets**	**Liabilities 2013**	**Net**	**Assets**	**Liabilities 2012**	**Net**
Current tax assets / (liabilities) for the year	-	19	19	(39)	-	(39)
Deferred tax assets / (liabilities)						
Available-for-sale securities	-	32	32	-	33	33
Allowances for loan losses (IBNR)	(70)	-	(70)	(78)	-	(78)
Legal reserve	-	-	-	-	91	91
Effect of items, increasing / (decreasing) the local tax base	(42)	201	159	(29)	189	160
Total deferred tax assets / (liabilities)	(112)	233	121	(107)	313	206
Total tax assets / (liabilities)	**(112)**	**252**	**140**	**(146)**	**313**	**167**

12. Taxation (continued)

Movements in temporary differences during the year – 2013 (HUF million)	Opening balance	Recognised in profit and loss	Recognised in equity	Closing balance
Available-for-sale securities	33	-	(1)	32
Allowances for loan losses (IBNR)	(78)	8	-	(70)
Legal reserve	91	(91)	-	-
Effect of items, increasing / (decreasing) the local tax base	160	(1)	-	159
Total deferred tax assets / (liabilities)	**206**	**(84)**	**(1)**	**121**

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**

13. Available for sale financial assets

(HUF million)	2013	2012
Government bonds	14,945	13,878
	14,945	13,878

The balance of the AFS reserve including deferred tax in the shareholder's equity was HUF 138 million.

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

(HUF million)	2013	2012
Loans and advance to other banks		
Nostros with other banks	305	2,234
Maturity less than one year	13,425	6,860
Maturity more than one year	36,191	41,210
Total	49,921	50,304

15. Loans and advances to customers

(HUF million)	2013	2012
Private and commercial:		
Maturity less than one year	5,129	16,354
Maturity more than one year	23,774	27,884
	28,903	44,238
Provision for impairment and losses on credit products (Note 26.)	(4,382)	(4,496)
	(4,382)	(4,496)
	24,521	39,742

A. Analysis by industrial sector

(HUF million)	2013	%	2012	%
Real estate finance	782	2.71	12,521	28.3
Private clients	26,682	92.31	29,974	67.75
Trade	-	-	-	-
Agriculture	311	1.08	685	1.55
Catering trade	1,040	3.60	1,020	2.31
Community	36	0.12	38	0.09
Light industry	52	0.18		
Other	-	-	-	-
Total	28,903	100.00	44,238	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)	2013	2012
Against individually impaired	1,239	1,066
Guarantees	79	79
Cautions	-	8
Property/Real estate	1,160	979

15. Loans and advances to customers (continued)

Collateral for the above loans continued

(HUF million)	2013	2012
Against collectively impaired	1,609	1,405
Guarantees	4	2
Cautions	1	34
Property/Real estate	1,604	1,368
Others	-	-
Against past due but not impaired	768	624
Guarantees	-	-
Cautions	4	11
Property/Real estate	764	613
Against neither past due nor impaired	13,303	67,013
Guarantees	32	17
Cautions	26	82
Property/Real estate	13,245	23,079
Debt securities	-	-
Others (independent mortgage rights)	39,038	43,835

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**
2013						
Land and buildings	-	-	-	-	-	**-**
Office equipment	-	-	-	-	-	**-**
Motor vehicles	1	-	8	1	1	**7**
Capital work in progress	-	-	-	-	-	**-**
	1	-	8	1	1	**7**
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**

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**
2013						
Software	728	724	-	-	4	-
	728	724	-	-	4	-
2012						
Software	728	709	-	-	15	**4**
	728	709	-	-	15	**4**

18. Other assets

(HUF million)	2013	2012
Trade receivables and advances	142	53
Accrued interest income	310	392
	452	445

19. Deposits and loans from other banks

(HUF million)	2013	2012
Maturity less than one year	15,696	25,182
Maturity more than one year	3,226	2,317
	18,922	27,499

20. Deposits from customers

(HUF million)	2013	2012
Maturity less than one year	155	117
	155	117

21. Other liabilities

(HUF million)	2013	2012
Accrued expenses and prepaid income	27	30
Other taxes payable	2	2
	29	**32**

22. Issued bonds

(HUF million)	2013	2012
Maturity less than one year	12,608	9,917
Maturity more than one year	39,893	48,576
	52,501	58,493

Development of the Bank's mortgage bond portfolio in 2013

The volume of mortgage bonds denominated in local currency decreases by HUF 5.98bn (to HUF 32.95bn) in 2013, while the stock of EUR and CHF denominated instruments remained unchanged (EUR 15m and CHF 56m). The dynamics of the HUF bond portfolio contraction is virtually identical to the extent of the shrinkage in 2012 (HUF -5.97bn), which is primarily owing to the continued decreasing tendency of subsidized HUF loan (both refinanced and private loan) portfolio.

