CIB BANK Zrt.

Consolidated Annual Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2010
with the Independent Auditors' Report

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Independent auditors' report

To the Shareholders of CIB Bank Zrt.

We have audited the accompanying consolidated financial statements of CIB Bank Zrt. and its subsidiaries, ("the Group") which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated Financial Statements

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

Auditor's Responsibility

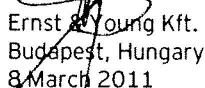
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of CIB Bank Zrt. as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Ernst & Young Kft.
Budapest, Hungary
8 March 2011

CIB BANK Ltd.
and its subsidiaries

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for the year ended 31 December 2010
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

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Consolidated Income Statement
for the year ended 31 December 2010
(million HUF)

	Note	2010	2009 (Reclassified)
Interest income	3	140,862	180,628
Interest expense	3	(68,841)	(120,721)
Net interest income		**72,021**	**59,907**
Fee and commission income	4	41,765	43,300
Fee and commission expense	4	(8,512)	(7,469)
Net fee and commission income		**33,253**	**35,831**
Income from trading activities	5	27,121	47,506
Other operating income / (expenditures)	6	2,785	(254)
Total revenue		**135,180**	**142,990**
Impairment losses, provisions and net loan losses	7	(83,077)	(71,252)
Operating expenses without bank tax	8	(59,241)	(62,150)
Bank tax	9	(13,110)	-
Operating profit (loss) before income taxes		**(20,248)**	**9,588**
Share of loss of associate	10	-	(11)
Profit (loss) before bank tax and income taxes		**(7,138)**	**9,577**
Profit (loss) before income taxes		**(20,248)**	**9,577**
Income tax expense	11	(3,252)	(4,916)
Net profit (loss) for the year (before appropriations)		**(23,500)**	**4,661**

The accompanying notes on pages 9 to 90 form part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010
(million HUF)

	Note	2010	2009
Net profit (loss) for the year (before appropriations)		**(23,500)**	**4,661**
Exchange differences on translation of foreign operations (net of taxes)	13	-	26
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)	13	(578)	988
Other comprehensive income for the year (net of taxes)	13	**(578)**	**1,014**
Total comprehensive income for the year		**(24,078)**	**5,675**
Attributable to Equity holders of the parent		(24,078)	5,675

The accompanying notes on pages 9 to 90 form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
as at 31 December 2010
(million HUF)

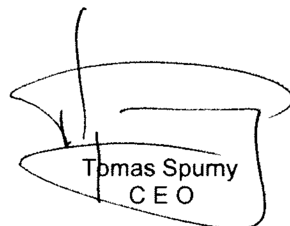
Assets	**Note**	**2010**	**2009**
Cash and current accounts with central bank	14	32,300	47,752
Due from banks	15	59,520	70,106
Financial assets at fair value through profit or loss	16	10,394	17,048
Derivative financial assets	33	17,185	40,267
Loans and advances to customers	*17*	*2,337,790*	*2,446,372*
Allowance for loan losses	*17*	*(194,431)*	*(131,420)*
Net loans and advances to customers	17	2,143,359	2,314,952
Financial investments – Available-for-sale	20	60,301	160,531
Financial investments – Held-to-maturity	20	5,487	5,994
Non-current assets held for sale	18	960	284
Tax assets	11	14,626	14,396
Other assets	19	11,456	9,773
Repossessed properties	21	91,493	23,220
Intangible assets	22	10,279	11,468
Property, plant and equipment	23	37,511	41,405
Total assets		**2,494,871**	**2,757,196**

The accompanying notes on pages 9 to 90 form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
as at 31 December 2010
(million HUF)

Liabilities and Shareholders' Equity	Note	2010	2009
Deposits from banks	24	652,995	743,610
Derivative financial liabilities	33	49,856	41,504
Deposits from customers	25	1,367,712	1,560,093
Liabilities from issued securities	26	109,275	63,533
Tax liabilities	11	5,427	9,137
Other liabilities	27	22,418	17,913
Provisions	28	5,886	3,629
Subordinated dept	29	40,056	52,453
Total liabilities		**2,253,625**	**2,491,872**
Shareholders' equity			
Share capital	30	105,000	105,000
Reserves	31	6,035	30,504
Retained earnings		130,211	129,820
Total shareholders' equity		**241,246**	**265,324**
Total liabilities and shareholders' equity		**2,494,871**	**2,757,196**
Commitments and contingencies	32	301,415	386,949

8 March 2011



Tamas Spumy
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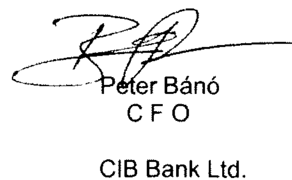

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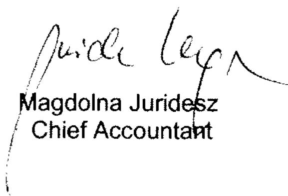


Magdolna Juridesz
Chief Accountant

CIB Bank Ltd.

The accompanying notes on pages 9 to 90 form part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2010 (million HUF)

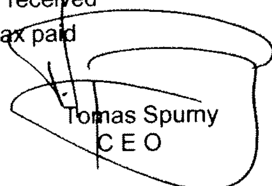
	Note	Ordinary Shares	Retained Earnings	Capital reserve	General Reserve	General Risk Reserve	Revaluation reserve	Foreign currency translation reserve	Total
Balance at 31 December 2008		**62,819**	**111,680**	**870**	**21,363**	**22,647**	**(2,034)**	**(26)**	**217,319**
Total comprehensive income		-	-		-	-	988	26	**1,014**
Issue of shares	30	42,181	-	149	-	-	-	-	**42,330**
Net profit for 2009		-	4,661	-	-	-	-	-	**4,661**
Transfers between reserves		-	13,479	-	453	(13,932)	-	-	-
Balance at 31 December 2009		**105,000**	**129,820**	**1,019**	**21,816**	**8,715**	**(1,046)**	-	**265,324**
Total comprehensive income		-	-	-	-	-	(578)	-	**(578)**
Net loss for 2010		-	(23,500)	-		-	-	-	**(23,500)**
Transfers between reserves		-	23,891	-	(15,176)	(8,715)	-	-	-
Balance at 31 December 2010		**105,000**	**130,211**	**1,019**	**6,640**	-	**(1,624)**	-	**241,246**

Consolidated Statement of Cash Flows
for the year ended 31 December 2010
(million HUF)

		2010	2009
			(Reclassified)
Operating activities			
Profit (loss) before tax		(20,248)	9,577
Depreciation		7,938	7,408
Net unrealized (gain) / loss on financial instruments		31,413	(17,999)
Increase in allowance for loan losses		63,401	55,963
Increase in allowance for repossessed properties		2,441	857
Working capital charges:			
Decrease / (increase) in due from banks		(946)	1,914
Decrease / (increase) in financial assets at fair value through profit or loss		6,277	32,005
Decrease / (increase) in loans and advances to customers		51,083	118,514
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)		(1,751)	(6,211)
Increase / (decrease) in deposits from banks		(90,615)	(420,390)
Increase / (decrease) in deposits from customers and liabilities from issued securities		(146,241)	170,355
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)		4,643	(10,216)
Income tax charged		(5,747)	(8,700)
Cash flows used in operating activities		**(98,352)**	**(66,923)**
Investing activities			
Purchase of financial investments		(55,177)	(150,942)
Proceeds from sale of financial investments		155,730	223,807
Acquisitions to intangible and tangible assets		(3,077)	(3,829)
Acquisitions to repossessed properties		(14,027)	(3,328)
Disposals of intangible and tangible assets		316	928
Cash flows used in investing activities		**83,765**	**66,636**
Financing activities			
Cash from subordinated debt		(12,397)	1,067
Cash from share capital		-	42,330
Cash flows from financing activities		**(12,397)**	**43,397**
Net increase / (decrease) in cash and cash equivalents	**41**	**(26,984)**	**43,110**
Cash and cash equivalents at the beginning of year		113,543	70,433
Cash and cash equivalents at the end of year		**86,559**	**113,543**

Additional information for cash flows from operating activities	2010	2009
Interest received	140,453	185,805
Interest paid	72,667	134,580
Dividend received	54	107
Income tax paid	11,513	10,118

8 March 2011



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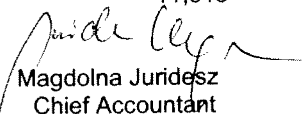

Magdolna Juridesz
Chief Accountant

CIB Bank Ltd.

The accompanying notes on pages 9 to 90 form part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Part A – Accounting policies

(1) Corporate information

The majority owner of CIB Bank Ltd. ("the Bank") is Intesa Sanpaolo Holding International S.A. which holds 93.4773% of the total ordinary shares of the Bank outstanding at year end (93.4773% as at 31 December 2009). The ultimate parent company of the Bank is Intesa Sanpaolo S.p.A., a bank registered in Italy that holds 6.5227% of the shares of the Bank as at 31 December 2010 (6.5227% as at 31 December 2009).

The Bank is a fully licensed Hungarian bank conducting local and international banking business both within and outside Hungary. The registered address of the Bank is 4-14 Medve utca, Budapest. The average number of employees of the Bank and its subsidiaries was 3,284 in 2010 and 3,561 in 2009, respectively.

The Consolidated Financial Statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 8 March 2011.

(2) Significant accounting policies

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

2.1 Basis of preparation

The Consolidated Financial Statements of CIB Bank Ltd and its subsidiaries (hereafter 'Group') comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Shareholders' Equity, Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements.
The Consolidated Financial Statements of the Group have been prepared on a historical cost basis, except for available-for-sale financial assets, derivative financial instruments, other financial assets and liabilities held for trading, which all have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges are adjusted to record changes in fair value attributable to the risks that are being hedged.

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss or available-for-sale financial assets are measured at fair value in these Consolidated Financial Statements. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Financial instruments classified as financial investments held-to-maturity, loans and receivables or other financial liabilities are measured on an amortized cost basis. The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments, plus or less the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and less any reduction for impairment.

(2) Significant accounting policies (continued)

Non-financial instruments are measured using the historical cost convention in these Consolidated Financial Statements.

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

The official rate of exchange quoted by the Hungarian Central Bank as at 31 December 2010 the euro was EUR 1 = HUF 278.75 (2009: EUR 1 = HUF 270.84) and Swiss Franc was CHF 1 = HUF 222.68 (2009: CHF 1 = HUF 182.34).

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

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

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

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

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

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

2.2 Statement of compliance

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.

(2) Significant accounting policies (continued)

2.3 Basis of consolidation

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

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

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

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group and are shown separately in the Consolidated Income Statement and within equity in the Consolidated Statement of Financial Position and separately from shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

As at 31 December 2010 the Bank had the following subsidiary companies ("the Group"):

Company	Country of incorporation	Equity interest in % (direct and indirect)	Principal Business
CIB Credit Co. Ltd.	Hungary	100	Consumer credit finance and financial leasing services
CIB Leasing Co. Ltd.	Hungary	100	Financial leasing services
CIB RENT Leasing and Trading Company Ltd.	Hungary	100	Leasing services
CIB Real Estate Leasing Co. Ltd.	Hungary	100	Real estate leasing services
CIB Residential Property Leasing Ltd.	Hungary	100	Property financial leasing services
CIB Property Ltd.	Hungary	100	Property financial leasing services
CIB Leasing Holding Ltd.	Hungary	100	Share holding of CIB Leasing Ltd.
CIL Buda SQUARE Ltd.	Hungary	100	Property leasing services
Óbuda Dunapart Ltd.	Hungary	100	Property leasing services
CIL MNM Ltd.	Hungary	96.67	Property leasing services
Brivon Hungary Ltd.	Hungary	100	Property development and maintenance services
CIB Insurance Broker Ltd.	Hungary	100	Insurance agency services
CIB Support Ltd.	Hungary	100	Property and maintenance services to the Group

(2) Significant accounting policies (continued)

Company	Country of incorporation	Equity interest in % (direct and indirect)	Principal Business
CIB REAL Ltd.	Hungary	100	Property and maintenance services to the Group
CIB Investment Fund Management Co. Ltd.	Hungary	100	Fund management
CIB Faktor Ltd.	Hungary	100	Factoring financing services
CIB Recovery Ltd.	Hungary	100	Professional services
CIB Car Ltd.	Hungary	100	Car trading services
CIB New York Broker Ltd.	Hungary	100	Financial agent services

Business combinations and transactions under common control during 2010 are detailed in Note 42.

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

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post-acquisition evaluation in the Group's share of net assets of the associate. The Income Statement reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

2.4 Significant accounting judgments and estimates

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

(2) Significant accounting policies (continued)

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

- the measurement of impairment losses on loans and other financial assets,
- the use of measurement models for determining the fair value of financial instruments not listed on active markets,
- the measurement of provisions for risk and charges,
- the estimates and assumptions on the collectability of deferred tax assets,
- the measurement of impairment on non-financial assets,
- the measurement of goodwill.

(a) Fair value of financial instruments

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

(b) Impairment losses on loans and advances

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

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

(c) Deferred tax assets

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

(d) Impairment of non-financial assets

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

(2) Significant accounting policies (continued)

(e) Impairment on available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each Statement of Financial Position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.
The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement the Group evaluates among other factors historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(f) Consolidation of special purpose entities (SPEs)

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

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

2.5 Change in Accounting Judgements and Estimates

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

(a) Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon on the likely timing and the level of future taxable profits together with future tax planning strategies. The Group has unused tax loss carry forwards. These losses relate to the Bank and to subsidiaries that have a history of losses, do not expire in five years and may not be used to offset taxable income elsewhere in the Group. Due to the current market and economic situation the management considered whether the Bank and subsidiaries will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets. Compared to previous years the management assessed that the Group will be able to realise deferred tax assets on most of the loss carry forwards in the future and resulted in an increase in the amount HUF 1,033 million (assuming 10% income tax rate).

(2) Significant accounting policies (continued)

(b) General Risk Reserve

Under section 87 of Act No. CXII of 1996, Hungarian banks may establish a general risk reserve of up to 1.25% of risk weighted assets.

In 2009 the Group decided to change the accounting policy regarding the level of general risk reserve and decreased it from the maximum to 0.5%. In 2010 the management decided to discontinue general risk reserve and instead applied the full available amount to cover increased credit losses for.

If the Group had not discontinued the estimation of the general risk reserve the total reserve of 0.5% of risk weighted assets would be HUF 8,710 million as at 31 December 2010.

(c) Interest Recognition on Non-performing Loans

Pursuant to accounting standards once a financial asset has been written down as a result of impairment loss contractual interest must not be recognised for such assets but interest income thereafter must be recognised using the effective interest rate method. In 2010 the Group made a change in estimates of interest recognised for non-performing loans.

2.6 Foreign currency transactions

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

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

2.7 Initial measurement of financial instruments

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

2.8 Date of recognition

All "regular way" purchases and sales of financial assets and liabilities are recognized on the settlement date, i.e. the date that the financial asset is delivered. Regular way purchases or sales are purchases or sales that require delivery of assets within the time frame generally established by regulation or convention in the market place.
Derivatives are recognized on a trade date basis. Trade date is the date that the Group commits itself to purchase or sell an asset.

(2) Significant accounting policies (continued)

2.9 Derecognition

A financial asset is derecognised when:

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

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

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

2.10 Reclassification of financial assets

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

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

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

(2) Significant accounting policies (continued)

2.11 Financial asset at fair value through profit and loss

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

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

2.12 'Day 1' profit or loss

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

2.13 Derivative financial instruments and hedge accounting

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

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

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

(2) Significant accounting policies (continued)

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

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

To avoid this risk, the Group has adopted the rule to force to 100% the effectiveness test, even if the result is outside the permissible range of 80% to 125%, when the following conditions are simultaneously satisfied:

- Condition 1: the difference between the absolute values of delta NPV of both the synthetic asset/liability and the hedging derivative must be lower than (or equal to) 50.000 Euro;
- Condition 2: the ratio between the delta NPV and the principal amount must be lower than (or equal to) 1% for both the synthetic asset/liability and the hedging derivative. In the case of an effectiveness test showing a result situated within the range 80-125%, but different than 100%, the Mark to Market (MTM) value associated to the differential is recorded into the Income Statement.

The back-testing method re-computes the NPV of the hedging derivatives ("amended NPV's") where the already fixed rates of the floating legs are replaced by relevant market rates applicable on revaluation date. The back-testing is considered efficient if the ratio of the hedging derivatives' "amended NPV's" over the hedged assets/liabilities' NPV's is within the 80-125% range (the conditions detailed in the previous paragraph still apply). The "amended NPV's" of the derivatives are computed for back testing purposes only and are not accounted for. In the case of failure of the back testing procedure when the effectiveness test shows a result situated outside the range 80-125% Management must be informed in order to authorize the break-up of the hedge link between the hedging derivative and the hedged asset/liability.

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

(2) Significant accounting policies (continued)

2.14 Due from banks

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

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

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

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

2.15 Loans and advances to customers

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

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

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

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

(2) Significant accounting policies (continued)

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

Statutory and other regulatory loan loss reserves are dealt with in the general risk reserve as an appropriation of retained earnings. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the allowance.

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

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

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

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

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

2.16 Finance lease receivables

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

(2) Significant accounting policies (continued)

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

2.17 Financial investments – Held-to-maturity

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

2.18 Financial investments - Available-for-sale

Available-for-sale financial investments are those which are designated as such or are not classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. After initial recognition, investments which are classified 'available-for-sale' are re-measured at fair value. Unrealized gains and losses on re-measurement to fair value are reported in the Equity as Revaluation Reserve for the period. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the Consolidated Income Statement.

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

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

(2) Significant accounting policies (continued)

2.19 Securities lending and borrowing

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

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

2.20 Fair values

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

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

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

Measurements at fair value are classified on the basis of a hierarchy that reflects the significance of the inputs used in the measurement. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 39.

