Independent Auditors' Report
issued on the 2013 Consolidated Annual Report
and Consolidated Business Report
of CIB Bank Zrt.

This is an English translation of the statutory Consolidated Annual Report and the Consolidated Business Report, and the Independent Auditors' Report thereon issued in Hungarian. In case of any differences, the Hungarian language original prevails.

KPMG

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This is an English translation of the Independent Auditors' Report on the 2013 statutory Consolidated Financial Statements of CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete statutory Consolidated Financial Statements it refers to.

Independent Auditors' Report

To the shareholders of CIB Bank Zrt.

Report on the Consolidated Financial Statements

We have audited the accompanying 2013 consolidated financial statements of CIB Bank Zrt. (hereinafter referred to as "the Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, which shows total assets of MHUF 1,849,240, the consolidated statement of comprehensive income, which shows loss for the year of MHUF 136,744, and the consolidated statements of changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial position of CIB Bank Zrt. and its subsidiaries as at 31 December 2013, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Consolidated Business Report

We have audited the accompanying 2013 consolidated business report of CIB Bank Zrt. and its subsidiaries.

Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Hungarian Act on Accounting. Our responsibility is to assess whether this consolidated business report is consistent with the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank and its subsidiaries.

In our opinion, the 2013 consolidated business report of CIB Bank Zrt. and its subsidiaries is consistent with the data included in the 2013 consolidated financial statements of CIB Bank Zrt. and its subsidiaries.

Budapest, 24 February 2014

KPMG Hungária Kft.
Registration number: 000202

István Henye
István Henye
Partner, Professional Accountant
Registration number: 005674

CIB BANK

CIB BANK Ltd.
and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2013
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

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Consolidated Statement of Comprehensive Income
for the year ended 31 December 2013
(million HUF)

	Note	2013	2012
Interest income	4	87,628	117,425
Interest expense	4	(50,110)	(82,048)
Net interest income		**37,518**	**35,377**
Fee and commission income	5	38,979	34,374
Fee and commission expense	5	(7,425)	(7,793)
Net fee and commission income		**31,554**	**26,581**
Income from trading activities	6	16,935	18,305
Other operating income	7	4,117	3,083
Net banking income		**90,124**	**83,346**
Impairment losses, provisions and net loan losses	8	(142,358)	(155,397)
Operating expenses without bank tax	9	(62,759)	(56,067)
Loss before bank tax and income taxes		**(114,993)**	**(128,118)**
Bank tax	10	(12,101)	(11,449)
Loss before income taxes		**(127,094)**	**(139,567)**
Income tax expense	11	(9,650)	(12,306)
Net loss for the year (before appropriations)		**(136,744)**	**(151,873)**

24 February 2014

Fabrizio Centrone
C E O

Eduardo Bombieri
deputy C E O

The accompanying notes on pages 11 to 85 form part of these Consolidated Financial Statements.

**Consolidated Statement of Comprehensive Income
for the year ended 31 December 2013
(million HUF)**

	Note	2013	2012
Net loss for the year (before appropriations)		**(136,744)**	**(151,873)**
Income from transaction under common control	13	4,164	-
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)	13	765	426
Other comprehensive income for the year (net of taxes)	13	**4,929**	**426**
Total comprehensive income for the year		**(131,815)**	**(151,447)**
Attributable to Equity holders of the parent		(131,815)	(151,447)

24 February 2014

Fabrizio Centrone
C E O

Eduardo Bombieri
deputy C E O

CIB Bank Ltd.

The accompanying notes on pages 11 to 85 form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
as at 31 December 2013
(million HUF)

Assets	**Note**	**2013**	**2012**
Cash and current accounts with central bank	15	26,792	33,014
Due from banks	16	127,804	107,698
Financial assets at fair value through profit or loss	17	7,812	26,289
Derivative financial assets	34	12,489	12,116
Loans and advances to customers	*18*	*1,602,268*	*1,832,399*
Allowance for loan losses	*18*	*(349,736)*	*(314,417)*
Net loans and advances to customers		1,252,532	1,517,982
Financial investments – Available-for-sale	21	267,648	229,202
Financial investments – Held-to-maturity	21	5,533	5,662
Non-current assets held for sale	19	1,142	1,460
Deferred tax assets	11	1,117	10,186
Current tax assets		11,400	13,119
Other assets	20	8,108	6,902
Repossessed properties	22	95,953	115,687
Intangible assets	23	8,325	8,178
Property, plant and equipment	24	22,585	31,793
Total assets		**1,849,240**	**2,119,288**

24 February 2014

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deputy C E O

CIB Bank Ltd.

The accompanying notes on pages 11 to 85 form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
as at 31 December 2013
(million HUF)

Liabilities and Shareholders' Equity	**Note**	**2013**	**2012**
Deposits from banks	25	316,449	433,771
Derivative financial liabilities	34	14,216	29,236
Deposits from customers	26	1,159,569	1,282,813
Liabilities from issued securities	27	93,286	80,168
Deferred tax liabilities	11	2,194	5,570
Current tax liabilities		4,263	3,164
Other liabilities	28	12,858	17,875
Provisions	29	6,975	6,701
Subordinated debt	30	66,883	65,626
Total liabilities		**1,676,693**	**1,924,924**
Shareholders' equity			
Share capital	31	145,000	145,000
Reserves	32	216,621	101,692
Retained earnings		(189,072)	(52,328)
Total shareholders' equity		**172,547**	**194,364**
Total liabilities and shareholders' equity		**1,849,240**	**2,119,288**
Commitments and contingencies	33	192,062	211,030

24 February 2014

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deputy C E O

CIB Bank Ltd.

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Consolidated Statement of Changes in Equity for the year ended 31 December 2013 (million HUF)

	Note	Ordinary Shares	Retained Earnings	Capital reserve	Revaluation reserve	Other reserve	Total
Balance at 31 December 2011		**145,000**	**99,545**	**1,019**	**(1,453)**	-	**244,111**
Total comprehensive income	32	-	-	-	426	-	**426**
Issue of shares	31	-	-	101,700	-	-	**101,700**
Net loss for 2012		-	(151,873)	-	-	-	**(151,873)**
Balance at 31 December 2012		**145,000**	**(52,328)**	**102,719**	**(1,027)**	-	**194,364**
Total comprehensive income	13	-	-	-	765	-	**765**
Issue of shares	31	-	-	74,000	-	-	**74,000**
Transaction under common control	13	-	-	-	-	**4,164**	**4,164**
Additional payment to cover losses	32	-	-	-	-	**36,000**	**36,000**
Net loss for 2013		-	(136,744)	-	-	-	**(136,744)**
Balance at 31 December 2013		**145,000**	**(189,072)**	**176,719**	**(264)**	**40,164**	**172,547**

24 February 2014

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CIB Bank Ltd.

The accompanying notes on pages 11 to 85 form part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2013
(million HUF)

	Note	2013	2012
Operating activities			
Profit (loss) before tax		(127,097)	(139,567)
Depreciation	9	6,227	7,031
Net unrealized (gain) / loss on financial instruments		(14,973)	(3,331)
Increase in allowance for loan losses		35,319	37,897
Increase in allowance for repossessed properties and own properties		33,637	24,725
Working capital charges:			
Decrease / (increase) in due from banks	16	-	5,137
Decrease / (increase) in financial assets at fair value through profit or loss	17	18,444	(17,524)
Decrease / (increase) in loans and advances to customers	18	228,670	355,547
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)	19, 20	830	8,340
Increase / (decrease) in deposits from banks	25	(117,322)	(277,873)
Increase / (decrease) in deposits from customers and liabilities from issued securities	27	(110,286)	(110,424)
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	28, 29	(3,643)	(2,949)
Income tax charged	11	(3,671)	(3,085)
Cash flows used in operating activities		**(53,865)**	**(116,076)**
Investing activities			
Purchase of financial investments		(236,511)	(169,118)
Proceeds from sale of financial investments		239,540	150,621
Acquisitions to intangible and tangible assets		(2,727)	(3,392)
Acquisitions to repossessed properties		(11,492)	(12,604)
Disposals of intangible and tangible assets		4,492	307
Cash flows used in investing activities		**(6,696)**	**(34,186)**
Financing activities			
Subordinated debt	30	1,257	42,215
Additional payment to cover losses	31	36,000	-
Cash from share capital	31	74,000	101,700
Cash flows from financing activities		**111,257**	**143,915**
Net increase / (decrease) in cash and cash equivalents	**41**	**50,696**	**(6,347)**
Cash and cash equivalents at the beginning of year	41	324,755	331,102
Cash and cash equivalents at the end of year	41	**375,451**	**324,755**
Additional information for cash flows from operating activities			
Interest received		88,188	117,739
Interest paid		51,175	77,234
Dividend received		46	86
Income tax paid		3,100	5,977

24 February 2014

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CIB Bank Ltd.

The accompanying notes on pages 11 to 85 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. /LU 1724 Luxembourg, Boulevard du Prince Henri 35./ which holds 67.6905% of the total ordinary shares of the Bank outstanding at year end (67.6904% as at 31 December 2012). The ultimate parent company of the Bank is Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that holds 32.3095% of the shares of the Bank as at 31 December 2013 (32.3096% as at 31 December 2012).

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 active employees of the Bank and its subsidiaries was 2,782 in 2013 and 2,905 in 2012, respectively.

The Consolidated Financial Statements for the year ended 31 December 2013 were authorized for issue in accordance with a resolution of the Management Board on 24 February 2014.

The Bank is consolidated by its ultimate parent company. The ultimate parent company's consolidated financial statements are available at www.intesasanpaolo.com web site.

(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) as adopted by European Union.

The original Consolidated Financial Statements has been prepared in Hungarian and it is the translation of the Hungarian version. The original consolidated financial statements are available at www.cib.hu web site.

(3) Significant accounting policies

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

3.1 Basis of preparation

The Consolidated Financial Statements of CIB Bank Ltd and its subsidiaries (hereafter 'Group') comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, and 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 recognized 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.

(3) Significant accounting policies (continued)

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 2013 the euro was EUR 1 = HUF 296.91 (2012: EUR 1 = HUF 291.29) and Swiss Franc was CHF 1 = HUF 242.14 (2012: CHF 1 = HUF 241.06).

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 recognized amounts and there is an intention to settle on net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the Consolidated Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation.

The Consolidated Statement of Comprehensive Income 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 recognized 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.

3.2 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 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.

(3) Significant accounting policies (continued)

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 Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position and separately from shareholders' equity. For each business combination, the Group elects to measure any non-controlling interest in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets which are generally at fair value.

As at 31 December 2013 the Bank had the following subsidiary companies ("the Group"):

Company	Country of incorporation	Principal Business
CIB Leasing Co. Ltd.	Hungary	Financial leasing services
CIB RENT Leasing and Trading Company Ltd.	Hungary	Leasing services
CIB Real Estate Leasing Co. Ltd.	Hungary	Real estate leasing services
CIB Leasing Holding Ltd.	Hungary	Share holding of CIB Leasing Ltd.
CIB Insurance Broker Ltd.	Hungary	Insurance agency services
CIB Factor Ltd.	Hungary	Factoring financing services
CIL MNM Ltd.	Hungary	Property leasing services
Recovery Ltd.	Hungary	Professional services
CIB Car Ltd.	Hungary	Car trading services
Brivon Hungary Ltd.	Hungary	Property development and maintenance services

CIB Leasing Holding Ltd. and CIL MNM Ltd are under voluntary dissolution as at 31 December 2013.