Outstanding mortgage bond stock (calculated with December 31, 2013 official NBH FX rates) stood at HUF 50.96bn: share of HUF mortgage bonds represented 64.65% of the total stock (down from 68.54% end-2012), EUR instruments took 8.74% (vs. 7.69%) and the share of CHF mortgage bonds was 26.61% (vs. 23.77%). At the same time the structure of the mortgage bond portfolio skewed towards floating rate bonds representing 38.88% of the total portfolio by end-2013 (vs. 34.80% end-2012), while the portion of fixed coupon m-bonds decreased to 61.12% (vs 65.20%).

The Issuer has four different floating rate instruments: three foreign currency instruments (UCJBE 2021/1, UCJBC 2021/1 and UCJBC 2016/I) and UCJBV 2020/A, as the only one HUF FRN mortgage bond. At the same time outstanding fixed coupon bond stock has consisted of six series (UCJBF 2014/A, UCJBF 2015/A, UCJBF 2016/A, UCJBF 2017/A, UCJBF 2018/A and UCJBF 2019/C). Floating rate coupons are fixed on the basis of EURIBOR, CHFLIBOR and BUBOR. CHF and EUR mortgage bonds pay coupon on quarterly basis, while UCJBV 2020/A pays coupon with a 6M frequency. Rates of annual coupons for the fixed coupon m-bonds vary between 6.75% and 9.0%, while spreads over the applied money market references are between +197bps and +335bps, depending on the denomination and the maturity of certain floating rate instruments.

In 2014 five issues took place: total gross issue size of HUF mortgage bonds reached HUF 4.32bn (four auctions), while there was a private placement of CHF 3.0m. In the same period the nominal amount of re-purchases reached HUF 6.6bn (three transactions). The size of maturities were HUF 3.7bn (UCJBF 2013/A) and CHF 3.0m (UCJBC 2013/1). In the examined year the Issuer preferred the issuance of 5Y fixed coupon bonds (UCJBF 20018/A and UCJBF 2019/C), while the private placement aimed at rolling over the maturing CHF m-bond principal. At the same time the Issuer continued the practice of m-bond repurchases in order to improve the balance of the asset-liability structure, as well as the balance of the collateral registry book.

In terms of funding cost 2013 showed a mixed picture: average auction yields came at +70bps - +90bps above government bond yield curve in H1 and +120bps - +125bps in H2.

23. Share capital

(HUF million)	2013	2012
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 2012	1,315	386	-	**1,701**
Appropriations from retained earnings	112	(386)	-	**(274)**
Other	-	-	-	-
Balance at 31 December 2013	1,427	-	-	**1,427**

The total General Risk Reserve, created until 2012 based on the Bank's risk weighted assets (1.25%) is reclassified to Retained Earnings according to a recent change of the 1996/CXII Act on Banking. This decision was based on the domestic implementation of the regulations of CRD IV / CRR. (Note 38.)

25. Commitments and contingent liabilities

At 31 December 2013, the Bank had the following commitments and contingent liabilities (at nominal values):

(HUF million)	2013	2012
Loan and overdraft facilities granted not disbursed	-	316

26. Impairments and provisions

Impairments and provisions on credit products

	Loans	Guarantees and unutilised loans	**Total financial instruments**
Balance 31 December 2012	4,496	-	**4,496**
Write-offs	(464)	-	**(464)**
Amounts released	(549)	-	**(549)**
Additional impairment and provisions	932	-	**932**
Effect of f/x rate fluctuation	(33)	-	**(33)**
As at 31 December 2013	**4,382**	-	**4,382**
Net movement in impairment and provisions	(81)	-	**(81)**
Write-offs	464	-	464
Net amount charged to the income statement	**383**	-	**383**
Receivables written-off	94	-	94
Total charged to the income statement, excluding the effect of f/x rate fluctuation	**477**	-	**477**