2.21 Repurchase and reverse repurchase agreements

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

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

(2) Significant accounting policies (continued)

2.22 Intangible assets and property, plant and equipment

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

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises	2%	50 or 70% of gross value
Leasehold improvements	5%	individually assessed
Electronic equipments and office furniture	14.5%	individually assessed
Computer equipment	33%	10% of gross value
Software	20%	individually assessed
Motor vehicles	20%	30% of gross value

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

2.23 Repossessed properties

Repossessed properties are usually repossessed properties under lease negotiation or real estate developments/projects or construction contracts. Repossessed properties are measured initially at cost, including transaction costs. Subsequent to initial recognition repossessed properties are stated at historic cost less allowance for depreciation and impairment. The Group applies 33% depreciation rate for repossessed properties after deducting residual value of 99% except for repossessed lands and real estate developments and construction contracts which are not subject to depreciation. Repossessed properties are derecognised when either they have been disposed of or when the repossessed property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

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

(2) Significant accounting policies (continued)

2.24 Business combinations and goodwill

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

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

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

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

2.25 Inventory

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

2.26 Non-current assets held for sale

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

(2) Significant accounting policies (continued)

2.27 Deposits from banks and from customers

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

2.28 Liabilities from issued securities

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

2.29 Revenue recognition

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

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

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

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

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

(2) Significant accounting policies (continued)

2.30 Taxation

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

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

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

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

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

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

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

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

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

(2) Significant accounting policies (continued)

In August 2010 the Hungarian parliament approved a new Act called the "bank tax" that is applicable for financial institutions for 2010-2012. Each financial institution that already had a closed financial year and related financial statements on 1 July 2010 was subject to assessment and payment of this the bank tax in 2010. On 15 November 2010 the Hungarian Parliament approved an amendment to the Bank Tax Act applicable for 2011. The amendment practically splits into two payment titles the original bank tax payment obligation for banks only.

The basis and the rate of the new bank tax that establishes the tax payable in 2010 is different for the different types of financial institutions (in case of banks it is calculated on the adjusted balance sheet total, in case of financial enterprises - such as leasing companies - it is based on the net interest income and net commission income and in case of investment fund management companies on the total net asset value of the funds managed, etc.). For 2010 and 2011 the basis and rates are uniformly based on statutory reported financial data of the reporting entity for the period ended 31 December 2009. The calculation method for 2012 is not yet determined

The respective tax rates are different for the different types of financial institutions: e.g. for credit institutions the tax rates are 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.5% for the amount exceeds HUF 50 billion. In the amendment there are certain changes for banks regarding the basis for the tax and the tax rate for the adjusted total asset value exceeding HUF 50 billion was increased to 0.53% for the year 2011.

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

2.31. Offsetting financial assets and liabilities

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

2.32 Fiduciary assets

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

2.33 Financial guarantees

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

(2) Significant accounting policies (continued)

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

2.34 Provisions

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

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

2.35 Operating profit

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

2.36 Cash and cash equivalents

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

2.37 Borrowing costs

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

2.38 Change in Accounting Policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010.

(2) Significant accounting policies (continued)

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarifies the scope and the accounting for group cash-settled share based payment transactions. This amendment has been effective for financial years beginning on or after 1 January 2010. This amendment has no impact on the financial position or performance of the Group.

IAS 27 Consolidated and separate Financial Statements (Amended)

The IASB issued the revised IAS 27, affecting consolidated and separate financial statements. IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by

IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and the transactions with non-controlling interest after 1 January 2010.

IFRS 3 Business Combinations (Revised)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 39 Financial instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no impact either financial position or performance of the Group.

2.39 Standards issued but not yet effective

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

(2) Significant accounting policies (continued)

IAS 24 Related Party Disclosure (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 29. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting IFRS 9, however, the impact of adoption depends on the assets held by the Group at the date of adoption, and it is not practical to quantify the effect.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the Consolidated Financial Statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the Consolidated Financial Statements of the Group.

(2) Significant accounting policies (continued)

2.40 Improvements to IFRSs

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards, primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

The amendments are listed below:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

2.41 Reclassifications of prior year's figures

Certain balances from the prior year have been reclassified to conform to the presentation of these Consolidated Financial Statements.

- The Group has reclassified import remittance fees from Account turnover fee income to Documentary fee income.
- To ensure the fair and detailed presentation of Consolidated Income Statement the Group has reclassified income from further invoiced expense items from Other operating income to Other expenses.

The following table illustrates the reclassifications in 2009

Reclassified item	Previous Income Statement category	Current Income Statement category	2009
Import remittance fees	Account turnover fee income	Documentary fee income	1,355
Income on further invoiced expenses	Other operating income	Other operating expenses	914

Part B – Information on the Consolidated Income Statement

(3) Interest income and interest expense

Interest income comprises	(million HUF) 2010	2009
Interest from banks	2,740	5,519
Interest from customers	122,974	152,037
Interest income from financial investments – Available-for-sale	13,454	16,031
Interest income from financial investments – Held-to-maturity	420	474
Subtotal	**139,588**	**174,061**
Interest from financial assets at fair value through profit or loss	1,274	6,567
Total	**140,862**	**180,628**

The amount of interest income on impaired, non-performing financial assets was HUF 10,445 million as at 31 December 2010 and HUF 6,681 million as at 31 December 2009 respectively.

Interest expense comprises	(million HUF) 2010	2009
Interest paid to banks	17,780	31,466
Interest paid to customers	46,380	83,813
Interest paid on issued securities	4,681	5,442
Total	**68,841**	**120,721**

(4) Fee and commission income and expense

Fee and commission income comprises	(million HUF) 2010	2009 (Reclassified)
Servicing fee income for loans	12,046	13,132
Documentary fee income	3,174	3,498
Cash management fee income	2,051	2,269
Card fee income	5,047	4,819
Account turnover fee income	8,547	9,108
Investment services fee income	4,807	4,634
Agent fee income	812	1,116
Other fee income	5,281	4,724
Total	**41,765**	**43,300**

(4) Fee and commission income and expense (continued)

Fee and commission expense comprises	(million HUF)	
	2010	**2009**
Servicing fee expenses for loans	449	53
Documentary fee expense	447	253
Card fee expense	2,272	1,990
Account turnover fee expense	549	482
Investment services fee expense	545	652
Agent fee expense	167	451
Other fee expense	4,083	3,588
Total	**8,512**	**7,469**

(5) Income from trading activities

Income from trading activities comprises	(million HUF)	
	2010	**2009**
Revaluation gains less losses from derivatives and trading with foreign currencies	2,563	2,024
Realised gains less losses from derivatives	24,806	43,103
Revaluation gain on hedging instruments	15	-
Revaluation gains less losses from trading with financial assets through profit or loss	(377)	198
Realised gains less losses from trading with financial assets through profit or loss	100	1,324
Gains less losses from financial investments – Available-for-sale	14	857
Total	**27,121**	**47,506**

(6) Other operating income/ (expenditure)

Other operating income / (expenditure) comprises	(million HUF)	
	2010	**2009** (Reclassified)
Net losses from selling of tangible and intangible assets	(144)	(314)
Dividend and similar income	54	107
Result on disposal of inventories	149	485
Result on disposal of investments	-	(104)
Insurance fee reimbursement	2,190	-
Other operating income / (expenditures)	536	(428)
Total	**2,785**	**(254)**

(7) Impairment losses, provisions and net loan losses

Impairment losses, provisions and net loan losses comprises	(million HUF)	
	2010	**2009**
Individual impairment for loan losses	65,558	72,478
Individual impairment for interest on loans	(1,163)	1,976
Collective impairment for loan losses	8,408	(1,838)
Provision expense for financial guarantees	4,106	479
Provision expense for other commitments and contingencies	815	(244)
Result on sale of loans	944	(1,728)
Impairment losses on repossessed properties	2,441	857
Other impairment losses for other receivables	518	(340)
Other provision expenses	1,450	(388)
Total	**83,077**	**71,252**

(8) Other operating expenses

	(million HUF)	
Operating expenses comprises	**2010**	**2009** (Reclassified)
Personnel expenses	28,037	30,426
a, Salaries	*20,317*	*21,263*
B, Other benefits	*1,494*	*1,957*
c, Social contributions	*6,226*	*7,206*
Depreciation	7,938	7,408
Rent and leasing	3,697	3,850
Office and Information Technology maintenance	5,303	5,685
Communications	2,556	2,718
Advertising	1,576	2,715
Other taxes and obligatory fees	2,119	2,426
Material expenses	2,680	2,753
Expert fees	949	812
Other expenses	4,386	3,357
Total	**59,241**	**62,150**

(9) Bank tax

The following table illustrates the bank tax paid by the Group in 2010.

Company	Principal Business	Bank tax (million HUF)
CIB Bank Ltd.	Banking services	10,744
CIB Credit Co. Ltd.	Consumer credit finance and financial leasing services	1,681
CIB Leasing Co. Ltd.	Financial leasing services	467
CIB Real Estate Leasing Co. Ltd.	Real estate leasing services	52
CIB Residential Property Leasing Ltd.	Property financial leasing services	27
CIB Property Ltd.	Property financial leasing services	24
CIB Investment Fund Management Co. Ltd.	Fund management	67
CIB Faktor Ltd.	Factoring financing services	48
Total		**13,110**

(10) Share of loss of associate

The Group had a 49% interest in Intesa Leasing doo Beograd as at 31 December 2008 a company incorporated in Serbia. In 2009 the majority owner of the associate, Banca Intesa ad Beograd decided to increase the share capital of the company. Due to this increase the Group's ownership decreased to 1.3%.

The carrying amount of the investment was HUF 41 million in 2009. The loss for the period before the decrease in ownership three months to 31 March 2009 was HUF 11 million.

(11) Income tax expense

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

The corporate income tax rate of 16% and a special income tax rate of 4% from 1 September 2006 were applicable to all Group companies until 2009. From 2010 the corporate income tax rate has changed to 19% and the special income tax rate of 4% has been abolished.

Dependent from the level of profitability from the second half of 2010 the tax rate has been reduced to minimum 10% of the amount of profit before tax. If the profit before tax of a company is below HUF 500 million the corporate income tax rate is 10%. If the profit before tax of a company is above this amount the corporate income tax rate is 19% for the part of the profit above HUF 500 million. From 2013 the corporate income tax rate will be a uniform 10% without any consideration as to amount of profit.

(11) Income tax expense (continued)

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

Income tax expense comprises	(million HUF)	
	2010	**2009**
Current income tax charge	727	3,915
A, Corporate Income tax	*727*	*3,310*
B, Special income tax	*-*	*605*
Other income type taxes	5,020	4,785
A, Local business tax	*4,414*	*4,205*
B, Innovation contribution	*606*	*580*
Deferred income tax	(2,495)	(3,784)
Total	**3,252**	**4,916**

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

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December is as follows:

(million HUF)	2010		2009	
Profit (loss) before tax	**(20,248)**		**9,577**	
Income tax at statutory rate	(3,847)	19.00%	1,532	16.00%
Special tax	-	-	222	2.32%
Other income type taxes	5,020	(24.79%)	4,785	49.96%
Non-deductible expenditure	447	(2.21%)	84	0.88%
Not deferred carry forward losses	406	(2.01%)	1,653	17.26%
Non-deductible allowances	794	(3.92%)	(1,185)	(12.37%)
Participation exemption	-	-	(376)	(3.93%)
Tax incentives not recognized in the income statement	(1,034)	5.11%	(1,314)	(13.72%)
Effect of change in deferred tax rate	1,617	(7.99%)	(603)	(6.30%)
Prior period adjustments	255	(1.26%)	(13)	(0.14%)
Other adjustments	(406)	2.01%	131	1.37%
Income tax at effective tax rate	**3,252**	**(16.06%)**	**4,916**	**51.33%**

Deferred tax assets and liabilities comprise (million HUF)	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Loans	2,207	1,091	3,769	331
Leasing	993	359	1,394	56
Properties	6	947	-	1,891
Securities at fair value	-	104	-	99
Carry forward unused tax losses	2,946	-	-	-
Other assets and liabilities	124	40	209	1,755
Total deferred tax to Income Statement	**6,276**	**2,541**	**5,372**	**4,132**
Deferred tax recognised in equity	180	-	246	-
Total deferred tax	**6,456**	**2,541**	**5,618**	**4,132**

(11) Income tax expense (continued)

Tax assets and liabilities comprise (million HUF)	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Deferred tax	6,456	2,541	5,618	4,132
Other taxes and obligatory fees	8,170	2,886	8,778	5,005
Total tax asset / liabilities	**14,626**	**5,427**	**14,396**	**9,137**

(12) Dividend paid

There were no dividends, declared or paid in either 2010 or 2009.

Part C – Comprehensive Income

(13) Comprehensive income

A. Other comprehensive income – Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)

Net non-realised (loss)/gain on available-for-sale financial assets comprise	(million HUF)	
	2010	**2009**
Net gains/(losses) from changes in fair value	(27)	2,969
Deferred tax effect of net gains/(losses) from changes in fair value	5	(624)
Net (gains)/losses transferred to net profit on disposal and impairment	(5)	(857)
Deferred tax effect of net (gains)/losses transferred to net profit on disposal	1	180
Amortization to net profit	(480)	(862)
Deferred tax effect of amortization to net profit	91	182
Deferred tax effect of tax change rate	(163)	-
Total	**(578)**	**988**

B. Other comprehensive income - Exchange differences on translation of foreign operations (net of taxes)

Other comprehensive income was used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries in the amount of HUF 26 million, net of taxes, as at 31 December 2009.

Part D – Information on the Consolidated Statement of Financial Position

(14) Cash and current accounts with central bank

Cash and current accounts with the central bank comprise notes and coins of various currencies and nostro accounts with the central bank kept in Hungarian Forint. The Bank is required to maintain a minimum average balance for the month equivalent to 2% of the Bank's total resident customer deposits, foreign customer HUF and currency (less than one year) deposits with the National Bank of Hungary, both in 2010 and 2009.

Cash and current accounts with central bank comprises	(million HUF)	
	2010	**2009**
Cash	8,761	9,698
Current HUF account with the National Bank of Hungary	23,539	38,054
Total (Included cash and cash equivalents Note 40)	**32,300**	**47,752**

(15) Due from banks

Due from banks comprises	(million HUF)	
	2010	**2009**
Foreign currency nostro accounts	5,021	10,861
Due from banks less than 90 days	49,238	54,930
Included in cash equivalents (Note 40)	**54,259**	**65,791**
Due from banks more than 90 days	5,261	4,315
Total	**59,520**	**70,106**

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

Financial assets at fair value through profit or loss comprises	(million HUF)	
	2010	**2009**
Government securities – HUF	9,712	11,129
Government securities - NON-HUF	44	-
Bank and corporate bonds – HUF	5	53
Bank and corporate bonds - NON-HUF	-	950
Shares listed on stock exchange – HUF	633	581
Other securities – HUF	-	4,193
Other securities - NON-HUF	-	142
Total	**10,394**	**17,048**

(16) Financial assets at fair value through profit or loss (continued)

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

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

(17) Loans and advances to customers

Analysis by sector

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

(million HUF)	2010	%	2009 (Reclassified)	%
Trading	253,268	10.83	248,301	10.15
Private customers	719,162	30.76	725,542	29.66
Real estate investments	543,396	23.25	598,994	24.48
Other, mostly service industries	364,278	15.58	399,752	16.34
Food processing	59,668	2.55	70,830	2.90
Transportation and communication	83,064	3.55	48,815	2.00
Light industry	63,314	2.71	71,451	2.92
Heavy industry	67,745	2.90	74,233	3.03
Financial activities	96,481	4.13	98,026	4.01
Agriculture	73,911	3.16	79,909	3.26
Chemicals and pharmaceuticals	13,503	0.58	30,519	1.25
Total	**2,337,790**	**100.0**	**2,446,372**	**100.0**

To ensure fair and detailed presentation of analysis of loans and advances to customers by sector, the Group has reclassified loans in the amount of HUF 229,835 million from other, mostly service industries category to private customers' category in 2009.

(17) Loans and advances to customers (continued)

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

Receivables from finance lease activities comprise	(million HUF)	
	2010	**2009** (Reclassified)
Gross lease receivables due		
Within one year	62,362	64,331
One to five years	124,281	144,139
More than five years	65,979	107,952
Total	**252,622**	**316,422**

The present value of minimum lease payments receivables comprise	**2010**	**2009** (Reclassified)
Within one year	49,868	50,867
One to five years	100,169	116,379
More than five years	48,911	84,844
Total	**198,948**	**252,090**
Unearned finance lease income	53,674	64,332
Accumulated allowance for uncollectible minimum lease payments receivable	**7,897**	**8,671**

The term of the contracts are between 3 and 120 months except in the case of property leasing contracts where the duration may reach 35 years. The interest rates range from 1% to 11% above the base rate.

Allowance for loan losses

Allowance for loan losses comprise	(million HUF)	
	2010	**2009**
Opening balance	131,420	75,457
Increase of allowance during the year	197,701	125,365
Decrease of allowance during the year	(128,751)	(54,477)
Write-off	(5,939)	(14,925)
Closing balance	**194,431**	**131,420**

Allowance for loan losses comprise	(million HUF)	
	2010	**2009**
Individual allowance	175,658	120,523
Collective allowance	18,773	10,897
Total	**194,431**	**131,420**

(17) Loans and advances to customers (continued)

In 2010 the Group operated in a strongly recessionary environment which had an impact on the business performance and resulted in negative growth rates in all segments and significantly higher allowance for impairment building.

The liquidation value of collateral that the Group holds relating to loans at 31 December 2010 amounts to HUF 1,579,600 million and HUF 1,427,192 million as at 31 December 2009 respectively.

The amount of renegotiated loans was HUF 173,267 million as at 31 December 2010 according to the definition of Hungarian accounting standards.

As part of the reverse repurchase and securities borrowing agreements the Group has received securities that it is allowed to sell with a fair value of HUF 547 million as at 31 December 2010.