Business combinations and transactions under common control during 2013 are detailed in Note 43.

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

(3) Significant accounting policies (continued)

3.3 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 Statement of Comprehensive Income 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,
- the measurement of provisions for risk and charges,
- the measurement of impairment on repossessed properties.

(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.

(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 Statement of Comprehensive Income. 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.

(3) Significant accounting policies (continued)

(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 had unused tax loss carry forwards as of 31 December 2012. 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 also considered the fact that there was a change in Hungarian Corporate Tax Law effective from 1 January, 2012 in the deductibility of the losses carried forward. As of 31 December 2012 the deductibility was reduced to 50% from 100% from the profit for the period.

As of 31 December 2013 the management assessed whether sufficient taxable profit will be available at some of the entities in the Group to allow the benefit of all deferred tax asset to be utilised. 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 on non-financial assets

Impairment exists when the carrying value of an asset or a 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 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 reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.
The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment 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.

(3) Significant accounting policies (continued)

(f) 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.

(g) Impairment on repossessed properties

Impairment exists when the carrying value of repossessed property exceeds the fair value less costs to sell. 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.

3.4 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 effect on Group performance in 2013 and 2012 as well as in 2011. The new Act was applicable for the Bank and for leasing companies (together: financial institutions).

Out of the home rescue program the main significant impact of the Group's performance was the fixation of customer mortgage loans.

Customers were able to apply for fixed foreign exchange rates for mortgage loan repayments should certain eligibility criteria be met in 2012. This part of the Law has been changed in 2013, abolished the time limit to applying this construction, so the borrowers initiate it in writing at any time at the mortgage loan lender financial institution.

According to the Law eligible customers may apply to fix monthly instalments for a period up to 5 years at fixed rates of EUR/250 HUF, CHF/180 HUF and JPY/2 HUF. Differences between the fixed exchange rates and the current exchange rate each month relating to principal repayments is accumulated to a "buffer account" which accrues interest at a BUBOR linked rate. Differences between the fixed exchange rates and current exchange rates each month relating to interest repayments is paid by the Government but financial institutions are obliged to pay 50% of the difference as financial institution charge on a quarterly basis. These figures are presented on a net way in this Consolidated Statement of Comprehensive Income.

The total net loss on mortgage loans portfolio applied to fix exchange rate repayments as at 31 December 2013 amounts to HUF 677 million (HUF 122 million as at 31 December 2012, respectively).

(3) Significant accounting policies (continued)

3.5 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 reporting date. All differences are taken to the Consolidated Statement of Comprehensive Income.

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.

3.6 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.

3.7 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 except for derivatives. 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.

3.8 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.

(3) Significant accounting policies (continued)

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.

3.9 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 Statement of Comprehensive Income.

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.

3.10 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 Statement of Comprehensive Income 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.

3.11 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.

(3) Significant accounting policies (continued)

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 Statement of Comprehensive Income, 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 Statement of Comprehensive Income.

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.
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 Statement of Comprehensive Income.

3.12 Due from banks

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

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

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

(3) Significant accounting policies (continued)

Where the 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).

3.13 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 reporting 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 (over HUF 150 million) 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 Statement of Comprehensive Income.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the allowance.

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

(3) Significant accounting policies (continued)

The general mostly applied rule of calculating impairments and allowances are based on discounted expected future cash flow method, with best available data for the Group. The present value of the available 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 available 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 receivable 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 period arrangements and the agreement of new loan conditions, particularly interest level. Management continuously monitors renegotiated or restructured loans to ensure that all criteria are met and that 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 repossesses 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.

3.14 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 equaling 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 Statement of Comprehensive Income.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:
- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- there is substantial change to the asset.

(3) Significant accounting policies (continued)

3.15 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 Statement of Comprehensive Income.

3.16 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 Consolidated Statement of Other Comprehensive Income for the period.

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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

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% of the individual asset and 'permanent' generally as greater than twelve months.

3.17 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.

(3) Significant accounting policies (continued)

3.18 Fair values

The fair value for financial instruments traded in active markets at the reporting 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.

Classification is based on 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 40.

3.19 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.

3.20 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.

(3) Significant accounting policies (continued)

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises	2%	30% of gross value
Leasehold improvements	5%	individually assessed
Electronic equipment's 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

* The Group does not apply residual value for servers.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised overt its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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 Statement of Comprehensive Income 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 reporting date. Lands are not subject to depreciation.

3.21 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 Consolidated Statement of Comprehensive Income in the year of acquisition.

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

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

(3) Significant accounting policies (continued)

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

3.22 Inventory and other assets

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.

Other assets contain repossessed properties that are usually repossessed under lease contracts or real estate developments/projects or construction contracts. Repossessed properties are measured at initial recognition at market value. Subsequent to initial recognition repossessed properties are stated at fair value less costs to sell. 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.
The Group shall dispose repossessed assets during holding period of 3-5 years subsequent to the purchase.

3.23 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 amortized.

3.24 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 Statement of Comprehensive Income when the liability is derecognized.

(3) Significant accounting policies (continued)

3.25 Liabilities from issued securities

Financial instruments issued by the Group – other than deposits from banks and customers - 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.

3.26 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 Statement of Comprehensive Income 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.

3.27 Taxation

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting 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:

(3) 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 reporting 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 reporting 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 reporting date.

Current tax and deferred tax items are recognised in the Consolidated Statement of Comprehensive Income.

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 tax authority.

Bank tax

In August 2010 the Hungarian Parliament approved a new Act called the "bank tax". The tax remained in place also in 2013 based on a modification at the Law. 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.

(3) Significant accounting policies (continued)

The basis and the rate of the new bank tax that establishes the tax payable 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.). From 2012 net interest income and net commission income can be netted from bank tax point of view at leasing companies.

For 2013 and 2012 the basis and rates are uniformly based on statutory reported financial data of the reporting entity for the period ended 31 December 2009.

The respective tax rates for 2013 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 0.53% had been applied for the amount exceeds HUF 50 billion. For leasing companies 6.5% had been applied for the net of net interest income and net commission income.

Amendments to the Law on Bank Tax enabled financial institutions to reduce their bank tax by 30% of the losses recognised for 2012 on Government Home Rescue Program. Reduction was not available for 2013.

Bank tax is presented as operating expense in the Consolidated Statement of Comprehensive Income as it does not meet the definition of income tax under IFRS and presented on a separate line on the face of the Consolidated Statement of Comprehensive Income.

Financial Transaction Duty

Financial Transaction Duty Act came into effect from 1 January 2013 as a new taxation duty. From 1 January 2013 to 31 July 2013 the transaction duty rate was 0.2% of the transaction amount, except cash withdrawal transactions, where 0.3%, but capped at HUF 6,000 per transaction. On 27 June 2013 the Parliament approved a modification of the Act that included the increase of the financial transaction duty rate. In case of cash transactions duty was increased from 0.3% to 0.6% and the HUF 6,000 per transaction cap was abolished, while the 0.2% rate increased to 0.3% and the HUF 6,000 cap remained. The revised duty rates come into force from 1 August 2013.
In addition to the increased financial transaction duty rate, the new modification of the act obliged banks to make one-off supplementary payments due to financial transaction tax being below the budgeted volume of the government. The additional payments amounted to 208% of the total paid transaction duty between January and April 2013.

Financial transaction duty is presented as operating expense in the Consolidated Statement of Comprehensive Income.

3.28 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated 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. From 2013 the Group applies the new amendments of IFRS 7 on offsetting financial assets and financial liabilities that has no significant effect on the Group's financial position.

(3) Significant accounting policies (continued)

3.29 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 Consolidated Financial Statements.

3.30 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 Consolidated Statement of Comprehensive Income.

3.31 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 Statement of Comprehensive Income net of any reimbursement.

3.32 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.

3.33 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.

(3) Significant accounting policies (continued)

3.34 Employee benefits – Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as personnel expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-marked performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance condition at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights is recognised as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognised as personnel expenses in Consolidated Statement of Comprehensive Income.

For share-based payment awards with non-vesting conditions the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

3.35 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.

IFRS 10 Consolidated Financial Statements

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion on respect of its investees which may lead to changes in the current accounting for these investees. The standard is effective for annual periods beginning on or after 1 January 2014.

IFRS 11 Joint Arrangements

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures and it is not a party to any joint arrangements. The standard is effective for annual periods beginning on or after 1 January 2014.

IFRS 12 Disclosure of Interests in Other Entities (2011)

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires disclosing of information about the nature, risks and financial effects of these interests. The Group is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated structured entities in comparison with the existing disclosures. These standards are effective for annual periods beginning on or after 1 January 2014.

(3) Significant accounting policies (continued)

IAS 27 (2011) Separate Financial Statements

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The amendment is effective for annual periods beginning on or after 1 January 2014

IAS 28 (2011) Investments in Associates and Joint Ventures

The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments. The amendment is effective for annual periods beginning on or after 1 January 2014.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendment is effective for annual periods beginning on or after 1 January 2014.

Amendment to IFRS 10, IFRS 12, and IAS 27 – Investment Entities

The Amendments provide an exception to the consolidation requirements in IFRS 10 and requires qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them. The amendment is effective for annual periods beginning on or after 1 January 2014.

Amendment to IAS 36 – Recoverable Amount Disclosure for Non-Financial Assets

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which and impairment loss was recognised or reversed during the period. The amendment is effective for annual periods beginning on or after 1 January 2014.

Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge accounting

The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedge instrument, is novated to effect clearing with central counterparty as a result of laws and regulation, the certain criteria are met. The amendment is effective for annual periods beginning on or after 1 January 2014.

Part B – Information on the Consolidated Statement of Comprehensive Income

(4) Interest income and interest expense

Interest income comprises	2013	2012
	(million HUF)	
Interest from customers	72,129	91,071
Interest income from financial investments – Available-for-sale	10,950	18,307
Interest from banks	3,111	6,292
Interest income from financial investments – Held-to-maturity	390	394
Subtotal	**86,580**	**116,064**
Interest from financial assets at fair value through profit or loss	1,048	1,361
Total	**87,628**	**117,425**

Interest expense comprises	2013	2012
	(million HUF)	
Interest paid to customers	40,080	65,915
Interest paid to banks	5,161	10,844
Interest paid on issued securities	4,869	5,289
Total	**50,110**	**82,048**

Interest expense related to financial liabilities not carried at fair value through profit and loss account amounts HUF 49,886 million as at 31 December 2013 and HUF 81,899 million in 2012, respectively.