26. Impairments and provisions (continued)

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)**

27. Currency structure of assets and liabilities

The currency structure of assets and liabilities as at 31 December 2013 is as follows:

(HUF million)	Assets	Equity and Liabilities	Total Net foreign currency exposure long/(short)
Currency:			
Euro	9,753	9,725	28
Swiss Francs	28,276	27,325	951
Total foreign currency:	38,029	37,050	979
Hungarian Forint	51,929	52,908	(979)
Total	**89,958**	**89,958**	

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**	

28. Residual contractual maturities of financial assets and 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 2013								
Non-derivative assets								
Cash and cash equivalents		-	-	-	-	-	-	-
Trading securities		-	-	-	-	-	-	-
Investment securities		14,945	15,395	-	298	11,080	4,017	-
Loans and advances to banks		49,921	64,146	7,499	3,403	4,082	18,391	30,771
Loans and advances to customers		24,521	32,158	179	409	1,909	8,954	20,707
		89,387	**111,699**	**7,678**	**4,110**	**17,071**	**31,362**	**51,478**
Non-derivative liabilities								
Trading liabilities		-	-	-	-	-	-	-
Deposits from banks		18,922	(18,979)	(3,155)	(9,754)	(2,815)	(3,255)	-
Deposits from customers		155	(155)	(155)	-	-	-	-
Debt securities issued		52,501	(60,678)	-	(474)	(13,507)	(26,007)	(20,690)
Subordinated liabilities		-	-	-	-	-	-	-
		71,578	**(79,812)**	**(3,310)**	**(10,228)**	**(16,322)**	**(29,262)**	**(20,690)**
Cash flows from derivative positions								
Trading		-	-	-	-	-	-	-
Risk management		-	-	-	-	-	-	-
Unrecognised loan commitments		-	-	-	-	-	-	-
		71,578	**(79,812)**	**(3,310)**	**(10,228)**	**(16,322)**	**(29,262)**	**(20,690)**

28. Residual contractual maturities of financial assets and 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 2012								
Non-derivative assets								
Cash and cash equivalents		-	-	-	-	-	-	-
Trading securities		-	-	-	-	-	-	-
Investment securities		13,878	14,355	-	3,147	6,893	4,315	-
Loans and advances to banks		50,304	65,944	6,664	572	3,232	17,781	37,695
Loans and advances to customers		39,742	63,515	-	234	11,493	36,018	15,770
		103,924	**143,814**	**6,664**	**3,953**	**21,618**	**58,114**	**53,465**
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)**
Cash flows from derivative positions								
Trading		-	-	-	-	-	-	-
Risk management		-	-	-	-	-	-	-
Unrecognised loan commitments		-	(316)	(291)	-	-	(25)	-
		86,109	**(96,054)**	**(5,759)**	**(10,929)**	**(20,694)**	**(38,406)**	**(20,266)**

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 2013							
Cash and cash equivalents		-	-	-	-	-	-
Loans and advances to banks		49,924	9,783	21,547	11,191	7,403	-
Loans and advances to customers		24,521	645	4,520	15,300	4,057	-
Investment securities		14,945	313	-	10,946	3,685	-
		89,390	10,741	26,067	37,437	15,145	-
Deposits from banks		(18,922)	(3,178)	(9,726)	(6,018)	-	-
Deposits from customers		(155)	(155)	-	-	-	-
Debt securities issued		(52,501)	(1,538)	(19,813)	(11,070)	(19,770)	(310)
Subordinated liabilities		-	-	-	-	-	-
		(71,578)	(4,871)	(29,539)	(17,088)	(19,770)	(310)
Effect of derivatives held for risk management		-	-	-	-	-	-
		17,812	**5,870**	**(3,472)**	**20,349**	**(4,625)**	**(310)**

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 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**

30. Fair valuation hierarchy

Securities

31 December 2013		**Notional amount**		**Total**
Bonds	**Level 1**	**Level 2**	**Level 3**	
(HUF million)	6,200	8,300	-	**14,500**
Own Issues	**Level 1**	**Level 2**	**Level 3**	
(HUF million)	-	32,950	18,013	**50,963**

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. Balances outstanding with related parties