(18) Non-current assets held for sale

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

(19) Other assets

Other assets comprises	(million HUF)	
	2010	**2009**
Accrued incomes, costs and expenses	4,366	2,135
Items in transit	1,753	2,580
Trade receivables	2,856	2,739
Inventories	87	92
Other assets	2,394	2,227
Total	**11,456**	**9,773**

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

(20) Financial investments

Financial investments - Available-for-sale comprises	(million HUF)	
	2010	**2009**
Government securities - HUF	60,163	160,064
Bank and corporate bonds - HUF	-	328
Equity investment - HUF	138	139
Total	**60,301**	**160,531**

Financial investments - Held-to-maturity comprise	(million HUF)	
	2010	**2009**
Government securities - HUF	5,487	5,908
Government securities - NON-HUF	-	86
Total	**5,487**	**5,994**

(21) Repossessed properties

Repossessed properties comprise	(million HUF)	
	2010	**2009**
Opening balance	23,220	-
Additions	70,808	24,095
Depreciations	(94)	(18)
Net loss from impairment adjustment	(2,441)	(857)
Closing balance	**91,493**	**23,220**

Repossessed properties are carried at historic cost less allowances for depreciation and impairment.

(22) Intangible assets

At 31 December 2010 and 2009 intangible assets and the related accumulated depreciation comprised the following

(million HUF)	Cost of intangible assets				
	2010	**Reclassification**	**Disposals**	**Acquisitions**	**2009**
Software licences and development	29,869	7	(1)	2,007	27,856
Goodwill	877	-	-	-	877
Other	1,335	(269)	-	-	1,604
Total	**32,081**	**(262)**	**(1)**	**2,007**	**30,337**

(million HUF)	Depreciation of intangible assets				
	2010	**Reclassification**	**Disposals**	**Additions**	**2009**
Software licences and development	21,581	3	(1)	3,162	18,417
Goodwill	56	-	-	-	56
Other	165	(231)	-	-	396
Total	**21,802**	**(228)**	**(1)**	**3,162**	**18,869**

(million HUF)	Cost of intangible assets				
	2009	**Reclassification**	**Disposals**	**Acquisitions**	**2008**
Software licences and development	27,856	118	(368)	2,087	26,019
Goodwill	877	-	-	-	877
Other	1,604	(337)	(1)	1	1,941
Total	**30,337**	**(219)**	**(369)**	**2,088**	**28,837**

(22) Intangible assets (continued)

(million HUF)	Depreciation of intangible assets				
	2009	**Reclassification**	**Disposals**	**Additions**	**2008**
Software licences and development	18,417	10	(244)	3,034	15,617
Goodwill	56	-	-	-	56
Other	396	(118)	(1)	9	506
Total	**18,869**	**(108)**	**(245)**	**3,043**	**16,179**

(million HUF)	Net book value of intangible assets	
	2010	**2009**
Software licences and development	8,288	9,439
Goodwill	821	821
Other	1,170	1,208
Total	**10,279**	**11,468**

The Group applied an impairment test on goodwill whether the carrying amount is less than its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next upcoming years. Based on the impairment test the value in use of the goodwill is higher than its' carrying amount.

(23) Property, plant and equipment

At 31 December 2010 and 2009 property, plant and equipment and the related accumulated depreciation comprised the following:

(million HUF)	Cost of property, plant and equipment				
	2010	**Reclassification**	**Disposals**	**Acquisitions**	**2009**
Land, premises	29,915	162	(123)	163	29,713
Leasehold improvements	11,135	53	(375)	117	11,340
Electronic equipment and office furniture	12,911	(588)	(1,074)	889	13,684
Computer equipment	8,807	207	(1,219)	166	9,653
Motor vehicles	821	-	(276)	37	1,060
Other	123	-	(9)	-	132
Total	**63,712**	**(166)**	**(3,076)**	**1,372**	**65,582**

(23) Property, plant and equipment (continued)

(million HUF)	2010	Depreciation of property, plant and equipment Reclassification	Disposals	Addition	2009
Land, premises	6,512	227	(48)	524	5,809
Leasehold improvements	4,032	7	(360)	1,349	3,036
Electronic equipment and office fumiture	8,033	(156)	(951)	1,508	7,632
Computer equipment	7,190	24	(1,234)	1,193	7,207
Motor vehicles	434	-	(167)	108	493
Other	-	-	-	-	-
Total	**26,201**	**102**	**(2,760)**	**4,682**	**24,177**

(million HUF)	2009	Cost of property, plant and equipment Reclassification	Disposals	Acquisitions	2008
Land, premises	29,713	1,446	17	299	27,951
Leasehold improvements	11,340	(671)	54	480	11,477
Electronic equipment and office furniture	13,684	(988)	(1,642)	557	15,757
Computer equipment	9,653	434	(1,887)	357	10,749
Motor vehicles	1,060	(5)	(1,200)	48	2,217
Other	132	3	(19)	-	148
Total	**65,582**	**219**	**(4,677)**	**1,741**	**68,299**

(million HUF)	2009	Depreciation of property, plant and equipment Reclassification	Disposals	Addition	2008
Land, premises	5,809	691	17	342	4,759
Leasehold improvements	3,036	(138)	54	707	2,413
Electronic equipment and office fumiture	7,632	(321)	(1,579)	1,329	8,203
Computer equipment	7,207	(121)	(1,879)	1,770	7,437
Motor vehicles	493	(3)	(486)	199	783
Other	-	-	-	-	-
Total	**24,177**	**108**	**(3,873)**	**4,347**	**23,595**

(23) Property, plant and equipment (continued)

Net book value of property, plant and equipment	(million HUF) 2010	2009
Land, premises	23,403	23,904
Leasehold improvements	7,103	8,304
Electronic equipment and office furniture	4,878	6,052
Computer equipment	1,617	2,446
Motor vehicles	387	567
Other	123	132
Total	**37,511**	**41,405**

(24) Deposits from banks

Deposits from banks comprise	(million HUF) 2010	2009
Deposits from banks in Hungary	47,562	59,859
Deposits from banks in other countries	605,433	683,751
Total	**652,995**	**743,610**
- from which related party	478,569	561,468

(25) Deposits from customers

Deposits from customers comprise	(million HUF) 2010	2009
Deposits from customers in Hungary	1,178,849	1,259,533
Deposits from customers in other countries	188,863	300,560
Total	**1,367,712**	**1,560,093**
- from which related party	114,800	224,265

The revaluation loss on hedged deposits was HUF 236 million as at 31 December 2010.

(26) Liabilities from issued securities

Liabilities from issued securities comprise	(million HUF) 2010	2009
Gross amount of issued securities	118,533	73,189
Repurchased amount of issued securities	(12,396)	(11,348)
Revaluation on hedging instruments	(161)	-
Accrued interest payable from the net amount of issued securities	3,299	1,692
Net amount of liabilities from issued securities	**109,275**	**63,533**

(26) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following sets of securities	(million HUF) 2010	2009
CIB 2010A bonds were issued since 13 February 2007 and matured on 12 April 2010. The bonds bore annual interest at 7%.	-	2,158
CIB 2010B bonds were issued in HUF since 8 August 2007 and matured on 9 August 2010. The bonds bore interest at 3 month BUBOR plus 15 basis points.	-	14,327
CIB 2010C bonds were issued in HUF since 8 August 2007 and matured on 9 August 2010. The bonds bore annual interest at 7.26%.	-	10,604
CIB Classic 2011/A bonds were issued in HUF since 29 September 2008 and will mature on 29 September 2011. The bonds bear interest at 3 month BUBOR plus 30 basis points.	3,075	3,060
CIB Classic 2011/B bonds were issued in HUF since 22 September 2008 and will mature on 22 September 2011. The bonds bear interest at 3 month BUBOR plus 70 basis points.	16,499	16,489
CIB Értékőr 2011/A bonds were issued in HUF since 29 September 2008 and will mature on 29 September 2011. The bonds' interest is fixed to the National Consumer Price Index.	2,139	1,908
CIB EURÓ Értékőr 2011/A bonds were issued in EUR since 11 August 2008 and will mature on 11 August 2011. The bonds' interest is fixed to the National Consumer Price Index.	1,553	1,693
CIB EUROKAM bonds were issued in EUR since 15 April 2009 and will mature on 16 April 2012. The bonds' interest is fixed to ECB prime rate + 2.5%.	1,055	1,389
CIB 2012/A bonds were issued in HUF since 2 February 2009 and will mature on 3 February 2012. The bonds pay interest of 30.0% at maturity.	8,306	7,619
CIB K 2012/A bonds were issued in HUF since 2 April 2009 and will mature on 2 April 2012. The bonds' interest is fixed to Hungarian National Bank prime rate + 1.5%.	3,438	3,217
CIB K 2012/B bonds were issued in HUF since 31 July 2009 and will mature on 31 July 2012. The bonds' interest is fixed to Hungarian National Bank prime rate + 1%.	5,491	1,041
CIB 2013/A bonds were issued in HUF since 21 July 2010 and will mature on 31 December 2013. The bonds pay fix interest of 25.0% at maturity.	5,475	-
CIB 2015/A bonds were issued in HUF since 21 July 2010 and will mature on 31 December 2015. The bonds pay fix interest of 44.0% at maturity.	4,017	-

(26) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following sets of securities (continued)	(million HUF)	
	2010	**2009**
CIB CL 2012/A bonds were issued in HUF since 6 August 2010 and will mature on 9 August 2012. The bonds bear interest at 3 month BUBOR plus 80 basis points.	17,587	-
CIB EU 12/A bonds were issued in EUR since 19 August 2010 and will mature on 21 August 2012. The bonds pay fix interest of 4.0% annually.	25,165	-
CIB EU 12/B bonds were issued in EUR since 7 October 2010 and will mature on 8 October 2012. The bonds pay fix interest of 3.5% annually.	8,037	-
CIB CL 2012/E bonds were issued in HUF since 31 March 2010 and will mature on 30 March 2012. The bonds pay fix interest of 2.2%.	7,055	-
CIB EUROKAM 13A bonds were issued in EUR since 16 April 2010 and will mature on 16 April 2013. The bonds' interest is fixed to ECB prime rate + 1.25%.	368	-
Certificate of deposits	7	20
CIB Kincsem bonds	8	8
Total	**109,275**	**63,533**

(27) Other liabilities

Other liabilities comprise	(million HUF)	
	2010	**2009**
Accrued liabilities	4,473	5,903
Items in transit	6,737	5,672
Suppliers	3,925	3,311
Financial guarantees	5,040	932
Other liabilities	2,243	2,095
Total	**22,418**	**17,913**

Financial guarantees comprise	(million HUF)	
	2010	**2009**
Opening balance	932	453
Increase during the year	6,579	1,182
Decrease during the year	(2,471)	(703)
Closing balance	**5,040**	**932**

(28) Provisions

2010 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	1,776	1,853	3,629
Increase of provision during the year	5,339	2,059	7,398
Decrease of provision during the year	(4,529)	(612)	(5,141)
Closing balance	**2,586**	**3,300**	**5,886**

2009 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	2,020	2,241	**4,261**
Increase of provision during the year	3,374	402	**3,776**
Decrease of provision during the year	(3,618)	(790)	**(4,408)**
Closing balance	**1,776**	**1,853**	**3,629**

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

(29) Subordinated debt

The Bank has received the following subordinated debt

Subordinated debt comprises	(million HUF) 2010	2009
From Intesa Sanpaolo Holding International S.A. (assumed from Všeobecná úverová banka, a.s. in December 2004) for 35 million EUR. The debt's expiry date was 10 November 2010 with interest payable at 6 months EURIBOR plus 0.60%.	-	9,479
From Intesa Sanpaolo Holding International S.A. for 15 million EUR. The debt's expiry date was 26 November 2010 with interest payable at 6 months EURIBOR plus 0.60%.	-	4,063
From Intesa Sanpaolo Holding International S.A. for 68.5 million EUR). The debt's expiry date is 10 June 2011 with interest payable at 6 months EURIBOR plus 0.60%.	19,095	18,553
From Intesa Bank Ireland plc for 45 million EUR. The debt's expiry date is 24 October 2014 with interest payable at 3 months EURIBOR plus 0.80%;	12,544	12,188
From Intesa Bank Ireland plc for 30 million EUR. The debt's expiry date is 26 November 2021 with interest payable at 3 months EURIBOR plus 0.37%;	8,362	8,125
Accrued interests	55	45
Total	**40,056**	**52,453**

(30) Share capital

During 2010 there was no change in the authorised share capital of the Group.

During 2009 the authorised share capital was increased by HUF 42,181 million by Intesa Sanpaolo Holding S.A. through the creation of 42,181,430,000 ordinary shares of HUF 1 each.

At 31 December 2009 the fully paid share capital consisted of 105,000,000,000 ordinary shares of 1 HUF each.

(31) Reserves

The Bank has established two statutory reserves, a general risk reserve and a general reserve. Amounts appropriated to these reserves may not be used to pay dividends.

General risk reserve

Under section 87 of Act No. CXII of 1996 banks may establish a general risk reserve of up to 1.25% of risk weighted assets. As a memorandum to these Financial Statements due to a change in Hungarian accounting policy the Group discontinued maintaining a general risk reserve as at 31 December 2010.

The amount of general risk reserve established 0.5% of the risk weighted assets as at 31 December 2009 represented reserve amount of HUF 8,715 million. This has been reversed in 2010.

Under Hungarian Law this reserve establishment is a tax-deductible expense and reverse recognised as taxable income and thus must be charged to the Income Statement in the Hungarian statutory accounts. In these Consolidated Financial Statements this reserve has been treated as an appropriation of retained earnings to comply with International Financial Reporting Standards.

General reserve

Under section 75 of Act No. CXII of 1996, an amount equal to 10% of net profit after tax as per the Bank's Hungarian statutory accounts must be transferred to a non-distributable general reserve. This general reserve may be created by credit institutions only from taxed profits. If there is a loss in the current financial year, the general reserve may be released insofar as to cover any such losses, but is not to exceed the amount set aside in the general reserve.

(32) Commitments and contingencies

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

2010	(million HUF)		
	Gross amount	Provision	Net amount
Guarantees	103,662	(5,027)	98,635
Letters of credit	4,950	(13)	4,937
Total financial guarantees	**108,612**	**(5,040)**	**103,572**
Loans and overdraft facilities not disbursed	200,429	(2,586)	197,843
Total	**309,041**	**(7,626)**	**301,415**

2009	(million HUF)		
	Gross amount	Provision	Net amount
Guarantees	124,993	(928)	124,065
Letters of credit	11,259	(4)	11,255
Total financial guarantees	**136,252**	**(932)**	**135,320**
Loans and overdraft facilities not disbursed	253,405	(1,776)	251,629
Total	**389,657**	**(2,708)**	**386,949**

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

Commitment to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses.
The amount of the securities in custody is HUF 1,021,465 million at 31 December 2010 and HUF 1,257,810 million in 2009 respectively.

(33. a) Derivative Financial Instruments

Derivative financial instruments as at 31 December 2010

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

(million HUF)	Notional amount with remaining life				Fair value	
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total	Asset	Liability
Trading derivative instruments						
Interest rate derivatives						
Forward rate agreements	228,015	-	-	228,015	58	66
Interest rate swaps	690,728	353,065	33,321	1,077,114	11,970	12,221
Interest rate options	18,728	-	-	18,728	12	15
Subtotal	**937,471**	**353,065**	**33,321**	**1,323,857**	**12,040**	**12,302**
Currency derivatives						
Forward exchange contracts	71,652	2,807	-	74,459	462	925
Currency swaps	1,175,267	-	-	1,175,267	2,154	34,074
Currency interest rate swaps	198,489	-	-	198,489	1,672	1,485
Foreign exchange options	11,723	3,474	-	15,197	840	832
Subtotal	**1,457,131**	**6,281**	**-**	**1,463,412**	**5,128**	**37,316**
Equity and index derivatives	612	-	-	612	2	4
Total trading derivative instruments	**2,395,214**	**359,346**	**33,321**	**2,787,881**	**17,170**	**49,622**
Hedging derivative instruments						
Interest rate derivatives						
Interest rate swaps	-	31,600	-	31,600	15	234
Total hedging derivative instruments	**-**	**31,600**	**-**	**31,600**	**15**	**234**
Total	**2,395,214**	**390,946**	**33,321**	**2,819,481**	**17,185**	**49,856**

(33. a) Derivative Financial Instruments (continued)

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

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to the movements in exchanges rates and interest rates. The financial instruments hedged for interest rate risk include debt issued and deposits. For the year ended 31 December 2010 the Group recognised a net loss of HUF 383 million on the hedging instrument. The total net gain on hedged items attributable to the hedged risks amounted to HUF 398 million.