(5) Fee and commission income and expense

Fee and commission income comprises	2013	2012
	(million HUF)	
Servicing fee income for loans	6,815	8,197
Account turnover fee income	13,104	9,146
Card fee income	6,510	4,515
Investment services fee income	3,624	3,549
Documentary fee income	1,194	1,419
Cash management fee income	1,972	1,563
Agent fee income	1,086	917
Other fee income	4,674	5,068
Total	**38,979**	**34,374**

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

Fee and commission expense comprises	(million HUF) 2013	2012
Card fee expense	2,782	2,567
Account turnover fee expense	521	584
Investment services fee expense	250	254
Documentary fee expense	180	236
Servicing fee expenses for loans	44	110
Agent fee expense	93	122
Other fee expense	3,555	3,920
Total	**7,425**	**7,793**

(6) Income from trading activities

Income from trading activities comprises	(million HUF) 2013	2012
Net revaluation gain/(loss) from derivatives and trading with foreign currencies	7,178	2,726
Net realised gain/(loss) from derivatives	9,918	15,508
Net revaluation gain/(loss) on hedging instruments	21	103
Net revaluation gain/(loss) from trading with financial assets through profit or loss	(67)	680
Net realised gain/(loss) from trading with financial assets through profit or loss	168	(711)
Net gain from financial investments – Available-for-sale	(283)	(1)
Total	**16,935**	**18,305**

(7) Other operating income

Other operating income / (expenditure) comprises	(million HUF) 2013	2012
Net losses from selling of tangible and intangible assets	(172)	(212)
Dividend and similar income	46	86
Result on disposal of inventories	476	(15)
Income from property management	2,223	2,282
Net result on non-current asset held for sale	(492)	98
Other operating income / (expenditures)	2,036	844
Total	**4,117**	**3,083**

(8) Impairment losses, provisions and net loan losses

Impairment losses, provisions and net loan losses comprises	(million HUF) 2013	2012
Individual impairment for loan losses	92,666	124,703
Collective impairment for loan losses	10,437	1,283
Provision expense/(reversal) for financial guarantees	(976)	101
Provision expense/(reversal) for other commitments and contingencies	897	3,119
Result on sale of loans	2,630	1,656
Net losses on repossessed properties	33,007	25,310
Other impairment losses for other receivables	(24)	1,018
Other provision expenses/(reversal)	3,721	(1,793)
Total	**142,358**	**155,397**

(9) Operating expenses without bank tax

Operating expenses comprises	(million HUF) 2013	2012
Personnel expenses	23,315	24,205
a, Salaries	*16,530*	*17,162*
b, Other benefits	*5,330*	*1,507*
c, Social contributions	*1,455*	*5,536*
Depreciation	7,664	7,031
Office and Information Technology maintenance	5,889	6,214
Financial transaction duty	9,494	-
Other taxes and obligatory fees	3,983	3,736
Material expenses	2,652	3,104
Rent and leasing	2,266	3,081
Communications	2,086	2,378
Advertising	966	1,213
Expert fees	327	731
Other expenses	4,117	4,374
Total	**62,759**	**56,067**

(10) Bank tax

The following table illustrates the bank tax obligation of the Group in 2013 and 2012.

Company	(million HUF) 2013	2012
CIB Bank Ltd.	11,581	10,902
CIB Leasing Co. Ltd. [1]	420	432
CIB Investment Fund Management Co. Ltd.	-	67
CIB Real Estate Leasing Ltd.	52	-
CIB Faktor Ltd.	48	48
Total	**12,101**	**11,449**

Note [1]:
Effective from 1 January 2012 the Bank Tax law has been amended for Leasing companies. The amendment allows net up interest income with net fee and commission income from taxation base point of view.

(11) 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 19% applicable to all Group companies but dependent from the level of profitability the tax rate has been reduced to rate of 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.

Income tax benefit / (expense) comprises	(million HUF) 2013	2012
Current income tax charge	(181)	349
A, Corporate Income tax	*(181)*	*349*
Other income type taxes	(3,490)	(3,434)
A, Local business tax	*(3,039)*	*(2,984)*
B, Innovation contribution	*(451)*	*(450)*
Deferred income tax	(5,979)	(9,221)
Total	**(9,650)**	**(12,306)**

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

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

Reconciliation between the income tax expense applicable to profit before tax at the statutory income tax rate and the income tax expense at the Group's effective income tax rate is not applicable due to the loss for the years ended 31 December.

Deferred tax assets and liabilities comprise (million HUF)	2013 Assets	2013 Liabilities	2012 Assets	2012 Liabilities
Loans	23	231	43	2,534
Leasing	1,079	1,079	2,021	1,386
Properties	-	656	-	1,209
Securities at fair value	-	24	-	325
Carry forward unused tax losses	-	-	7,411	-
Other assets and liabilities	-	204	470	116
Total deferred tax to Income Statement	**1,112**	**2,194**	**9,945**	**5,570**
Deferred tax recognised in equity	5	-	241	-
Total deferred tax	**1,117**	**2,194**	**10,186**	**5,570**

The management assessed whether sufficient taxable profit will be available at some of the entities in the Group to allow the benefit of all deferred tax asset to be utilised and decided to derecognize the deferred tax asset as at 31 December 2013 at those companies where the profitability of the entity in the near foreseeable future is doubtful or uncertain.

In 2012 the Group made impairment on deferred tax asset in relation to carry forward tax losses previously recognized in the Consolidated Financial Statements.

(12) Dividend paid

There were no dividends, declared or paid in either 2013 or 2012.

(13) Comprehensive income

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

Net non-realized (loss)/gain on available-for-sale financial assets comprise	(million HUF)	
	2013	**2012**
Net gains/(losses) from changes in fair value	17	300
Deferred tax effect of net gains/(losses) from changes in fair value	-	(57)
Amortization to net profit	987	227
Deferred tax effect of amortization to net profit	-	(44)
Deferred tax asset impairment	(239)	-
Net non-realized (loss) / gain on available-for-sale financial assets (net of taxes)	**765**	**426**
Income from transaction under common control	4,164	-
Total comprehensive income	**4,929**	**426**

Income from transaction under common control contains the income from the sale of CIB Investment Fund Ltd that won't go through the profit and loss account.

(14) Share-based payment transactions

In 2012 Intesa Sanpaolo Group established an Incentive System which involves the use of Intesa Sanpaolo ordinary shares to be purchased on the market upon specific authorization. Main references of the System are the followings:

- specific remuneration rules applied to "Key personnel" meaning those whose decisions have a significant impact on the Group's risk profile;
- the ratio of the fixed component to the variable component of remuneration, suitably balanced;
- from the variable component at least 40% must be subject to deferred payment systems for a period of at least 3 years and at least 50% must be disbursed in shares or instruments linked to shares.

The terms and conditions of the grants are as follows; share appreciation rights are settled in cash:

Grant date / employees entitled	Number of instruments	Vesting conditions
Share grant to key management personnel at 31 December 2012	58,521	Assigned in 2014 and available in 2015.

The fair value of the Intesa Sanpaolo shares was HUF 23 million at measurement date as at 31 December 2013 and HUF 22 million in 2012, respectively.

Part C – Information on the Consolidated Statement of Financial Position

(15) 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 2013 and 2012 respectively.

Cash and current accounts with central bank comprises	(million HUF) 2013	2012
Cash	10,607	9,938
Current HUF account with the National Bank of Hungary	16,185	23,076
Total (Included cash and cash equivalents Note 41)	**26,792**	**33,014**

(16) Due from banks

Due from banks comprises	(million HUF) 2013	2012
Foreign currency nostro accounts	6,076	10,099
Due from banks less than 90 days	121,728	97,599
Included in cash equivalents (Note 41)	**127,804**	**107,698**
Due from banks more than 90 days	-	-
Total	**127,804**	**107,698**

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

Financial assets at fair value through profit or loss comprises	(million HUF) 2013	2012
Hungarian Government securities – HUF	198	152
Hungarian Government securities – NON-HUF	-	14
Included in cash equivalents (Note 41)	**198**	**166**
Hungarian Government securities – HUF	7,025	25,778
Hungarian Government securities – NON-HUF	360	270
Bank and corporate bonds – HUF	112	-
Shares listed on stock exchange – HUF	94	53
Shares listed on stock exchange – NON-HUF	23	22
Total	**7,812**	**26,289**

(17) 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.

(18) Loans and advances to customers

Analysis by sector

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

(million HUF)	2013	%	2012	%
Private customers	434,126	27.09	524,953	28.65
Real estate investments	397,627	24.82	459,919	25.10
Other, mostly service industries	273,722	17.08	329,802	18.00
Trading	120,633	7.53	195,473	10.67
Transportation and communication	95,773	5.98	58,466	3.19
Financial activities	67,649	4.22	73,377	4.00
Agriculture	65,931	4.11	42,998	2.35
Light industry	47,468	2.96	53,920	2.94
Heavy industry	40,056	2.50	48,765	2.66
Food processing	36,288	2.26	34,299	1.87
Chemicals and pharmaceuticals	22,995	1.45	10,427	0.57
Total	**1,602,268**	**100.0**	**1,832,399**	**100.0**

(18) 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) 2013	2012
Gross lease receivables due		
Within one year	42,283	49,719
One to five years	73,165	85,505
More than five years	31,807	40,765
Total	**147,255**	**175,989**

The present value of minimum lease payments receivables comprise	2013	2012
Within one year	35,135	40,882
One to five years	61,814	70,225
More than five years	25,595	31,754
Total	**122,544**	**142,861**
Unearned finance lease income	24,710	33,128
Accumulated allowance for uncollectible minimum lease payments receivable	**12,317**	**11,744**

The term of the contracts are usually between 3 months and 10 years except in the case of some machinery contracts and property leasing contracts where the duration may reach 35 years or in some cases more.

Allowance for loan losses

Allowance for loan losses comprise	(million HUF) 2013	2012
Opening balance	314,417	276,520
Increase of allowance during the year	216,675	282,019
Decrease of allowance during the year	(159,337)	(211,288)
Write-off	(22,019)	(32,834)
Closing balance	**349,736**	**314,417**

Allowance for loan losses comprise	(million HUF) 2013	2012
Individual allowance	325,737	298,050
Collective allowance	23,999	16,367
Total	**349,736**	**314,417**

The revaluation loss on loans specified as hedged items was HUF 551 million as at 31 December 2013 and HUF 747 million as at 31 December 2012, respectively.

(18) Loans and advances to customers (continued)

In 2013 and in 2012 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.

The liquidation value of collateral that the Group holds relating to loans at 31 December 2013 amounts to HUF 1,109,905 million and HUF 1,756,529 million as at 31 December 2012 respectively.

The amount of restructured loans was HUF 18,604 million as at 31 December 2013 and HUF 8,031 million as at 31 December 2013, respectively.
Restructured loans are those exposures where the Group renegotiates the original terms of a debt and it results in losses for the Group specifically due to waiver of principal, interest or fee payment (waiver of contract modification fee does not qualify as loss for the Bank Group), or due to decrease of interest rate for reasons other than market-driven factors.

As at 31 December 2013 and 2012 the Group had no reverse repurchase and securities borrowing agreements.

