CIB BANK LTD.

Consolidated Annual Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2011 with the Independent Auditors' Report

Ernst & Young

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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 2011, 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 information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 2011, 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
29 February 2012

CIB BANK

CIB BANK Ltd.
and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2011
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

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31 December 2011**

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Consolidated Income Statement
for the year ended 31 December 2011
(million HUF)

	Note	2011	2010
Interest income	3	129,286	140,862
Interest expense	3	(70,088)	(68,841)
Net interest income		**59,198**	**72,021**
Fee and commission income	4	39,103	41,765
Fee and commission expense	4	(8,562)	(8,512)
Net fee and commission income		**30,541**	**33,253**
Income from trading activities	5	28,287	27,121
Other operating income / (expenditures)	6	2,164	2,785
Total revenue		**120,190**	**135,180**
Impairment losses, provisions and net loan losses	7	(105,719)	(83,077)
Operating expenses without bank tax	8	(55,426)	(59,241)
Bank tax	9	(998)	(13,110)
Operating profit (loss) before income taxes		**(41,953)**	**(20,248)**
Profit (loss) before bank tax and income taxes		**(40,955)**	**(7,138)**
Profit (loss) before income taxes		**(41,953)**	**(20,248)**
Income tax benefit / (expense)	10	4,647	(3,252)
Net profit (loss) for the year (before appropriations)		**(37,306)**	**(23,500)**

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 2011
(million HUF)

	Note	2011	2010
Net profit (loss) for the year (before appropriations)		**(37,306)**	**(23,500)**
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)	12	171	(578)
Other comprehensive income for the year (net of taxes)	12	**171**	**(578)**
Total comprehensive income for the year		**(37,135)**	**(24,078)**
Attributable to Equity holders of the parent		(37,135)	(24,078)

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

Consolidated Statement of Financial Position
as at 31 December 2011
(million HUF)

Assets	**Note**	**2011**	**2010**
Cash and current accounts with central bank	13	40,069	32,300
Due from banks	14	177,928	59,520
Financial assets at fair value through profit or loss	15	7,954	10,394
Derivative financial assets	32	16,214	17,185
Loans and advances to customers	*16*	*2,178,053*	*2,337,790*
Allowance for loan losses	*16*	*(276,520)*	*(194,431)*
Net loans and advances to customers		1,901,533	2,143,359
Financial investments – Available-for-sale	19	144,737	60,301
Financial investments – Held-to-maturity	19	5,574	5,487
Non-current assets held for sale	17	1,251	960
Tax assets	10	39,241	14,626
Other assets	18	9,041	11,456
Repossessed properties	20	137,407	91,493
Intangible assets	21	8,569	10,279
Property, plant and equipment	22	34,854	37,511
Total assets		**2,524,372**	**2,494,871**

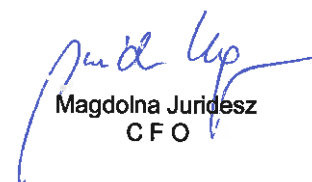
The accompanying notes on pages 9 to 90 form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
as at 31 December 2011
(million HUF)

Liabilities and Shareholders' Equity	Note	2011	2010
Deposits from banks	23	711,644	652,995
Derivative financial liabilities	32	35,949	49,856
Deposits from customers	24	1,364,819	1,367,712
Liabilities from issued securities	25	107,975	109,275
Tax liabilities	10	8,818	5,427
Other liabilities	26	22,277	22,418
Provisions	27	5,368	5,886
Subordinated debt	28	23,411	40,056
Total liabilities		**2,280,261**	**2,253,625**
Shareholders' equity			
Share capital	29	145,000	105,000
Reserves	30	(434)	6,035
Retained earnings		99,545	130,211
Total shareholders' equity		**244,111**	**241,246**
Total liabilities and shareholders' equity		**2,524,372**	**2,494,871**
Commitments and contingencies	31	241,313	309,041

29 February 2012

Tomas Spurny
CEO



Magdolna Juridesz
CFO

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 2011
(million HUF)

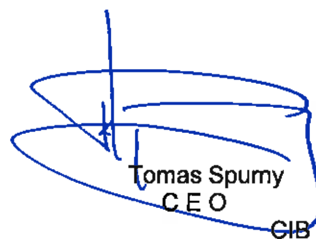
	Note	Ordinary Shares	Retained Earnings	Capital reserve	General Reserve	General Risk Reserve	Revaluation reserve	Total
Balance at 31 December 2009		**105,000**	**129,820**	**1,019**	**21,816**	**8,715**	**(1,046)**	**265,324**
Total comprehensive income		-	-	-	-	-	(578)	**(578)**
Net loss for 2010		-	(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**
Total comprehensive income		-	-	-	-	-	171	**171**
Issue of shares	29	40,000	-	-	-	-	-	**40,000**
Net loss for 2011		-	(37,306)	-	-	-	-	**(37,306)**
Transfers between reserves		-	6,640	-	(6,640)	-	-	-
Balance at 31 December 2011		**145,000**	**99,545**	**1,019**	-	**-**	**(1,453)**	**244,111**

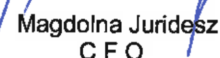
Consolidated Statement of Cash Flows
for the year ended 31 December 2011
(million HUF)

		2011	2010
Operating activities			
Profit (loss) before tax		(41,953)	(20,248)
Depreciation		7,297	7,938
Net unrealized (gain) / loss on financial instruments		(12,914)	31,413
Increase in allowance for loan losses		82,089	63,401
Increase in allowance for repossessed properties		1,202	2,441
Working capital charges:			
Decrease / (increase) in due from banks		124	(946)
Decrease / (increase) in financial assets at fair value through profit or loss		2,497	6,277
Decrease / (increase) in loans and advances to customers		130,396	51,083
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)		(9,359)	(1,751)
Increase / (decrease) in deposits from banks		58,649	(90,615)
Increase / (decrease) in deposits from customers and liabilities from issued securities		(4,337)	(146,241)
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)		(502)	4,643
Income tax charged		(5,214)	(5,747)
Cash flows used in operating activities		**207,975**	**(98,352)**
Investing activities			
Purchase of financial investments		(27,406)	(55,177)
Proceeds from sale of financial investments		60,579	155,730
Acquisitions to intangible and tangible assets		(2,745)	(3,077)
Acquisitions to repossessed properties		(17,399)	(14,027)
Disposals of intangible and tangible assets		184	316
Cash flows used in investing activities		**13,213**	**83,765**
Financing activities			
Repayment of subordinated debt		(16,645)	(12,397)
Cash from share capital		40,000	-
Cash flows from financing activities		**23,355**	**(12,397)**
Net increase / (decrease) in cash and cash equivalents	**39**	**244,543**	**(26,984)**
Cash and cash equivalents at the beginning of year		86,559	113,543
Cash and cash equivalents at the end of year		**331,102**	**86,559**

Additional information for cash flows from operating activities		
Interest received	127,758	140,453
Interest paid	66,658	72,667
Dividend received	60	54
Income tax paid	5,620	11,513

29 February 2012





Tomas Spurny
C E O

Magdolna Juridesz
C F O

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 67.6905% of the total ordinary shares of the Bank outstanding at year end (93.4773% as at 31 December 2010). The ultimate parent company of the Bank is Intesa Sanpaolo S.p.A., a bank registered in Italy that holds 32.3095% of the shares of the Bank as at 31 December 2011 (6.5227% as at 31 December 2010).

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 3,014 in 2011 and 3,284 in 2010, respectively.

The Consolidated Financial Statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 29 February 2012.

(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 stated.

The official rate of exchange quoted by the Hungarian Central Bank as at 31 December 2011 the euro was EUR 1 = HUF 311.13 (2010: EUR 1 = HUF 278.75) and Swiss Franc was CHF 1 = HUF 255.91 (2010: CHF 1 = HUF 222.68).

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 2011 the Bank had the following subsidiary companies ("the Group"):

Company	Country of incorporation	Equity interest in % (direct and indirect)	Principal Business
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 Leasing Holding Ltd.	Hungary	100	Share holding of CIB Leasing Ltd.
CIB Insurance Broker Ltd.	Hungary	100	Insurance agency services
CIB Investment Fund Management Co. Ltd.	Hungary	100	Fund management
CIB Faktor Ltd.	Hungary	100	Factoring financing services
CIL MNM Ltd.	Hungary	96.67	Property leasing services
Recovery Ltd.	Hungary	100	Professional services
CIB Car Ltd.	Hungary	100	Car trading services
Brivon Hungary Ltd.	Hungary	100	Property development and maintenance services
CIB REAL Ltd.	Hungary	100	Property and maintenance services to the Group

Business combinations and transactions under common control during 2011 are detailed in Note 41.

(2) Significant accounting policies (continued)

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.

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

- the use of measurement models for determining the fair value of financial instruments not listed on active markets,
- the measurement of impairment losses on loans and other financial assets,
- the estimates and assumptions on the collect ability of deferred tax assets,
- the measurement of impairment on non-financial assets,
- the measurement of impairment on available-for-sale investments,
- consolidation of special purpose entities (SPEs)
- the measurement of provisions for risk and charges.

(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.

(2) Significant accounting policies (continued)

(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 individually 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.

The Group has unused tax loss carry forwards. These losses relate to the Bank and to subsidiaries that have a history of losses. Due to the current market and economic conditions the management considered per individual entities whether the Bank and subsidiaries will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets. The management assessed in a prudent manner that some of the entities in the Group will be able to realise deferred tax assets on their losses carried forward in the future and it resulted as a deferred tax asset in the amount of HUF 16,192 million (assuming 19% income tax rate). The Group did not recognise any deferred tax assets on losses carried forward where the management believes that the profitability of the entity in the near foreseeable future is doubtful or uncertain.

(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.

(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.

(2) Significant accounting policies (continued)

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.

(g) Provisions for risk and charges

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. In assessing and determining the amount of obligation the Group considers whether a reliable estimate can be made of the amount of outflow of economic benefits. The Group recognised provisions for losses of Government Home rescue program for 2012 (Note 2.5 (e)).

2.5 Changes 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) 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) Significant accounting policies (continued)

(b) Loan losses of Government Home rescue program

In June 2011 the Hungarian parliament approved a new Act called "Home Rescue Program" that was also amended in September 2011 and had a significant effect on Group performance in 2011. The new Act was applicable for the Bank and for leasing companies (together: financial institutions).

Under the new law, eligible customers were allowed to repay in one lump sum their mortgage loans denominated in defined foreign currencies at fixed rates of CHF at 180 HUF; EUR at 250 HUF and JPY at 2 HUF, respectively. Customers had to notify their repayment intentions to the financial institutions by 30 December 2011, and those customers who fulfilled eligibility criteria set out in the legislation by 31 January 2012 are entitled to repay their loans by 28 February 2012. Eligibility criteria involved demonstrating sufficient funds were available for the early mortgage repayment based on the wording of the Act.

As a result of the new law the Group recognised losses on loans that were repaid by customers up to 31 December 2011 in the amount of HUF 15,570 million. (Note 7)

The Group also recognised an allowance for loan losses of mortgage loans that were either paid in January 2012 or customers had fulfilled eligibility criteria at the end of January 2012. In determining the amounts of the allowance the following assumptions and estimates were made in relation to the exchange rates on final repayment date as follows:

- The Group used the actual exchange rate of repayment date for the loan portfolio that has been repaid till 31 January 2012.
- The Group used the exchange rate as at 31 December 2011 for determining the loss on the portfolio where the eligibility criteria were met by customers.

The carrying amount of the allowance for loan losses of Government Home Rescue Program as at 31 December 2011 was HUF 21,280 million. (Note 7)

(c) Provisions for losses of Government Home rescue program for 2012

According to the Agreement between the Banker's Association and the Hungarian Government signed on 15 December 2011 further legislation is expected to be enacted during 2012 in relation to the Groups mortgage portfolio as follows:

Customer mortgage loans 90 days past due

Customer mortgage loans that are 90 days past due as at 30 September 2011 will be subject to conversion from foreign currency loan (EUR, CHF, JPY) to a HUF denominated loans and on conversion the Group is required to forgive 25 % of the outstanding principal amount of the loans. It is expected that the conversion to HUF loans will occur during 2012. As the 90 days past due loans are already considered impaired at 31 December 2011 the Group has recognised an additional impairment allowance reflecting the 25% principal forgiveness in relation to these customers loans of HUF 1,998 million in the Consolidated Financial Statements as 31 December 2011.

Once the legislation relating to the 90 days past due customers is enacted it is expected that the Group will be entitled to recover 30% of the losses forgiven to these customers from the State. This amount is expected to be recovered through claiming a deduction from 2012 bank tax and is expected to be recognised in the Consolidated Financial Statements in 2012.

(2) Significant accounting policies (continued)

Current customer mortgage loans

Customers who were not part of the early mortgage repayment scheme and are not subject to the 90 days past due 25 % principal reduction may be able to apply for fixed foreign exchange rates for mortgage loan repayments should certain eligibility criteria be met.

The Agreement outlines that eligible customers may apply to fix monthly instalments for a period up to 5 years at rates of EUR/250 HUF, CHF/180 HUF and JPY/2 HUF. It is expected that differences between the fixed exchange rates and the current exchange rate each month relating to principal repayments will be accumulated to a "buffer account" which will accrue interest at a BUBOR linked rate. Differences between the fixed exchange rates and current exchange rates each month relating to interest repayments will be borne 50% by the Government and 50% by the Group and to be settled on a quarterly basis.

The total value of the mortgage loans portfolio that may apply to fix their mortgage loan repayments as at 31 December 2011 is HUF 328,724 million. The Government decree outlining the details of this legislation has not yet been passed at the date of this report and therefore the eligibility criteria of the number of customers and willingness of applicant is highly subjective and not predictable with reasonable probability as of today.

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 then 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.

(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 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.

2.14 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.

(2) Significant accounting policies (continued)

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 more 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.

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.

(2) Significant accounting policies (continued)

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.

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.

(2) Significant accounting policies (continued)

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 which 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 permanent diminution 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 38.

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%	30 or 50% 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 fair value. Subsequent to initial recognition repossessed properties are stated at lower of cost or market value. 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.

2.24 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.

(2) Significant accounting policies (continued)

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.

2.27 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) Significant accounting policies (continued)

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.

2.30 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

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:

(2) Significant accounting policies (continued)

- 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;
- 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. Recognised and 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.

Bank tax

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.

(2) Significant accounting policies (continued)

The basis and the rate of the new bank tax that establishes the tax payable in 2011 and 2010 was 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 2011 and 2010 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 has been changed relating to netting of interest and commission net income in case of financial enterprises.

The respective tax rates for 2010 were different for the types of financial institutions: e.g. for credit institutions the tax rates were 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.5% had been applied for the amount exceeds HUF 50 billion. For the year 2011 there were 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%.

In December 2011 the Law on Bank tax was amended in conjunction with the early mortgage repayment described by Home Rescue program. The amendment of the Bank Tax Act allows financial institutions to reduce their bank tax by 30% of losses recognised in the Statutory Income Statement for 2011 on the final repayment of mortgage loans according to the Government Home rescue program (Note 2.5 (c)). An amount of HUF 11,020 million has been recognised in relation to the bank tax recoverable for 31 December 2011.

Further amendments to the Law on Bank tax in December 2011 will also enable financial institutions in 2012 to reduce their bank tax by 30% of the losses recognised for 2012 on Government Home rescue program (Note 2.5(c)).

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) Significant accounting policies (continued)

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.

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 an 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) Significant accounting policies (continued)

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 2011.

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.

IAS 32 Financial Instruments: Presentation (Amendment)

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 have no impact on the Group after initial application.

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 has no effect on the Consolidated Financial Statements 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)

IFRS 7 Financial Instruments: Disclosures

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with the entity's continuing involvement in those derecognised assets. The amendment became effective for annual periods beginning on or after 1 July 2011. The amendment affect disclosure only and has no impact on the Group' financial position or performance.

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 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the Board will address impairment of financial assets and hedge accounting. The completion of this project is expected in the first half of 2012. 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 but will potentially have no impact on classification and measurement of financial liabilities. The Group is currently assessing the impact of adopting IFRS 9 in conjunction with the other phases, when issued, however, the impact of adoption depends on the assets held by the Group at the date of adoption.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The standard becomes effective for annual periods beginning on or after 1 January 2013. The standard has no impact on the Group' financial position or performance.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly-controlled entities that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The standard has no impact on the Group' financial position or performance.