(33. b) Derivative financial instruments (continued)

Derivative financial instruments as at 31 December 2009

(million HUF)	Notional amount with remaining life				Fair value	
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total	Asset	Liability
Trading derivative instruments						
Interest rate derivatives						
Forward rate agreements	273,047	-	-	273,047	38	215
Interest rate swaps	1,088,116	499,391	42,234	1,629,741	23,189	22,902
Interest rate options	18,490	23,456	-	41,946	248	248
Subtotal	**1,379,653**	**522,847**	**42,234**	**1,944,734**	**23,475**	**23,365**
Currency derivatives						
Forward exchange contracts	83,238	3,832	-	87,070	1,131	1,567
Currency swaps	1,256,914	-	-	1,256,914	11,965	13,574
Currency interest rate swaps	85,828	-	-	85,828	842	143
Foreign exchange options	36,175	76,927	-	113,102	2,850	2,854
Subtotal	**1,462,155**	**80,759**	**-**	**1,542,914**	**16,788**	**18,138**
Equity and index derivatives	130	-	-	130	4	1
Total trading derivative instruments	**2,841,938**	**603,606**	**42,234**	**3,487,778**	**40,267**	**41,504**
Hedging derivative instruments						
Total hedging derivative instruments	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,841,938**	**603,606**	**42,234**	**3,487,778**	**40,267**	**41,504**

(34. a) Carrying amount of assets and liabilities at 31 December 2010 by earlier of contractual repricing or maturity date

Assets	Immediately rate-sensitive	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Cash and current accounts with central bank	23,539	-	-	-	-	-	8,761	32,300
Effective interest rates	*5.75*	-	-	-	-	-	-	*4.19*
Due from banks	5,910	49,758	3,852	-	-	-	-	59,520
Effective interest rates	-	*1.81*	*1.6*	-	-	-	-	*1.62*
Financial assets at fair value through profit or loss	-	27	692	6,742	636	1,664	633	10,394
Effective interest rates	-	*5.55*	*5.50*	*7.85*	*7.49*	*7.93*	-	*7.2*
Derivative financial assets	-	5,280	4,456	7,028	421	-	-	17,185
Loans and advances to customers	270,196	529,215	743,929	550,136	30,511	19,372	-	2,143,359
Effective interest rates	*2.02*	*4.43*	*4.84*	*5.72*	*5.52*	*5.33*	-	*4.62*
Financial investments	-	54,792	198	2,882	7,778	-	138	65,788
Effective interest rates	-	*6.27*	*5.54*	*6.42*	*7.51*	-	-	*6.41*
Other assets	-	-	-	-	-	-	166,325	166,325
Liabilities								
Deposits from banks	1,322	194,888	363,409	89,358	4,004	14	-	652,995
Effective interest rates	*1.8*	*1.35*	*1.51*	*1.09*	*2.82*	*3.62*	-	*1.42*
Derivative financial liabilities	-	32,331	11,663	5,410	452	-	-	49,856
Deposits from customers	419,044	409,296	345,025	165,077	29,232	38	-	1,367,712
Effective interest rates	*1.57*	*4.00*	*3.31*	*3.85*	*6.94*	*6.64*	-	*3.12*
Liabilities from issued securities	-	10,366	40,854	-	58,055	-	-	109,275
Effective interest rates	-	*5.67*	*6.03*	-	*4.64*	-	-	*5.26*
Subordinated debt	-	12,585	-	27,471	-	-	-	40,056
Effective interest rates	-	*1.84*	-	*1.77*	-	-	-	*1.8*
Other liabilities	-	-	-	-	-	-	33.731	33.731
Net repricing gap	(120,721)	(20,394)	(7,824)	279,472	(52,397)	20,984	142,126	241,246

(34. b) Carrying amount of assets and liabilities at 31 December 2009 by earlier of contractual repricing or maturity date

Assets	Immediately rate-sensitive	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
Cash and current accounts with central bank	38,054	-	-	-	-	-	9,698	47,752
Effective interest rates	*6.25*	-	-	-	-	-	-	*4.98*
Due from banks	12,308	54,071	3,699	28	-	-	-	70,106
Effective interest rates	*0.00*	*2.29*	*1.83*	*1.75*	-	-	-	*1.87*
Financial assets at fair value through profit or loss	-	70	654	7,105	1,649	2,655	4,915	17,048
Effective interest rates	-	*6.41*	*6.13*	*5.99*	*7.14*	*7.02*	-	*4.54*
Derivative financial assets	-	11,461	16,289	10,177	2,340	-	-	40,267
Loans and advances to customers	283,191	656,093	795,314	532,724	28,226	19,404	-	2,314,952
Effective interest rates	*9.83*	*4.98*	*5.40*	*6.17*	*5.37*	*2.93*	-	*5.98*
Financial investments	-	142,623	8,151	5,372	10,240	-	139	166,525
Effective interest rates	-	*6.74*	*6.35*	*6.30*	*7.20*	-	-	*6.73*
Other assets	-	-	-	-	-	-	100,546	100,546
Liabilities								
Deposits from banks	718	229,325	425,491	83,081	4,977	18	-	743,610
Effective interest rates	*1.63*	*1.49*	*1.38*	*1.65*	*2.99*	*3.21*	-	*1.45*
Derivative financial liabilities	-	11,956	19,051	8,068	2,429	-	-	41,504
Deposits from customers	390,086	469,190	526,924	164,723	8,863	307	-	1,560,093
Effective interest rates	*1.83*	*5.11*	*5.09*	*4.96*	*7.08*	*5.00*	-	*4.28*
Liabilities from issued securities	-	4,634	38,518	12,762	7,619	-	-	63,533
Effective interest rates	-	*6.60*	*6.73*	*7.22*	*10.00*	-	-	*7.21*
Subordinated debt	-	12,220	-	40,233	-	-	-	52,453
Effective interest rates	-	*1.52*	-	*1.55*	-	-	-	*1.54*
Other liabilities	-	-	-	-	-	-	30,679	30,679
Net repricing gap	(57,251)	136,993	(185,877)	246,539	18,567	21,734	84,619	265,324

(35. a) Carrying amount of assets and liabilities by maturity date

The maturity profile of the Bank's assets and liabilities as at 31 December 2010 were

	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	32,300	-	-	-	-	32,300
Due from banks	54,099	160	245	5,016	-	59,520
Financial assets at fair value through profit or loss	27	688	782	6,600	2,297	10,394
Derivative financial assets	3,481	2,630	3,544	7,114	416	17,185
Loans and advances to customers	315,394	135,133	255,360	600,745	836,727	2,143,359
Financial investments	54,792	198	2,562	8,098	138	65,788
Non-current assets held for sale	-	-	960	-	-	960
Tax assets	-	-	-	14,626	-	14,626
Other assets	4,366	-	1,839	5,251	-	11,456
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	91,493	47,790	139,283
Total Assets	**464,459**	**138,809**	**265,292**	**738,943**	**887,368**	**2,494,871**
Liabilities						
Deposits from banks	11,294	71,024	112,897	370,428	87,352	652,995
Derivative financial liabilities	30,571	8,146	3,524	6,896	719	49,856
Deposits from customers	707,790	217,062	272,645	56,295	113,920	1,367,712
Liabilities from issued securities	15	565	23,287	85,408	-	109,275
Tax liabilities	-	-	-	5,427	-	5,427
Other liabilities	4,473	-	6,737	11,208	-	22,418
Provisions	-	-	-	5,886	-	5,886
Subordinated debt	41	-	19,108	12,544	8,363	40,056
Total Liabilities	**754,184**	**296,797**	**438,198**	**554,092**	**210,354**	**2,253,625**
Net position	**(289,725)**	**(157,988)**	**(172,906)**	**184,851**	**677,014**	**241,246**

(35. b) Carrying amount of assets and liabilities by maturity date

The maturity profile of the Bank's assets and liabilities as at 31 December 2009 were

	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	47,752	-	-	-	-	47,752
Due from banks	65,727	64	28	4,287	-	70,106
Financial assets at fair value through profit or loss	70	650	7,104	1,653	7,571	17,048
Derivative financial assets	8,855	12,724	6,010	11,932	746	40,267
Loans and advances to customers	345,170	92,536	319,024	677,979	880,243	2,314,952
Financial investments	142,622	8,151	5,051	10,562	139	166,525
Non-current assets held for sale	-	-	284	-	-	284
Tax assets	-	-	-	14,396	-	14,396
Other assets	2,134	-	2,672	4,967	-	9,773
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	23,220	52,873	76,093
Total Assets	**612,330**	**114,125**	**340,173**	**748,996**	**941,572**	**2,757,196**
Liabilities						
Deposits from banks	59,252	7,121	111,514	426,729	138,994	743,610
Derivative financial liabilities	9,377	14,618	5,032	11,525	952	41,504
Deposits from customers	733,020	323,048	239,424	261,094	3,507	1,560,093
Liabilities from issued securities	-	-	27,089	36,444	-	63,533
Tax liabilities	-	-	-	9,137	-	9,137
Other liabilities	5,904	-	5,672	6,337	-	17,913
Provisions	-	-	-	3,629	-	3,629
Subordinated debt	33	-	13,554	30,741	8,125	52,453
Total Liabilities	**807,586**	**344,787**	**402,285**	**785,636**	**151,578**	**2,491,872**
Net position	**(195,256)**	**(230,662)**	**(62,112)**	**(36,640)**	**789,994**	**265,324**

(36) Analysis of financial liabilities' gross contractual cash flows by remaining contractual maturities

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

2010	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	11,365	72,130	119,737	412,491	106,581	722,304
Deposits from customers	708,405	219,935	282,012	91,266	145,442	1,447,060
Liabilities from issued securities	15	1,136	25,590	92,357	-	119,098
Subordinated debt	60	-	19,567	14,826	10,760	45,213
Derivative instruments	30,571	8,146	3,524	6,896	719	49,856
Total undiscounted financial liabilities	**750,416**	**301,347**	**450,430**	**617,836**	**263,502**	**2,383,531**

2009	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	59,384	8,218	117,918	483,402	161,213	830,135
Deposits from customers	733,945	327,577	251,888	274,472	4,201	1,592,083
Liabilities from issued securities	-	633	29,086	38,589	-	68,308
Subordinated debt	47	-	14,286	34,108	11,059	59,500
Derivative instruments	9,377	14,618	5,032	11,525	952	41,504
Total undiscounted financial liabilities	**802,753**	**351,046**	**418,210**	**842,096**	**177,425**	**2,591,530**

Part E – Additional Information

(37) Related Party Transactions

(a) Companies (Intesa Sanpaolo Group)

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

Intesa Sanpaolo (parent) is regarded as a related party that has significant control over the Bank.

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

All transactions with companies in the Intesa Sanpaolo Group are conducted at market rates. Balances and commitments at 31 December 2010 constitute 1% of total assets and 25% of total liabilities, and are set out below.

	2010			
(million HUF)	Parent	Fellow Subsidiaries	Subsidiaries	Total
Assets				
Current accounts	2,897	74	101,273	104,244
Placements	1,124	322	456,242	457,688
Fair value of derivatives	749	182	-	931
Liabilities				
Current accounts	610	134	101,273	102,017
Deposits	281,352	311,273	461,265	1,053,890
Subordinated debt	19,095	20,961	-	40,056
Fair value of derivatives	1,174	467	-	1,641
Commitments				
Guarantees	4	67	1,547	1,618
Loan commitments	-	-	144,652	144,652
Interest rate derivatives	170,065	93,158	-	263,223
Currency derivatives	42,950	878	-	43,828
Interest expenses, net	(5,968)	(7,667)	-	(13,635)

(37) Related Party Transactions (continued)

(million HUF)	Parent	Fellow Subsidiaries	Subsidiaries	Total
	2009			
Assets				
Current accounts	8,171	44	62,731	70,946
Placements	22,835	-	486,047	508,882
Fair value of derivatives	3,204	342	207	3,753
Liabilities				
Current accounts	17	78	62,731	62,826
Deposits	392,226	393,412	489,076	1,274,714
Subordinated debt	32,096	20,357	-	52,453
Fair value of derivatives	5,294	593	207	6,094
Commitments				
Guarantees	6	82	2,686	2,774
Loan commitments	-	-	210,145	210,145
Interest rate derivatives	475,249	50,714	-	525,963
Currency derivatives	437,594	13,274	-	450,868
Interest expenses, net	(9,844)	(12,987)	6	(22,825)

(b) *Key management personnel*

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

(37) Related Party Transactions (continued)

Members of the Bank's Board of Directors at 31 December 2010:

Dr. Surányi György (chairman) – Intesa Sanpaolo Group
Fabrizio Centrone – Intesa Sanpaolo Group
Giampiero Trevisan – Intesa Sanpaolo Group
Paolo Sarcinelli – Intesa Sanpaolo Group
Tomas Spurny (CEO) – CIB Bank Ltd.
Eduardo Bombieri – CIB Bank Ltd.
dr. Király Gábor – CIB Bank Ltd.
Plank Gábor – CIB Bank Ltd.

Members of the Bank's Supervisory Board as at 31 December 2010:

Massimo Malagoli (chairman) – Intesa Sanpaolo Group
Prof. Avv. Emilio Tosi – Intesa Sanpaolo Group
Antonio Furesi - Intesa Sanpaolo Group
Dr. Tóth Sándor – CIB Bank Ltd.
Tölgyesi Mária – CIB Bank Ltd.

Members of the Bank's Management Committee as at 31 December 2010:

Tomas Spurny (Chairman) – CIB Bank Ltd.
Eduardo Bombieri – CIB Bank Ltd.
dr. Király Gábor – CIB Bank Ltd.
Plank Gábor – CIB Bank Ltd.
Vér László – CIB Bank Ltd.
Petzné Lamboy Judit – CIB Bank Ltd.
Haller Orsolya – CIB Bank Ltd.
Alessio Cioni – CIB Bank Ltd.
Németh Csongor – CIB Bank Ltd.
Dr. Vitályos Áron – CIB Bank Ltd.
Tóth Zoltán – CIB Bank Ltd.
Csordás Zoltán – CIB Bank Ltd.
Németh Zsuzsanna – CIB Bank Ltd.
Bánó Péter – CIB Bank Ltd.
Wéber Andrea – CIB Bank Ltd.
Tancsik Lajos – CIB Bank Ltd.

(37) Related Party Transactions (continued)

	(million HUF) 2010	2009
Assets		
Current accounts	8	3
Loan	158	270
Liabilities		
Current accounts	196	130
Deposits	421	1,307
Fair value of derivatives	-	3
Commitments		
Loans and overdraft facilities not disbursed	11	40
Compensation		
Salaries and other short-term benefits	1,169	856

There were changes and extension in the Group's key management members during 2010.

(38) Average balances

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

Average balances as at 31 December

(million HUF)	2010 Average carrying amount	2010 Average interest rate (%)	2009 Average carrying amount	2009 Average interest rate (%)
Financial assets				
Cash and current accounts with central bank	65,785	2.19	74,453	4.02
Deposit with banks and subordinated loans	55,842	1.75	55,558	4.11
Financial assets at fair value through profit or loss	25,585	5.23	85,200	8.05
Loans and advances to customers	2,422,616	5.16	2,589,221	5.88
Financial investments	235,034	5.65	237,800	6.92
Other assets	133,701	-	221,145	-
Financial liabilities				
Deposits from banks	805,956	1.39	1,026,491	2.24
Deposits from customers	1,499,103	3.44	1,607,483	5.68
Liabilities from issued securities	77,616	5.90	64,272	8.44
Subordinated debt	51,899	1.57	54,562	2.71
Other liabilities	242,761	-	267,591	-

(39) Fair value of financial assets and liabilities

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

2010 (million HUF)	Exposed to cash flow risk		Exposed to fair value risk	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Due from banks	11,178	11,232	48,342	48,340
Loans and advances to customers	2,093,147	2,177,350	50,212	51,603
Financial investments – Held-to-maturity	320	313	5,167	5,136
Financial liabilities				
Deposits from banks	642,067	643,169	10,928	10,963
Deposits from customers	707,096	702,235	660,616	660,227
Subordinated debt	40,056	40,176	-	-
Liabilities from issued securities	51,205	51,264	58,070	58,230

2009 (million HUF)	Exposed to cash flow risk		Exposed to fair value risk	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Due from banks	16,456	16,491	53,650	53,657
Loans and advances to customers	2,267,086	2,368,517	47,866	47,812
Financial investments – Held-to-maturity	-	-	5,994	6,567
Financial liabilities				
Deposits from banks	676,696	676,864	66,914	66,950
Deposits from customers	765,011	769,676	795,082	797,289
Subordinated debt	52,453	52,617	-	-
Liabilities from issued securities	20,410	21,887	43,123	43,860

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

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

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

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

(39) Fair value of financial assets and liabilities (continued)

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

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

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

31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	17,185	-	17,185
Financial assets at fair value through profit or loss	9,710	684		10,394
Financial investments - Available-for-sale	5,173	55,128	-	60,301
Financial liabilities				
Derivative financial liabilities	-	49,856	-	49,856

31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	40,267	-	40,267
Financial assets at fair value through profit or loss	12,855	4,193	-	17,048
Financial investments - Available-for-sale	20,613	139,918	-	160,531
Financial liabilities				
Derivative financial liabilities	-	41,504	-	41,504

During the reporting period ending 31 December 2010 and 2009 there were no transfers between Level 1 and Level 2 fair value measurements or any transfers into Level 3 fair value measurement.

(40) Cash and cash equivalents

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

	(million HUF)	
Cash and cash equivalents comprise	**2010**	**2009**
Cash and current account with central bank (Note 14)	32,300	47,752
Due from banks (Note 15)	54,259	65,791
Total	**86,559**	**113,543**

(41) Reclassification based on IAS 39

Following the amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets (issued in October 2008 and effective from 1 July 2008) the Group reclassified municipal bonds from Available-for-sale category toward Loan and advances to customers with the carrying value of HUF 61,185 million. The transfer value was the fair value at 30 September 2009 on reclassification date. The nominal value of the bonds was HUF 62,759 million on reclassification date.
The amount of Available-for-sale reserve was HUF (1,574) million at the reclassification date which will be amortised until maturity. It was determined by the Group that the market for these assets is no longer active and the Group no longer intends to trade. The management also considered the credit risk of these assets as significant for measurement purposes. This reclassification has only been performed where the Group, at the reclassification date, has the clear intention and ability to hold the financial asset until maturity.
The fair value of the bonds would be HUF 70.386 million as at 31 December 2010 and HUF 62.287 million as at 31 December 2009 respectively if the Group had not reclassified it from the Available-for-sale to Loan and advances to customers' category. The nominal value of the bonds was HUF 72.375 million as at 31 December 2010 and HUF 63.873 million as at 31 December 2009 respectively.

(42) Business combinations and transactions under common control

Business combinations and transactions under common control in 2010

Lelle SPC Ltd, CSB Plaza Ltd, Hotel Wien Ltd, CIL Food 2006 Ltd. and Lánchíd Palota Ltd merged into CIB Recovery Ltd. such that the merging companies ceased to exist the merger. The sole legal successor of the merged would be CIB Recovery Ltd. The last day of existence of the merging companies was 30 September 2010. The effective merger date was 1 October 2010. The merge had been accounted for and presented in the financial statement using the pooling of interests method.

A new legal entity was established by a merger from CIB Rent Ltd. of CIB Lízing Holding Ltd. This new entity is also 100% owned by CIB Bank Ltd. CIB Lízing Holding owns 100% share of CIB Lízing Ltd with the authorisation of HFSA and Bank of Italy. The demerger had been accounted for and presented in the financial statement using the pooling of interests method.