(HUF million)	2013	2012
Assets		
Loans and receivables with bank	41,376	40,051
Loans and receivables with customers	-	10,057
Total	**41,376**	**50,108**
Liabilities		
Deposit from banks	18,919	27,494
Debt certificates including bonds	44,159	49,598
Total	**63,078**	**77,092**
Income Statement		
Interest and similar income	1,309	1,959
Interest expense and similar charges	(3,170)	(3,635)
Fee and commission expense	(11)	(12)
Gains and losses on disposal of financial liabilities	(153)	(144)
Administrative costs	(101)	-
Total	**(2,126)**	**(1,832)**

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

32. Fair value information

(HUF million)	2013 Fair Value	2013 Carrying amount	2012 Fair Value	2012 Carrying amount
Available for sale financial assets	14,945	14,945	13,878	13,878
Placements with, and loans and advances to other banks	49,963	49,921	48,867	50,304
Loans and advances to customers	30,015	24,521	42,424	39,742
Financial Assets & Derivatives	94,923	89,387	105,169	103,924
Deposits and loans from other banks	18,886	18,922	27,497	27,499
Issued mortgage bonds	54,525	52,501	59,796	58,493
Deposits and loans from customers	155	155	117	117
Financial Liabilities	73,566	71,578	87,410	86,109

* 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 a rate taking into account the risk free rate, the expected loss and unexpected loss. The estimated fair values of loans also reflect changes in interest rates.

Investments carried at cost and derivates (including issued bonds): 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 a rate consisting of the risk free rate and own credit spread (liquidity spread). 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

(HUF million)	Total Bank 2013	Total Bank 2012	Retail 2013	Retail 2012	Corporate 2013	Corporate 2012	Others 2013	Others 2012
Net Interest Income	**2,605**	**3,140**	**1,085**	**1,193**	**194**	**474**	**1,326**	**1,473**
Net fee and commission income	14	20	30	41	-	(4)	(16)	(17)
Trading profit	161	(57)	-	-	-	-	161	(57)
Balance of other oper.inc./exp.	-	(1,017)	-	-	-	-	-	(1,017)
REVENUES	**2,780**	**2,086**	**1,115**	**1,234**	**194**	**470**	**1,471**	**382**
Staff Expenses	(149)	(143)	(26)	(16)	-	-	(123)	(127)
Other Administrative Expenses	(568)	(546)	(6)	(31)	(3)	(3)	(559)	(512)
W/d on tang./intang. assets	(5)	(16)	(2)	(9)	-	-	(3)	(7)
Direct Expenses	**(722)**	**(705)**	**(34)**	**(56)**	**(3)**	**(3)**	**(685)**	**(646)**
Indirect Expenses	-	-	(22)	(21)	(4)	(4)	26	25
Overhead Expenses	-	-	(381)	(358)	(9)	(8)	390	366
OPERATING EXPENSES	**(722)**	**(705)**	**(437)**	**(435)**	**(16)**	**(15)**	**(269)**	**(255)**
GROSS OPERATING RESULT	**2,058**	**1,381**	**678**	**799**	**178**	**455**	**1,202**	**127**
Cost / Income Ratio	**26.0%**	**33.8%**	-	-	-	-	-	-
Provision for risk and charges	(154)		-	-	-	-	(154)	
Goodwill impairment	-	-	-	-	-	-	-	-
P/L and net w/d on loans	**(477)**	**317**	**(491)**	**328**	**14**	**(11)**	-	-
P/L and net w/d on investment	(140)	(108)	-	-	-	-	(140)	(108)
Integration costs	-	-	-	-	-	-	-	-
RESULT BEFORE TAXES	**1,287**	**1,590**	**187**	**1,127**	**192**	**444**	**908**	**19**
Income taxes	(250)	(326)						
RESULT AFTER TAXES	**1,037**	**1,264**						
ROE	**5.8%**	**7.3%**						
Interest Bearing Assets	91,876	99,081						
Interest Bearing Liabilities	83,272	92,838						