(2) Significant accounting policies (continued)

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual period beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 1 July 2011 or 1 January 2012.

The amendments are listed below:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Part B – Information on the Consolidated Income Statement

(3) Interest income and interest expense

Interest income comprises	(million HUF) 2011	2010
Interest from banks	4,753	2,740
Interest from customers	113,165	122,974
Interest income from financial investments – Available-for-sale	10,066	13,454
Interest income from financial investments – Held-to-maturity	390	420
Subtotal	**128,374**	**139,588**
Interest from financial assets at fair value through profit or loss	912	1,274
Total	**129,286**	**140,862**

The amount of interest income on impaired, non-performing financial assets was HUF 12,484 million as at 31 December 2011 and HUF 10,445 million as at 31 December 2010 respectively.

Interest expense comprises	(million HUF) 2011	2010
Interest paid to banks	21,313	17,780
Interest paid to customers	42,594	46,380
Interest paid on issued securities	6,181	4,681
Total	**70,088**	**68,841**

(4) Fee and commission income and expense

Fee and commission income comprises	(million HUF) 2011	2010
Servicing fee income for loans	10,356	12,046
Documentary fee income	1,752	3,174
Cash management fee income	1,863	2,051
Card fee income	5,116	5,047
Account turnover fee income	9,599	8,547
Investment services fee income	4,033	4,807
Agent fee income	1,030	812
Other fee income	5,354	5,281
Total	**39,103**	**41,765**

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

Fee and commission expense comprises	(million HUF) 2011	2010
Servicing fee expenses for loans	286	449
Documentary fee expense	269	447
Card fee expense	2,767	2,272
Account turnover fee expense	664	549
Investment services fee expense	372	545
Agent fee expense	88	167
Other fee expense	4,116	4,083
Total	**8,562**	**8,512**

(5) Income from trading activities

Income from trading activities comprises	(million HUF) 2011	2010
Net revaluation gain/(loss) from derivatives and trading with foreign currencies	5,607	2,563
Net realised gain/(loss) from derivatives	22,892	24,806
Net revaluation gain/(loss) on hedging instruments	(9)	15
Net revaluation gain/(loss) from trading with financial assets through profit or loss	(196)	(377)
Net realised gain/(loss) from trading with financial assets through profit or loss	(7)	100
Net gain from financial investments – Available-for-sale	-	14
Total	**28,287**	**27,121**

(6) Other operating income / (expenditure)

Other operating income / (expenditure) comprises	(million HUF) 2011	2010
Net losses from selling of tangible and intangible assets	(222)	(144)
Dividend and similar income	60	54
Result on disposal of inventories	(32)	149
Result on disposal of investments	(12)	-
Insurance fee reimbursement	-	2,190
Income from property management	2,259	661
Net result on non-current asset held for sale	239	129
Other operating income / (expenditures)	(128)	(254)
Total	**2,164**	**2,785**

(7) Impairment losses, provisions and net loan losses

Impairment losses, provisions and net loan losses comprises	(million HUF) 2011	2010
Individual impairment for loan losses	72,224	65,558
Collective impairment for loan losses	30,904	8,408
Impairment for interest on loans	2,106	(1,163)
Provision expense/(reversal) for financial guarantees	(2,223)	4,106
Provision expense/(reversal) for other commitments and contingencies	(1,715)	815
Result on sale of loans	1,509	944
Impairment losses on repossessed properties	1,151	2,441
Other impairment losses for other receivables	541	518
Other provision expenses	1,222	1,450
Total	**105,719**	**83,077**

The table below shows the effect of the Government Home rescue program on the net loan losses of the Group as at 31 December 2011.

Net loan losses on Government Home rescue program comprises	(million HUF) 2011
Realised loan losses from repayment till 31 December 2011 at loans denominated in CHF	15,401
Realised loan losses from repayment till 31 December 2011 at loans denominated in EUR	169
Impairment for notified loan losses at loans denominated in CHF	21,009
Impairment for notified loan losses at loans denominated in EUR	271
Total	**36,850**
Bank tax reduction (30% of losses recognised according to Hungarian Accounting Standards)	(11,020)
Total net loss of Government Home rescue program	**25,830**

(8) Other operating expenses

Operating expenses comprises	(million HUF) 2011	2010
Personnel expenses	24,767	28,037
a, Salaries	*17,874*	*20,317*
B, Other benefits	*1,495*	*1,494*
c, Social contributions	*5,398*	*6,226*
Depreciation	7,297	7,938
Rent and leasing	3,020	3,697
Office and Information Technology maintenance	5,346	5,303
Communications	2,217	2,556
Advertising	1,386	1,576
Other taxes and obligatory fees	2,926	2,119
Material expenses	3,064	2,680
Expert fees	1,039	949
Other expenses	4,364	4,386
Total	**55,426**	**59,241**

(9) Bank tax

The following table illustrates the bank tax obligation of the Group in 2011 and 2010.

Company	(million HUF) 2011	2010
CIB Bank Ltd. [1]	514	10,744
CIB Credit Co. Ltd. [2]	-	1,681
CIB Leasing Co. Ltd. [1]	368	467
CIB Real Estate Leasing Co. Ltd. [2]	-	52
CIB Residential Property Leasing Ltd. [2]	-	27
CIB Property Ltd. [2]	-	24
CIB Investment Fund Management Co. Ltd.	67	67
CIB Faktor Ltd.	49	48
Total	**998**	**13,110**

Note [1]:
In December 2011 the Law on Bank tax has been amended in conjunction with the early mortgage repayment described by Home Rescue Act. The amendment of the bank tax act allows financial institutions to reduce their bank tax by 30% of losses recognised in the Statutory Income Statement for 2011 on the final repayment of mortgage loans according to the Government Home rescue program (Note 2.5 (c) and Note 7).

Note [2]:
The Companies has no bank tax obligations due to the merges into CIB Leasing Ltd.

(10) Income tax benefit / (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.

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. In 2010 the law on corporate income tax declared that from 2013 the corporate income tax rate will be a uniform 10% without any consideration as to amount of profit. This regulation has been cancelled in 2011.

Income tax benefit / (expense) comprises	(million HUF)	
	2011	**2010**
Current income tax charge	(162)	(727)
A, Corporate Income tax	*(162)*	*(727)*
Other income type taxes	(5,052)	(5,020)
A, Local business tax	*(4,441)*	*(4,414)*
B, Innovation contribution	*(611)*	*(606)*
Deferred income tax	9,861	2,495
Total	**4,647**	**(3,252)**

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)	2011		2010	
Profit (loss) before tax	**(41,953)**		**(20,248)**	
Income tax at statutory rate	7,971	19.00 %	3,847	19.00%
Other income type taxes	(5,052)	(12.04%)	(5,020)	(24.79%)
Non-deductible expenditure	31	0.07%	(447)	(2.21%)
Not deferred carry forward losses	(1,173)	(2.80%)	(406)	(2.01%)
Non-deductible allowances	1	0.00%	(794)	(3.92%)
Tax incentives not recognized in the income statement	1,021	2.43%	1,034	5.11%
Effect of change in deferred tax rate	1,660	3.96%	(1,617)	(7.99%)
Prior period adjustments	(172)	(0.41%)	(255)	(1.26%)
Other adjustments	360	0.86%	406	2.01%
Income tax at effective tax rate	**4,647**	**11.07%**	**(3,252)**	**(16.06%)**

(10) Income tax benefit / (expense) (continued)

Deferred tax assets and liabilities comprise (million HUF)	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Loans	5	2,050	2,207	1,091
Leasing	2,514	1,782	993	359
Properties	15	1,327	6	947
Securities at fair value	-	366	-	104
Carry forward unused tax losses	16,192	-	2,946	-
Other assets and liabilities	645	250	124	40
Total deferred tax to Income Statement	**19,371**	**5,775**	**6,276**	**2,541**
Deferred tax recognised in equity	341	-	180	-
Total deferred tax	**19,712**	**5,775**	**6,456**	**2,541**

Tax assets and liabilities comprise (million HUF)	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Deferred tax	19,712	5,775	6,456	2,541
Other taxes and obligatory fees	19,529	3,043	8,170	2,886
Total tax assets / liabilities	**39,241**	**8,818**	**14,626**	**5,427**

The Group has unused tax loss carry forwards. These losses relate to the Bank and to subsidiaries that have a history of losses. Due to the current market and economic conditions the management considered per individual entities whether the Bank and subsidiaries will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets. The management assessed in a prudent manner that some of the entities in the Group will be able to realise deferred tax assets on their losses carried forward in the future and it resulted as a deferred tax asset in the amount of HUF 16,192 million (assuming 19% income tax rate). The Group did not recognise any deferred tax assets on losses carried forward where the management believes that the profitability of the entity in the near foreseeable future is doubtful or uncertain.

(11) Dividend paid

There were no dividends, declared or paid in either 2011 or 2010.

Part C – Comprehensive Income

(12) 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)	
	2011	**2010**
Net gains/(losses) from changes in fair value	(318)	(18)
Deferred tax effect of net gains/(losses) from changes in fair value	60	3
Net (gains)/losses transferred to net profit on disposal and impairment	-	(14)
Deferred tax effect of net (gains)/losses transferred to net profit on disposal	-	3
Amortization to net profit	329	(480)
Deferred tax effect of amortization to net profit	(62)	91
Deferred tax effect of tax change rate	162	(163)
Total	**171**	**(578)**

To ensure fair and detailed presentation of analysis on net non-realised (loss)/gain on available-for-sale financial assets, the Group has reclassified net loss in the amount of HUF 9 million from net loss from changes in fair value category to net losses transferred to net profit on disposal and impairment category and also their deferred tax effects in 2010.

Part D – Information on the Consolidated Statement of Financial Position

(13) 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 2011 and 2010.

Cash and current accounts with central bank comprises	(million HUF)	
	2011	**2010**
Cash	8,994	8,761
Current HUF account with the National Bank of Hungary	31,075	23,539
Total (Included cash and cash equivalents Note 39)	**40,069**	**32,300**

(14) Due from banks

Due from banks comprises	(million HUF)	
	2011	**2010**
Foreign currency nostro accounts	13,414	5,021
Due from banks less than 90 days	159,377	49,238
Included in cash equivalents (Note 39)	**172,791**	**54,259**
Due from banks more than 90 days	5,137	5,261
Total	**177,928**	**59,520**

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

Financial assets at fair value through profit or loss comprises	(million HUF)	
	2011	**2010**
Hungarian Government securities – HUF	144	-
Included in cash equivalents (Note 39)	**144**	-
Hungarian Government securities – HUF	7,115	9,712
Hungarian Government securities - NON-HUF	127	44
Bank and corporate bonds – HUF	3	5
Shares listed on stock exchange – HUF	524	633
Other securities - NON-HUF	41	-
Total	**7,954**	**10,394**

(15) 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.

(16) Loans and advances to customers

Analysis by sector

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

(million HUF)	2011	%	2010	%
Trading	224,122	10.29	253,268	10.83
Private customers	670,895	30.80	719,162	30.76
Real estate investments	548,089	25.17	543,396	23.25
Other, mostly service industries	340,248	15.62	364,278	15.58
Food processing	38,010	1.75	59,668	2.55
Transportation and communication	75,525	3.47	83,064	3.55
Light industry	64,520	2.96	63,314	2.71
Heavy industry	55,853	2.56	67,745	2.90
Financial activities	99,176	4.55	96,481	4.13
Agriculture	49,672	2.28	73,911	3.16
Chemicals and pharmaceuticals	11,943	0.55	13,503	0.58
Total	**2,178,053**	**100.0**	**2,337,790**	**100.0**

(16) 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.

Receivables from finance lease activities comprise	(million HUF)	
	2011	**2010**
Gross lease receivables due		
Within one year	59,615	62,362
One to five years	109,590	124,281
More than five years	50,347	65,979
Total	**219,552**	**252,622**

The present value of minimum lease payments receivables comprise	**2011**	**2010**
Within one year	48,212	49,868
One to five years	89,052	100,169
More than five years	37,779	48,911
Total	**175,043**	**198,948**
Unearned finance lease income	44,509	53,674
Accumulated allowance for uncollectible minimum lease payments receivable	**7,920**	**7,897**

The term of the contracts are usually between 3 and 120 months except in the case of some machinery contracts and property leasing contracts where the duration may reach 35 years.

Allowance for loan losses

Allowance for loan losses comprise	(million HUF)	
	2011	**2010**
Opening balance	194,431	131,420
Increase of allowance during the year	189,194	158,867
Decrease of allowance during the year	(64,330)	(78,890)
Write-off	(42,775)	(16,966)
Closing balance	**276,520**	**194,431**

Allowance for loan losses comprise	(million HUF)	
	2011	**2010**
Individual allowance	247,004	175,658
Collective allowance	29,516	18,773
Total	**276,520**	**194,431**

The effect on Government Home Rescue program on allowance for loan losses is presented in Note 7.

(16) Loans and advances to customers (continued)

In 2011 and 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 2011 amounts to HUF 1,864,322 million and HUF 1,579,600 million as at 31 December 2010 respectively.

The amount of renegotiated loans was HUF 170,489 million as at 31 December 2011 according to the definition of Hungarian accounting standards and HUF 173,267 million as at 31 December 2010 respectively. Renegotiated loans according to Hungarian accounting standards mean the process where loan and credit arrangements are renegotiated, rescheduled and restructured upon the debtor's or the financial institution's initiative, within the framework of the amendment of the underlying contract where:

- the underlying contract is amended with a view to avoiding default because of the considerable deterioration in the financial condition or solvency of the borrower and
- the amendment results in significant changes in the terms and conditions of the underlying contract, bringing considerably more favourable terms for the client.

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 197 million as at 31 December 2011 and HUF 547 million as at 31 December 2010 respectively.

(17) 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.

(18) Other assets

Other assets comprises	(million HUF)	
	2011	**2010**
Accrued incomes, costs and expenses	3,296	4,366
Items in transit	891	1,753
Trade receivables	3,381	2,856
Inventories	172	87
Other assets	1,301	2,394
Total	**9,041**	**11,456**

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

(19) Financial investments

Financial investments - Available-for-sale comprises	(million HUF)	
	2011	**2010**
Hungarian Government securities – HUF	118,098	-
Included in cash equivalents (Note 39)	**118,098**	-
Hungarian Government securities – HUF	26,555	60,163
Equity investment – HUF	84	138
Total	**144,737**	**60,301**

(19) Financial investments (continued)

Financial investments - Held-to-maturity comprise	(million HUF) 2011	2010
Hungarian Government securities - HUF	5,574	5,487
Hungarian Government securities - NON-HUF	-	-
Total	**5,574**	**5,487**

(20) Repossessed properties

Repossessed properties comprise	(million HUF) 2011	2010
Opening balance	91,493	23,220
Additions	48,165	70,808
Depreciations	(245)	(94)
Sales	(804)	-
Net loss from impairment adjustment	(1,202)	(2,441)
Closing balance	**137,407**	**91,493**

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

(21) Intangible assets

At 31 December 2011 and 2010 intangible assets and the related accumulated depreciation comprised the following

(million HUF)	Cost of intangible assets				
	2011	**Other changes***	**Disposals**	**Acquisitions**	**2010**
Software licences and development	31,251	72	(14)	1,324	29,869
Goodwill	877	-	-	-	877
Other	1,505	170	-	-	1,335
Total	**33,633**	**242**	**(14)**	**1,324**	**32,081**

(million HUF)	Depreciation of intangible assets				
	2011	**Other changes***	**Disposals**	**Additions**	**2010**
Software licences and development	24,673	67	(14)	3,039	21,581
Goodwill	56	-	-	-	56
Other	335	170	-	-	165
Total	**25,064**	**237**	**(14)**	**3,039**	**21,802**

* Other changes relates to reclassifications between intangible and tangible assets categories and also to changes that had no cash-flow effects like discovered assets, accounting mismatches, etc.