CIL Buda Square Ltd sold 100% of the quotas of Óbudai Dunapart Irodaház Ltd. to Recovery Real Estate Management Ltd on 29 September 2010.

Business combinations and transactions under common control in 2009

On 31 October 2009 Margit Ltd and Erfi 2000 Ltd. legally merged into CIB REAL Ltd. due to the same activities of the companies. The merge had been accounted for and presented in the financial statement using the pooling of interests method.

On 31 October 2009 CIB Inventory Ltd, CIB Service Ltd. IE Services Ltd and IE Beruházó Ltd legally merged into new company named CIB Support Ltd. The merge had been accounted for and presented in the financial statement using the pooling of interests method also.

(42) Business combinations and transactions under common control (continued)

In December 2009 the Group acquired 100% ownership in Brivon Ltd in the framework of a Debt-Equity swap transaction. The subsidiary provides property maintenance services.

In December 2009 the Group acquired 100% ownership in the following companies: Lánchíd Palota Ltd, CSB Plaza Ltd and Hotel Wien Ltd also in the framework of Debt-Equity swap transaction. The Group had control over these subsidiaries in 2008 but they were excluded from consolidation due to the immaterial effect of these three company's activities on the Group. The main assets of these companies are buildings connected to financial leasing services which were classified as repossessed property in these Consolidated Financial Statements.

(43) Disposals of subsidiaries

During 2010 CIB Car Ltd has been sold to CIB Recovery on 8 June 2010.

During 2009 the Group disposed of the following subsidiaries:

	Date of disposal
• CIL Danubius Co. Ltd	30 November 2009
• CIL Bajor Ltd.	21 December 2009
• CIL Golf Ltd.	22 December 2009
• CIL Nagytétény Ltd.	4 December 2009
• CIL Váci út Ltd.	21 December 2009
• CIL Log Ltd.	20 July 2009

Total losses to the Group on disposal of the above entities amounted to HUF 104 million.

(44) Events after the reporting period

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

CIB Credit Ltd., CIB Property Ltd. and CIB Residential Property Ltd. merged into CIB Leasing Ltd. such that the merging companies ceased to exist with the effect of the merger and the sole legal successor of the merged entities is CIB Leasing Ltd. The last day of the existence of the merging companies was 31 December 2010. The effective date of the merge was 1 January 2011. CIB Leasing Holding Ltd. acquired 98.4569% of the shares of the legal successor.

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

(45) Segment report

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

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

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

Compared to 2009 management has now incorporated the leasing subgroup activity as part of either retail or corporate banking segment.

(45) Segment report as at 31 December 2010 (continued)

2010	Retail banking	Corporate banking	Treasury/Bank	Other	Group
Net banking income	**72,666**	**47,785**	**762**	**13,964**	**135,177**
Allowance for loan losses	(14,951)	(64,006)	-	(4,120)	(83,077)
Segment result	**57,715**	**(16,221)**	**762**	**9,844**	**52,100**
Unallocated cost					(72,348)
Profit before tax					(20,248)
Income tax					(3,252)
Profit for the year					(23,501)
Segment assets	**757,896**	**1,385,463**	**152,749**	**192,307**	**2,488,415**
Loan and advances to customers	757,896	1,385,463			2,143,359
Deposit with banks			59,520	-	59,520
Securities			76,044	138	76,182
Derivative financial assets			17,185	-	17,185
Other assets				192,169	192,169
Unallocated assets				6,456	6,456
Total asset	**757,896**	**1,385,463**	**152,749**	**198,763**	**2,494,871**
Segment liabilities	**725,300**	**617,792**	**742,907**	**165,084**	**2,251,083**
Deposit from customers	725,300	617,792		133,895	1,476,987
Deposit from banks and subordinated debt			693,051		693,051
Derivative financial liabilities			49,856		49,856
Other				31,189	31,189
Unallocated liabilities				2,542	2,542
Total liabilities	**725,300**	**617,792**	**742,907**	**167,626**	**2,253,625**
Total shareholders' equity					241,246

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

(45) Segment report as at 31 December 2009 (continued)

2009 (Reclassified)	Retail banking	Corporate banking	Treasury/Bank	Other	Group
Net banking income	**70,592**	**52,791**	**4,825**	**14,782**	**142,990**
Allowance for loan losses	(14,810)	(56,413)		(29)	(71,252)
Segment result	**55,782**	**(3,622)**	**4,825**	**14,753**	**71,738**
Unallocated cost					(62,161)
Profit before tax					9,577
Income tax					(4,916)
Profit for the year					4,661
Segment assets	**725,163**	**1,589,789**	**293,807**	**142,819**	**2,751,578**
Loan and advances to customers	725,163	1,589,789			2,314,952
Deposit with banks			70,106		70,106
Securities			183,434	139	183,573
Derivative financial assets			40,267		40,267
Other assets				142,680	142,680
Unallocated assets				5,618	5,618
Total asset	**725,163**	**1,589,789**	**293,807**	**148,437**	**2,757,196**
Segment liabilities	**792,973**	**487,876**	**1,061,832**	**140,054**	**2,482,735**
Deposit from customers	792,973	487,876	224,265	118,512	1,623,626
Deposit from banks and subordinated debt			796,063		796,063
Derivative financial liabilities			41,504		41,504
Other				21,542	21,542
Unallocated liabilities				9,137	9,137
Total liabilities	**792,973**	**487,876**	**1,061,832**	**149,191**	**2,491,872**
Total shareholders' equity				265,324	265,324

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

Part F – Information on risks

(46) Risk management

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

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

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

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

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

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

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

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

(46) Risk management (continued)

(a) Credit risk

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

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

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

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

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

(million HUF)	2010	2009
Cash and balances with central bank	32,300	47,752
Deposit with banks and subordinated loans	59,520	70,106
Financial assets at fair value through profit and loss	10,394	17,048
Derivative financial assets	17,330	40,267
Loans and advances to customers	2,337,790	2,446,372
Financial investments – Available-for-sale	60,301	160,531
Financial investments – Held-to-maturity	5,487	5,994
Other assets	10,333	17,670
Total	**2,533,455**	**2,805,740**
Financial guarantees	108,612	136,252
Commitments	200,429	253,405

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

(46) Risk management (continued)

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

(million HUF)	2010	2009
Italy	586	415
America	503	99
Hungary	2,284,145	2,391,336
Euro Zone countries	36,057	43,158
Far East	100	118
European but Non-Euro Zone countries	15,347	11,175
Other regions	1,052	71
Total	**2,337,790**	**2,446,372**

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements is provided in Note 16.

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

The main types of collateral obtained are as follows:

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

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

(46) Risk management (continued)

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

2010	Performing	Non-Performing
A – Excellent	3,751	73
B – Stable	166,369	1,855
C – Acceptable	584,382	19,181
D – High Risk	307,682	53,190
E – Insolvent	58,808	40,243
R – Defaulted	49,496	293,602
Other	6,804	8,268
Retail	641,864	102,222
Total	**1,819,156**	**518,634**

2009	Performing	Non-Performing
A – Excellent	21,472	126
B – Stable	262,149	4,345
C – Acceptable	839,996	38,956
D – High Risk	211,064	29,453
E – Insolvent	29,903	20,601
R – Defaulted	28,827	147,740
Other	42,835	7,457
Retail	687,320	74,128
Total	**2,123,566**	**322,806**

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

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

	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	Less than B-	Not rated	Total
2010	8,898	15,057	5,548	8,193	-	-	21,824	**59,520**
2009	33,964	4,999	19,004	14	120	-	12,005	**70,106**

(46) Risk management (continued)

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

2010	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Large corporate loans	44,575	10,021	1,932	53,423	109,951
Mid corporate loans	26,342	6,255	1,367	7,465	41,429
Retail loans	19,094	5,430	2,128	32,270	58,922
Total	**90,011**	**21,706**	**5,427**	**93,158**	**210,302**

2009	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Large corporate loans	70,644	17,212	13,033	72,658	173,547
Mid corporate loans	7,357	3,201	443	7,297	18,298
Retail loans	32,341	3,320	1,405	14,991	52,057
Total	**110,342**	**23,733**	**14,881**	**94,946**	**243,902**

Of the total aggregate amount of gross past due but not individually impaired loans and advances to customers, the liquidation value of collateral that the Group held as at 31 December 2010 HUF 151,735 million and was HUF 173,170 million as at 31 December 2009, respectively.

The main consideration for the loan impairment assessment includes whether any payments of principal or interest are overdue by more than 90 days without collateral that covers the exposure completely, or there are any known difficulties in the cash flows of counterparties, credit ratings downgrades or infringement of the original terms of the contract. The Group addresses impairment into two areas: individually assessed allowances and collectively assessed allowances. For more details see Note 17.

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

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

(46) Risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group's policy is to manage the structure of assets and liabilities and commitments to create opportunities to maximize income while ensuring that funds will be available to honour all cash outflow obligations as these become due. Expected cash flows and daily liquidity reports are provided to senior management to enable timely liquidity monitoring.

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

The liquidity ratio during the year was as follows

Liquidity ratio	(%)	
	2010	**2009**
31 December	6.44	9.95
Daily average during the period	13.94	13.18
Highest	21.04	17.09
Lowest	6.44	9.08

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

The maturity profile of the Group's financial liabilities at 31 December 2010 is presented in Note 36.

(c) Market risk - Trading

Market risk is the risk of loss due to fluctuations in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored through applying methodology that reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses. Except for the concentrations within foreign currency, the Group has no significant concentration of market risk.

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

(46) Risk management (continued)

The Group uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from previous years. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The factors of the distribution are calculated by using exponentially weighted historical data. The use of VaR has limitation because it is based on historical correlation and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under – or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management.

	(million HUF)				
VAR – 2010	**Foreign exchange**	**Interest rate**	**Equity**	**Correlation Effect**	**Total**
31 December	22	76	9	(31)	76
Daily average during the period	31	68	22	(38)	83
Highest	119	131	101	-	158
Lowest	4	13	2	-	23

	(million HUF)				
VAR – 2009	**Foreign exchange**	**Interest rate**	**Equity**	**Correlation Effect**	**Total**
31 December	32	43	9	(47)	37
Daily average during the period	26	136	25	(44)	143
Highest	81	708	84	-	743
Lowest	4	31	2	-	37

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

(d) Market risk – Non-trading

Interest rate risk

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

(46) Risk management (continued)

Interest rate risk is managed by the Board of Directors through the Asset-Liability Committee, which establishes position limits, and monitors such limits to restrict the effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

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

The sensitivity of the Income Statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating and fixed rate non-trading financial assets and financial liabilities held at 31 December 2010. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2010 for the effects of the assumed changes in interest rates. The Group uses for the sensitivity of equity calculations, among others, the modified duration method.

			(million HUF)				
2010	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	+ 200	4,753	(178)	(154)	58	(226)	(500)
EUR	+ 100	(490)	(97)	17	61	77	58
USD	+ 25	(20)	7	3	-	-	10
CHF	+ 25	(19)	64	(16)	-	(3)	45
Others	+ 25	(7)	1	-	-	-	1

			(million HUF)				
2010	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	(200)	(4,753)	178	154	(58)	226	500
EUR	(100)	490	97	(17)	(61)	(77)	(58)
USD	(25)	20	(7)	(3)	-	-	(10)
CHF	(25)	19	(64)	16	-	3	(45)
Others	(25)	7	(1)	-	-	-	(1)

			(million HUF)				
2009	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	+ 200	6,522	(250)	(120)	(405)	(188)	(963)
EUR	+ 100	202	235	(22)	(15)	12	210
USD	+ 25	16	25	6	-	-	31
CHF	+ 25	(70)	19	(5)	1	-	15
Others	+ 25	5	-	-	-	-	-

(46) Risk management (continued)

			(million HUF)				
2009	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	(200)	(6,522)	250	120	405	188	963
EUR	(100)	(202)	(235)	22	15	(12)	(210)
USD	(25)	(16)	(25)	(6)	-	-	(31)
CHF	(25)	70	(19)	5	(1)	-	(15)
Others	(25)	(5)	-	-	-	-	-

Foreign exchange risk

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

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

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

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

(46) Risk management (continued)

The currency structure of the Group's assets, liabilities and equity as at 31 December 2010 and 2009 is as follows (currency equivalents in million HUF)

2010	HUF	CHF	EUR	USD	Other	Total
Cash and current accounts with central bank	31,261	28	768	182	61	**32,300**
Due from banks	17,864	5,919	28,773	4,965	1,999	**59,520**
Financial assets at fair value through profit or loss	10,350	-	29	15	-	**10,394**
Derivative financial assets	17,185	-	-	-	-	**17,185**
Loans and advances to customers	445,009	1,004,137	667,051	23,925	3,237	**2,143,359**
Financial investments – Available-for-sale	60,301	-	-	-	-	**60,301**
Financial investments Held-to-maturity	5,487	-	-	-	-	**5,487**
Non-current assets held for sale	960	-	-	-	-	**960**
Tax assets	14,626	-	-	-	-	**14,626**
Other assets	11,237	91	69	37	22	**11,456**
Repossessed property	91,493	-	-	-	-	**91,493**
Intangible assets	10,279	-	-	-	-	**10,279**
Property, plant and equipment	37,511	-	-	-	-	**37,511**
Total assets	**753,563**	**1,010,175**	**696,690**	**29,124**	**5,319**	**2,494,871**

2010	HUF	CHF	EUR	USD	Other	Total
Deposits from banks	43,836	240,659	366,529	1,945	26	**652,995**
Derivative financial liabilities	49,856	-	-	-	-	**49,856**
Deposits from customers	832,418	119,939	356,838	53,197	5,320	**1,367,712**
Liabilities from issued securities	66,042	-	43,233	-	-	**109,275**
Tax liabilities	5,273	-	154	-	-	**5,427**
Other liabilities	21,155	95	753	384	31	**22,418**
Provisions	5,886	-	-	-	-	**5,886**
Subordinated debt	-	-	40,056	-	-	**40,056**
Total liabilities	**1,024,466**	**360,693**	**807,563**	**55,526**	**5,377**	**2,253,625**
Share capital	105,000	-	-	-	-	**105,000**
Reserves	7,936	(1,901)	-	-	-	**6,035**
Retained earnings	130,211	-	-	-	-	**130,211**
Total equity	**243,147**	**(1,901)**	**-**	**-**	**-**	**241,246**
Total liabilities and equity	**1,267,613**	**358,792**	**807,563**	**55,526**	**5,377**	**2,494,871**
Net on- Statement of Financial Position	**(514,050)**	**651,383**	**(110,873)**	**(26,402)**	**(58)**	**-**
FX position of derivatives	**520,241**	**(660,866)**	**115,995**	**25,304**	**(674)**	**-**
Off-balance	*214,850*	*779*	*74,105*	*11,042*	*639*	*301,415*

(46) Risk management (continued)

2009	HUF	CHF	EUR	USD	Other	Total
Total assets	868,696	1,062,557	785,938	32,679	7,326	2,757,196
Total liabilities	1,383,475	455,184	864,925	47,809	5,803	2,757,196
Net on-Statement of Financial Position	(514,779)	607,373	(78,987)	(15,130)	1,523	-
FX position of derivatives	517,138	(593,950)	63,572	14,802	(1,562)	-
Off-balance	*276,842*	*3,718*	*97,568*	*7,785*	*1,036*	*386,949*

The following tables below indicate the extent to which the Group was exposed to currency risk at 31 December 2010 on its non-trading monetary assets and liabilities and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the Hungarian Forint with all other variable held constant on the Income Statement and Equity. A negative amount in the table reflects a potential net reduction in Income Statement and Equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

2010	Increase in currency rate in % (HUF weakens)	(million HUF) Effect on profit before tax	Effect on equity
EUR	+ 15	1,135	-
USD	+ 20	70	-
CHF	+ 10	2,048	-
Others	+ 10	26	-

2010	Decrease in currency rate in % (HUF strengthen)	(million HUF) Effect on profit before tax	Effect on equity
EUR	(15)	(1,135)	-
USD	(20)	(70)	-
CHF	(10)	(2,048)	-
Others	(10)	(26)	-

2009	Increase in currency rate in % (HUF weakens)	(million HUF) Effect on profit before tax	Effect on equity
EUR	+ 15	1,812	-
USD	+ 20	90	-
CHF	+ 10	2,407	-
Others	+ 10	30	-

(46) Risk management (continued)

2009	Decrease in currency rate in % (HUF strengthen)	(million HUF) Effect on profit before tax	Effect on equity
EUR	(15)	(1,812)	-
USD	(20)	(90)	-
CHF	(10)	(2,407)	-
Others	(10)	(30)	-

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixes rate mortgages when interest rates decline.

(e) Operational risk

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

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

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

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

(46) Risk management (continued)

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

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

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

In 2004 CIB started collecting operational risk loss data of all events over HUF 50 thousand. In 2010, 642 events causing HUF 791 million effective operational loss over the threshold of HUF 50 thousand were recorded into the loss database, excluding the boundary with credit losses. In 2009 937 events caused HUF 1,326 million operational loss respectively. Taking into consideration the recoveries the net loss was HUF 537 million.

The aim of the subjective Self-assessment is to reveal potential operational threats. The qualitative assessment has two pillars the Scenario Analysis (SA) and the Business Environment Evaluation (VCO).

The Scenario Analysis (SA), is aimed at identifying the operational risks from a forward-looking perspective, measuring exposure in terms of frequency, average impact, and worst case scenario.

From 2008 the Scenario Analysis was extended with the Business Environment Evaluation (VCO) of risk factors effecting CIB Group's processes, which is the second pillar of the Self-Assessment. In the Business Environment Evaluation the organisational units assess the risk factors in terms of "significance" and "control" and aimed at identifying areas of vulnerability. Mitigation actions have to be defined based on the self-assessment results for each non-efficient controls, thus promoting "proactive" risk management. The execution of the defined risk mitigation actions have to be monitored quarterly.