(19) 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. The Group is not expecting a significant financial impact from the sale of non-current assets.

(20) Other assets

Other assets comprises	(million HUF) 2013	2012
Accrued incomes, costs and expenses	2,038	1,733
Settlement accounts	1,225	314
Trade receivables	2,346	1,928
Inventories	1,170	1,046
Other assets	1,329	1,881
Total	**8,108**	**6,902**

(21) Financial investments

Financial investments - Available-for-sale comprises	(million HUF) 2013	2012
Hungarian Government securities – HUF	220,657	183,878
Included in cash equivalents (Note 41)	**220,657**	**183,878**
Hungarian Government securities – HUF	46,581	43,512
Other securities - HUF	327	
Equity investment – HUF	83	1,812
Total	**267,648**	**229,202**

Financial investments - Held-to-maturity comprise	(million HUF) 2013	2012
Hungarian Government securities - HUF	5,533	5,662
Total	**5,533**	**5,662**

(22) Repossessed properties

Repossessed properties comprise	(million HUF) 2013	2012
Opening balance	115,687	137,407
Additions	24,289	19,844
Sales	(13,124)	(2,475)
Depreciation	(162)	(301)
Reclassifications due to change in legal status	-	(14,057)
Net loss from impairment adjustment	(30,737)	(25,032)
Closing balance	**95,953**	**115,687**

(23) Intangible assets

At 31 December 2013 and 2012 intangible assets and the related accumulated depreciation comprised the following

(million HUF)	Cost of intangible assets 2013	Other changes	Disposals	Acquisitions	2012
Software licenses and development	35,518	-801	-	2,743	33,576
Goodwill	833	-	44	-	877
Other	2,085	616	36		1,505
Total	**38,436**	**-185**	**80**	**2,743**	**35,958**

(23) Intangible assets (continued)

(million HUF)	Depreciation of intangible assets				
	2013	**Other changes**	**Disposals**	**Additions**	**2012**
Software licenses and development	29,221	(692)	-	2,524	27,389
Goodwill	56	-	-	-	56
Other	834	523	36	12	335
Total	**30,111**	**(169)**	**36**	**2,536**	**27,780**

(million HUF)	Cost of intangible assets				
	2012	**Other changes**	**Disposals**	**Acquisitions**	**2011**
Software licenses and development	33,576	6	-	2,319	31,251
Goodwill	877	-	-	-	877
Other	1,505	-	-	-	1,505
Total	**35,958**	**6**	**-**	**2,319**	**33,633**

(million HUF)	Depreciation of intangible assets				
	2012	**Other changes**	**Disposals**	**Additions**	**2011**
Software licenses and development	27,389	-	-	2,716	24,673
Goodwill	56	-	-	-	56
Other	335	-	-	-	335
Total	**27,780**	**-**	**-**	**2,716**	**25,064**

(million HUF)	Net book value of intangible assets	
	2013	**2012**
Software licenses and development	6,297	6,187
Goodwill with indefinite life	777	821
Other (customer list) with indefinite life	1,251	1,170
Total	**8,325**	**8,178**

The goodwill concerns to the purchase of CIB Faktor Ltd years ago. The Group applied an impairment test on goodwill and other intangible assets, like customer list 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.

Software licenses and developments have definite life. The amount of internally developed software is HUF 437 million as at 31 December 2013 and HUF 279 as at 31 December 2012, respectively.

(24) Property, plant and equipment

At 31 December 2013 and 2012 property, plant and equipment and the related accumulated depreciation comprised the following:

(million HUF)	2013	Cost of property, plant and equipment Other changes	Disposals	Acquisitions	2012
Land, premises	25,944	(4,301)	547	152	30,640
Leasehold improvements	7,375	-	986	3	8,358
Electronic equipment and office furniture	11,072	(494)	1,276	846	11,996
Computer equipment	9,035	411	620	771	8,473
Motor vehicles	928	160	73	145	696
Other	121	-	-	-	121
Total	**54,475**	**(4,224)**	**3,502**	**1,917**	**60,284**

(million HUF)	2013	Depreciation of property, plant and equipment Other changes	Disposals	Addition	2012
Land, premises	9,979	1,647	260	1,350	7,242
Leasehold improvements	4,849	-	984	1,819	4,014
Electronic equipment and office furniture	9,290	92	1,176	844	9,530
Computer equipment	7,346	(4)	619	715	7,254
Motor vehicles	427	(5)	52	33	451
Other	-	-	-	-	-
Total	**31,891**	**1,730**	**3,091**	**4,761**	**28,491**

(million HUF)	2012	Cost of property, plant and equipment Other changes	Disposals	Acquisitions	2011
Land, premises	30,640	(50)	300	183	30,807
Leasehold improvements	8,358	46	427	53	8,686
Electronic equipment and office furniture	11,996	(84)	384	337	12,127
Computer equipment	8,473	59	1,360	510	9,264
Motor vehicles	696	-	40	12	724
Other	121	-	-	-	121
Total	**60,284**	**(29)**	**2,511**	**1,095**	**61,729**

(24) Property, plant and equipment (continued)

(million HUF)	2012	Depreciation of property, plant and equipment Other changes	Disposals	Addition	2011
Land, premises	7,242	(8)	127	367	7,010
Leasehold improvements	4,014	10	427	1,398	3,033
Electronic equipment and office furniture	9,530	7	360	1,194	8,689
Computer equipment	7,254	(9)	1,263	814	7,712
Motor vehicles	451	-	27	48	430
Other	-	-	-	-	-
Total	**28,491**	**-**	**2,204**	**3,821**	**26,874**

Net book value of property, plant and equipment	(million HUF) 2013	2012
Land, premises	15,966	23,398
Leasehold improvements	2,526	4,344
Electronic equipment and office furniture	1,782	2,466
Computer equipment	1,689	1,219
Motor vehicles	501	245
Other	121	121
Total	**22,585**	**31,793**

(25) Deposits from banks

Deposits from banks comprise	(million HUF) 2013	2012
Deposits from banks in Hungary	54,412	47,247
Deposits from banks in other countries	262,037	386,524
Total	**316,449**	**433,771**
- from which related party	115,612	230,083

(26) Deposits from customers

Deposits from customers comprise	(million HUF) 2013	2012
Deposits from customers in Hungary	1,083,743	1,194,836
Deposits from customers in other countries	75,826	87,977
Total	**1,159,569**	**1,282,813**
- from which related party	45,663	52,073

The revaluation gain on deposits specified as hedged items was HUF 299 million as at 31 December 2013 and HUF 123 million as at 31 December 2012 respectively.

(27) Liabilities from issued securities

Liabilities from issued securities comprise	(million HUF) 2013	2012
Gross amount of issued securities	108,491	91,690
Repurchased amount of issued securities	(19,114)	(15,429)
Revaluation on hedging instruments	33	19
Accrued interest payable from the net amount of issued securities	3,876	3,888
Net amount of liabilities from issued securities	**93,286**	**80,168**

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities	(million HUF) 2013	2012
CIB EUROKAM 13A bonds were issued in EUR since 16 April 2010 and matured on 16 April 2013. The bonds' interest was fixed to ECB prime rate + 1.25%.	-	406
CIB CL 2013/A bonds were issued in HUF since 3 March 2011 and matured on 8 March 2013. The bonds bear interest at 3 month BUBOR plus 60 basis points.	-	5,026
CIB EU 13/A bonds were issued in EUR since 2 May 2011 and matured on 3 May 2013. The bonds paid fix interest of 3.5% annually.	-	4,382
CIB CL 2013/B bonds were issued in HUF since 22 September 2011 and matured on 24 September 2013. The bonds bear interest at 3 month BUBOR plus 100 basis points.	-	8,314
CIB 2013/A bonds were issued in HUF since 21 July 2010 and matured on 31 December 2013. The bonds paid fix interest of 25.0% at maturity.	-	8,207
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.	6,383	4,976
CIB EU 13/B bonds were issued in EUR since 22 August 2011 and matured on 26 August 2013. The bonds paid fix interest of 3.5% annually.	-	2,928

(27) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities	(million HUF) 2013	2012
CIB CL 2014/A bonds were issued in HUF since 26 July 2012 and will mature on 9 June 2014. The bonds bear interest at 3 month BUBOR plus 80 basis points.	8,007	8,036
CIB CL 2014/B bonds were issued in HUF since 5 November 2012 and will mature on 6 November 2014. The bonds bear interest at 6 month BUBOR plus 80 basis points.	4,025	1,877
CIB CL 2015/A bonds were issued in HUF since 9 August 2012 and will mature on 10 August 2015. The bonds bear interest at 3 month BUBOR plus 100 basis points.	10,463	10,124
CIB ECL 2015/A bonds were issued in EUR since 10 August 2012 and will mature on 10 August 2015. The bonds bear interest at 6 month EURIBOR plus 310 basis points.	6,005	1,015
CIB EU 14/A bonds were issued in EUR since 10 August 2012 and will mature on 11 August 2014. The bonds pay fix interest of 3.7% annually.	12,046	11,837
CIB EU 14/B bonds were issued in EUR since 11 September 2012 and will mature on 12 September 2014. The bonds pay fix interest of 3.5% annually.	7,502	5,595
CIB FIX 15/A bonds were issued in HUF since 3 February 2012 and will mature on 3 February 2015. The bonds pay fix interest of 28% annually.	11,782	7,437
CIB CL 2015/B bonds were issued in HUF since 4 February 2013 and will mature on 6 February 2015. The bonds bear interest at 3 month BUBOR.	7,977	-
CIB CLE 2016/A bonds were issued in EUR since 7 May 2013 and will mature on 9 May 2016. The bonds bear interest at 6 month EURIBOR.	2,957	-
CIB EFIX 15/A bonds were issued in EUR since 3 May 2013 and will mature on 8 May 2015. The bonds bear interest at 6 month EULIBOR.	4,562	-
CIB CL 2015/C bonds were issued in HUF since 16 July 2013 and will mature on 20 July 2015. The bonds bear interest at 3 month BUBOR + 0.3%.	4,020	-

(27) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities	(million HUF) 2013	2012
CIB CL 2015/D bonds were issued in HUF since 15 October 2013 and will mature on 26 October 2015. The bonds bear interest at 3 month BUBOR + 0.4%.	2,497	-
CIB EFIX 16/A bonds were issued in EUR since 25 October 2013 and will mature on 25 October 2015. The bonds pay fix interest of 2.75% annually.	1,490	-
CIB FIX 16/B bonds were issued in HUF since 8 August 2013 and will mature on 30 December 2016. The bonds pay fix interest of 16% at maturity.	2,162	-
CIB 2018/B bonds were issued in HUF since 8 August 2013 and will mature on 28 December 2018. The bonds pay fix interest of 30.0% at maturity.	1,400	-
CIB Kincsem bonds	8	8
Total	**93,286**	**80,168**

(28) Other liabilities

Other liabilities comprise	(million HUF) 2013	2012
Accrued liabilities	2,299	2,318
Settlement accounts	2,328	6,565
Suppliers	4,004	4,490
Financial guarantees	1,984	2,948
Other liabilities	2,243	1,554
Total	**12,858**	**17,875**

Financial guarantees comprise	(million HUF) 2013	2012
Opening balance	2,948	2,868
Increase during the year	1,002	1,454
Decrease during the year	(1,966)	(1,374)
Closing balance	**1,984**	**2,948**

(29) Provisions

2013 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	3,973	2,728	6,701
Increase of provision during the year	2,476	1,554	4,030
Decrease of provision during the year	(1,572)	(2,184)	(3,756)
Closing balance	**4,877**	**2,098**	**6,975**

2012 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	845	4,521	5,366
Increase of provision during the year	3,443	1,941	5,384
Decrease of provision during the year	(315)	(3,734)	(4,049)
Closing balance	**3,973**	**2,728**	**6,701**

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

Other provision established to cover the Group's present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Other provision includes the Group's future obligations relating to rationalising the branch network.