(21) Intangible assets (continued)

(million HUF)	Cost of intangible assets				
	2010	**Other changes***	**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	**Other changes***	**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)	Net book value of intangible assets	
	2011	**2010**
Software licences and development	6,578	8,288
Goodwill	821	821
Other	1,170	1,170
Total	**8,569**	**10,279**

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.

(22) Property, plant and equipment

At 31 December 2011 and 2010 property, plant and equipment and the related accumulated depreciation comprised the following:

(million HUF)	Cost of property, plant and equipment				
	2011	**Other changes***	**Disposals**	**Acquisitions**	**2010**
Land, premises	30,807	931	(119)	80	29,915
Leasehold improvements	8,686	(1,135)	(1,600)	286	11,135
Electronic equipment and office furniture	12,127	(299)	(790)	305	12,911
Computer equipment	9,264	313	(532)	676	8,807
Motor vehicles	724	(1)	(99)	3	821
Other	121	-	(2)	-	123
Total	**61,729**	**(191)**	**(3,142)**	**1,350**	**63,712**

(22) Property, plant and equipment (continued)

(million HUF)	Depreciation of property, plant and equipment				
	2011	**Other changes***	**Disposals**	**Addition**	**2010**
Land, premises	7,010	196	(119)	421	6,512
Leasehold improvements	3,033	(472)	(1,600)	1,073	4,032
Electronic equipment and office furniture	8,689	(35)	(666)	1,357	8,033
Computer equipment	7,712	54	(502)	970	7,190
Motor vehicles	430	(1)	(71)	68	434
Other	-	-	-	-	-
Total	**26,874**	**(258)**	**(2,958)**	**3,889**	**26,201**

(million HUF)	Cost of property, plant and equipment				
	2010	**Other changes***	**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**

(million HUF)	Depreciation of property, plant and equipment				
	2010	**Other changes***	**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 furniture	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**

* Other changes relates to reclassifications between intangible and tangible assets categories and also to changes that had no cash-flow effects like discovered assets, accounting mismatches, etc..

(22) Property, plant and equipment (continued)

Net book value of property, plant and equipment	(million HUF) 2011	2010
Land, premises	23,796	23,403
Leasehold improvements	5,653	7,103
Electronic equipment and office furniture	3,438	4,878
Computer equipment	1,552	1,617
Motor vehicles	294	387
Other	121	123
Total	**34,854**	**37,511**

(23) Deposits from banks

Deposits from banks comprise	(million HUF) 2011	2010
Deposits from banks in Hungary	42,246	47,562
Deposits from banks in other countries	669,398	605,433
Total	**711,644**	**652,995**
- from which related party	495,299	478,569

(24) Deposits from customers

Deposits from customers comprise	(million HUF) 2011	2010
Deposits from customers in Hungary	1,229,927	1,178,849
Deposits from customers in other countries	134,892	188,863
Total	**1,364,819**	**1,367,712**
- from which related party	55,265	114,800

The revaluation loss on deposits specified as hedged items was HUF 350 million as at 31 December 2011 and HUF 236 million as at 31 December 2010 respectively.

(25) Liabilities from issued securities

Liabilities from issued securities comprise	(million HUF) 2011	2010
Gross amount of issued securities	115,118	118,533
Repurchased amount of issued securities	(12,568)	(12,183)
Revaluation on hedging instruments	(16)	(161)
Accrued interest payable from the net amount of issued securities	5,441	3,086
Net amount of liabilities from issued securities	**107,975**	**109,275**

(25) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following sets of securities	(million HUF) 2011	2010
CIB Classic 2011/A bonds were issued in HUF since 29 September 2008 and matured on 29 September 2011. The bonds bear interest at 3 month BUBOR plus 30 basis points.	-	3,075
CIB Classic 2011/B bonds were issued in HUF since 22 September 2008 and matured on 22 September 2011. The bonds bear interest at 3 month BUBOR plus 70 basis points.	-	16,499
CIB Értékőr 2011/A bonds were issued in HUF since 29 September 2008 and matured on 29 September 2011. The bonds' interest is fixed to the National Consumer Price Index.	-	2,139
CIB EURÓ Értékőr 2011/A bonds were issued in EUR since 11 August 2008 and matured on 11 August 2011. The bonds' interest is fixed to the National Consumer Price Index.	-	1,553
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%.	1,431	1,055
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.	8,390	8,306
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%.	3,640	3,438
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%.	5,701	5,491
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.	6,993	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.	4,680	4,017
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.	16,654	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.	27,533	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.	8,729	8,037

(25) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following sets of securities (continued)	(million HUF) 2011	2010
CIB CL 2012/E bonds were issued in EUR since 31 March 2010 and will mature on 30 March 2012. The bonds pay fix interest of 2.2%.	8,047	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%.	381	368
CIB CL 2013/A bonds were issued in HUF since 3 March 2011 and will mature on 8 March 2013. The bonds bear interest at 3 month BUBOR plus 60 basis points.	3,055	-
CIB CL 2013/B bonds were issued in HUF since 22 September 2011 and will mature on 24 September 2013. The bonds bear interest at 3 month BUBOR plus 100 basis points.	8,120	-
CIB EU 13/A bonds were issued in EUR since 2 May 2011 and will mature on 3 May 2013. The bonds pay fix interest of 3.5% annually.	4,482	-
CIB EU 13/B bonds were issued in EUR since 22 August 2011 and will mature on 26 August 2013. The bonds pay fix interest of 3.5% annually.	131	-
Certificate of deposits	-	7
CIB Kincsem bonds	8	8
Total	**107,975**	**109,275**

(26) Other liabilities

Other liabilities comprise	(million HUF) 2011	2010
Accrued liabilities	3,975	4,473
Items in transit	10,614	6,737
Suppliers	3,654	3,925
Financial guarantees	2,868	5,040
Other liabilities	1,166	2,243
Total	**22,277**	**22,418**

Financial guarantees comprise	(million HUF) 2011	2010
Opening balance	5,040	932
Increase during the year	1,374	6,579
Decrease during the year	(3,546)	(2,471)
Closing balance	**2,868**	**5,040**

(27) Provisions

2011 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	2,586	3,300	5,886
Increase of provision during the year	1,317	3,052	4,369
Decrease of provision during the year	(3,057)	(1,830)	(4,887)
Closing balance	**846**	**4,522**	**5,368**

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**

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

(28) Subordinated debt

Subordinated debt comprises	(million HUF)	
	2011	**2010**
From Intesa Sanpaolo Holding International S.A. for 68.5 million EUR). The debt's expiry date was 10 June 2011 with interest payable at 6 months EURIBOR plus 0.60%.	-	19,095
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%;	14,001	12,544
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%;	9,334	8,362
Accrued interests	76	55
Total	**23,411**	**40,056**

(29) Share capital

During 2011 the authorised share capital was increased by HUF 40,000 million by Intesa Sanpaolo S.p.A. through the creation of 40,000,000,000 ordinary shares of HUF 1 each.

At 31 December 2011 the fully paid share capital consisted of 145,000,000,000 ordinary shares of 1 HUF each.

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

At 31 December 2010 the fully paid share capital consisted of 105,000,000,000 ordinary shares of 1 HUF each.

(30) 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 and instead applied the full available amount to cover increased credit losses for.

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.

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. Since there is a loss in the current financial year, the general reserve must be released insofar as to cover any such losses, but is not to exceed the amount set aside in the general reserve. As the Bank realised losses in its Statutory Financial Statements for 2011 the full amount of HUF 6,640 million was used.

(31) Commitments and contingencies

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

2011	(million HUF)		
	Gross amount	Provision	Net amount
Guarantees	72,988	(2,796)	70,192
Letters of credit	7,833	(72)	7,761
Total financial guarantees	**80,821**	**(2,868)**	**77,953**
Loans and overdraft facilities not disbursed	160,492	(846)	159,646
Total	**241,313**	**(3,714)**	**237,599**

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**

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 873,263 million at 31 December 2011 and HUF 1,021,465 million in 2010, respectively.

(32. a) Derivative Financial Instruments

Derivative financial instruments as at 31 December 2011

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	337,767	-	-	337,767	543	358
Interest rate swaps	517,094	219,970	25,815	762,879	5,854	6,360
Subtotal	**854,861**	**219,970**	**25,815**	**1,100,646**	**6,397**	**6,718**
Currency derivatives						
Forward exchange contracts	58,488	2,085	-	60,573	2,842	669
Currency swaps	920,901	-	-	920,901	4,363	10,281
Currency interest rate swaps	437,445	-	-	437,445	1,859	17,564
Foreign exchange options	1,882	1,824	-	3,706	582	586
Subtotal	**1,418,716**	**3,909**	-	**1,422,625**	**9,646**	**29,100**
Equity and index derivatives	663	-	-	663	13	1
Total trading derivative instruments	**2,274,240**	**223,879**	**25,815**	**2,523,934**	**16,056**	**35,819**
Hedging derivative instruments						
Interest rate derivatives						
Interest rate swaps	24,890	20,234	-	45,124	158	130
Total hedging derivative instruments	**24,890**	**20,234**	-	**45,124**	**158**	**130**
Total	2,299,130	244,113	25,815	2,569,058	16,214	35,949

(32. 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 loan and advances to customers, issued securities and deposits. For the year ended 31 December 2011 the Group recognised a net loss of HUF 189 million on the hedging instrument and a net loss of HUF 383 million as at 31 December 2010 respectively. The total net gain on hedged items attributable to the hedged risks amounted to HUF 180 million as at 31 December 2011 and net gain of HUF 398 million as at 31 December 2010 respectively.

(32. b) Derivative financial instruments (continued)

Derivative financial instruments as at 31 December 2010

(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						
Total hedging derivative instruments	-	31,600	-	31,600	15	234
Total	-	31,600	-	31,600	**15**	**234**
	2,395,214	390,946	33,321	2,819,481	17,185	49,856

(33. a) Carrying amount of assets and liabilities at 31 December 2011 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	31,075	-	-	-	-	-	8,994	40,069
Effective interest rates	*7.00*	-	-	-	-	-	-	*5.43*
Due from banks	16,344	157,923	3,661	-	-	-	-	177,928
Effective interest rates	*0.33*	*4.55*	*1.55*	-	-	-	-	*4.10*
Financial assets at fair value through profit or loss	-	154	206	3,747	881	2,401	565	7,954
Effective interest rates	-	*8.24*	*9.34*	*9.83*	*8.8*	*9.73*	-	*8.94*
Derivative financial assets	-	5,312	4,832	5,647	423	-	-	16,214
Loans and advances to customers	291,585	432,534	637,401	476,951	42,478	20,584	-	1,901,533
Effective interest rates	*1.74*	*4.85*	*5.36*	*6.10*	*6.33*	*5.41*	-	*4.90*
Financial investments	-	134,486	7,569	2,915	5,257	-	84	150,311
Effective interest rates	-	*8.11*	*9.74*	*8.21*	*9.00*	-	-	*8.22*
Other assets	-	-	-	-	-	-	230,363	230,363
Liabilities								
Deposits from banks	1,799	186,294	440,960	81,821	770	-	-	711,644
Effective interest rates	*3.24*	*2.31*	*2.16*	*1.18*	*2.28*	-	-	*2.09*
Derivative financial liabilities	-	11,766	20,656	3,175	352	-	-	35,949
Deposits from customers	426,889	390,911	392,090	117,414	37,510	5	-	1,364,819
Effective interest rates	*2.01*	*5.68*	*5.95*	*4.21*	*6.36*	*3.79*	-	*4.5*
Liabilities from issued securities	-	11,161	44,267	36,261	16,286	-	-	107,975
Effective interest rates	-	*6.10*	*6.44*	*3.83*	*5.30*	-	-	*5.35*
Subordinated debt	-	14,059	-	9,352	-	-	-	23,411
Effective interest rates	-	*2.38*	-	*2.07*	-	-	-	*2.26*
Other liabilities	-	-	-	-	-	-	36,463	36,463
Net repricing gap	(89,684)	116,218	(244,304)	241,237	(5,879)	22,980	203,543	244,111

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

The maturity profile of the Bank's assets and liabilities as at 31 December 2011 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	40,069	-	-	-	-	40,069
Due from banks	172,791	-	5,137	-	-	177,928
Financial assets at fair value through profit or loss	154	206	441	4,187	2,966	7,954
Derivative financial assets	4,478	3,532	3,944	3,991	269	16,214
Loans and advances to customers	316,695	71,496	245,193	547,114	721,035	1,901,533
Financial investments	134,487	7,569	2,596	5,575	84	150,311
Non-current assets held for sale	-	-	1,251	-	-	1,251
Tax assets	-	-	-	39,241	-	39,241
Other assets	3,296	-	5,745	-	-	9,041
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	137,407	43,423	180,830
Total Assets	**671,970**	**82,803**	**264,307**	**737,515**	**767,777**	**2,524,372**
Liabilities						
Deposits from banks	36,311	117,027	33,909	417,555	106,842	711,644
Derivative financial liabilities	10,477	18,642	2,266	3,637	927	35,949
Deposits from customers	724,756	333,027	120,959	46,616	139,461	1,364,819
Liabilities from issued securities	8	16,437	63,688	27,842	-	107,975
Tax liabilities	-	-	-	8,818	-	8,818
Other liabilities	3,975	-	18,302	-	-	22,277
Provisions	-	-	-	5,368	-	5,368
Subordinated debt	58	-	18	14,001	9,334	23,411
Total Liabilities	**775,585**	**485,133**	**239,142**	**523,837**	**256,564**	**2,280,261**
Net position	**(103,615)**	**(402,330)**	**25,165**	**213,678**	**511,213**	**244,111**

(34. b) 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) 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.

2011	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	36,515	118,957	42,906	439,825	122,493	760,696
Derivative instruments	10,477	18,642	2,266	3,637	927	35,949
Deposits from customers	725,590	337,878	129,755	87,369	179,950	1,460,542
Liabilities from issued securities	8	18,112	65,457	30,907	-	114,484
Subordinated debt	86	-	450	15,336	10,990	26,862
Total undiscounted financial liabilities	**772,676**	**493,589**	**240,834**	**577,074**	**314,360**	**2,398,533**

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
Derivative instruments	30,571	8,146	3,524	6,896	719	49,856
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
Total undiscounted financial liabilities	**750,416**	**301,347**	**450,430**	**617,836**	**263,502**	**2,383,531**

Part E – Additional Information

(36) 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 2011 constitute 1.37% of total assets and 22.8% of total liabilities, and are set out below.

	2011			
(million HUF)	Parent	Fellow Subsidiaries	Subsidiaries	Total
Assets				
Current accounts	11,870	232	55,130	67,232
Placements	20,122	251	423,321	443,694
Fair value of derivatives	1,466	557	96	2,119
Financial asset at fair value through profit or loss	-	-	500	500
Other assets	144	3	2,249	2,396
Liabilities				
Current accounts	685	171	69,643	70,499
Deposits	221,388	328,320	414,146	963,854
Subordinated debt	-	23,411	-	23,411
Fair value of derivatives	667	590	96	1,353
Liabilities from issued securities	-	-	500	500
Other liabilities	-	-	2,249	2,249
Commitments				
Guarantees	-	14	124	138
Loan commitments	-	-	202,228	202,228
Interest rate derivatives	53,367	107,284	-	160,651
Currency derivatives	113,819	1,063	4,004	118,886
Interest expenses, net	(2,916)	(9,132)	(1,241)	(13,289)

(36) Related Party Transactions (continued)

(million HUF)	2010 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
Other assets	133	-	889	1,022
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
Other liabilities	-	-	504	504
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)

(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.