The Self-Assessment process identified a good overall level of control of operational risks and contributed to enhancing the dissemination of a business culture focused on the ongoing control of these risks.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios. During the past year, the Bank had complied in full with all its externally imposed capital requirements. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or return capital to shareholders.

Part G – Information on capital

(47) Capital and capital management

Basel II

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

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

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

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

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

(47) Capital and capital management (continued)

The Bank continuously focusing on the following risks:

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

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

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

Residual Risk
The risk that arises from the recognized risk measurement and mitigation techniques used by the credit institution prove less effective than expected

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

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

Banking book – Interest Rate Risk
Risk of losses on the fair value of the portfolio of banking assets and liabilities, not including trading assets and liabilities, resulting from changes in interest rates.
Interest rate risk is taken to be the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. In the context of Pillar 2, this is in respect of the banking book only, given that interest rate risk in the trading book is already covered under the Pillar 1 market risk regulations.

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

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

(47) Capital and capital management (continued)

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

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

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

Applied methodologies

The Group applies Standardized Methodologies (STA) for managing Credit risks for managing Market risks and Operational risks.
The Group continuously improves the applied methodologies to be prepared for implementing advanced methodologies in a proper time frame.

Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios. During the past year, the Group had complied in full with all its externally imposed capital requirements.

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or return capital to shareholders.

(47) Capital and capital management (continued)

No changes were made in the objectives, policies or processes during the years end 31 December 2010 and 31 December 2009.

Regulatory capital	2010	2009
Share capital	105,000	105,000
Reserves	127,878	134,483
Current year's profit or (loss)	(8,634)	6,402
Total shareholder's equity	**224,244**	**253,206**
Deduction items:		
Intangible assets	(8,194)	(9,532)
Tier 1 Capital	**216,050**	**243,800**
Subordinated capital	22,216	30,442
Revaluation reserve	1,337	391
Deductions from Tier 2 Capital	(274)	(355)
Tier 2 Capital	**23,279**	**30,477**
Total Capital	**239,329**	**274,277**
Risk weighted assets for Credit risks	2,109,234	2,225,648
Risk weighted assets for Market risks	85,838	39,888
Risk weighted assets for Operating risks	249,625	227,313
Risk weighted assets	**2,444,697**	**2,487,808**
Tier 1 capital ratio	8.84%	9.78%
Total capital ratio	9.79%	11.00%

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

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

CIB Bank Ltd.
and its subsidiaries

Business and Management Report

for financial year 2010

based on CIB Bank's consolidated audited IFRS figures

CIB Bank Zrt.

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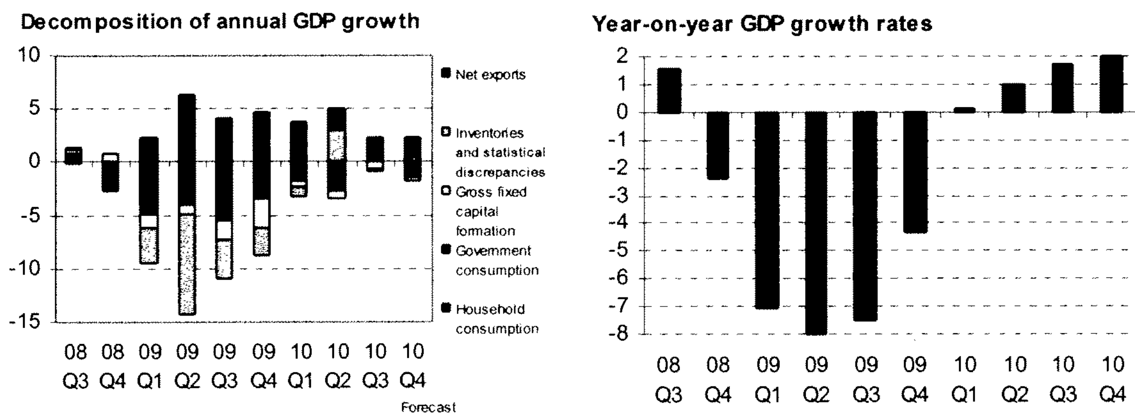
I. Business environment

Macro and micro environment

1. GDP

Hungary's GDP growth rate hit the highest year-on-year level of the last nine quarters in Q4 2010 (2%) and the annual growth rate eventually came in at 1.2% last year. This rate compares to the historical low of -6.7% reached in 2009. The recovery of demand in Hungary's external markets continued and rapid export growth – the key driver of the economy – maintained its momentum (at an approximate 15%). By the second half of the year, household consumption also began to show positive growth rates (at times in excess of 1%) and the fall in investments decelerated as well (to around -3% by Q3). Slow lending activity, however, continued to pressure these GDP components. Also, the negative experience related to currency risk in 2009 and the rise of the CHF/HUF to new historical highs at 225 prompted a proportion of households with foreign currency debts to set aside more savings throughout the year, which also made it difficult for internal demand to pick up notably.



2. Budget and external balance

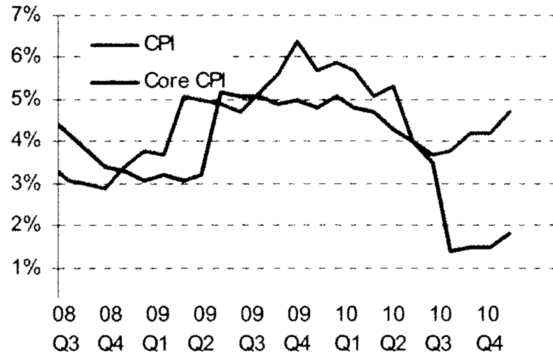
The market forced the presiding government to maintain its predecessor's strict budgetary policy and to leave the year-end ESA budget deficit target unchanged at 3.8% of GDP as set in the original convergence program. The new Hungarian government also committed itself to placing Hungary's approximately 80% sovereign debt rate on a downward-pointing path. The cash-based budget shortfall target of 3.2% was reached last year, partly as a result of newly-introduced sectoral crisis taxes and a levy on financial institutions. The debt rate already set off on a declining trend and should fall close to 70% due to one-off measures, including the transfer of private-pension savings into the state pension pillar. The country was also able to finance itself fully from the markets, without having to resort to the remaining tranche of its IMF-EU loan.

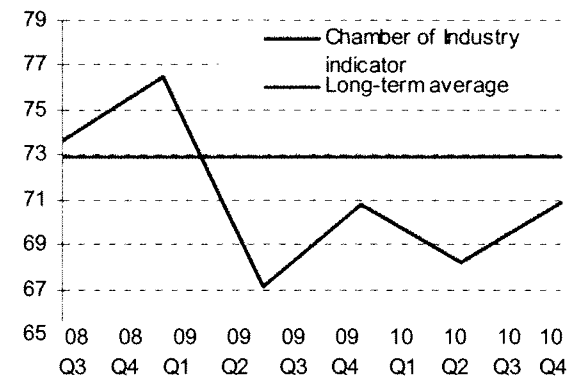
The improvement in internal balance figures was accompanied by a continued favourable development in external balance indicators. The current account balance displayed a surplus in 2010 for the first time in the data series, primarily as a result of a surge in the trade balance to above EUR 4.5 billion. This also indicated an ongoing improvement in the country's net financing capacity.

Source of data: NBH, KSH

3. Inflation

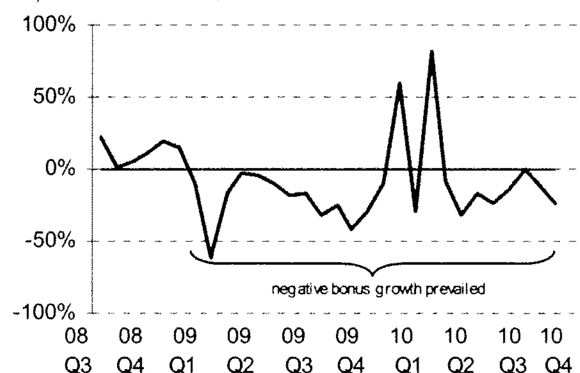
The full-year average CPI figure rose to 4.9% in 2010 from 4.2% in the previous year, primarily as a result of external pressures from food and energy prices and administrative price changes, while domestic demand effects and wage-side pressures exerted a downward pressure on the general price level. The negative output gap, the drop in capacity utilization to below the long-term average, and base effects stemming from the preceding year's VAT hike kept underlying (core) inflation in check at 2%.





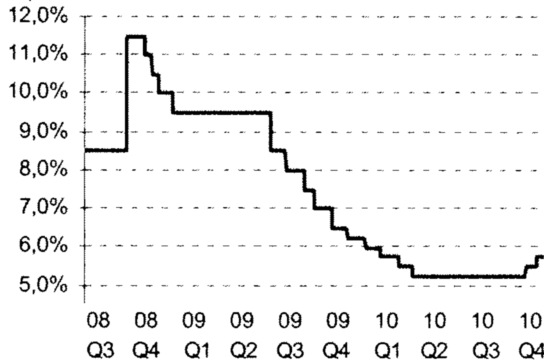
4. Labour market

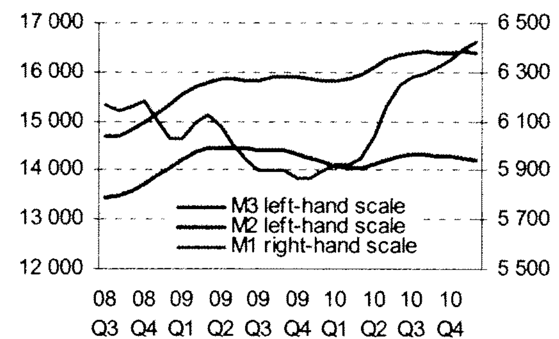
The labour market began to show signs of a turnaround in the second half of 2010, with the unemployment rate edging back down to 10.8% by year-end. However, the participation rate remained at levels near 55% and the average time spent in unemployment also reached 19 months, which is 2.5 months longer than a year before. The number of the employed still lags the pre-crisis peaks in excess of 3.9 million. Gross wage growth remained limited at 2%, given a negative year-on-year change in bonus payments both in the public and the private sphere over most of 2010.



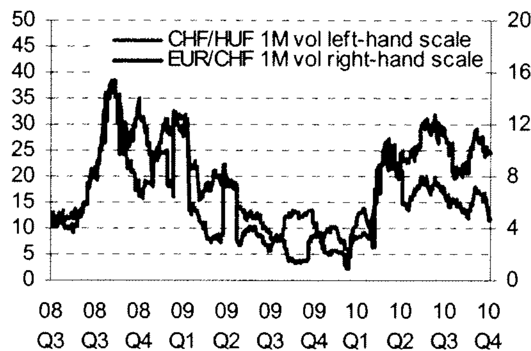
Source of data: NBH, KSH

5. Monetary policy





In the first half of the year, the National Bank of Hungary ("NBH") managed to reduce the benchmark interest rate to an all-time low of 5.25%, in line with the fall of the required risk premium on Hungarian assets. The persistence of the EMU debt crisis and the breakup of talks between the Hungarian government and the IMF both led to higher forint volatility and elevated CDS spreads, which resulted in a flat rate path during the middle of the year. Near the end of 2010, the NBH became the first central bank in the CEE region to hike rates (up to 5.75% by December) due to perceived upside inflationary risks. In the meantime, the M1 monetary aggregate reflected a rise in cash holdings, while the broader aggregates of M2 an M3 remained roughly flat.



The required risk premium on Hungarian assets and the forint's exchange rate have remained a decisive factor in monetary policy decisions, given the risks embedded in the FX exposure of households, municipalities and the state itself. Most risks to the stability of the financial intermediary system still stem from the CHF/HUF rate, which has continued to hover at levels well in excess of 200, substantially increasing the volume of foreign currency loans and the repayment instalments of households. More than 60% of the volatility in the CHF/HUF has been fully explained by shifts in the EUR/CHF cross, which, in turn, has been strongly affected by changes in the global and EMU-related sentiment. Hence domestic monetary policy only has a limited power to influence the franc-forint exchange rate.

Source of data: NBH, KSH

6. Extraordinary bank tax

resulted The government's attempt to meet its deficit target without any significant expenditure-side cuts in 2010 in the levying of an extraordinary bank tax amounting to HUF 187 billion per year for three years, with a possible extension beyond then, in line with expected future EU-wide regulations. The tax burden is well in excess of those levied in other countries of the European Union and has led to deterioration in the profits of banking sector players and has harmed their growth prospects. The extraordinary bank tax has also significantly damaged the banking sector's ability to create return on equity and to support the real economy through its lending activities, thereby making the sector less competitive in a regional context.

7. Changes in the banking environment

The business environment also remained unfavourable as a result of the ongoing global economic crisis, the downgrade of Hungary's debt rating and the high level of credit risk. The sector's income-generating capacity also saw a decrease as a result of higher funding costs and a further deterioration of loan portfolio quality. Foreign parent banks, however, declared their commitment to sustain operations in the country.

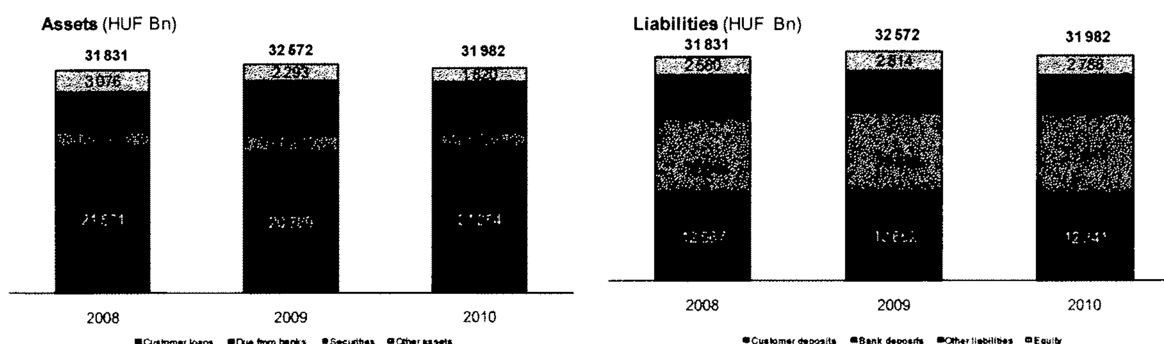
Total assets and liabilities

The bank sector's overall total assets decreased by 1.8% to HUF 31,982 billion compared to December 2009. The lower than actual decrease was attributable to the growth in foreign currency-denominated loans that was due to the forint's weakening against the Swiss franc and the euro.

The increase in the gross loan portfolio equalled to 2.2% (HUF 465 billion) as corporate and retail lending is still at a moderate level. Strict supply limits also contributed to the decrease of corporate lending as Hungarian banks have tightened their credit conditions in 2010 and have become more selective in their lending practices. The debt burden of non-financial companies and households remained substantial. Loans to households decreased continuously during the year however the high volume of foreign currency loans is still a significant risk factor. The share of HUF loans increased during the year and new lending to households in foreign currency practically disappeared by the end of the year.

The volume of deposits from customers fell by 2.5% compared to the end of 2009, and amounted to HUF 12,341 billion. The decline in customer deposits was a consequence of the stabilization of the capital markets and growing confidence in investment funds, where year on year increase was 19.6%.

The sector's loan-to-deposit ratio rose from 158% as of 2009, to 163%, which shows the continued reliance of Hungarian banks on foreign funding sources.

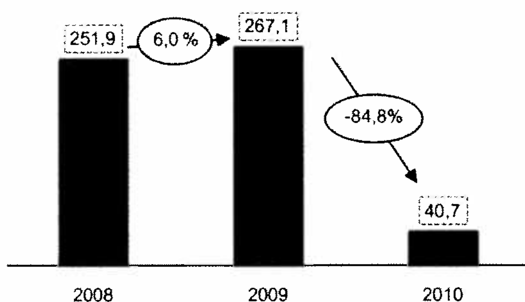


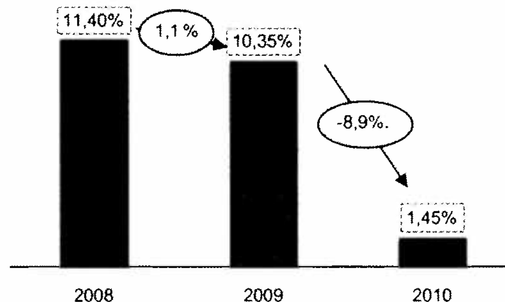
Credit quality

Portfolio quality significantly worsened on overall level, both in case of households and corporate customers. In Q3 2010 the volume of loans with more than 90 days past due within total loan showed an ongoing increase and amounted to 12.6% and 10.5% for corporate and households respectively. Delinquency ratios are expected to peak in 2011, according to NBH stability report. Losses in the corporate segment significantly increased in 2010 due to the defaults in the real-estate sector, while credit quality of retail loan portfolio was negatively affected by depreciation of HUF against CHF and EUR.

Profitability

The net profit after tax of the banking sector decreased to a record low of HUF 40 billion in 2010 as a result of the extraordinary tax levy and the constantly high cost of risk. ROE of the sector dramatically declined in 2010 in line with the decrease of profits. The capital position of the banking sector is adequate despite the lower level of profitability.





II. Business strategy and priorities for 2011

In order to assure long-term sustainable growth CIB Bank and its subsidiaries(the "Group") has launched a transformation and restructuring drive in response to the altered environment in which it is operating. This shift in organizational and operational focus has two primary aspects to it. Firstly, CIB is adapting a group-based organizational approach: it has integrated support functions of the Group in order to boost operational efficiency and to take full advantage of its inherent synergies. Meanwhile it intends to apply a segment-based business model in order to best meet the needs of its customers. CIB is constantly requesting and monitoring direct feedback from its clients and consequently the bank is introducing innovative solutions to strengthen the quality of its services. In line with these objectives, the Group accepted a new 3-year business strategy in April 2010 which will be reviewed as per current market trends based on shareholders' decision.

CIB's strategy and mid-term plan is to insure that the Group becomes the service provider of choice by providing the best overall value proposition to the market. This value proposition will be based on optimally priced services, accessibility and ease-of-use of products, consistently transparent pricing, and effective differentiation from the value propositions of competitors. Accordingly the Group has launched an Operational Excellence program in order to make its internal processes simpler and more efficient and to improve service quality. This will enable CIB Group to provide quality responses and reliable services. The Group seeks to generate sustainable growth by providing real value to customers while this key principle will drive the bank's market conduct going forward.