(30) Subordinated debt

Subordinated debt comprises	(million HUF) **2013**	**2012**
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%;	13,361	13,108
From Intesa Bank Ireland plc. for 30 million EUR. The debt's expiry date is 26 November 2021 with interest payable at 3 months EURIBOR plus 0.37%;	8,907	8,739
From Intesa Sanpaolo S.P.A for 150 million EUR. The debt's expiry date is 21 December 2019 with the interest payable at 3 months EURIBOR plus 4.06%.	44,537	43,694
Accrued interests	78	85
Total	**66,883**	**65,626**

(31) Share capital

During 2013 the authorised share capital was increased by HUF 2 by Intesa Sanpaolo S.p.A. through the issuing of 2 ordinary shares of HUF 1 each.

At 31 December 2013 the fully paid share capital consisted of 145,000,000,005 ordinary shares of HUF 1 each.

At 31 December 2012 the fully paid share capital consisted of 145,000,000,003 ordinary shares of HUF 1 each.

There were no significant incremental costs directly attributable to the issue of shares 2013 and 2012.

(32) Reserves

Capital reserve

Capital reserve contains the shareholders total capital contributions that connecting to the issue of new shares. The difference between the face value of the new shares and the paid capital contribution is recognised in the capital reserve in the amount of HUF 74,000 million during 2013.

Revaluation reserve

Revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Other reserve

Other reserve comprises the additional payment by shareholders to cover financial losses in the amount of HUF 36,000 as at 31 December 2013. Other reserve also comprises the Group's income from transaction under common control in the amount of HUF 4,164 million.

(33) Commitments and contingencies

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

2013		(million HUF)	
	Gross amount	Provision	Net amount
Guarantees	41,993	(1,929)	40,064
Letters of credit	4,761	(54)	4,707
Total financial guarantees	**46,754**	**(1,983)**	**44,771**
Loans and overdraft facilities not disbursed	152,168	(4,877)	147,291
Total	**198,922**	**(6,860)**	**192,062**

(33) Commitments and contingencies (continued)

2012		(million HUF)	
	Gross amount	Provision	Net amount
Guarantees	46,133	(2,895)	43,238
Letters of credit	5,394	(53)	5,341
Total financial guarantees	**51,527**	**(2,948)**	**48,579**
Loans and overdraft facilities not disbursed	166,424	(3,973)	162,451
Total	**217,951**	**(6,921)**	**211,030**

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 represents contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses.
The amount of long term commitments with maturity over one year is HUF 19,325 million as at 31 December 2013 and HUF 25,536 million as at 31 December 2012, respectively.

The amount of the securities in custody is HUF 780,557 million at 31 December 2013 and HUF 841,245 million in 2012, respectively.

(34. a) Derivative Financial Instruments

Derivative financial instruments as at 31 December 2013

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	141,666	-	-	141,666	24	12
Interest rate swaps	268,624	105,964	3,355	377,943	8,163	5,518
Subtotal	**410,290**	**105,964**	**3,355**	**519,609**	**8,187**	**5,530**
Currency derivatives						
Forward exchange contracts	47,566	74	-	47,640	69	900
Currency swaps	316,092	-	-	316,092	1,643	1,207
Currency interest rate swaps	755,271	-	-	755,271	997	6,068
Foreign exchange options	6,556	-	-	6,556	1	3
Subtotal	**1,125,485**	**74**	**-**	**1,125,559**	**2,710**	**8,178**
Equity and index derivatives	64	-	-	64	1	2
Total trading derivative instruments	**1,535,839**	**106,038**	**3,355**	**1,645,232**	**10,898**	**13,710**
Hedging derivative instruments						
Interest rate derivatives						
Interest rate swaps	10,689	22,966	-	33,655	1,591	506
Total hedging derivative instruments	**10,689**	**22,966**	**-**	**33,655**	**1,591**	**506**
Total	**1,546,528**	**129,004**	**3,355**	**1,678,887**	**12,489**	**14,216**

(34. 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 2013 the Group recognized a net gain of HUF 317 million on the hedging instrument and a net loss of HUF 57 million as at 31 December 2012 respectively. The total net loss on hedged items attributable to the hedged risks amounted to HUF 382 million as at 31 December 2013 and net gain of HUF 33 million as at 31 December 2012 respectively.

(34. b) Derivative financial instruments (continued)

Derivative financial instruments as at 31 December 2012

(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	568,102	-	-	568,102	490	183
Interest rate swaps	299,222	143,443	17,650	460,315	7,725	7,518
Subtotal	**867,234**	**143,443**	**17,650**	**1,028,417**	**8,215**	**7,701**
Currency derivatives						
Forward exchange contracts	38,517	1,369	-	39,886	588	366
Currency swaps	564,789	1,105	-	565,894	614	1,235
Currency interest rate swaps	455,422	-	-	455,422	1,465	18,977
Foreign exchange options	2,345	-	-	2,345	230	225
Subtotal	**1,061,073**	**2,474**	**-**	**1,063,547**	**2,896**	**20,803**
Equity and index derivatives	36	-	-	36	2	1
Total trading derivative instruments	**1,061,109**	**2,474**	**-**	**1,063,583**	**2,898**	**20,803**
Hedging derivative instruments						
Interest rate swaps	-	29,768	-	29,768	1,003	731
Total hedging derivative instruments	**-**	**29,768**	**-**	**29,768**	**1,003**	**731**
Total	**1,928,433**	**175,685**	**17,650**	**2,121,768**	**12,116**	**29,236**

(35. a) Carrying amount of assets and liabilities at 31 December 2013 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	16,183	-	-	-	-	-	10,609	26,792
Effective interest rates	*3.00*	-	-	-	-	-	-	*1.81*
Due from banks	6,311	121,354	139	-	-	-	-	127,804
Effective interest rates	*0.00*	*1.33*	*3.27*	-	-	-	-	*1.26*
Financial assets at fair value through profit or loss	-	114	562	5,914	466	639	117	7,812
Effective interest rates	-	*2.86*	*2.83*	*3.02*	*3.82*	*5.68*	-	*3.22*
Derivative financial assets	-	2,741	5,278	3,853	617	-	-	12,489
Loans and advances to customers	151,953	301,046	439,868	289,053	57,593	13,019	-	1,252,532
Effective interest rates	*1.17*	*3.91*	*4.18*	*5.57*	*6.15*	*3.93*	-	*4.16*
Financial investments	-	241,471	31,199	101	-	-	410	273,181
Effective interest rates	-	*2.76*	*2.83*	*3.78*	-	-	-	*2.76*
Other assets	-	-	-	-	-	-	148,630	148,630
Liabilities								
Deposits from banks	2,979	60,709	158,230	73,534	13,559	7,438	-	316,449
Effective interest rates	*0.14*	*0.77*	*0.45*	*0.85*	*0.02*	-	-	*0.57*
Derivative financial liabilities	-	5,025	7,617	1,573	1	-	-	14,216
Deposits from customers	509,696	339,410	162,680	90,405	57,378	-	-	1,159,569
Effective interest rates	*1.07*	*2.74*	*2.32*	*2.99*	*5.33*	-	-	*2.09*
Liabilities from issued securities	-	6,557	24,475	34,507	27,747	-	-	93,286
Effective interest rates	-	*3.97*	*4.01*	*3.62*	*6.4*	-	-	*4.57*
Subordinated debt	-	13,385	44,585	8,913	-	-	-	66,883
Effective interest rates	-	*1.03*	-	*0.69*	-	-	-	*0.30*
Other liabilities	-	-	-	-	-	-	26,290	26,290
Net repricing gap	(338,228)	241,640	79,460	89,989	(40,009)	6,220	133,476	172,547

(35. b) Carrying amount of assets and liabilities at 31 December 2012 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	23,076	-	-	-	-	-	9,938	33,014
Effective interest rates	*5.75*	-	-	-	-	-	-	*4.02*
Due from banks	13,918	93,691	89	-	-	-	-	107,698
Effective interest rates	*0.02*	*3.82*	*3.18*	-	-	-	-	*3.33*
Financial assets at fair value through profit or loss	-	16,306	1,560	5,984	1,599	765	75	26,289
Effective interest rates	-	*5.51*	*5.38*	*5.39*	*5.29*	*6.09*	-	*5.46*
Derivative financial assets	-	2,445	5,428	4,242	1	-	-	12,116
Loans and advances to customers	226,941	335,801	544,506	355,603	47,854	7,277	-	1,517,982
Effective interest rates	*1.94*	*4.44*	*4.65*	*5.56*	*8.20*	*5.35*	-	*4.53*
Financial investments	-	205,489	21,900	317	5,346	-	1,812	234,864
Effective interest rates	-	*5.33*	*5.39*	*5.46*	*5.16*	-	-	*5.29*
Other assets	-	-	-	-	-	-	187,325	187,325
Liabilities								
Deposits from banks	2,082	70,817	285,211	75,618	43	-	-	433,771
Effective interest rates	*0.36*	*2.06*	*0.58*	*0.99*	*4.19*	-	-	*0.89*
Derivative financial liabilities	-	8,330	18,388	2,462	56	-	-	29,236
Deposits from customers	433,798	293,607	335,253	169,677	50,478	-	-	1,282,813
Effective interest rates	*2.43*	*5.33*	*5.08*	*6.00*	*6.68*	-	-	*4.43*
Liabilities from issued securities	-	415	32,515	17,393	29,845	-	-	80,168
Effective interest rates	-	*1.06*	*6.86*	*4.92*	*4.91*	-	-	*5.68*
Subordinated debt	-	13,131	43,750	8,745	-	-	-	65,626
Effective interest rates	-	*0.99*	-	*0.72*	-	-	-	*0.29*
Other liabilities	-	-	-	-	-	-	33,310	33,310
Net repricing gap	(171,945)	267,432	(141,634)	92,251	(25,622)	8,042	165,840	194,364