(36) Related Party Transactions (continued)

Members of the Bank's Board of Directors at 31 December 2011:

Dr. Surányi György (chairman) – Intesa Sanpaolo Group
Fabrizio Centrone (deputy chairman) – Intesa Sanpaolo Group
Giampiero Trevisan – Intesa Sanpaolo Group
Paolo Sarcinelli – Intesa Sanpaolo Group
Tomas Spurny (CEO) – CIB Bank Ltd.
Eduardo Bombieri – CIB Bank Ltd.
Jonathan Charles Locke – 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 2011:

Ivan Sramko (chairman) – Intesa Sanpaolo Group
Massimo Malagoli (deputy 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 2011:

Tomas Spurny (CEO) – CIB Bank Ltd.
Eduardo Bombieri (deputy CEO) – CIB Bank Ltd.
dr. Király Gábor (deputy CEO) – CIB Bank Ltd.
Plank Gábor (deputy CEO) – CIB Bank Ltd.
Jonathan Charles Locke (deputy CEO) – CIB Bank Ltd.
Juridesz Magdolna – CIB Bank Ltd.
Kőszegi Boglárka – CIB Bank Ltd.
Németh Zsuzsanna – CIB Bank Ltd.
Wéber Andrea – CIB Bank Ltd.
Haller Orsolya – CIB Bank Ltd.
Horváth Krisztián – CIB Bank Ltd.
Csont Dávid – 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.
Bukovszki Attila – CIB Bank Ltd.
Michael Clark – CIB Bank Ltd.

(36) Related Party Transactions (continued)

	(million HUF) 2011	2010
Assets		
Current accounts	4	8
Loan	120	158
Liabilities		
Current accounts	267	196
Deposits	63	421
Fair value of derivatives	-	-
Commitments		
Loans and overdraft facilities not disbursed	14	11
Compensation		
Salaries and other short-term benefits	1,689	1,169

There were changes and extension in the Group's key management members during 2011 and 2010.

(37) 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)	2011		2010	
	Average carrying amount	Average interest rate (%)	Average carrying amount	Average interest rate (%)
Financial assets				
Cash and current accounts with central bank	84,593	2.90	65,785	2.19
Due from banks and subordinated loans	67,713	2.64	55,842	1.75
Financial assets at fair value through profit or loss	16,482	5.30	25,585	5.23
Loans and advances to customers	2,228,382	5.13	2,422,616	5.16
Financial investments	155,134	6.16	235,034	5.65
Other assets	245,200	-	133,701	-
Financial liabilities				
Deposits from banks	717,454	1.92	805,956	1.39
Deposits from customers	1,339,881	3.65	1,499,103	3.44
Liabilities from issued securities	113,771	5.51	77,616	5.90
Subordinated debt	30,946	2.00	51,899	1.57
Other liabilities	345,863	-	242,761	-

(38) 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.

2011 (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	21,491	21,529	156,437	156,425
Loans and advances to customers	1,834,783	1,830,031	66,750	69,024
Financial investments – Held-to-maturity	318	305	5,256	5,106
Financial liabilities				
Deposits from banks	557,991	558,882	153,653	154,007
Deposits from customers	611,088	615,050	753,731	753,102
Subordinated debt	23,411	23,508	-	-
Liabilities from issued securities	38,982	39,007	68,993	68,334

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	2,098,777	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

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 is 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 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.

(38) 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 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	16,214	-	16,214
Financial assets at fair value through profit or loss	7,625	329	-	7,954
Financial investments - Available-for-sale	21,809	122,928	-	144,737
Financial liabilities				
Derivative financial liabilities	-	35,949	-	35,949

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

During the reporting period ending 31 December 2011 and 2010 there were no transfers between Level 1 and Level 2 fair value measurements or any transfers into Level 3 fair value measurement.

(39) 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.

Cash and cash equivalents comprise	(million HUF) 2011	2010
Cash and current account with central bank (Note 13)	40,069	32,300
Due from banks (Note 14)	172,791	54,259
Financial assets at fair value through profit or loss (Note 15)	144	-
Financial investments (Note 19)	118,098	-
Total	**331,102**	**86,559**

(40) 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 53,586 million as at 31 December 2011 and HUF 70,386 million as at 31 December 2010 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 56,762 million as at 31 December 2011 and HUF 72,375 million as at 31 December 2010 respectively.

(41) Business combinations and transactions under common control

Business combinations and transactions under common control in 2011

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 98.1569% of the shares of the legal successor.

CIL Buda Square Ltd. and Óbuda Dunapart Ltd. merged into Recovery Ltd. such that the merging companies ceased to exist with the effect of the merger and the sole legal successor of the merged is 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.

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 Recovery Ltd. such that the merging companies ceased to exist the merger. The sole legal successor of the merged would be 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 demerger 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.

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

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

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

All mergers and demergers were presented in the Financial Statements using the pooling of interests method both for 2011 and 2010 respectively.

(42) Events after the reporting period

CIB Reál Ltd. merged with Recovery 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 Recovery Zrt. The last day of the existence of the merging companies was 31 December 2011. The effective date of the merge was 1 January 2012.

The Group is negotiating to dispose CIB Investment Fund Management Ltd in the first quarter of 2012.

(43) 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.

(43) **Segment report as at 31 December 2011 (continued)**

2011	Retail banking	Corporate banking	Treasury/Bank	Other	Group
Net banking income	66,177	36,657	(128)	17,484	120,190
Allowance for loan losses	(57,911)	(45,435)	-	(2,373)	(105,719)
Segment result	**8,266**	**(8,778)**	**(128)**	**15,111**	**14,471**
Unallocated cost					(56,424)
Profit before tax					(41,953)
Income tax					4,647
Profit for the year					(37,306)
Segment assets	**673,148**	**1,228,385**	**352,323**	**250,804**	**2,504,660**
Loan and advances to customers	673,148	1,228,385			1,901,533
Deposit with banks			177,928		177,928
Securities			158,181	84	158,265
Derivative financial assets			16,214		16,214
Other assets				250,720	250,720
Unallocated assets				19,712	19,712
Total asset	**673,148**	**1,228,385**	**352,323**	**270,516**	**2,524,372**
Segment liabilities	**819,828**	**597,701**	**771,004**	**85,953**	**2,274,486**
Deposit from customers and liabilities From issued securities	819,828	597,701		55,265	1,472,794
Deposit from banks and subordinated debt			735,055		735,055
Derivative financial liabilities			35,949		35,949
Other				30,688	30,688
Unallocated liabilities				5,775	5,775
Total liabilities	**819,828**	**597,701**	**771,004**	**91,728**	**2,280,261**
Total shareholders' equity					244,111

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.

(43) 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 and liabilities From issued securities	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-interested asset and liabilities classified to the other segment category.

Part F – Information on risks

(44) 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 Directorate 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.

(44) 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, the Regulatory Committee, the Group Risk 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)	2011	2010
Cash and balances with central bank	40,069	32,300
Due from banks and subordinated loans	178,005	59,520
Financial assets at fair value through profit and loss	7,954	10,394
Derivative financial assets	16,416	17,330
Loans and advances to customers	2,178,053	2,337,790
Financial investments – Available-for-sale	144,737	60,301
Financial investments – Held-to-maturity	5,574	5,487
Other assets	7,764	10,333
Total	**2,578,572**	**2,533,455**
Financial guarantees	80,821	108,612
Commitments	160,492	200,429

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.

(44) 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)	**2011**	**2010**
Italy	269	586
Hungary	2,119,130	2,284,145
Euro Zone countries	33,212	36,057
- of which PIGS countries	*1,361*	*1,383*
European but Non-Euro Zone countries	24,943	15,347
Other regions	499	1,655
Total	**2,178,053**	**2,337,790**

PIGS countries includes the followings: Greece, Portugal, Ireland and Spain. 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.

(44) 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.

Performing Loans	2011 (million HUF)	2010 (million HUF)
A – Excellent	667	3,751
B – Stable	175,754	166,369
C – Acceptable	534,428	584,382
D – High Risk	251,907	307,682
Other	85,502	115,108
Retail	583,998	641,864
Total Performing Loans	**1,632,256**	**1,819,156**
Non-performing Loans		
Corporate loans	408,457	416,412
Retail loan	137,340	102,222
Total Non-performing Loans	**545,797**	**518,634**

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 due from banks portfolio, based on the external rating system.

	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	Not rated	Total
2011	41,666	52,552	4	73,944	9,762	**177,928**
2010	8,898	15,057	5,548	8,193	21,824	**59,520**

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

2011	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Large corporate loans	57,999	9,215	5,044	289	72,547
Mid corporate loans	25,970	8,317	3,478	1,168	38,933
Retail loans	55,186	17,318	6,689	277	79,470
Total	**139,155**	**34,850**	**15,211**	**1,734**	**190,950**

(44) Risk management (continued)

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**

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 2011 HUF 173,536 million and was HUF 151,735 million as at 31 December 2010, 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 16.

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.

(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.

(44) Risk management (continued)

The liquidity ratio during the year was as follows

Liquidity ratio	(%)	
	2011	**2010**
31 December	13.38	6.44
Daily average during the period	11.77	13.94
Highest	17.31	21.04
Lowest	7.24	6.44

(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 2011 is presented in Note 35.

(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.

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.

(44) Risk management (continued)

VAR – 2011	(million HUF)				
	Foreign exchange	**Interest rate**	**Equity**	**Correlation Effect**	**Total**
31 December	84	63	20	(77)	90
Daily average during the period	33	43	9	(27)	58
Highest	113	91	25	0	131
Lowest	8	22	2	0	27

VAR – 2010	(million HUF)				
	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

(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.

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 2011. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2011 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.

(44) Risk management (continued)

2011	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity (million HUF) 0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	+ 200	(426)	(308)	(362)	175	(70)	(565)
EUR	+ 100	(432)	112	(40)	(11)	51	112
USD	+ 25	(5)	11	-	-	-	11
CHF	+ 25	(38)	(13)	(28)	15	(2)	(28)
Others	+ 25	-	-	-	-	-	-

2011	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity (million HUF) 0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	(200)	426	313	373	(182)	85	589
EUR	(100)	(17)	(112)	40	11	(57)	(118)
USD	(25)	(16)	(11)	-	-	-	(11)
CHF	(25)	(4)	3	33	(7)	2	31
-Others	(25)	-	-	-	-	-	

2010	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity (million HUF) 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

2010	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity (million HUF) 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)

(44) Risk management (continued)

In 2011 the calculation methodology of parallel downward shift has been changed. In the past method of calculation of the downward parallel shift did not take into consideration the minimum floor for interest rates, therefore the upward and downward parallel shift sensitivity calculation results were opposite to each other. Due to low short term foreign currency rates in major currencies for the Bank, the calculation results for the end of the year 2011 includes the minimum floor for interest rate sensitivity for downward movement. The difference due to the change in the methodology of sensitivity calculation was HUF 512 million in the sensitivity of the net interest income and HUF (21) million in the sensitivity of the equity at the end of 2011.

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.

(44) Risk management (continued)

The currency structure of the Group's assets, liabilities and equity as at 31 December 2011 and 2010 is as follows (currency equivalents in million HUF)

2011	HUF	CHF	EUR	USD	Other	Total
Cash and current accounts with central bank	38,479	51	1,200	267	72	**40,069**
Due from banks	110,217	3,873	44,654	15,393	3,791	**177,928**
Financial assets at fair value through profit or loss	7,786	-	133	35	-	**7,954**
Derivative financial assets	16,214	-	-	-	-	**16,214**
Loans and advances to customers	365,920	854,342	663,912	13,583	3,776	**1,901,533**
Financial investments – Available-for-sale	144,737	-	-	-	-	**144,737**
Financial investments Held-to-maturity	5,574	-	-	-	-	**5,574**
Non-current assets held for sale	1,251	-	-	-	-	**1,251**
Tax assets	39,241	-	-	-	-	**39,241**
Other assets	8,479	2	230	323	7	**9,041**
Repossessed property	137,407	-	-	-	-	**137,407**
Intangible assets	8,569	-	-	-	-	**8,569**
Property, plant and equipment	34,854	-	-	-	-	**34,854**
Total assets	**918,728**	**858,268**	**710,129**	**29,601**	**7,646**	**2,524,372**

2011	HUF	CHF	EUR	USD	Other	Total
Deposits from banks	40,018	269,369	400,605	1,638	14	**711,644**
Derivative financial liabilities	35,949	-	-	-	-	**35,949**
Deposits from customers	942,117	63,202	317,405	36,736	5,359	**1,364,819**
Liabilities from issued securities	57,241	-	50,734	-	-	**107,975**
Tax liabilities	8,815	-	1	1	1	**8,818**
Other liabilities	21,140	2	423	665	47	**22,277**
Provisions	5,368	-	-	-	-	**5,368**
Subordinated debt	-	-	23,411	-	-	**23,411**
Total liabilities	**1,110,648**	**332,573**	**792,579**	**39,040**	**5,421**	**2,280,261**
Share capital	145,000	-	-	-	-	**145,000**
Reserves	1,055	(1,489)	-	-	-	**(434)**
Retained earnings	99,545	-	-	-	-	**99,545**
Total equity	**245,600**	**(1,489)**	**-**	**-**	**-**	**244,111**
Total liabilities and equity	**1,356,248**	**331,084**	**792,579**	**39,040**	**5,421**	**2,524,372**
Net on- Statement of Financial Position	**(437,520)**	**527,184**	**(82,450)**	**(9,439)**	**2,225**	**-**
FX position of derivatives	**374,384**	**(460,232)**	**78,450**	**9,680**	**2,282**	**-**
Off-balance	*169,277*	*42*	*60,765*	*7,176*	*339*	*237,599*

(44) Risk management (continued)

2010	HUF	CHF	EUR	USD	Other	Total
Total assets	753,563	1,010,175	696,690	29,124	5,319	2,494,871
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*

The following tables below indicate the extent to which the Group was exposed to currency risk at 31 December 2011 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.

2011	Increase in currency rate in % (HUF weakens)	(million HUF) Effect on profit before tax	Effect on equity
EUR	+ 15	1,887	-
USD	+ 20	(33)	-
CHF	+ 10	3,069	-
Others	+ 10	32	-

2011	Decrease in currency rate in % (HUF strengthen)	(million HUF) Effect on profit before tax	Effect on equity
EUR	(15)	(1,887)	-
USD	(20)	33	-
CHF	(10)	(3,069)	-
Others	(10)	(32)	-

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	-

(44) Risk management (continued)

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)	-

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.

(44) 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 2011, 445 events causing HUF 2,030 million effective operational loss over the threshold of HUF 50 thousand were recorded into the loss database, excluding the boundary with credit losses. In 2010 642 events caused HUF 791 million operational loss respectively.

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 are monitored continuously and reported at the end of each quarter.

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

(45) 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.

(45) 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 proves less effective than expected.

Asset Risk
Asset risk arises from the potential loss due to the change of value of the owned or repossessed real estate and movable assets.

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 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.

(45) 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.

High Risk Portfolio
In line with the Supervisory Authority's requirement the Group identifies the portfolio meeting the criteria defined by the Supervisor for high risk portfolio and allocates additional capital for it.

Applied methodologies

The Group applies Standardized Methodologies (STA) for managing Credit risks for managing Market risks and Operational risks under the above defined Pillar 1.
The Group continuously improves the applied methodologies to be prepared for implementing advanced methodologies in a proper time frame.

In relation to Pillar 2 the Group implemented advanced methodology that will be reviewed and improved periodically.

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.

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 strengthen the Bank's capital position the shareholders increased the Share Capital of the Bank by HUF 40 billion in 2011.

(45) Capital and capital management (continued)

Regulatory capital	2011	2010
Share capital	145,000	105,000
Reserves	114,388	127,878
Current year's profit or (loss)	(48,204)	(8,604)
Total shareholder's equity	**211,184**	**224,274**
Deduction items:		
Intangible assets	(6,526)	(8,194)
Tier 1 Capital	**204,658**	**216,080**
Subordinated capital	17,734	22,216
Revaluation reserve	111	1,337
Deductions from Tier 2 Capital	(1,059)	(274)
Tier 2 Capital	**16,786**	**23,279**
Total Capital	**221,444**	**239,359**
Risk weighted assets for Credit risks	1,853,983	2,109,234
Risk weighted assets for Market risks	39,175	85,838
Risk weighted assets for Operating risks	253,050	249,625
Risk weighted assets	**2,146,208**	**2,444,697**
Tier 1 capital ratio	9.54%	8.84%
Total capital ratio	10.32%	9.79%

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.

As of 31 December 2011 CIB Group reported a capital adequacy ratio of 7.76%. This is in accordance with SREP capital requirement established by HFSA under Pillar 2 capital adequacy ratio calculation from 30 June 2011 onwards. This has arisen primarily because of certain measures enacted by the Government of Hungary relating to the early repayment of mortgages at an off-market rate and the depreciation of the Hungarian forint in the last quarter of 2011. The Board of Directors in co-ordination with the ultimate shareholder of the Group (Intesa Sanpaolo S.p.A.) has initiated a series of actions in order to ensure ongoing and continuous compliance with all measures of the HFSA.