According to the newly adopted strategy CIB Bank targets two major areas of business in 2011, retail and SME. A critical focus in the years to come will be on energizing commercial activity in order to secure the bank's future revenues and defend its market position. CIB will place particular emphasis on further development of its retail business, and accordingly, the bank aims to become the primary retail bank for its customers. This goes hand in hand with the ability to further improve deposit collection activity and the distribution of high-quality asset management. On the lending side, the bank's aim is to achieve a top position in the market for primary residential mortgage products, and to develop mortgage products that will stimulate home improvements. CIB Bank also launched and continuously improves its bank assurance franchise through which the bank diversifies its service portfolio with a full range of insurance products.

The second priority in CIB's mid-term strategy lies in the further development of its proposition towards the SME and Micro enterprise sectors. As a start CIB developed a dedicated SME network in its main branches through which the bank wishes to further promote its complex banking and leasing services. The ultimate goal of the bank in this segment concerns the financing of the real economy, with the focus placed squarely on supporting the manufacturing and service sectors through a clearly defined approach. Apart from corporate loans and leasing services CIB Bank provides other methods of financing available for enterprises e.g. through its factoring business line. CIB Factor has dedicated services for small, medium and large enterprises, as well as for municipalities and other domestic institutions.

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

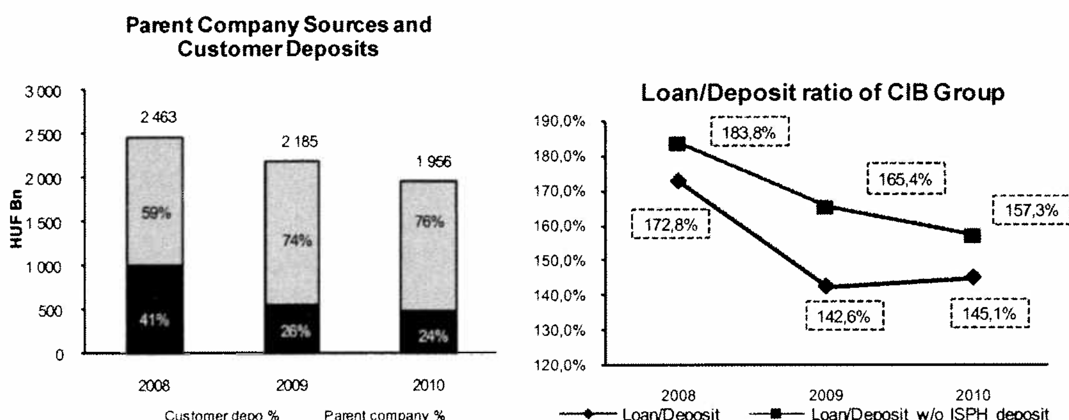
In order to help ensure the quality of the Group's loan portfolio, the Group has set up a special workout unit, thus ensuring a solid basis to maximize recovery originating from non-performing assets of Group portfolio. Having set up the new Workout unit, CIB aims to further develop its workout processes and capabilities that will help maintain a healthy balance between growth and sustainable, predictable loss rates in order to effectively manage the overall stability of the institution. In the next three years the bank shall allocate more resources to Workout in order to manage the non-performing loan and assets portfolio that the Group possesses.

III. Strengths and potential risks of CIB Group

Main strengths

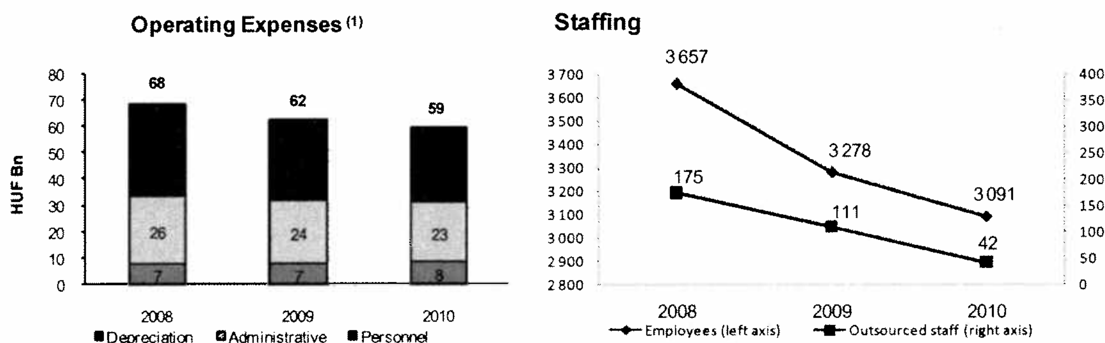
1. Solid liquidity position

CIB Group has a strong liquidity position, as the parent company has ensured a consistent commitment towards CIB's funding over the past years. The high degree of dependency on Intesa Sanpaolo has begun to decrease over the past two years, as CIB has focused hard on enhancing its self-funding capacity. As a consequence, the share of ISP funding within the total deposit fell from 41% as of December 2008 to 24% in December 2010, although the figure is still significant. Efforts over the previous years to increase the customer deposit base have improved the loan-to-deposit ratio of the CIB Group from 172.8% in December 2008 to 145.1% in December 2010.



2. Cost efficiency

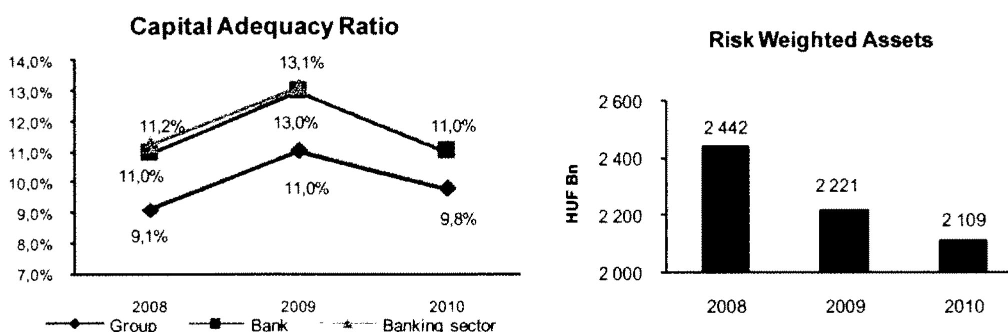
The Group has initiated and begun the execution of a wide-ranging cost management program, which resulted in 15% decrease in staff number and lower administrative costs as a result of efficiency growth, renegotiation of service contracts and launch of several other initiatives in all areas of operation. Overall cost savings reached 12% compared to 2008.



(1) excluding banking sector tax

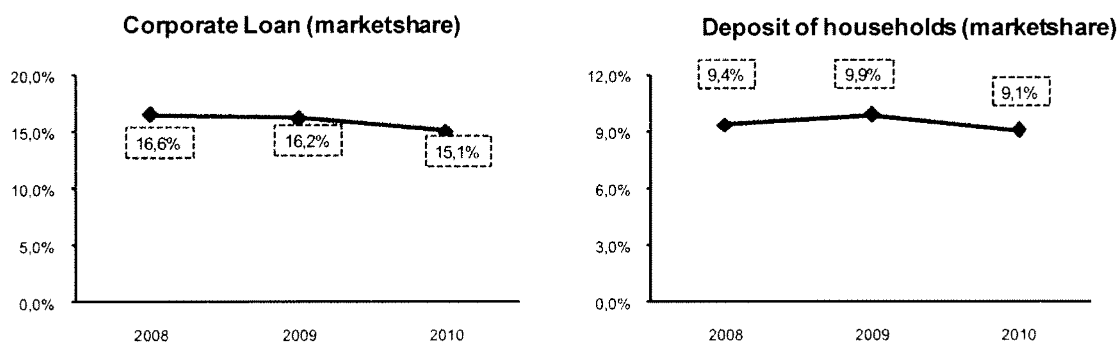
3. Capital adequacy

The capital adequacy ratio of the CIB Group is higher than the 8% regulatory minimum and totalled 9.8% at the end of December 2010. CIB's owner increased the Group's share capital by EUR 150 million in June 2009, in order to maintain the Group's high activity levels in the Hungarian financial market. As a consequence total shareholders' equity rose to HUF 241 billion – second highest capital base in the Hungarian banking sector as of September 2010. The Group has entirely complied with the regulatory capital requirements. Further actions to maintain stable capital adequacy still remained a top priority for the Group.



4. Strong market position

As a consequence of excellent brand recognition coupled with the positive local perception and also accentuated by the reputation of its owner, Intesa Sanpaolo the CIB Group has a solid client base across the country in all market segments, including retail, local corporate, SME and micro businesses, through its both banking and leasing franchise. The Group has achieved the highest degree of market penetration of all banks in corporate lending (where it had a 15.1% market share at the end of December) and in leasing services (13.1% from the total capital output in 2010), holds the second position in the retail deposits market (9.1% in December 2010) and occupies a solid fourth place in retail mortgage lending (9.1% in December 2010). Its customer base totalled to 712,000 customers by the end of December 2010.

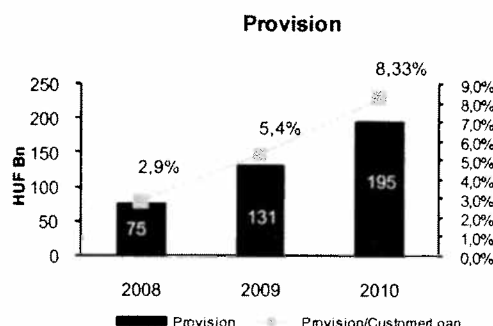


Potential risks

1. Credit risk

The effects of the unfavourable economic environment have negatively impacted asset quality across all segments – and the related cost of risk. To mitigate consequences, CIB Group created a group-wide workout platform, improved the collection and restructuring process, established and reinforced clear division of responsibilities between the business and underwriting functions. The Group applied prudent provisioning policy so overall provisioning volumes have cumulatively increased by HUF 120 billion during 2009 and 2010. The provisions-to-customer loans ratio increased from 2.9% to 8.3% by December 2010 from December 2008.

Provision



2. Foreign currency exchange and liquidity risk

Foreign currency loans make up more than 77% of the total loan portfolio, while foreign currency deposits (including issued securities) represent 40% of total deposits, which signs a significant foreign exchange mismatch in CIB Group's balance sheet. Despite the fact that from the last quarter of 2008 the bank limited, and from the beginning of 2009 effectively ceased, the disbursement of CHF loans, CIB Groups still depends on the swap markets, which represent an extra risk in case of a serious liquidity shock. However the bank receives continuous support through credit line and swap facilities by its parent company. In 2010 the Group entered into new basis swap transactions to eliminate risk for the potential turbulence on the market. The management believes that it will cause more stable liquidity position.

3. Transformation process (Leasing integration, Workout development, Operational Excellence program)

CIB Group is currently undergoing a process of transformation since September 2009. The programme designed to enable the Group to meet the challenges posed by the market and the expectations of its owners, which include improvement of its business and its governance model and a strengthening of controls. Management believes that these changes shall be a competitive advantage in the medium term; however transformation process might have negative impact on CIB Group's performance in the short term.

4. Significant tax burden

The Group has paid an extraordinary bank tax of HUF 13 billion in 2010. The burden is expected to be the same in the next two years as in 2011 it was set based on December 2009 total asset level.

5. European and global recovery

The European and global economic recovery may turn out to be slower than expected. Hungary is an open, export-driven economy that depends chiefly on the strength and stability of demand from its main trading partners, and this may well affect customer demand for financial services. Any potential instability in the financial markets could therefore have a marked impact on profitability through an accompanying increase in funding costs.

IV. Outlook for the Bank Group

Only slight improvement is foreseen for 2011 as sector will still characterised with crisis taxes and low level of demand for financing.

1. Slow recovery of banking sector

The global recession continues to dominate 2011. The economic recovery in Hungary may occur slower than expected as a result of the sustained strong CHF exchange rate and the deteriorated risk assessment of the country. The economic growth however is expected to accelerate in 2011 with possible temporary downturns caused by the vulnerability of the country's economy. Despite of it demand for new loans will remain at a low level, as exports will be the main driver for GDP growth, while investments and retail consumption will pick up only at a slow pace. The ban on foreign currency denominated mortgages and the recent increase in domestic interest rates will have a negative impact on the fragile growth of retail mortgage market.

2. Profitability of the sector decrease further

Profitability of the Hungarian banking sector will remain under pressure due to credit quality and taxation related issues. Although the volume of non-performing loan portfolio might reach the peak in 2011 its high volume will significantly affect the profitability of the banks, including CIB through further impairments, lower income generation and increased costs of work-out activities. The crisis tax levied on the banking sector in 2010 will cause further losses for the banks.

3. Increase in cost of funding

Downgrading of Hungary and the banks in the peer group and unfavourable changes in the sector's profitability is likely to increase cost of funding for local banks through higher risk premium. This phenomenon imposes further pressure on profitability and on the other hand may reflect into credit pricing of new lending volumes in the market, which will have a negative effect on the vulnerable increase of loan demand.

4. Uncertain future of mortgage market

The elevated uncertainty surrounding monetary policy decisions (partly as a result of rising inflation risks versus slow economic recovery and also because of the forthcoming changes affecting the Monetary Council) has created a more uncertain environment for the retail mortgage market. In addition, the less predictable path of interest rates set by the NBH is not the only source of uncertainty. Moratorium on eviction from residential properties also deteriorates business environment of the retail mortgage market and negatively influences the banking sectors' risk appetite in this field.

5. Slow recovery of the leasing market

The leasing market was profoundly affected by the crisis, due to both the shrinking of the market and the deterioration in portfolio quality. The new disbursement of the sector in 2010 decreased by 33.5% compared to 2009, in which period the sector had already been severely affected by the crisis, and amounted to only slightly more than HUF 300 billion. A significant upturn in the near future is not expected, as vehicle sales continue to display a downward tendency and there are no expectations of growth in real estate sales either.

6. Inefficiency in bankruptcy and liquidation processes

Inefficiencies in bankruptcy and liquidation processes currently put extra burden on all the secured creditors in the market. Bankruptcy processes predominantly turn into liquidation, without significant perceivable recovery which has an impact on the risk appetite of creditors when they decide on financing certain sectors (e.g. real estate development).

V. Evaluation of performance of Bank Group including net asset, financial and earning position

The operations of the CIB Group in 2010 were significantly impacted by the ongoing global economic crisis, the extraordinary bank tax of the finance sector, the downgrade of Hungary's debt rating, and the high level of credit risk. As a consequence of the lower business activity compared to previous years, customer loans and the volume of transactions fell, which led to a corresponding decline in revenues. An additional effect of the recession, the quality of the loan portfolio continued to deteriorate, resulting in significant impairment charges. The introduction of the bank levy in Hungary resulted in a sharp decline of the consolidated banking group profit. In order to mitigate the effects of the crisis CIB concentrated on tight credit risk management, portfolio monitoring and cost optimization in 2010.

Assets

Total Assets of CIB Group amounted to HUF 2,495 billion (-9.5%) as of December 2010. The lower balance was primarily a consequence of shrinking customer loans and continuous pay-back of parent company funds.

Customer Loans

At the end of 2010 CIB Group's consolidated gross loan portfolio was HUF 2,338 billion (-4.4%). Within the total portfolio the proportion of consumer loans (mortgage, car financing and ohters) improved, and reached 27% (+1.6%) by the end of the year, while real estate financing was accountable for less than 20% (-6.3%) of the portfolio. The share of large corporate and SME loans also decreased slightly during the year. Demand for new financing was low through the whole period as retail new disbursements fell by 49% and lease financing by 52.1% compared to the same period of 2009, when the crisis already significantly impacted the financial markets.

Loan portfolio quality

In line with the recent developments on the Hungarian banking market the credit quality of CIB Group's loan portfolio also deteriorated. The share of non-performing loans further rose within the total customer loan portfolio. The most notable increase of non-performing loans occurred in the real estate sector. Within this segment the most significant deterioration took place in hotel, shopping malls and land financing. The credit quality of consumer portfolio (mortgage lending, car financing, unsecured lending) was more stable; however the share of the 90-days past-due portfolio rose by 4.0%-points compared to December 2009 and reached 13.4% by the end of December 2010. CIB provisioned HUF 83 billion this year to cover potential losses from non performing loans. In the meantime the Group was focusing on assistance to clients in all segments, who may experience temporary difficulties in servicing loans, by providing proactive alternatives to restructure existing deals.

Securities

The Group held a securities portfolio of HUF 76 billion by December 2010, of which trading portfolio amounted to HUF 10.4 billion; AFS portfolio reached HUF 60.2 billion, while held to maturity portfolio was HUF 5.5 billion. The majority of the securities portfolio (99.0% of total securities held) consisted of Hungarian government bonds. The Group also holds municipality bonds amounting to HUF 71.4 billion that are classified as customer loan.

Repossessed properties, Tangible and Intangible Assets

As part of the workout strategy the Group continued to repossess real-estates in 2010 that previously served as collateral for non-performing loan. As a result of this the value of fixed assets reached HUF 139 billion (+83%).

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 92 billion by the end of 2010, of which 5% placed within ISP group.