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

The maturity profile of the Bank's assets and liabilities as at 31 December 2013 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	26,792	-	-	-	-	26,792
Due from banks	127,665	139	-	-	-	127,804
Financial assets at fair value through profit or loss	231	562	5,786	530	703	7,812
Derivative financial assets	845	1,791	2,668	7,185	-	12,489
Loans and advances to customers	182,238	49,230	186,281	380,843	453,940	1,252,532
Financial investments	241,471	31,199	101	-	410	273,181
Non-current assets held for sale	-	-	1,142	-	-	1,142
Tax assets	-	-	-	12,517	-	12,517
Other assets	2,038	-	1,253	4,817	-	8,108
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	95,951	30,912	126,863
Total Assets	**581,280**	**82,921**	**197,231**	**501,843**	**485,965**	**1,849,240**
Liabilities						
Deposits from banks	18,910	22,302	120,272	73,765	81,199	316,449
Derivative financial liabilities	3,495	5,025	1,193	4,370	133	14,216
Deposits from customers	703,751	108,275	92,665	62,979	191,899	1,159,569
Liabilities from issued securities	-	-	31,581	61,705	-	93,286
Tax liabilities	-	-	-	6,457	-	6,457
Other liabilities	2,299	-	2,329	8,230	-	12,858
Provisions	-	-	-	6,975	-	6,975
Subordinated debt	24	48	13,367	-	53,444	66,883
Total Liabilities	**728,479**	**135,650**	**261,407**	**224,481**	**326,675**	**1,676,693**
Net position	**(147,199)**	**(52,729)**	**(64,176)**	**277,363**	**159,290**	**172,547**

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

The maturity profile of the Bank's assets and liabilities as at 31 December 2012 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	33,014	-	-	-	-	33,014
Due from banks	107,609	89	-	-	-	107,698
Financial assets at fair value through profit or loss	16,306	1,560	5,951	1,632	840	26,289
Derivative financial assets	1,244	2,059	2,692	5,631	490	12,116
Loans and advances to customers	242,160	79,457	197,536	442,518	556,311	1,517,982
Financial investments	205,489	21,754	361	5,447	1,813	234,864
Non-current assets held for sale	-	-	1,460	-	-	1,460
Tax assets	-	-	-	23,305	-	23,305
Other assets	1,733	-	1,360	3,809	-	6,902
Intangible assets, property, plant and equipment, repossessed properties	-	-	-	115,688	39,970	155,658
Total Assets	**607,555**	**104,919**	**209,360**	**598,030**	**599,424**	**2,119,288**
Liabilities						
Deposits from banks	23,744	76,604	29,074	216,248	88,101	433,771
Derivative financial liabilities	5,521	15,492	2,916	3,681	1,626	29,236
Deposits from customers	629,490	271,461	171,745	56,880	153,237	1,282,813
Liabilities from issued securities	8	5,026	24,236	50,898	-	80,168
Tax liabilities	-	-	-	8,734	-	8,734
Other liabilities	2,318	-	6,565	8,992	-	17,875
Provisions	-	-	-	6,701	-	6,701
Subordinated debt	22	57	6	13,108	52,433	65,626
Total Liabilities	**661,103**	**368,640**	**234,542**	**365,242**	**295,397**	**1,924,924**
Net position	**(53,548)**	**(263,721)**	**(25,182)**	**232,788**	**304,027**	**194,364**

(37) 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 – together with future interest income - as at 31 December. Repayments which are not subject to notice are treated as if notice were to be given immediately.

2013	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	18,935	22,541	121,535	79,408	91,967	334,386
Derivative instruments	3,495	5,025	1,193	4,370	133	14,216
Deposits from customers	704,071	109,703	99,334	98,981	219,969	1,232,057
Liabilities from issued securities	64	370	33,319	64,987	-	98,740
Subordinated debt	35	474	15,011	10,604	57,436	83,560
Total undiscounted financial liabilities	**726,600**	**138,113**	**270,392**	**258,350**	**369,505**	**1,762,959**

2012	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	23,787	76,994	30,958	221,252	98,357	451,348
Derivative instruments	5,521	15,492	2,916	3,681	1,626	29,236
Deposits from customers	630,052	275,388	182,764	96,827	187,939	1,372,970
Liabilities from issued securities	8	5,624	26,840	55,297	-	87,769
Subordinated debt	33	463	1,579	22,380	58,827	83,282
Total undiscounted financial liabilities	**659,401**	**373,961**	**245,057**	**399,437**	**346,749**	**2,024,605**

Part D – Additional Information

(38) 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 S.p.A /Italy, Torino/ (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.

	2013			
(million HUF)	Parent	ISP Group Companies	Subsidiaries	Total
Assets				
Cash and current accounts	3,177	326	31,456	34,959
Loans and advances to customers / Due from banks	60,879	-	361,041	421,920
Financial investments	23	-	-	23
Derivative financial assets	4,482	143	-	4,625
Other assets	-	688	3,628	4,316
Liabilities				
Current accounts	629	-	321,888	322,517
Deposits from customers / banks	62,587	98,059	71,459	232,105
Subordinated debt	44,585	22,298	-	66,883
Derivative financial liabilities	4,804	820	-	5,624
Other liabilities	-	-	1,348	1,348
Commitments				
Guarantees	79	196	177	452
Loan commitments	-	2	236,412	236,414
Interest rate derivatives	55,917	185	-	56,102
Currency derivatives	124,210	84	-	124,294
Interest expenses, net	(3,471)	(1,330)	1,763	(3,038)

(38) Related Party Transactions (continued)

	2012			
(million HUF)	Parent	ISP Group Companies	Subsidiaries	Total
Assets				
Cash and current accounts	6,818	216	57,631	64,665
Loans and advances to customers / Due from banks	6,969	932	413,124	421,025
Financial investments	22	-	-	22
Derivative financial assets	2,168	257	42	2,467
Financial asset at fair value through profit or loss	-	-	975	975
Other assets	140	3	1,554	1,697
Liabilities				
Current accounts	2	62	408,819	408,883
Deposits from customers / banks	150,886	131,186	71,881	353,953
Subordinated debt	43,750	21,876	-	65,626
Derivative financial liabilities	3,975	1,339	42	5,356
Liabilities from issued securities	-	-	975	975
Other liabilities	-	-	1,304	1,304
Commitments				
Guarantees	-	14	215	229
Loan commitments	-	-	236,413	236,413
Interest rate derivatives	414,833	48,908	-	463,741
Currency derivatives	136,843	855	3,330	141,028
Interest expenses, net	(2,574)	(6,720)	(197)	(9,491)

The Group has significant transactions with the following ISP Group members:

- BANCA FIDEURAM S.P.A.
- PRIVREDNA BANKA ZAGREB D.D.
- VSEOBECNA UVEROVA BANKA AS
- BANCA IMI SPA
- INTESA SANPAOLO ROMANIA S.A.

The most significant transactions with related parties are loan deposits and derivatives (foreign exchange swap deals and interest rate swap transactions).

(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 Management Board and Supervisory Board. They receive conditions generally provided to the employees of the CIB Group.

(38) Related Party Transactions (continued)

Members of the Bank's Management Board as at 31 December 2013:

Fabrizio Centrone (CEO) – CIB Bank Ltd.
Eduardo Bombieri (DCEO) – CIB Bank Ltd.
Gábor Plank – CIB Bank Ltd.
Giorgio Gavioli – CIB Bank Ltd.
Michael Ralph Clark – CIB Bank Ltd.

Members of the Bank's Supervisory Board as at 31 December 2013:

Dr. Surányi György – Intesa Sanpaolo Group
Paolo Sarcinelli – Intesa Sanpaolo Group
Massimo Malagoli – Intesa Sanpaolo Group
Giorgio Spriano – Intesa Sanpaolo Group
Christophe Velle – Intesa Sanpaolo Group

The Bank's Management Committee that was a leader committee in the Bank last year has been transformed to Management Forum that has no decision making right from 25 June 2013.

	(million HUF)	
	2013	**2012**
Assets		
Current accounts	3	1
Loan	23	95
Liabilities		
Current accounts	162	281
Deposits	93	151
Commitments		
Loans and overdraft facilities not disbursed	-	13
Compensation		
Salaries and other short-term benefits	434	1,108

There were changes and extension in the Group's key management members during 2013 and 2012.

(39) 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.

(million HUF)	2013 Average carrying amount	2013 Average interest rate (%)	2012 Average carrying amount	2012 Average interest rate (%)
Financial assets				
Cash and current accounts with central bank	93,521	2.46	88,962	4.31
Due from banks and subordinated loans	71,955	0.89	83,455	2.5
Financial assets at fair value through profit or loss	18,953	2.89	20,825	5.95
Loans and advances to customers	1,738,387	4.17	1,895,160	4.79
Financial investments	242,384	2.07	258,829	6.68
Other assets	216,004	-	289,380	-
Financial liabilities				
Deposits from banks	374,786	0.67	566,651	1.58
Deposits from customers	1,248,681	3.13	1,342,287	4.88
Liabilities from issued securities	93,075	5.15	89,968	5.58
Subordinated debt	67,289	3.13	23,466	1.70
Other liabilities	417,574	-	392,628	-

(40) 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.

31 December 2013 (million HUF)	Exposed to cash flow risk **Book value**	Exposed to cash flow risk **Fair value**	Exposed to fair value risk **Book value**	Exposed to fair value risk **Fair value**
Financial assets				
Due from banks	6,311	6,311	121,493	121,491
Loans and advances to customers	1,177,882	1,207,166	74,650	72,916
Financial investments – Held-to-maturity	101	99	5,432	5,458
Financial liabilities				
Deposits from banks	275,582	275,857	40,867	37,374
Deposits from customers	724,905	717,141	434,664	437,475
Subordinated debt	66,883	68,623	-	-
Liabilities from issued securities	54,147	54,266	58,425	60,475

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

31 December 2012 (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	13,918	13,918	93,780	93,775
Loans and advances to customers	1,452,869	1,493,657	65,113	64,504
Financial investments – Held-to-maturity	317	307	5,345	5,463
Financial liabilities				
Deposits from banks	337,177	337,523	96,594	96,635
Deposits from customers	606,336	620,377	676,477	680,115
Subordinated debt	65,626	67,305	-	-
Liabilities from issued securities	34,798	34,803	45,370	45,817

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.

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

- Level 1: inputs that are quoted marked prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	12,489	-	12,489
Financial assets at fair value through profit or loss	7,812	-	-	7,812
Financial investments - Available-for-sale	267,238	411	-	267,649
Financial liabilities				
Derivative financial liabilities	-	14,215	-	14,215

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

31 December 2012 **Financial assets**	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	12,116	-	12,116
Financial assets at fair value through profit or loss	9,279	17,010	-	26,289
Financial investments - Available-for-sale	11,796	217,406	-	229,202
Financial liabilities				
Derivative financial liabilities	-	29,236	-	29,236

During the reporting period ending 31 December 2013 and 2012 there were no transfers between Level 1 and Level 2 fair value measurements or any transfers into Level 3 fair value measurement.