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

CIB BANK

CIB Bank Ltd.
and its subsidiaries

Business Report

For the year ended 31 December 2011

based on CIB Bank's consolidated audited IFRS financial statements

CIB Bank Zrt.

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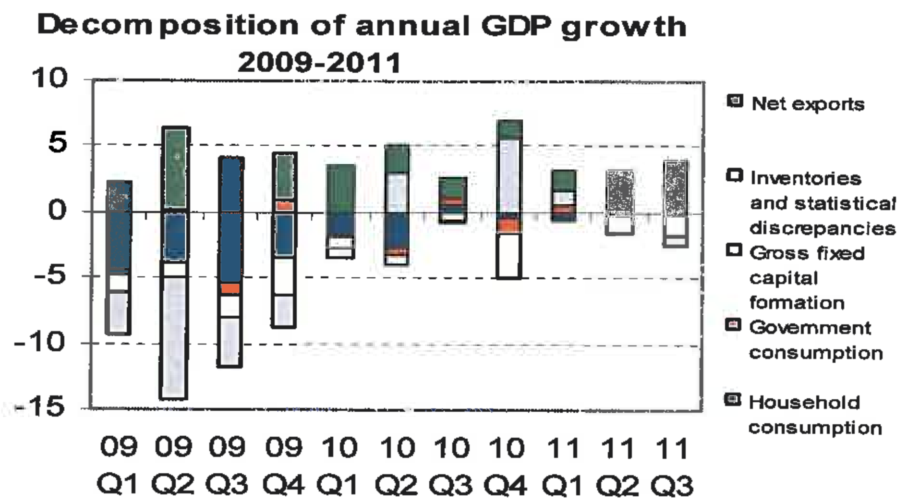
I. Business environment

Macro and micro environment

1. GDP

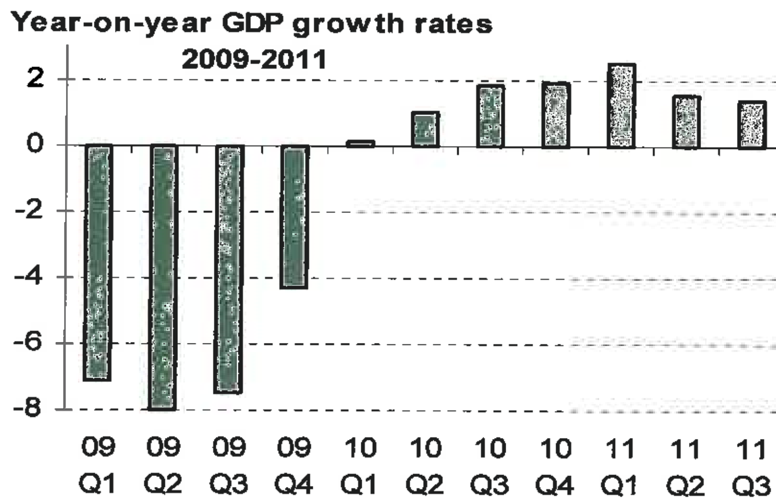
Hungary's GDP growth showed a gradual slowdown from quarter to quarter in 2011. After the growth rate hit the highest year-on-year level of the last seventeen quarters in Q1 2011 (2.5%) it came down to 1.4% by Q3 (which is the latest available statistics). Based on the latest available monthly indicators, the average growth rate for 2011 is likely to arrive close to 1.5%, i.e. showing only a slightly stronger performance compared to 2010. Export growth has remained the key driver of the economy throughout 2011, but the deceleration of the economies of Hungary's main export partners (especially Germany) had already affected the growth rate of exports. The drop in investments was substantial again in Q3 (8.6%), which dragged the overall growth rate by 1.6% and showed a combination of ongoing poor activity in housing and construction, while other segments (including vehicle production, machinery and metal processing) showed recovery. As a temporary shift, the agricultural component took the first place as a contributor to growth in Q3 with 1.3% compared to industrial production (the main driver of export growth) with 0.9%. Household consumption was characterised by stagnation in Q3 similar to Q2 and it has failed to show any significant recovery in 2011 due to strict lending conditions, planned austerity measures (including cuts in social transfers and tax rebates) and persistently high unemployment. The rise of the EUR/HUF and CHF/HUF to new historical highs above 310 and 260 also prompted a proportion of households with foreign currency debts to set aside more savings throughout the period. This reaction also made it difficult for internal demand to pick up notably despite the cut in the personal income tax to a flat 16% at the beginning of the year.



Data source: NBH, CSO

GDP forecasts calculated by market participants for 2012 fall in a relatively wide range, primarily given the higher-than-usual uncertainty surrounding the growth prospects of Hungary' main export partners. The uncertainty surrounding domestic corporations' reaction to the rapidly changing external environment and new domestic policy actions also contributes to this situation. The EU Commission's projection (updated in November 2011) suggested 0.5% GDP growth for Hungary in 2012. The IMF's country report on Hungary (published at the end of January 2012)

forecasts 0.3% GDP growth in 2012. The government is scheduled to update its macroeconomic forecasts (underlying the budget plan) in April 2012, with the current growth assumption being 0.5%.



Data source: NBH, CSO

2. Budget and external balance

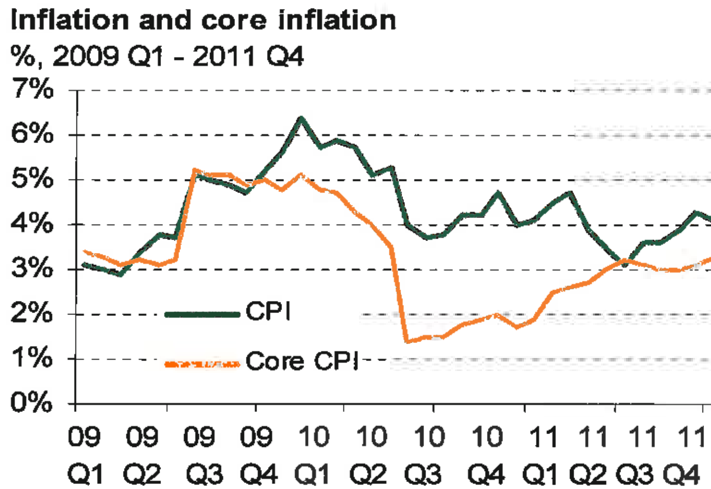
The government announced a comprehensive reform package in early March for 2011-2012, which amounts to a cumulative HUF 900 billion. The package was introduced in order to facilitate the achievement of the fiscal objectives outlined in the country's convergence program. Additionally, one-off revenues originating from a financial-sector levy and other sectoral crisis taxes were preserved for 2011-12 to ensure the achievement of the originally planned deficit of 2.94%. The year-end ESA budget balance will, however, post a surplus amounting to more than 3.5% of GDP according to the Economic Ministry's statement, due to the one-off transfer of 90% of private pension savings into state pension system. According to preliminary calculation disclosed by the Ministry of Economy, the fiscal balance excluding one-off revenues and expenditures met the target and came at 2.8-2.9% of GDP. While one-off measures made market-based debt financing safe for 2011, they masked the underlying fiscal process that was adversely affected PIT and corporate tax cuts and also by the slow progress and partial execution of the Széll Kálmán plan (the core of the HUF 900 billion fiscal package, which included some structural reforms and also spending cuts). The cash-flow-based deficit reached more than double (252%) of the original target and it is 110% of the modified target (which takes into account a HUF 500 billion spending on MOL shares among others).

The government also committed itself to placing Hungary's approximately 80% sovereign debt rate on a downward-pointing path and achieved a 4 percentage point reduction in H1 through the elimination of all government bonds held within transferred private-pension savings. However, the forint's revived depreciation in H2 2011 eliminated this result due to the high (close-to-50%) ratio of FX-denomination of Hungary's sovereign debt.

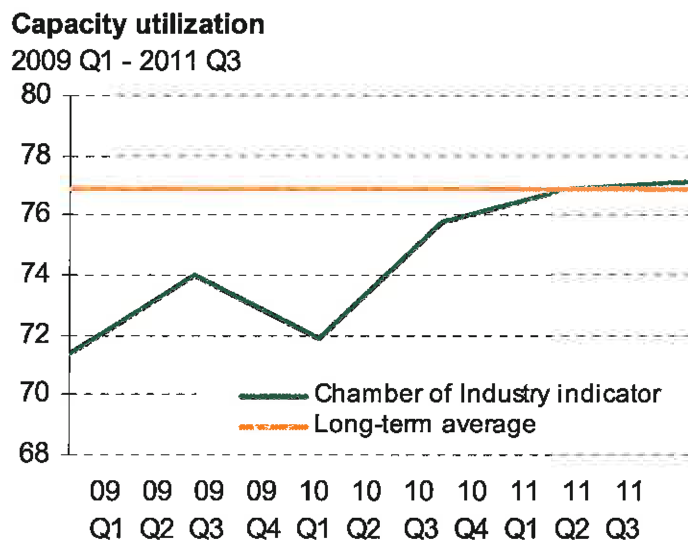
The weakness of domestic demand (both from the state sector and from households) was accompanied by a continued favourable development in external balance indicators. The cumulated current account balance reached a surplus of EUR 1.1 billion in Q3 following the first full-year surplus in the time series in 2010. The improvement in the current account was primarily a result of a surge in the trade balance to above EUR 3.4 billion in the same period. This also indicated an ongoing improvement in the country's net financing capacity.

3. Inflation

Inflation as measured by average CPI was 3.9% in 2011. In the first four months of the year, external price pressures stemming from food and energy prices have pushed the CPI back to an earlier local high of 4.7%, well above the 3% target of the NBH. However the lack of domestic demand effects and wage-side pressures has outweighed the aforementioned factors and inflation hovered below 4% in the May-October period, only to rise slightly above that level due to excise tax hikes and an initial influence from the forint's depreciation. The negative output gap, below-average capacity utilization and base effects have limited the rise of underlying (core) inflation below to an annual average of 2.7%, though it come above-average during most of H2 last year.



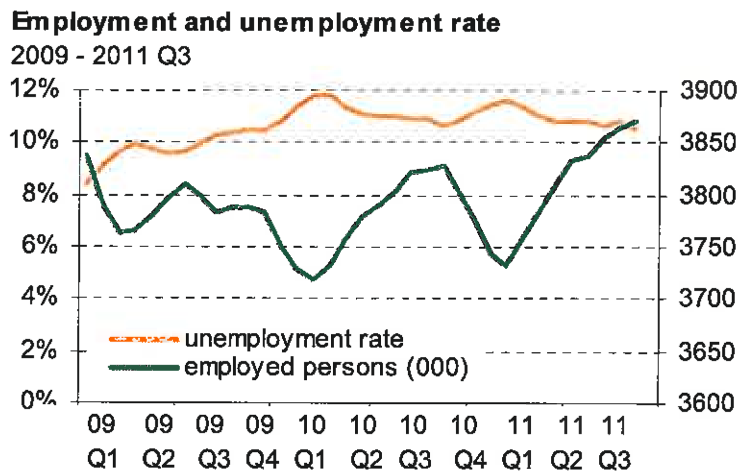
Data source: CSO



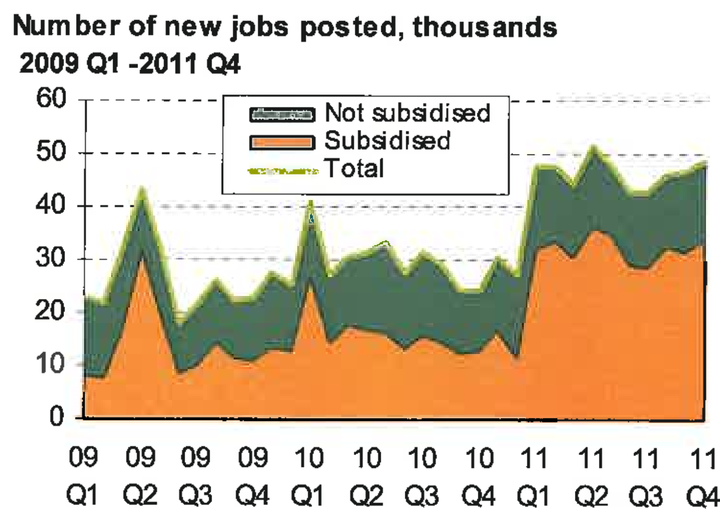
Data source: CSO, GVI

4. Labour market

After initial signs of temporary improvement at end of 2010 the unemployment rate has fluctuated above the 11% threshold in the first five months of last year and showed only moderate downward shift in H2 2011 to reach 10.6% at the end of the year. This essentially matched the rate seen one year before. The participation rate rose slightly to above 56%. The average time spent in unemployment come off its peak above 18 months, but remained little changed at 17.3%. The number of the employed still lagged the pre-crisis peaks (that were in excess of 3.9 million) as it fluctuated below 3.8 million in 2011, showing a downward trend during most of the year. Also, the number of new jobs posted in 2011 was mostly state-subsidised ones. The average year-on-year growth rate in gross wages has picked up to 4.7% in the January-November period, primarily as a result of acceleration above 6% in H2 2011.



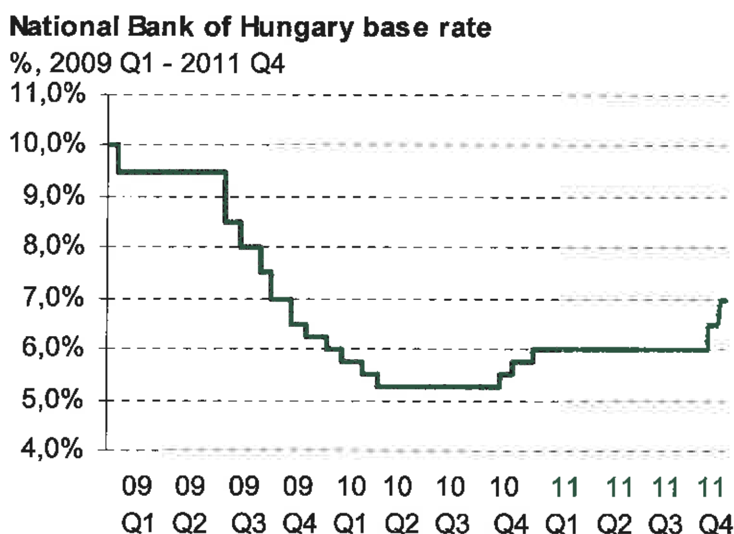
Data source: NBH, CSO



Data source: NBH, CSO

5. Monetary policy

At the beginning of 2011 the National Bank of Hungary ("NBH") concluded its brief tightening series with a final 25-bp rate hike in January that was then followed by a flat trajectory until the end of November. At the November and December meetings of the central bank's rate-setting body the tightening cylce was re-launched with two 50-pb hikes. While the tightening cycle was possible to be suspended as Hungary's risk assessment improved due mainly to a stronger governmental fiscal commitment and the lack of any open conflicts within the newly formed Monetary Policy Council in Q2-Q3, the last quarter of 2011 was characterised by another wave of rise in risk premia on Hungarian assets, which lead to the elevation of the NBH policy rate to 7%.