Liabilities

Customer Deposits

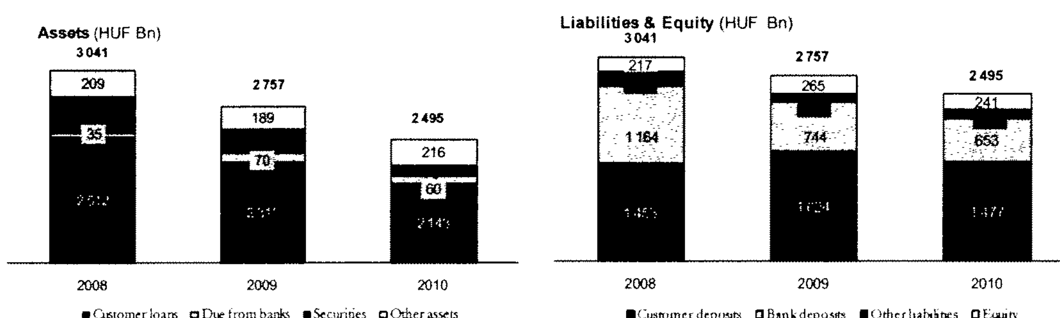
Total customer sources, including mutual funds, amounted to HUF 1,722 billion (-7.5%) by the end of 2010. There was a marked difference in the development of customer deposits and of the volume of assets managed in our funds; while customer deposits closed at HUF 1,477 billion by the end of the year. Consumer funds (including issued bonds and investment funds) was HUF 882 billion at the end of 2010, and their share within total customer sources increased to 60%.

Deposit from banks

Interbank funds – including subordinated deposits – totalled to HUF 693 billion as of December 2010. Most of the deposited funds come from the Group's parent company, accounting for 65% of the total of interbank deposits.

Equity

CIB Group's total shareholders' equity decreased by HUF 24 billion to HUF 241 billion as a result of year 2010 losses. The capital adequacy ratio of the Group totalled to 9.8% at the end of 2010.

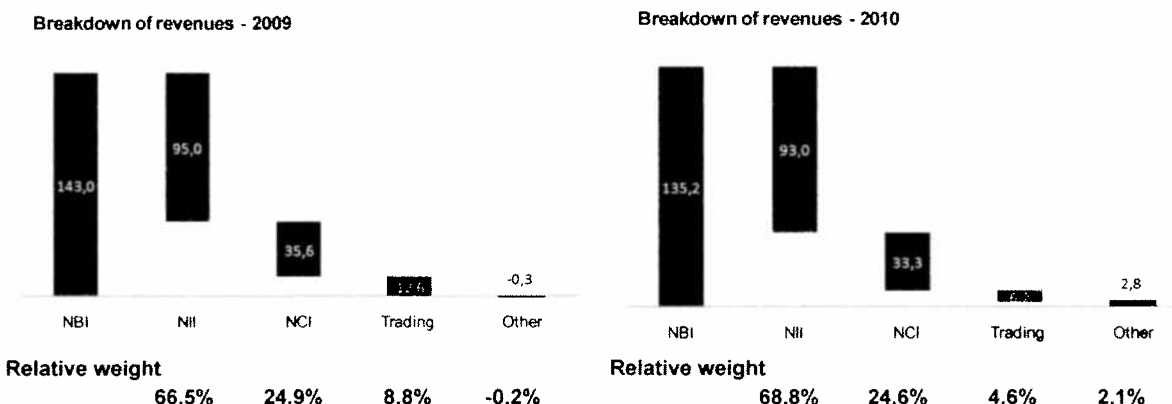


Profit and loss

The Group closed the year 2010 with a loss of HUF 23.5 billion, which was HUF 28.1 billion less than the profit in 2009. This is the result of the fall in income from banking operations, the consistently cautious provisioning applied in mitigation risk of arising non-performing assets and the significant effect of the extra bank levy.

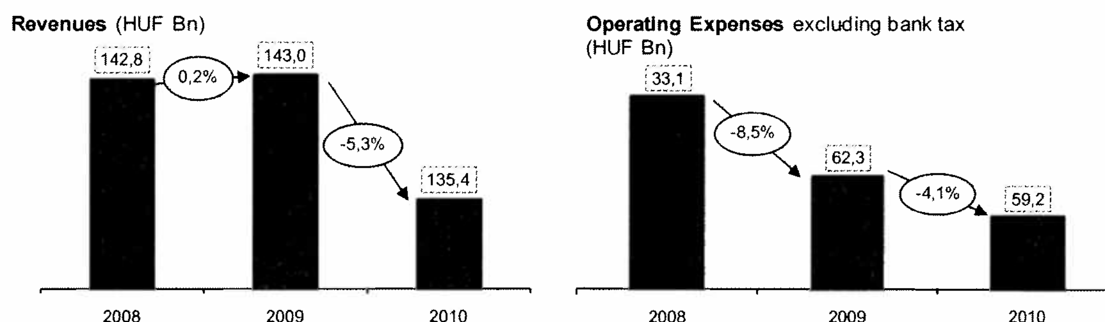
Revenues

Total revenue of CIB Group amounted to HUF 135.4 billion (-5.3%). Net Interest Income was HUF 72.0 billion and the global spread (Net Interest Margin / Average Total Assets) of 3.1% improved by 21 bps compared to last year. Net commission income reached HUF 33.3 billion (-6.7%). The decrease was a consequence of lower fees on customer transaction activity (current account transactions, cashier services and cards).
Trading result totalled to HUF 27.1 billion (-42.9%). The fall in income was partly generated by the declines in foreign currency lending and foreign exchange transactions, as foreign currency financing slowed further and significantly during 2010 and partly by the derivative portfolio revaluation (FX swaps and basis swaps).



Operating Expenses

Total operating expenses of the Group amounted to HUF 59.2 billion (-4.9%) in 2010 without the extraordinary bank tax. CIB's management has initiated and begun to implement a cost-reduction program in the past two years. As a result staff number at CIB Group have fallen by 566 persons (15%) compared to December 2008. Although total operating expenses show an increase of HUF 10 billion compared to last year, this is only the effect of the extra bank levy. Administrative costs, excluding extraordinary bank tax have been reduced by 4.1% in 2010 through a combination of efficiency growth, a renegotiation of service contracts and launching of several other initiatives in all areas of operation. The cost-to-income ratio stood at 44.1% in 2010, 3.6 percentage points lower than in 2008, and at the same level as in 2009.



Provisions

The amount of new provisions arising from the global economic crisis reached HUF 83.1 billion compared to HUF 71.1 billion in 2009. Nearly 77% of the new provisioning came from the corporate business, especially from real-estate financing, as the sector most severely hit by the negative developments in the market. The cost of credit (Provisioning / Loan volume) also worsened compared to the previous year, amounting to 3.87% in 2010.

Income Tax

Income taxes fell by HUF 1.7bn (34%) compared to 2009 as a result of the HUF 30 billion lower tax base, which fell by nearly HUF 30 billion.

VI. Operations of the subsidiaries in 2010

As part of the efficiency improvement program the Group started the simplification of its company structure in 2010 that will continue in 2011 and will result in a reduced number of subsidiaries.

The Group structure was the following on at each 31 December:

(number of companies)	2010	2009
Leasing companies	6	6
Fixed asset management companies	5	11
Companies dealing with management of own premises	2	2
Other financial companies	5	4

1. Leasing companies

CIB Group has several subsidiaries operating on the leasing market. In 2010 their performance was significantly affected by the further shrinking new disbursements, new volume on the market dropped by 33.5% compared to the already low figure of 2009, and amounted to HUF 300 billion. With a capital output of nearly HUF 40 billion CIB Leasing subsidiaries kept their market leader position although their market share slightly reduced to 13%.

- **CIB Leasing Ltd.**

The business profile of the company, founded in 2000, is closed-end financial lease – primarily related to motor vehicles – and to provide financing to the purchase of vehicles. The total assets of the company in December 2010 was HUF 130 billion, while the net results for the year 2010 was HUF 9 billion profit with dividends.

- **CIB Credit Ltd. (merged into CIB Leasing Ltd.)**

The company – founded in 2001 – was specialised in financial lease services related to motor vehicles. The business activity of the subsidiary became significant in year 2002. The total assets of the company at the end of 2010 were at HUF 288 billion, while net result was HUF 4,5 billion. According to the order of the Court of Registration the company has merged into CIB Leasing Ltd. with the corporate law related effective date of 31 December 2010.

- **CIB Rent Ltd.**

The company is specialised on operative leasing transactions. The total assets of the company at the end of 2010 were HUF 18 billion, while net profit reached HUF 9.9 billion.

- **CIB Real Estate Leasing Ltd.**

The company started its operation in May 2001 with business activity of financial leasing of real estates. At the end of 2010 total assets of CIB Real Estate Leasing Ltd. amounted to HUF 16 billion, while its net result was a loss of HUF 147 million.

- **CIB Property Ltd. (merged into CIB Leasing Ltd.)**

The company was founded on 1 January 2009 by a demerger from CIB Real Estate Leasing Ltd. Its main business is financial leasing of real-estates. At the end of 2010 total assets of CIB Property Ltd. amounted to HUF 41 billion, while its net result was HUF 4 billion losses. In accordance with the order of the Court of Registration the company has merged into CIB Leasing Ltd. with the corporate law related effective date of 31 December 2010.

- **CIB Residential Property Leasing Ltd. (merged into CIB Leasing Ltd.)**

CIB Residential Property Leasing Ltd. became part of CIB Group in 2005. At the end of 2010 total assets of the company were over HUF 22 billion, while its net result was a loss of HUF 1,8 billion. According to the order of the Court of Registration the company has merged into CIB Leasing Ltd. with the corporate law related effective date of 31 December 2010.

- **CIB Leasing Holding Ltd.**

The company was established by a demerger from CIB Rent Ltd. in 2010 and became the majority owner of CIB Leasing Ltd.

2. CIB Insurance Broker Ltd.

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2010 total assets of CIB Insurance Broker Ltd. amounted to HUF 0.66 billion, while its net result was HUF 214 million.

3. CIB Investment Fund Management Ltd.

The objective of the company is to offer flexible and low cost funds that invest on domestic and international financial markets for its clients and for the customers of CIB Bank Ltd. The company started its first investment fund in 1997 and by widening its product range continuously it built up the CIB Investment Fund family, which includes currently 16 funds with significantly different investment policy. Net Asset Value of the investment funds reached HUF 185 billion by end of 2010. That is 15.5% higher than a year before. The company closed year 2010 with a profit of HUF 789 million.

4. CIB New York Broker Ltd. "under voluntary dissolution"

IE-New York Broker Ltd. was founded by Inter-Európa Bank Ltd. in 1997. Its business activity is security brokerage activity and investment fund management. Total assets at the end of 2010 were HUF 32 million, while its annual profit reached HUF 9 million. The sole shareholder of the company has resolved to terminate the company without legal succession and launch the voluntary dissolution of the company with the commencement date of 30 June 2010.

5. CIB Factor Ltd.

The company became part of CIB Group in 2004. Its main activity is the factoring of receivables. At the end of 2010 total assets of the company reached HUF 9 billion, while net results amounted to HUF 151 million.

6. Fixed asset management companies

Companies dealing with the management of repossessed assets

- **Recovery Ltd.**

Recovery Ltd. (previously Expert Ltd.) was founded in 2006 for trading with properties. Total assets of the company closed just under HUF 30 billion, as some of its subsidiaries merged into the company in 2010, and also due to some significant asset purchases. Due to impairment charges the company closed the year with a loss of HUF 3,3 billion.

- **CIB Car Ltd.**

The company was founded in year 2006, to deal with vehicle trading. Total assets at the end of 2010 were HUF 0.6 billion, while the annual result was a profit of HUF 25 million.

- **CIL Buda Square Ltd. (merged into Recovery Ltd.)**

CIL Buda Square Ltd. was founded in 2008 to operate and let real estates. Its assets at the end of 2010 were HUF 1 million, while net result for the year was HUF 1.5 billion losses, mainly due to a loss on shares in Óbudai Dunapart Ltd. According to the order of the Court of Registration the company has merged into Recovery Ltd. with the corporate law related effective date of 31 December 2010.

- **Óbudai Dunapart Ltd. (merged into Recovery Ltd.)**

CIB Group purchased Óbudai Dunapart Ltd. in 2008, for operating and letting of real estates. The value of total assets of the company was over HUF 8 billion at the end of the year, while the annual result was a loss of HUF 1.8 billion due to impairment charges. In accordance with the order of the Court of Registration the company has merged into Recovery Ltd. with the corporate law related effective date of 31 December 2010.

- **CIL MNM Ltd.**

CIL MNM Ltd. was established in 2006. Its main activity is to operate and let real-estates. Total assets and net results of the company in 2010 were immaterial.

- **Brivon Hungary Ltd.**

Brivon Hungary Ltd. was established in 2009 as an SPV, who repossessed a residential property. Its main activity is trading with own property. Total assets of the company were HUF 13 billion, while net result for 2010 amounted to HUF 1.2 billion losses, due to revaluation of the asset.

Companies dealing with the management of own premises

- **CIB Support Ltd. (merged into CIB Bank Ltd.)**

The company was founded in 2009, from the merger of several subsidiaries, as a result of reorganisation in CIB Group. The main activity of the company is the maintenance and operation of the premises of CIB Group. The company had a fixed assets portfolio of HUF 9.7 billion at the end of the year. Its results for 2010 amounted to HUF 1.26 billion loss. According to the order of the Court of Registration, from corporate point of view, the company has merged into CIB Bank Ltd. with the corporate law related effective date of 31 December 2010.

- **CIB REAL Ltd.**

The company changed its business activity in 2003. Previously under the name of CIB Securities Ltd it dealt with investment services, while currently it owns part of the real estates of CIB Group. Fixed asset portfolio of the company reached HUF 19.6 billion, while the result of its operation was a loss of HUF 206 million in 2010.

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

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

CIB Credit Ltd., CIB Property Ltd. and CIB Residential Property Ltd. merged into CIB Leasing Ltd. such that the merging companies ceased to exist with the effect of the merger and the sole legal successor of the merged entities is CIB Leasing Ltd. The last day of the existence of the merging companies was 31 December 2010. The effective date of the merge was 1 January 2011. CIB Leasing Holding Ltd. acquired 98.4569% of the shares of the legal successor.

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

VIII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of financial instruments. The purpose of the HUF 86.5 billion in cash and cash equivalents is to ensure immediate liquidity above the unencumbered high quality security portfolio. The portfolio of securities held for trading of a value of HUF 10.3 billion, serves several purposes at the same time: these investments (besides serving customers with securities) represent a short-term profit-earning opportunity for the Bank, while also serving as a secondary source of liquidity besides its cash-type assets. The majority of the securities portfolio, which totals HUF 76 billion, is available for sale (AFS), while a lesser proportion of HUF 5 billion belongs to the held-to-maturity category. The Group holds a municipality bond portfolio up to HUF 71 billion which is treated as Loans and Advances to customers.

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

IX. Risk-management and hedging policy of the Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

XI. Research and development

In 2010 and 2009, the Group (in keeping with the traditions of previous years), as well as conducting its own research and development, also participated in the financing of several research projects.

As a part of the basic research, the following key areas were studied:

- Corporate loans, competitions and bank strategies;
- Influence factors on loan demands in case of corporate customers;
- Changes in loan demands on macro level.

XII. Employment policy of the Group

To reach its long term strategic targets, our Group has devoted more resources on strengthening business and customer relationship departments by reorganising human resources, and free resources stemming from workflow simplifying. Accordingly, the management decided to reduce the workforce of back offices of the Bank by 250 persons in order to significantly enlarge the staff in business and customer related fields. This reduction was implemented in full compliance with the provisions of the Labour Code, in more consecutive 30-day periods.

In relation to the layoff, a uniform set of selection criteria was developed, as was an outplacement package for the employees involved. Within the framework of the *EsErnyő* programme[1], benefits were provided in addition to those statutorily prescribed, and we also provided support to facilitate reemployment by holding English language and IT training courses and two-day preparatory courses to help them find employment. We provided continuous individual counselling opportunities in our support centre, *TámPont*[2]. The bank repealed the prohibition on reemployment with respect to the employees affected by the layoff and were provided with up-to-date information regarding our open positions. We were able to offer a new opportunity at the Group for several employees.

Our parent bank continued the employee satisfaction survey, which was first launched in 2009. The goal of the survey is to decide on an international level what our employees think about the work that they are doing for the bank. In spring a climate survey core team was set up, whose responsibilities are to analyse the results of the survey and to work out an action plan in order to increase the employees' overall satisfaction.

As an important pilot task, the modification of the incentive system has been started. Within its framework, the structure of wages in Legal Services, Group Compliance and Internal Audit departments was revised (parallel with the current HFSA and EU directives), a new salary system was created.

Our parent bank launched the Leadership Development Programme in March 2010 with the participation of first and second line managers and is scheduled to end in the second quarter of 2011. It includes three different modules: Leadership Lab, Complexity Management and Leading in a Matrix. The program currently involves 75 managers in total from CIB Group.

The implementation of HR Employee Self-Service (ESS), which is a web-based application based on SAP ERP was also launched in 2010. ESS significantly simplifies and accelerates personal administration, providing a new communication tool between employer and employee.

XIII. Sites of operation

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

XIV. Environmental protection

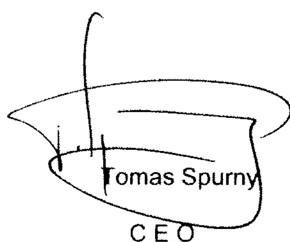
In 2010 the Group has spent significant efforts to engage its employees in environmental issues and in energy saving initiatives taken by the Group. Being a long term commitment, these initiatives focus on energy saving basically by means of communication and inclusion, giving a single framework for these actions. By doing this, CIB Group launched several programs including bike sharing and more complex projects, e.g. printing outsourcing. In the same time, CIB set up a new waste selection program for one of its headquarters in Budapest, due beginning of 2011. The Group fine tuned its sustainability reporting by creating its own internal environmental database. And at the end of the year the "Energy saving project" has been started, aimed at introducing new energy saving measures while upgrading the existing ones.

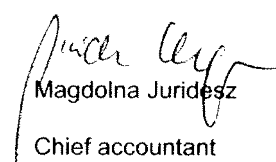
[1] "EsErnyõ" – **Es**ély **Erny**ő ("Opportunity Umbrella")
[2] "TámPont" – **Tám**ogató Köz**pont** ("Support Centre")

XV. Declaration of Responsible Corporate Governance

The Group's Corporate Governance Declaration is attached in Annex 1 to the Business Report.

Budapest, 8 March 2011





Tomas Spurny	Péter Bánó	Magdolna Juridesz
CEO	CFO	Chief accountant

Representatives of the credit institution