34. Exposure to credit risk

(HUF million)	Loans and advances to customers 2013	2012	Placements with , and loans and advances to other banks 2013	2012
Individally impaired				
Grade 1 - Bonis	-	-	-	-
Grade 2 – Past Due	-	-	-	-
Grade 3 – Ristrutturati	63	63	-	-
Grade 4- Incaglio	932	1,180	-	-
Grade 5- Sofferenze	1,978	2,222	-	-
Gross amount	**2,973**	**3,465**	-	-
Allowance for impairment	(1,635)	(1,980)	-	-
Carrying amount	**1,338**	**1,485**	-	-
Collectively impaired				
Grade 1 - Bonis	-	-	-	-
Grade 2 – Past due	191	243	-	-
Grade 3 – Ristrutturati	39	-	-	-
Grade 4 - Incaglio	695	919	-	-
Grade 5 -Sofferenze	3,643	2,873	-	-
Gross amount	**4,568**	**4,035**	-	-
Allowance for impairment	(2,378)	(2,105)	-	-
Carrying amount	**2,190**	**1,930**	-	-
Past due but not impaired				
Grade 1 - Bonis	1,208	1,595	-	-
Grade 2 – Past Due	-	-	-	-
Grade 3 - Ristrutturati	-	-	-	-
Grade 4 - Incaglio	-	-	-	-
Grade 5 -Sofferenze	-	-	-	-
Carrying amount	**1,208**	**1,595**	-	-
Past due comprises				
0-30	960	1,496	-	-
30-60	147	99	-	-
60-90	101	-	-	-
90-180	-	-	-	-
over 180 days	-	-	-	-
Carrying amount	**1,208**	**1,595**	-	-

34. Exposure to credit risk (continued)

(HUF million)	2013	2012	2013	2012
Neither past due nor impaired				
Grade 1 - Bonis	19,785	34,704	39,038	43,832
Grade 2 – Past Due	-	-	-	-
Grade 3 - Ristrutturati	-	28	-	-
Grade 4 - Incaglio	-	-	-	-
Grade 5 - Sofferenze	-	-	-	-
Carrying amount	19,785	34,732	39,038	43,832
IBNR	369	(411)	-	-
Total	24,521	39,742	39,038	43,832

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 historical VaR (1 day, confidence interval of 99 %) for 2013 moved in a range of HUF 356 million and HUF 584 million, following a fairly stable path during the year. The average VaR was HUF 487 million, a little bit lower than a year before. Due to the fact the Bank does not have a 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 2012 to 2013. The Bank has been keeping in its books only government 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 2013 (HUF million)

Risk Category	**Year-end**	**Average**	**Minimum**	**Maximum**
Exchange rate risk	17	19	12	24
Interest rate risk	42	83	41	111
Credit spread	323	431	323	507
Vega risk	-	-	-	-
Equity risk	-	-	-	-
Overall	356	487	356	584

VaR as at 28 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

In addition to VaR, risk positions of the UniCredit 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. Partial simulation runs simulate specific risk classes while keeping others constant. The combination of portfolios and partial simulation runs enable the bank to analyse all major risk components on a daily basis and over time.

36. Summary of interest sensitivity

As at the end of 2012 and 2013, 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 2013 (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	(0.31)	0.02	0.01	(0.03)	(0.19)	(0.09)	(0.60)	(0.35)
EUR	0.03	(0.07)	0.04	0.12	(0.01)	0.12	0.17	(0.16)	0.07
HUF	0.16	(1.08)	1.30	0.81	(0.03)	1.17	3.57	1.09	2.60
Total	**0.33**	**1.46**	**1.36**	**0.93**	**0.06**	**1.47**			

	As at 31 December 2012 (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	0.13	(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**			

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 government bonds and own issued mortgage bonds. The total CpV position slightly decreased from € 75k to € 70k by 2013 year-end.

37. Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was HUF 46 million (2012: HUF 33 million).

38. 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 already created amount of the general risk reserve carried over to the profit reserve in 2013 and it is necessary to pay 19 percentile corporation taxes for after until 10 March 2014.

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.

38. Regulatory capital (continued)

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.

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.

38. Regulatory capital (continued)

	2013	2012
Tier 1 Capital		
Ordinary share capital	3,000	3,000
Share premium	783	783
General reserve	1,427	1,314
General risk provision the 1,25 percentages of the corrected balance sheet total	-	386
Retained earnings	11,135	9,616
P/L according to the balance sheet	113	1,042
Less intangible adjustments	-	(4)
Tier 1 Total	**16,458**	**16,137**
Tier 2 Capital		
Fair value reserve for available-for-sale equity securities	20	84
Tier 2 Total	-	84
Total regulatory capital	**20**	**16,221**
Large explosure limit	-	(6,196)
Modified adjusted capital	**16,478**	**10,025**
Risk Weighted Assets	**34,041**	**45,352**
Credit risk	27,602	37,692
Market risk	-	-
Operational risk	6,439	7,660
Capital adequacy (%)	**48.41%**	**22.10%**