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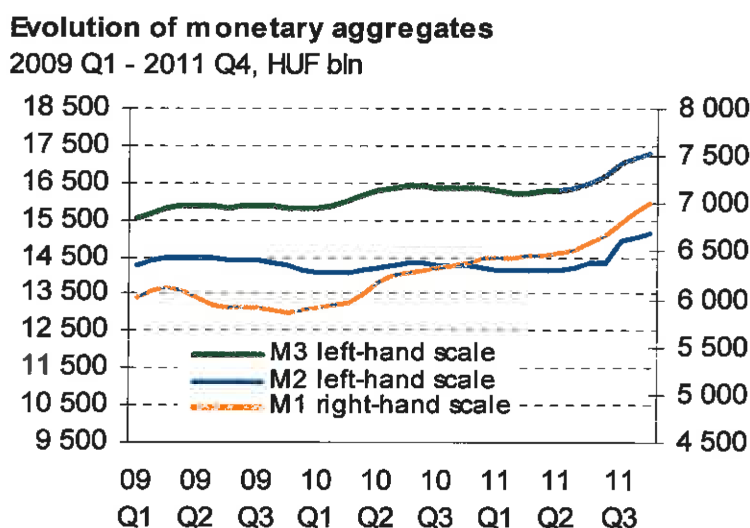
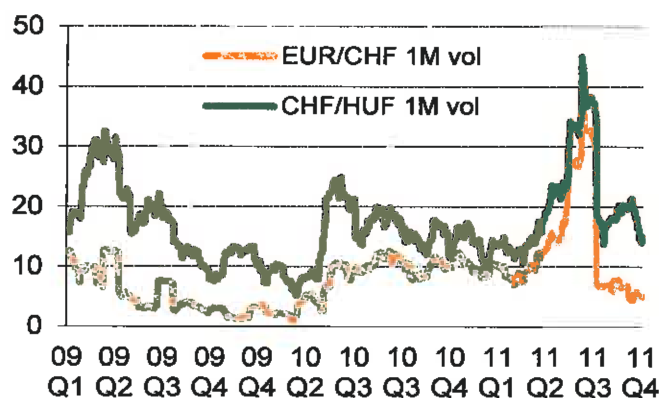


Data source: NBH

The EUR/HUF rate raised above the 300 levels on October and government bond yields switched to a faster rise. As market FX and FI market pressure was on the rise and the number of partially or fully failed debt auctions grew the government announced to revive its relationship with the IMF in order to secure a precautionary agreement, which in

effect may only be a stand-by agreement according to the Fund. The turn in the government's policy was insufficient to prevent Moody's (in November) and S&P (in December) downgrading of Hungary's sovereign debt to non-investment grade.

Hence market pressure on Hungarian assets intensified further. In addition, the EU Commission raised a number of legal issues that were desputed primarily in connection with the amendment of Hungary's central bank law. As in late December the Hungarian Parliament passed the amendments without taking into account the EU's notices, investors saw Hungary's disagreement with the EU on as threatening the agreement with the IMF, which triggered even more market pressures, boosting the cost of state debt financing.



Data source: Bloomberg

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 close to record levels above 250 in December, substantially increasing the volume of foreign currency loans and the repayment installments of households. More than 50% of the volatility in the CHF/HUF was explained by shifts in the EUR/CHF cross exchange rate in 2011, which, in turn, has been strongly affected by changes in the global and EMU-related sentiment. Hence domestic monetary policy only has a very limited power to influence the franc-forint exchange rate.

Monetary aggregate followed a trajectory close to stagnation during most of 2011. In the last quarter of the year the acceleration of M1 has reflected a faster rise in cash holdings. The faster rise of broader aggregates of M2 an M3 was also primarily driven by the increasing share of more liquid assets in the portfolio of households and other economic participants.

6. Government Home rescue program

The Government adopted numerous new regulations during 2011 aiming the improvement in the position of households with foreign currency denominated loans. The first government package (National Protection package) announced in mid-September included the early mortgage repayment at preferencial rates caused rather damages,

as the performing loan portfolio significantly decreased and it generated a substantial one-off loss of HUF 36.8 billion to CIB Group.

The measures of the second package announced in December may improve the portfolio quality and the foreign currency mismatch of the sector and CIB Bank however will lead to further severe losses in the upcoming years. The key points are the possibility of debt servicing at a fixed exchange rate being lower than current market rates for 5 years and the 25% value reduction on the non-performing portfolio delinquent for more than 90 days.

7. Extraordinary bank tax

The extraordinary bank tax of HUF 187 billion per year has remained in place in 2011 as well although 30 % of the loss on mortgage repayments is deductible from the extraordinary bank tax. The additional revenue has been used by the government to meet deficit targets and to create fiscal room for the income tax cut that was put through at the beginning of the year. The cabinet decided to extend the tax into 2012, promising to adjust it to the expected future EU-wide regulations whenever it becomes effective. 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, in addition to harming 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.

8. Changes in the banking environment

The main challenges for the Hungarian banking sector in 2011 and in 2012 were

- deteriorating external environment as a result of the euro area sovereign debt crisis;
- Government Home rescue program, which has a significant negative effect on the profitability of the Hungarian banks and changed the domestic operating environment;
- high ratio of non-performing loans due to the deterioration of corporate and household credit portfolio quality, as a consequence of the revising environment;
- worsening financial market conditions and increasing funding costs and liquidity risk.

As a result of the deepening debt crisis of EMU periphery the chance of a new financial crisis and a global recession increased. This and the unorthodox economic measures of the Hungarian government led to significant depreciation of HUF, increased local interest rates and had a negative effect on the FX swap market. The Hungarian banking sector's reliance on external funding remained high in 2011 therefore it presumes stable foreign parent banks that are committed to sustain operations in the country, however the EU debt crisis had a significant negative impact on the liquidity and capital position of the parent banks, which decreased the lending ability of Hungarian banks. As a consequence of the turnaround in the banking sector's lending activity in both retail and corporate segments is delayed further, contributing to a slower-than-expected economic recovery in Hungary.

Agreement between the Government and the Banking Association

To mitigate the negative effect of the first Home rescue program the Government and the Hungarian Banking Association agreed on a second package to help customers with mortgage loan denominated in foreign currency. The key points of the agreement are:

- 30% of the losses arising from the first Home rescue program is deductible from the extraordinary bank tax;
- debt servicing at a fixed exchange rate being lower than current market rates for 5 years;
- 25% value reduction on the non-performing portfolio delinquent for more than 90 days.

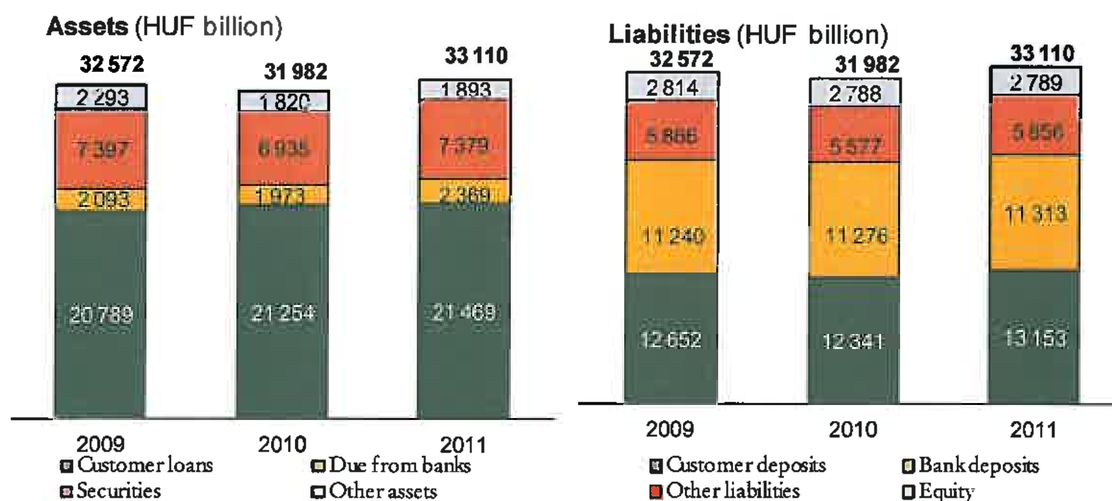
Total assets and liabilities

Based on the most recent available figures (as of December 2011) the bank sector's overall total assets increased by 3.5% to HUF 33,110 billion compared to December 2010, due to the weaker local currency and improved liquidity position of the sector.

In comparison to the end of 2010 the increase in the gross loan portfolio equalled to 1.0% (HUF 214 billion), as a result of the depreciating forint against CHF and EUR. Excluding the foreign exchange effect customer loans would be 7.6% lower than at the end of 2010. Lending capacity of Hungarian banks remained under pressure, due to liquidity constraints on the market and because of low profitability.

Loans to households decreased continuously during the year by 10.2% (without foreign exchange effect) as new disbursement is significantly lower than the maturing volumes, and early mortgage repayment transactions also had a negative impact on retail loan volume. New mortgage disbursements in the last quarter showed some increase, due to the refinancing connected to the early mortgage repayment, but excluding this effect the lending demand for new loans remained at a very low level. The share of HUF loans further increased in 2011 compared to last year as new lending to households in foreign currency disappeared. However the high volume of foreign currency loans (68.1%) is still a significant risk factor.

Despite the early mortgage repayment the volume of deposits from customers increased by 6.6% compared to the end of 2010, amounted to HUF 13,153 billion at the end of December, 2011, both retail and corporate customers contributed significantly to the growth of 2011. At the same time the net asset value of investment funds decreased by 7.4% (HUF 238 billion) compared to the end of last year and totalled to HUF 2,985 billion.

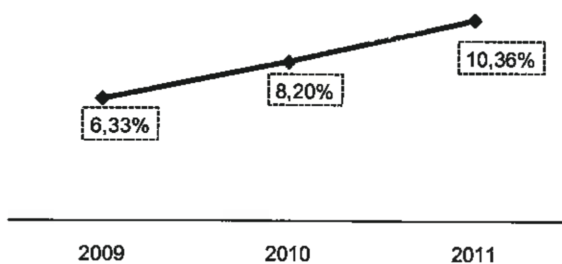


Data source: NBH, HAS

Credit quality

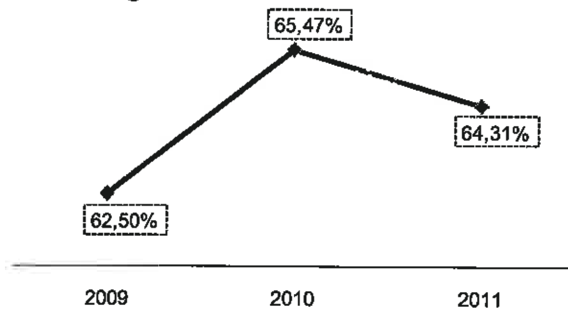
Portfolio quality deterioration continued in 2011, NPL ratio rose by 2.2% points and reached 10.4% by September 2011, while despite significant new provisions the coverage ratio (Loan loss provisions / NPL) decreased by 1.2% points to 64.3%. The corporate segment is still dominated by the defaults in the commercial real-estate sector while credit quality of retail loan portfolio is exposed to the exchange rate movements of HUF against CHF and EUR. Volume of corporate loans with more than 90 days past due within total loan showed an increase of 3.3% points amounting to 14% at the end of September 2011. The retail segment's portfolio quality continued to deteriorate, but the pace of deterioration was significantly slower than in the case of corporates and it grew by 2.2% points to 11.5% as of Q3 2011.

NPL ratio*



Data source: HFSA
* September2011 figure

Coverage ratio*

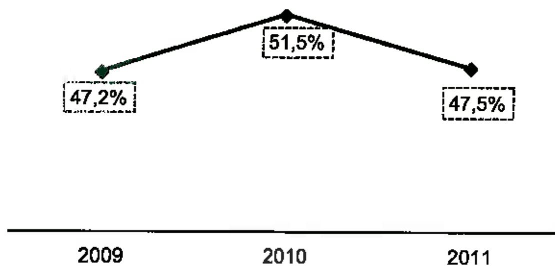


Data source: HFSA
* September2011 figure

Profitability

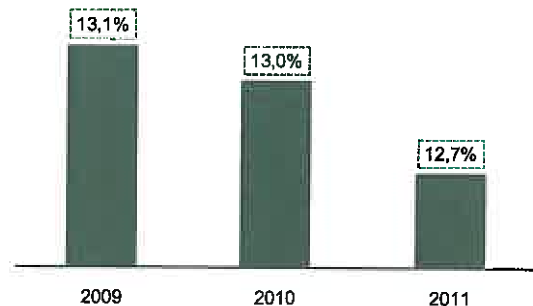
The profitability of the banking sector further decreased in 2011 and was dominated by the losses connected to the early mortgage repayments at preferential rate, the extraordinary tax levy, the constantly high cost of risk and the decreased lending capacity. Operating expenses decreased in line with revenues, as banks streamlined their organisation to the shrinking market. Despite the lower level of profitability the capital position of the banking sector is still adequate; however significant differences exist among the banks.

Cost/Income ratio



Data source: NBH, HAS

Capital Adequacy Ratio* (%)



Data source: HFSA
* September 2011 figure

Liquidity

In line with the increase of customer deposit and interbank funds the amount of securities increased by HUF 444 billion (+6.4%) primarily as a result of the significant increase in the volume of NBH bonds in 2011.

In overall the sector's loan-to-deposit ratio (net customer loan / customer deposits) improved from 163.2% as of December 2010 to 150.5% by December 2011 which is primarily due to the increase in the customer deposit portfolio.

In 2011 the Hungarian National Bank introduced new ratios to monitor the liquidity of the banking sector. The balance sheet coverage ratio (Liquid Assets / Total Assets) should be kept over 10%, while the limit for deposit coverage ratio (Liquid Assets / Customer Deposits) is 20%.

II. Business strategy and priorities

In order to assure long-term sustainable growth CIB Bank and its subsidiaries (the "Group") launched a transformation and restructuring drive in 2009 in response to the altered environment in which it is operating. This shift in organizational and operational focus has two primary aspects. 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 applied a segment-based business model in order to best meet the needs of its customers. CIB provides various channels to customers' feedback and is constantly monitoring results thereof. Based on the latter the bank is introducing innovative solutions to strengthen the quality of its services. In line with these objectives, the Group approved a 3-year business strategy in April 2010 which the bank adjusts to external operating environment. CIB's strategy and mid-term plan is to ensure 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.

The institutional and business reorganization program of the bank reached a new milestone in 2011: a new program comprises the former reorganizational activities and envisages the broad updating of the institution and its services. In essence, we mobilize ourselves to focus on coordinated, well thought through and focused approach to change in our business model. The key theme of the change relies on simplification and client experience. CIB Group's aspiration lies in competing through quality of processes and level of service rendered to our clients across all segments. We are seeking to enable changes to take place around eight pillars of capabilities to support our strategy and objectives arising from the three year business plan. The program has a label of the "New Bank" and consists of the following components: Commercial capabilities initiative, Operational excellence, Basel II, Workout and Distressed Asset Management, Financial Excellence, IT excellence, HR excellence and Compliance & Regulatory.

Moreover, the program targets the simplification and standardization of its product portfolio; increase the efficiency of its internal and customer processes, and the development of its core activities and customer services. 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 Group's market conduct going forward.

Based on the business strategy, CIB Group targets two major areas of future business expansion, retail and SME segments. 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 – apart from securing its strong market position – is to develop mortgage products that will stimulate home improvements. CIB Group also launched and continuously improves both bank assurance and insurance services through which the bank diversifies its service portfolio with a full range of products.

The second priority in CIB's mid-term strategy lies in the financing of the real economy and consequently the further development of its products and services for 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. Apart from corporate loans and leasing services CIB Bank provides other methods of financing available for enterprises e.g. through its factoring business line.

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, increasing corporate deposit ratio and deepening cross-selling activities are also a priority.

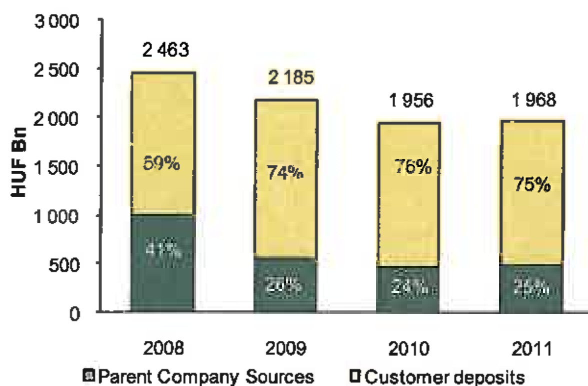
In order to help ensure the quality of the Group's loan portfolio, the Group had formerly set up a special non-performing loan Recovery unit. This unit is to ensure a solid basis to maximize recovery originating from non-performing assets of Group portfolio. Developing the Recovery unit, CIB aims to further develop its recovery 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 the coming years the bank shall allocate more resources to recovery activity in order to reach the above goals.

III. Strengths and potential risks of CIB Group

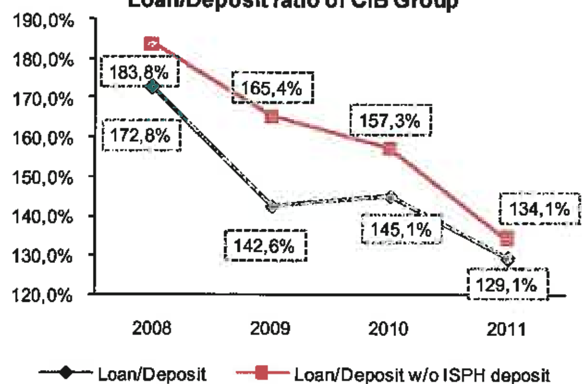
Main strengths

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 three years as CIB has focused hard on enhancing its self-funding capacity. As a consequence the share of Intesa Sanpaolo funding within the total deposit fell from 41% as of December 2008 to 25% as of December 2011. Efforts in 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 129.1% in December 2011.



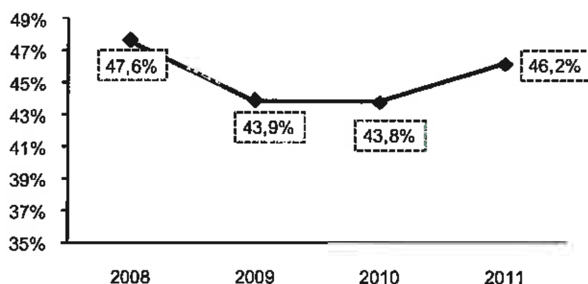
Data source: CIB Group, IFRS

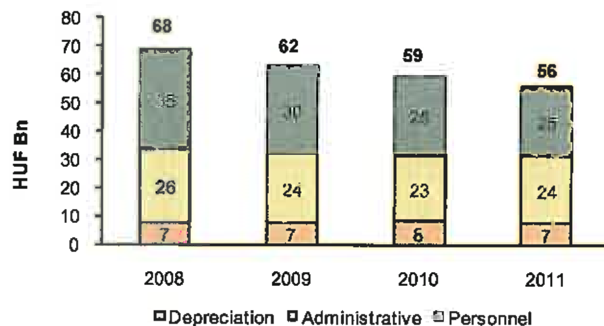


Data source: CIB Group, IFRS

2. Cost efficiency

The Group has initiated and begun the execution of a wide-ranging cost management program that resulted 19.5% decrease in staff number compared to 2008 and lower administrative costs as a result of efficiency growth, negotiation of service contracts and launch of several other initiatives in all areas of operation. Overall cost savings reached 18.3% compared to 2008.





Data source: CIB Group, IFRS

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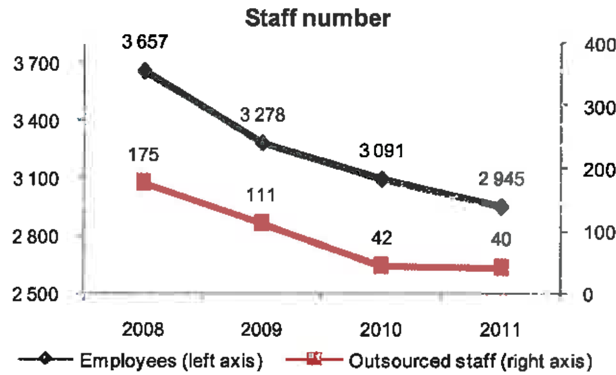
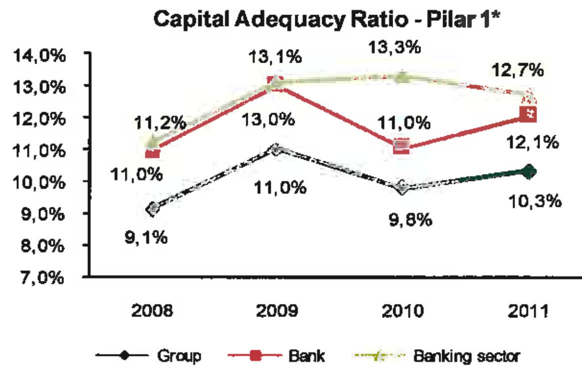


Data source: CIB Group

3. Capital adequacy

The capital adequacy ratio of CIB Group under Pilar 1 is higher than the regulatory minimum 8% and totalled 10.4% at the end of December 2011 as CIB's owner increased the Group's share capital by HUF 40 billion in April 2011. The capital adequacy ratio of the Bank is 12.1% under Pilar 1 that is in line with the sector's average. Further actions to maintain stable capital adequacy still remained a top priority for the Group.



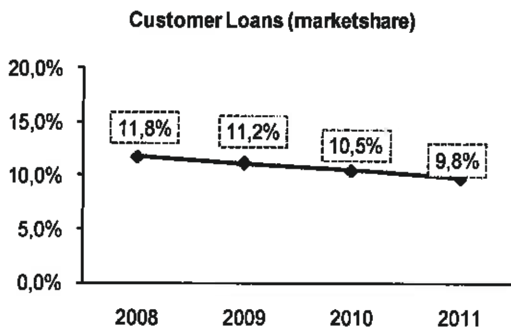
* September2011 figure for the Banking sector

Data source: HFSA, CIB Group, HAS

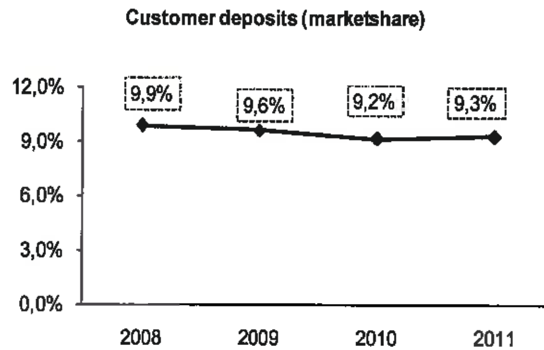
Data source: HFSA, CIB Group, HAS. Solvency capital / Risk Weighted Assets

4. Strong market position

As a consequence of brand recognition natched with the positive local perception and also accentuated by the reputation of its owner Intesa Sanpaolo CIB Group has a solid client base across the country in all market segments including retail, local corporate, SME and micro businesses through its banking and leasing network. The Group has achieved the highest degree of market share of all banks in corporate lending (where it had 14.2% market share at the end of December 2011), market leader in leasing services (8.8% from the total new disbursement in 2011) and third in the retail deposits market (9.8% in December 2011) and the fourth place in retail mortgage lending (8.8% in December 2011). Its customer base totalled to 678,000 customers by the end of December 2011.



Data source: HFSA, CIB Group, HAS

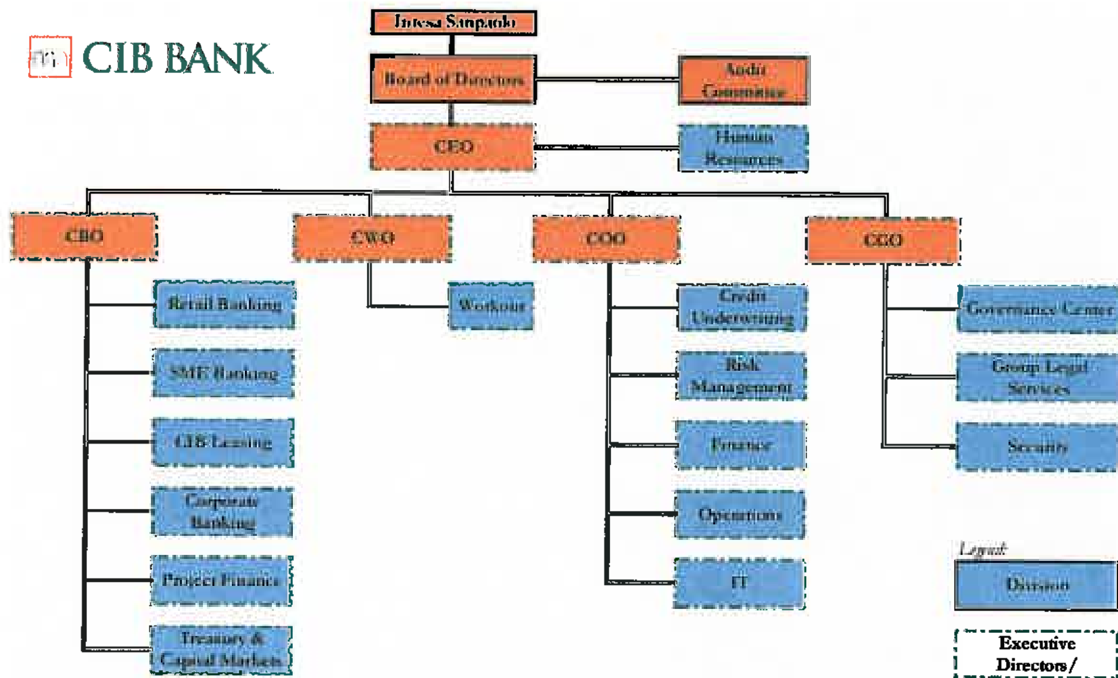


Data source: HFSA, CIB Group, HAS

5. Clearly Defined Organizational Structure & Strong Governance

CIB Group has clearly defined organizational structure and strong governance model to ensure transparency, accountability and integrity of its operations. The Group's organizational structure consists of business units, control and support units to enable efficient management across all of the Group's entities. Key executive decision making is further enhanced by operational committees that decide and review spectrum of matters concerning commercial risk assumption, liquidity, distressed asset management, legal, regulatory and compliance related subjects. Furthermore operational management is enhanced by set of controls and decision making mechanisms concerning Board of Directors, Supervisory Board and Audit Committee. During 2011 the Group has also established Compensation committee consisting of non-executive Board Members to comply with new local and EU-based regulatory frameworks.

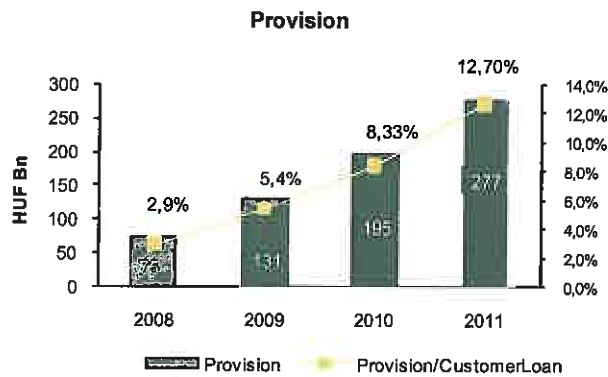
CIB Organizational Chart



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 recovery 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 provision volumes have cumulatively increased by more than HUF 200 billion during the last three years. The provisions-to-customer loans ratio increased from 2.9% to 12.7% by December 2011 from December 2008.



Data source: CIB Group, IFRS

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 27% of total deposits that signs a significant foreign exchange mismatch in CIB Group's balance sheet. Despite the fact that from the beginning of 2009 the Bank ceased the disbursement of CHF loans, CIB Group still depends on the swap markets that represent an extra risk in case of a serious liquidity shock. However the bank receives continuous support through credit line and swap facilities from its parent company. Since 2010 the Group enters into new medium term swap transactions to eliminate risk for the potential turbulence on the market.

3. Repossessed collateral risk

To minimise credit losses the Group started the repossession of real estate collaterals behind non performing loans in 2009. By the end of 2011 the Group had a repossessed real estate portfolio of HUF 137.4 billion. As the Hungarian real-estate market is almost freezed and property prices are stagnating, the Group faces significant disposal risk and value risk in relation of its real estate portfolio.

4. Government Home rescue program

The Government adopted numerous new regulations during 2011 aiming the improvement in the position of households with foreign currency denominated loans. The first government package (National Protection package) announced in mid-September included the early mortgage repayment at preferencial rates caused rather damages, as the performing loan portfolio significantly decreased and it generated a substantial one-off loss of HUF 36.8 billion to CIB Group.

The measures of the second package announced in December may improve the portfolio quality and the foreign currency mismatch of the sector and CIB Bank however will lead to further severe losses in the upcoming years. The key points are the possibility of debt servicing at a fixed exchange rate being lower than current market rates for 5 years and the 25% haircut on the non-performing portfolio delinquent for more than 90 days.

5. Significant tax burden

The Group is obliged to pay an extraordinary bank tax of HUF 12 billion in 2011, however based on the agreement between the Hungarian Banking Association and the Hungarian Government the Group could deduct 30% of its loss - arising from fixed rate mortgage conversion in the amount of HUF 11 billion - from the amount of the extraordinary bank tax. This led to a bank tax obligation of HUF 1 billion. The burden is expected to be HUF 12 billion next year, however part of the losses coming from the mortgage rescue plan will be also deductible in 2012.

6. Prolonged recession in Hungary

The European and global economic recovery may turn out to be slower than expected. Hungary is an open, export-driven economy that depends largely on the strength and stability of demand from its main trading partners and this may affect customer demand for financial services to a great extent.

7. Crisis of confidence towards the Hungarian government and banking market

As Hungary depends on the external financial markets to a great extent the sovereign crisis in the EMU and the unorthodox economic measures of the government led to a significant jump of CDS prices, increased swap costs and pushed the exchange rate of the local currency to all time high levels. This had a negative impact of the funding cost of the banking sector and also raises uncertainty on the market.

IV. Outlook for the Bank Group

No improvement is foreseen for 2012 as sector will still be characterised by crisis taxes, capital constraints and low level of demand for financing.

1. No recovery in banking sector

The economic recovery in Hungary may happen slower than expected as a result of the sustained strong CHF exchange rate and the deteriorated risk assessment of the country. The economic growth is expected to deccelerate in 2012, due to the vulnerability of the country's economy. Demand for new loans will remain at a low level as exports are the main driver for GDP growth while investments and retail consumption will pick up only at a slow pace. The severe restrictions on foreign currency denominated mortgages and the high volume of non-performing mortgages will have a negative impact on the fragile growth of retail mortgage market.

2. Profitability of the sector decreases further

Profitability of the Hungarian banking sector will remain under pressure due to shrinking loan portfolio, credit quality and taxation related issues. Although the volume of non-performing loan portfolio might reach the peak by the end of 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 and the mortgage rescue program will cause further losses for the banks.

3. Increasing competition for liquidity

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. In addition the current sovereign debt crisis increased the volatility on the financial markets. This phenomenon imposes further pressure on profitability and on the other hand may influence credit pricing of new lending volumes in the market that will have a negative effect on the vulnerable increase of loan demand.

4. Uncertain future of mortgage market

Although the moratorium on eviction from residential properties ended at the end of June 2011 due to the high volume of past due loans, the residential real estate market will be under preassure in the future, that also deteriorates business environment of the retail mortgage market and negatively influences the banking sectors' risk appetite in this field. In addition the severe restriction on foreign currency lending and the relatively high domestic interest rates also have a negative effect on new mortgage loan demand.

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 2011 was 16% above the level of the previous year in which period the sector had already been severely affected by the crisis and amounted to only HUF 351 billion. Although there are signs of a recovery, especially in the area of truck and machinery financing, a significant upturn in the near future is not expected, as consumer vehicle sales continue to stagnate at a very low level 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 that has an impact on the risk appetite of creditors when they decide on financing certain sectors (e.g. real estate development).

7. Need for further efficiency improvement

The decrease in the loan portfolio and the profitability of the banking sector may force the Bank to impose further efficiency improving measures that could impact the size of its network, the number of employees, more strict purchase processes etc.

8. Efficient use of capital

The rise of risk premium globally will make the parent banks of the Hungarian players more reluctant to invest in Hungary. As a result of this CIB has to use its equity more efficiently by managing its risk weighted assets. This process already started in 2011, but could lead to more cautious lending practices and to the withdrawal of the Bank from certain sectors with high risk.

V. Evaluation on the performance of CIB Group including net asset, financial and earning position

Assets

The balance sheet total of CIB Group amounted to HUF 2,524 billion (+1.2%) as of December 2011. The higher balance was primarily a consequence of improved liquidity position, but at the same time customer loans decreased.

Customer Loans

At the end of December, 2011 CIB Group's consolidated gross loan portfolio was HUF 2,178 billion (-6.8%). Within the total portfolio the proportion of consumer loans (mortgage, car financing and others) reached 32.9% (+0.3%) by the end of December 2011, negatively affected by the fixed rate mortgage conversion, while real estate financing accounted for 22.4% (+2.0%) of the portfolio. The share of large corporate and SME loans decreased slightly during the year. Demand for new financing was low through the whole period as retail new disbursements fell by more than 27% and lease financing by almost 22% compared to the same period of 2010 when the crisis already significantly impacted the financial markets.

Loan portfolio quality

In line with the situation on the Hungarian banking market the credit quality of CIB Group's loan portfolio also deteriorated. The share of non-performing loans rose within the total customer loan portfolio although at a much lower pace than in the previous year. The most notable increase of non-performing loans occurred in retail segment, especially on foreign currency mortgage products, due to the depreciation of HUF. The share of the 90-days past-due retail portfolio rose by 4.1% points compared to December 2010 and reached 20% by the end of December 2011. In case of real estate finance the worsening of the portfolio slowed down. The share of non-performing loans increased by 1.4% points to 30.9%. During 2011 CIB provisioned HUF 106 billion to cover potential losses from non performing loans.

Securities

The Group held securities portfolio of HUF 158 billion by December 2011 of which trading portfolio amounted to HUF 7.9 billion; available-for-sale portfolio reached HUF 144.7 billion, while held to maturity portfolio was HUF 5.6 billion. The majority of the security portfolio (99.6% of total securities held) consisted of Hungarian government bonds. The Group also holds municipality bonds amounting to HUF 58.9 billion that are classified as customer loan.

Repossessed properties, Tangible and Intangible Assets

As part of the recovery strategy CIB Group continued to repossess real-estates in 2011 that previously served as collateral for non-performing loan. As a result of this the value of fixed and intangible assets reached HUF 182 billion (+30%) of which the repossessed properties was HUF 137.4 billion (+50.2%).

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 218 billion (+137.4%) by the end of the year of which 15% was placed within Intesa Sanpaolo Group.

Liabilities

Customer Deposits

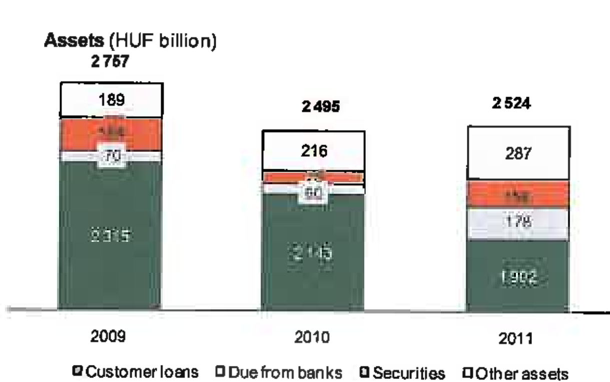
Total customer sources, including mutual funds, amounted to HUF 1,675 billion (-2.7%) by the end of December 2011. The balance was negatively affected by the repayment of Intesa Holding International funds that are classified as customer deposit (almost HUF 80 billion) while assets managed by CIB Fund was influenced by the disappearance of private pension funds. Consumer funds (including issued bonds and investment funds) were close to HUF 860 billion at the end of December 2011 (+7.8%) and their share within total customer sources amounted to 51.3%.

Deposit from banks

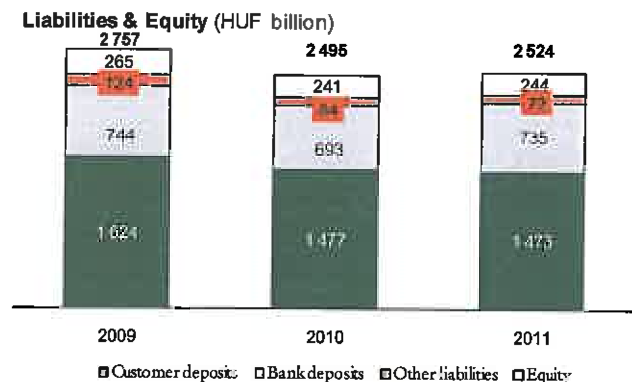
Interbank funds – including subordinated deposits – totalled to HUF 735 billion (+6.1%) as of December 2011. Most of the funds came from the Group's parent company, accounting for more than 70% of the total of interbank deposits. Medium term lines from ISP amounted to HUF 408 billion (-52.4%), as the improving customer financing position of the Group made possible the massive repayment of parent funds. On the other hand short term loans from ISP reached HUF 110 billion (only HUF 3 billion at the end of 2010) as the Group reduced its dependency from the swap market by drawing down short term funds from the parent.

Equity

CIB Group's total shareholders' equity increased by HUF 3 billion to HUF 244 billion since the share capital increase of HUF 40 billion received from the parent company in April 2011 was almost completely offset by current year losses.



Data source: CIB Group, IFRS



Data source: CIB Group, IFRS

Profit and loss

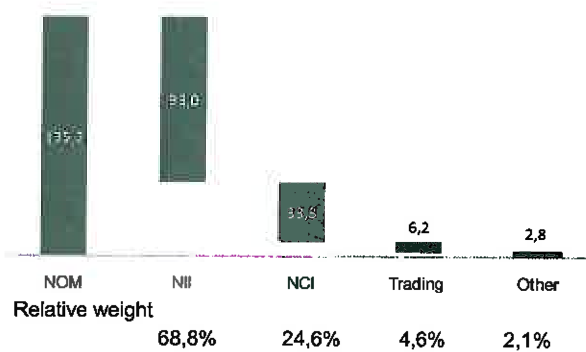
The Group closed year 2011 with a loss of HUF 37.3 billion. Part of the negative result came from the fixed rate mortgage conversion (HUF 25.3 billion, net of the tax shield), however the effects of deteriorating external environment, high ratio of non-performing loan portfolio and increasing funding cost also contributed to the loss of 2011.

Revenues

Total revenue of CIB Group amounted to HUF 120.4 billion (-11.0%). Net interest income was HUF 77.5 billion (including the NII on hedging derivatives) and the global spread (Net Interest Margin / Average Total Assets) of 2.7% decreased by 40 bps compared to last year, in line with the decrease of loan portfolio, higher non-performing loan volume and increased funding cost. Net commission income reached HUF 30.5 billion (-8.1%). The decrease was a consequence of lower fees on customer transaction activity (current account transactions, cash management services, brokerage and insurance fees).

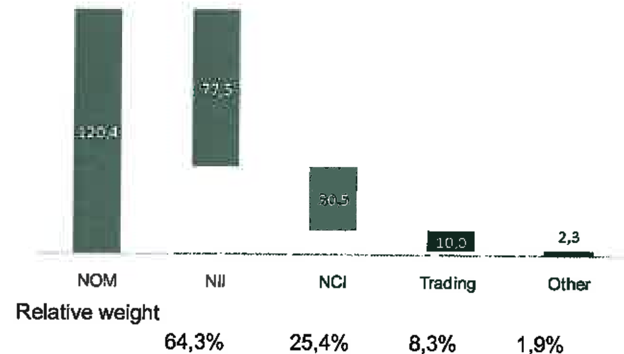
Trading result totalled to HUF 10.0 billion (+62.7%). Higher income was generated by the derivative portfolio revaluation (connected to basis swap deals) and by higher foreign currency trading result.

Breakdown of revenues - 2010



Data source: CIB Group, IFRS

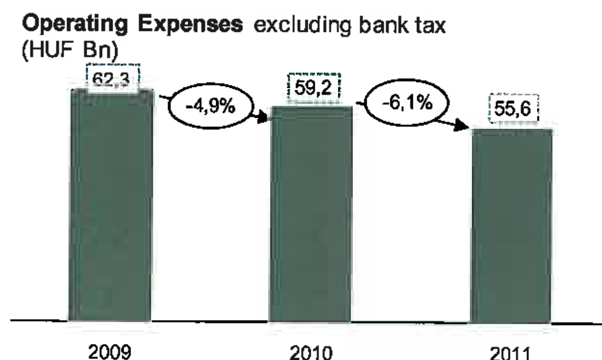
Breakdown of revenues - 2011



Data source: CIB Group, IFRS

Operating Expenses

Total operating expenses of the Group amounted to HUF 55.6 billion (-6.1%) in 2011 without the extraordinary bank tax. CIB's management implemented a cost-reduction program in the past three years. As a result staff number at CIB Group has fallen by 712 persons (19.5%) compared to December 2008. Administrative costs, excluding extraordinary bank tax increased by 1.3% in 2011 due to a one-time VAT obligation and higher cost of loan recovery activity. The cost-to-income ratio stood at 46.2% in 2011 (2.4% points higher than in 2010) as cost reduction initiatives could not offset the effect of declining revenues.



Data source: CIB Group, IFRS

Allowances and provisions

The amount of new allowances and provisions reached HUF 105.7 billion compared to HUF 83.1 billion in 2010. More than half of the new provisioning came from the retail segment, due to the fixed rate mortgage repayment program (HUF 36.8 billion) and because of the significant depreciation of HUF. New provisions in the corporate business decreased compared to last year by 33.4%, thanks to the slower deterioration of portfolio quality. The cost of credit (Provisioning / Loan volume) amounted to 5.5% in 2011. Non-performing loan coverage ratio improved by 10.8% points to 45.3%.

VI. Operations of the subsidiaries in 2011

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

The Group structure was the following at each 31 December:

(number of companies)	**2011**	**2010**
Companies for providing services and products to Group's customers	7	10
Companies responsible for the management of repossessed assets	4	5
Companies responsible for the management of Group's operating premises	1	2
Total	**12**	**17**

1. Companies for providing services and products to Group's customers

- **CIB Leasing Zrt.**

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 and machinery. At the end of 2010 CIB Credit Zrt, CIB Property Zrt, and CIB Residential Property Zrt mertged into CIB Leasing Zrt making the company the only entity in CIB Group providing financial leasing services. The operation of the company was significantly affected by the performance of the Leasing market. New volume on the market rose by 15.6% compared to the already very low figure of 2010, and amounted to HUF 351 billion in 2011. With a new disbursement of HUF 31 billion CIB Leasing subsidiaries were the largest players on the market with a market share of 8.8% (as of December 2011). The total assets of the company in December 2011 were HUF 357 billion, significantly affected by the decreasing customer loan portfolio. Net results for the year 2011 was HUF 3 billion loss, due to the decrease of Net interest income and high provision building.

- **CIB Rent Zrt.**

The company is specialised in operative leasing transactions. The total assets of the company at the end of 2011 were HUF 18 billion, while net profit reached HUF 1.5 billion.

- **CIB Real Estate Leasing Zrt.**

The company started its operation in May 2001 with business activity of financial leasing of real estates. At the end of 2011 total assets of CIB Real Estate Leasing Zrt. amounted to HUF 14 billion, while its net result was a loss of HUF 462 million.

- **CIB Leasing Holding Kft.**

The company was established by a demerger from CIB Rent Ltd. in 2010 executes the owner rights in CIB Leasing Ltd and has no other activity.

- **CIB Insurance Broker Kft.**

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2011 total assets of CIB Insurance Broker Kft. amounted to HUF 1.1 billion, while its net result was HUF 258 million.

- **CIB Investment Fund Management Zrt.**

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 134 billion by end of 2011, 18% lower than a year before. The company closed year 2011 with a profit of HUF 439 million.

- **CIB Factor Zrt.**

The company became part of CIB Group in 2004. Its main activity is the factoring of receivables and the cross-selling of products with the SME division of the Bank. At the end of 2011 total assets of the company reached HUF 10.6 billion, while net results amounted to HUF 142 million.

2. Companies responsible for the management of repossessed assets

- **Recovery Ltd.**

Recovery Ltd. (previously Expert Ltd.) is the main vehicle for the repossession of real estates. Total assets of the company closed at HUF 75 billion, because of continued asset purchases. Due to financing cost of the real estate portfolio the company closed the year with a loss of HUF 5.3 billion. On 31 December 2011 CIB REAL Zrt. merged with Recovery Kft. The sole legal successor of the merged entities is Recovery Zrt.

- **CIB Car Ltd.**

The company was founded in year 2006, to deal with vehicle trading. Total assets at the end of 2011 were HUF 0.5 billion, while the annual result was a profit of HUF 44 million.

- **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. The company is subject to disposal during 2012.

- **Brivon Hungary Ltd.**

Brivon Hungary Ltd. was established in 2009 as an SPV, who holds a significant share in a residential project as the only asset. Total assets of the company were HUF 14 billion, while net result for 2011 amounted to HUF 1.4 billion losses, due to the interest expenses paid to finance its assets.

3. Companies responsible for the management of Group's operating premises

- **CIB REAL Zrt.**

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 17.2 billion, while the result of its operation was a loss of HUF 440 million in 2011. On 1 January 2012 CIB REAL Zrt. merged with Recovery Kft. The sole legal successor of the merged entities is Recovery Zrt.

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

On 1 January 2012 CIB REAL Zrt. merged with Recovery Kft. The sole legal successor of the merged entities is Recovery Zrt. The effective date of the merge was 1 January 2012.

The Group is negotiating to dispose CIB Investment Fund Management Zrt in the first quarter of 2012.

VIII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of financial instruments. The purpose of the HUF 331 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 7.9 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 that totals HUF 150 billion is available for sale (AFS), while a lesser proportion of HUF 5.5 billion belongs to the held-to-maturity category. The Group holds a municipality bond portfolio up to HUF 58 billion that 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 2011 and 2010, the Group (keeping in line 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:

- The effect of corporate crediting on innovation and growth;
- International lessons of EUR introduction and its domestic conditions from macroeconomy and banking sector's point of view;
- Tendency of retail funds types;
- The models of getting out from crisis in the case of major central-european banks

XII. Employment policy of the Group

According to the decision of the management in 2010 to reduce the workforce we have continued the downsizing and restructuring process in 2011 to devote more resources on strengthening business and customer relationship departments. This reduction was implemented in full compliance with the provisions of the Labour Code, in more consecutive 30 days periods. In relation to the downsizing, we have continued our support to facilitate the re-employment of our former colleagues through a professional outplacement process in cooperation with an expert service provider.

In light of the newly introduced processes we managed several organizational changes: for developing new units we recruited both externally and internally to ensure the best individuals for all the roles. As the fight for talent is becoming more fierce, we also had to expand our cooperation with the best headhunting companies in the market, and develop our selection methodoligies to ensure outstanding quality people for every position.

By the summer of 2011, 67 top managers had completed the Leadership Development Program. This dedicated leadership program was organized in collaboration with Mercer for the management of ISP international banks in order to develop managerial skills to the highest leadership standards while building a common managerial culture befitting an international organization.

In September 2011 the structure of the HR department changed in order to ensure focus on the right initiatives: drive the organization to a future state that delivers the business challenges in any turbulent environment and ensures competitive advantage through a winning culture. Focus areas became: competitive reward strategy linked to rigorous performance mgmt; human capital development through structured career planning and game changing opportunities for talents; employee engagement through work life balance and innovative motivational tools; operational excellence through leading edge solutions and customer satisfaction.

In October 2011 the grading and reward project was launched in a joint effort with Mercer Italia. The main goal of the project is to work out and implement a new reward strategy, which supports the competitiveness of CIB Bank in the

labour market and a high performance culture inside the bank. The mission of the first phase of the project in 2011 was to simplify the job catalogue and to grade all the jobs which can create the right conditions for the realization of the main goal of the project.

In Q4 2011 HR actions were launched under the name of "CIB SPIRIT". These actions undisputedly reflected our aim to strengthen employees' motivation and job satisfaction while continuing to preserve individual and team performance, transparency and consistency as the especially important basic principles.

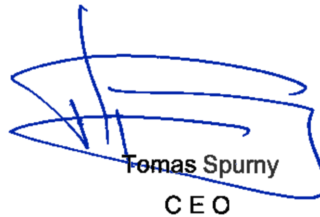
XIII. Sites of operation

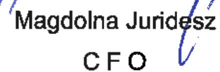
The Group's head office is located at 1027 Budapest, Medve u. 4-14.

XIV. Environmental protection

In 2010 and 2011 the Group has dedicated 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.

Budapest, 29 February 2012





Tomas Spurny
CEO

Magdolna Juridesz
CFO

Representatives of the credit institution