The following table shows an analysis of financial instruments not measured at fair value by level of the fair value hierarchy:

31 December 2013	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current accounts with central bank	26,792	-	-	26,792	26,792
Deposits with banks	6,316	121,486	-	127,802	127,804
Loans and advances to customers	-	1,008,765	271,317	1,280,082	1,252,532
Financial investments Held To Maturity	5,557	-	-	5,557	5,533
Financial liabilities					
Deposits from banks	-	313,231	-	313,231	316,449
Deposits from customers	-	1,154,616	-	1,154,616	1,159,569
Liabilities from issued securities	-	114,741	-	114,741	93,286
Subordinated deposits	-	68,623	-	68,623	66,883

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. The fair value of deposits from banks and customers is estimated using discounted cash flow techniques. The fair value of deposits on demand is the amount payable at the reporting date.

(41) 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) **2013**	 **2012**
Cash and current account with central bank (Note 15)	26,792	33,014
Due from banks (Note 16)	127,804	107,698
Financial assets at fair value through profit or loss (Note 17)	198	166
Financial investments (Note 21)	220,657	183,878
Total	**375,451**	**324,756**

(42) 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 average effective margin of the bonds is 1.1%.

The amount of Available-for-sale reserve was HUF (1,574) million at the reclassification date which will be amortized until maturity. The current amount is HUF (252) million. 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 16,274 million and thus the valuation loss would be HUF 166 million as at 31 December 2013. The fair value of the bonds would be HUF 49,304 million as at 31 December 2012 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 17,086 million as at 31 December 2013 and HUF 52,179 million as at 31 December 2012 respectively.

In 2013 the Group and the State concluded a new loan agreement in order to repay the municipality loan and bonds. The new loan bears a floating interest rate based on a base market interest rate plus margin.
Based on Act CCXXX of 2013 on the 2014 budget of Hungary, the Hungarian State will assume the remaining debts of municipalities till 28 February 2014.

(43) Business combinations and transactions under common control

Business combinations and transactions under common control in 2013

The Group sold its investment in CIB Investment Fund Management Ltd on 14 January 2013 within Intesa Sanpaolo Group to Eurizon Capital S.A.

Business combinations and transactions under common control in 2012

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.

In December 2012 the Bank acquired 100% ownership in CIB Faktor Ltd. and CIB Insurance Broker Ltd. as a transaction under common control.

(44) Events after the reporting period

No significant events or processes occurred after the Balance sheet date, during the period prior to the preparation of the financial statements and the approval thereof that could have a material impact on the Group financial or earnings position.

(45) Segment report

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

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

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

45) Segment report as at 31 December 2013 (continued)

2013	Retail banking	Corporate banking	Treasury/Bank	Other	Group
Net Interest Income	30,042	16,657	(12,954)	3,774	37,518
Net Commission Income	13,204	18,350	-	-	31,554
Trading Income	-	-	16,935	-	16,935
Other operating Income	-	-	-	4,117	4,117
Net banking income	**43,246**	**35,007**	**3,981**	**7,891**	**90,124**
Allowance for loan losses	(41,897)	(63,764)	-	(36,697)	(142,358)
Segment result	**1,349**	**(28,757)**	**3,981**	**(28,806)**	**(52,234**
Unallocated cost					(74,860
Profit before tax					(127,094)
Income tax					(9,650)
Profit for the year					(136,744)
Segment assets					
Loan and advances to customers	432,111	820,421	-	-	1,252,532
Deposit with banks	-	-	127,804	-	127,804
Securities	-	-	280,911	83	280,994
Derivative financial assets	-	-	12,489	-	12,489
Other assets	-	-	-	174,303	174,303
Unallocated assets	-	-	-	1,117	1,117
Total asset	**432,111**	**820,421**	**421,204**	**175,504**	**1,849,240**
Segment liabilities					
Deposit from customers and liabilities From issued securities	629,797	572,945	50,113	-	1,252,855
Deposit from banks and subordinated debt	-	-	383,332	-	383,332
Derivative financial liabilities	-	-	14,216	-	14,216
Other	-	-	-	24,098	24,098
Unallocated liabilities	-	-	-	2,194	2,194
Total liabilities	**629,797**	**572,945**	**447,661**	**26,290**	**1,676,693**
Total shareholders' equity					172,547

(45) Segment report as at 31 December 2013 (continued)

2012	Retail banking	Corporate banking	Treasury/Bank	Other	Group
Net Interest Income	32,956	17,721	(22,359)	7,059	35,377
Net Commission Income	17,287	9,294	-	-	26,581
Trading Income	-	-	18,305	-	18,305
Other operating Income	-	-	-	3,083	3,083
Net banking income	**50,243**	**27,015**	**(4,054)**	**10,142**	**83,346**
Allowance for loan losses	(28,920)	(102,613)	-	(23,864)	(155,397)
Segment result	**21,323**	**(75,598)**	**(4,054)**	**(13,722)**	**(72,051)**
Unallocated cost	-	-	-	-	(67,127)
Profit before tax	-	-	-	-	(139,567)
Income tax		-	-	-	(12,306)
Profit for the year					(151,873)
Segment assets	**521,240**	**996,742**	**380,117**	**211,000**	**2,109,102**
Loan and advances to customers	521,240	996,742	-	-	1,517,982
Deposit with banks	-	-	107,698	-	107,698
Securities	-	-	260,303	847	261,150
Derivative financial assets	-	-	12,116	-	12,116
Other assets	-	-	-	210,153	210,153
Unallocated assets	-	-	-	10,186	10,186
Total asset	**521,240**	**996,742**	**380,117**	**221,186**	**2,119,288**
Segment liabilities	**804,731**	**506,198**	**528,935**	**79,792**	**1,919,656**
Deposit from customers and liabilities From issued securities	804,731	506,198	-	52,052	1,362,981
Deposit from banks and subordinated debt	-	-	499,697	-	499,697
Derivative financial liabilities	-	-	29,238	-	29,238
Other	-	-	-	27,740	27,740
Unallocated liabilities	-	-	-	5,569	5,569
Total liabilities	**804,731**	**506,198**	**528,935**	**85,361**	**1,924,925**
Total shareholders' equity					194,364

Part E – Information on risks

(46) Risk management

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

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

The Management Board of the Bank, within the rules as established by the National Bank of Hungary 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 Division 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 Financial Risk Committee.

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 behavior of its exposure in different risk scenarios in order to capture all the aspects of the risk. This reflects both the expected loss likely to arise in normal circumstances and unexpected loss, which is an estimate of the ultimate actual loss based on statistical models.

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

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

(46) Risk management (continued)

(a) Credit risk

Credit risk is the risk that a customer or counter party will be unable or unwilling to meet a commitment that they have entered into with a member of the Group. It arises from lending, trade finance, treasury and other activities undertaken by Group companies. Credit risk on loans and receivables is managed by the Management Board through the Credit Committee, the Asset Quality Session 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 Management Board through the Financial Risk 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)	**2013**	**2012**
Cash and balances with central bank	26,790	33,014
Due from banks and subordinated loans	127,849	107,751
Financial assets at fair value through profit and loss	7,812	26,288
Derivative financial assets	12,489	12,118
Loans and advances to customers	1,602,268	1,832,399
Financial investments – Available-for-sale	267,649	229,202
Financial investments – Held-to-maturity	5,533	5,662
Other assets	5,374	4,534
Total maximum exposure	**2,055,764**	**2,250,968**
Total maximum exposure to credit risk	1,730,117	1,940,149
Financial guarantees	46,431	51,527
Commitments	152,166	166,424

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

(46) Risk management (continued)

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

(million HUF)	2013	2012
Italy	184	209
Hungary	1,567,684	1,789,935
Euro Zone countries	27,688	20,208
- of which PIGS countries	*954*	*1,140*
European but Non-Euro Zone countries	6,303	21,609
Other regions	409	438
Total	**1,602,268**	**1,832,399**

PIG's countries include 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.

(46) Risk management (continued)

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

Performing Loans	2013 (million HUF)	2012 (million HUF)
A – Excellent	30,654	6,095
B – Stable	213,789	308,927
C – Acceptable	449,304	444,631
D – High Risk	91,655	135,850
Other	12,526	53,548
Retail	207,287	231,012
Total Performing Loans	**1,005,215**	**1,180,063**
Non-performing Loans		
Corporate loans	448,851	496,620
Retail loan	148,203	155,716
Total Non-performing Loans	**597,054**	**652,336**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. These facilitates focused on 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-	Less than B-	Not rated	Total
2013	37,096	5,824	70,908	13,301	32	643	**127,804**
2012	38,622	11,903	15,616	36,037	-	5,520	**107,698**

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

2013	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Large corporate loans	29,131	3,687	3,149	136	36,103
Mid corporate loans	8,046	843	550	216	9,655
Retail loans	29,722	7,477	3,342	3,244	43,785
Total	**66,899**	**12,007**	**7,041**	**3,596**	**89,543**

(46) Risk management (continued)

2012	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Large corporate loans	24,655	944	854	6,600	33,053
Mid corporate loans	14,859	3,315	877	146	19,197
Retail loans	39,234	10,236	4,016	214	53,727
Total	**78,748**	**14,495**	**5,747**	**6,987**	**105,977**

In order to ensure the proper presentation of past due but not individually impaired loans the Group changed the amounts referring to 31 December 2012.

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 2013 HUF 83,706 million and was HUF 167,730 million as at 31 December 2012, respectively.

The Group implemented ISP Group non-performing definition in September 2012. According to the harmonized rules loans are reported as impaired if

- any payments are overdue by more than 90 days with material due amount (Past due),
- the loan has been restructured causing present value loss to the Bank (Restructured),
- the client is in temporary financial difficulties and its loans may not be paid back fully (Substandard),
- the client is insolvent (Doubtful).

These harmonized rules increased the NPL rate by 3% point at the time of harmonization. The Group addresses impairment into two types: individually assessed allowances and collectively assessed allowances.

The following table below shows the credit quality of the non-performing loans and advances to customers based on the Group's rules:

Non-performing Loans (million HUF)	**2013**	**2012**
Doubtful loans	158,895	224,424
Problem loans	91,211	113,005
Restructured loans	18,604	8,032
Over due impaired	4,607	8,825
Total	**273,317**	**354,286**

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.

(46) Risk management (continued)

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. Collective keys are quarterly updated with latest portfolio movements.

(b) Liquidity risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its payment obligations due to its inability to obtain funds on the market (funding liquidity risk) or to liquidate its assets (market liquidity risk).

The intention of the CIB Group is to promote CIB's long standing philosophy of safe, sound and conservative liquidity risk management and to give the right guidance to ensure continuous and safe liquidity levels within the Group. The Liquidity Policy illustrates the tasks of the various corporate functions, the rules and set of control and management processes to ensure prudent control of liquidity risk, preventing crisis situations. The Liquidity Policy is closely related to the Contingency Funding Plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations.

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

The liquidity ratio during the year was as follows

Liquidity ratio	(%)	
	2013	**2012**
31 December	12.63	13.74
Daily average during the period	16.04	15.89
Highest	18.81	18.77
Lowest	12.26	11.56

(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 2013 is presented in Note 37.

(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.

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

(46) Risk management (continued)

The Group uses simulation models to assess possible changes in the market value of the trading portfolio based on historical data from previous years. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The factors of the distribution are calculated by using exponentially weighted historical data. The use of VaR has limitation because it is based on historical correlation and volatilities in market prices and assumes that future price movements will follow a statistical distribution.

Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under – or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations with separate limit amounts for foreign exchange, interest rate, equity and total VaRs. Exposures are reviewed daily against the limits by management.

	(million HUF)				
VAR – 2013	**Foreign exchange**	**Interest rate**	**Equity**	**Correlation Effect**	**Total**
31 December	60	16	3	(8)	71
Daily average during the period	39	24	2	(19)	46
Highest	108	81	3	0	132
Lowest	8	3	1	0	12

	(million HUF)				
VAR – 2012	**Foreign exchange**	**Interest rate**	**Equity**	**Correlation Effect**	**Total**
31 December	66	23	1	(17)	73
Daily average during the period	64	47	13	(34)	90
Highest	169	118	34	0	210
Lowest	12	9	1	0	22

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

In addition to the VaR limits, position and stop-loss limits have been set up in line with the internal regulations of Intesa Sanpaolo Group.

Position limits enables the monitoring of exposures real time, and as a robust measurement technique, can be relied upon in case of error in the VaR model.

Separate position limits and sub-limits are in place for foreign exchange, equity and interest rate positions.

(46) Risk management (continued)

Stop-loss limits are designed to control the down side movement of the profit and loss in a particular position. Separate stop-loss limits have been established both on a month-to-date and year-to-date horizon for the individual Treasury desks.

(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 equity and on 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 Treasury in the Group day-to-day operation supervised by Risk Management, by the senior management and by the Parent Company. On the tactical horizon interest risk is managed by the Asset-Liability Committee, which proposes position and sensitivity 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. Strategic decisions are made by the Management Board by determining the risk tolerance.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Consolidated Statement of Comprehensive Income.
The sensitivity of the Statement of Comprehensive Income 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 2013. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2013 for the effects of the assumed changes in interest rates. The Group uses for the sensitivity of equity calculations, among others, the modified duration method.

			(million HUF)				
2013	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	+ 200	2,413	(782)	(128)	2	(1)	(909)
EUR	+ 100	(846)	53	26	(76)	(9)	(6)
USD	+ 25	(41)	10	(1)	0	0	9
CHF	+ 25	(79)	5	23	0	0	28
Others	+ 25	2	0	0	0	0	0

			(million HUF)				
2013	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	(200)	(2,413)	798	132	1	3	934
EUR	(100)	205	(5)	(16)	40	9	29
USD	(25)	12	(10)	1	0	0	(9)
CHF	(25)	7,5	0	(16)	0	0	(16)
-Others	(25)	(3)	0	0	0	0	0

(46) Risk management (continued)

			(million HUF)				
2012	Increase in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	+ 200	1,409	(74)	86	(129)	(71)	(188)
EUR	+ 100	412	183	(4)	(102)	42	119
USD	+ 25	(13)	4	2	(3)	-	3
CHF	+ 25	(120)	14	(87)	-	(2)	(75)
Others	+ 25	-	1	-	-	-	1

			(million HUF)				
2012	Decrease in basis points	Sensitivity of net interest income	Sensitivity of equity				
			0 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Total
HUF	(200)	(1,409)	73	(89)	136	86	206
EUR	(100)	36	(21)	3	79	(39)	22
USD	(25)	7	(5)	(2)	3	-	(4)
CHF	(25)	(13)	(2)	62	-	2	62
Others	(25)	-	-	-	-	-	-

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.

Statutory limits do not permit the Bank to have net currency positions mismatch between the asset and liability side regardless of the foreign currency at more than 60% against one another based on statutory stand alone financial statements. The management of the bank monitors this ratio on a daily basis.

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

(46) Risk management (continued)

The currency structure of the Group's assets, liabilities and equity as at 31 December 2013 and 2012 is as follows (currency equivalents in million HUF)

2013	HUF	CHF	EUR	USD	Other	Total
Cash and current accounts with central bank	25,718	54	758	200	62	**26,792**
Due from banks	60,808	313	46,760	14,720	5,203	**127,804**
Financial assets at fair value through profit or loss	7,428	-	229	155	-	**7,812**
Derivative financial assets	12,489	-	-	-	-	**12,489**
Loans and advances to customers	334,415	403,395	512,895	1,98	329	**1,252,532**
Financial investments – Available-for-sale	267,648	-	-	-	-	**267,648**
Financial investments Held-to-maturity	5,533	-	-	-	-	**5,533**
Non-current assets held for sale	1,142	-	-	-	-	**1,142**
Tax assets	12,517	-	-	-	-	**12,517**
Other assets	7,372	73	644	15	4	**8,108**
Repossessed property	95,953	-	-	-	-	**95,953**
Intangible assets	8,325	-	-	-	-	**8,325**
Property, plant and equipment	22,585	-	-	-	-	**22,585**
Total assets	**861,932**	**403,835**	**561,286**	**16,588**	**5,598**	**1,849,240**

2013	HUF	CHF	EUR	USD	Other	Total
Deposits from banks	55,568	117,884	141,725	1,264	8	**316,449**
Derivative financial liabilities	14,215	-	-	-	-	**14,215**
Deposits from customers	829,414	49,075	230,421	44,157	6,502	**1,159,569**
Liabilities from issued securities	58,753	-	34,533	-	-	**93,286**
Tax liabilities	6,129	1	313	13	2	**6,458**
Other liabilities	11,444	-	940	388	84	**12,859**
Provisions	6,975	-	-	-	-	**6,975**
Subordinated debt	-	-	66,883	-	-	**66,883**
Total liabilities	**982,498**	**166,963**	**474,815**	**45,822**	**6,596**	**1,676,694**
Share capital	145,000	-	-	-	-	**145,000**
Reserves	180,872	(252)	-	-	-	**180,620**
Retained earnings	(16,328)	-	-	-	-	**(16,328)**
Total equity	**309,544**	**(252)**	-	-	-	**309,292**
Total liabilities and equity	**1,292,042**	**166,711**	**474,815**	**45,822**	**6,596**	**1,985,986**
Net on- Statement of Financial Position	**(430,110)**	**237,124**	**86,471**	**(29,234)**	**(998)**	**(136,747)**
FX position of derivatives	**321,398**	**(256,096)**	**(97,197)**	**29,845**	**2,050**	
Off-balance	*145,977*	*1*	*38,901*	*6,828*	*30*	*191,737*

(46) Risk management (continued)

2012	HUF	CHF	EUR	USD	Other	Total
Total assets	927,619	589,629	581,046	16,610	4,384	2,119,288
Total liabilities and equity	1,275,231	177,914	621,403	36,259	8,481	2,119,288
Net on-Statement of Financial Position	(347,612)	411,715	(40,357)	(19,649)	(4,097)	-
FX position of derivatives	374,698	(424,262)	26,740	19,669	3,155	-
Off-balance	*158,881*	*1*	*45,861*	*6,046*	*241*	*211,030*

(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.

Operational Risk and Fraud Management is responsible for the monitoring of CIB Group's operational risk exposure and reporting it to the Management Board, Supervisory Committee, Audit Committee and Management Committee (MC). Operational Risk and Fraud Management belongs to the Risk Management Department, which is entirely independent from the business units of the Bank, and reports to the Chief Risk 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 quarterly where it reviews the Bank's operational risk exposure and the ongoing risk mitigation actions.

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.

In 2004 CIB started collecting operational risk loss data of all events over HUF 50 thousand. In 2013 372 events causing HUF 1,623 million effective operational losses over the threshold of HUF 50 thousand were recorded into the loss database, excluding the boundary with credit losses. In 2012 395 events caused HUF 1,512 million operational loss respectively.

Part F – Information on capital

(47) Capital and capital management

Basel II

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

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

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

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

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

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

(47) Capital and capital management (continued)

Internal Capital Adequacy Assessment Process (ICAAP)

The second pillar of 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.

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, concentration risk, residual 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.

(47) Capital and capital management (continued)

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.

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 National Bank of Hungary'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.

(47) Capital and capital management (continued)

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 2 as the face value of the issue shares in 2013. The total capital contribution that was paid by the shareholders was HUF 110,000 million in 2013 from which HUF 36,000 million was an additional payment to cover financial losses. The difference between the face value of the shares and the total paid contribution was registered as Other reserves.

Regulatory capital	2013	2012
Share capital	145,000	145,000
Reserves	146,499	234,650
Current year's profit or (loss)	(112,698)	(130,522)
Total shareholder's equity	**178,801**	**249,128**
Deduction items:		
Intangible assets	(6,293)	(6,056)
Tier 1 Capital	**172,508**	**243,072**
Subordinated capital	56,116	57,675
Revaluation reserve	35	65
Deductions from Tier 2 Capital	(30)	(67,742)
Tier 2 Capital	**56,121**	**(10,002)**
Total Capital	**228,629**	**233,070**
Risk weighted assets for Credit risks	1,225,282	1,502,581
Risk weighted assets for Market risks	29,563	29,813
Risk weighted assets for Operating risks	220,913	257,550
Risk weighted assets	**1,475,758**	**1,789,944**
Tier 1 capital ratio	11.69%	13.58%
Total capital ratio	15.49%	13.02%

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

The minimum capital requirement is 8% under Pillar1. The Group also meet the requirement of SREP.

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 2013

based on CIB Bank's consolidated audited IFRS financial statements

CIB Bank Zrt.

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I. Business environment

Macro and micro environment

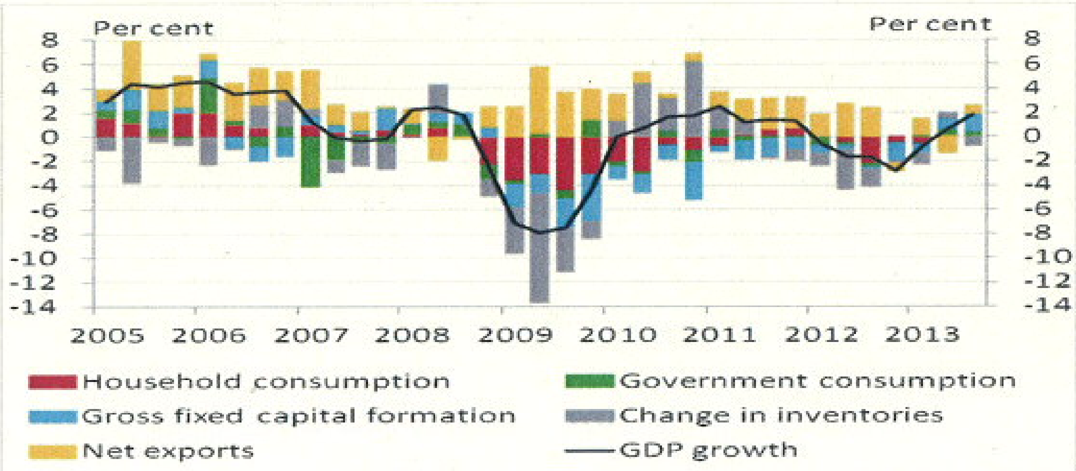
1. GDP

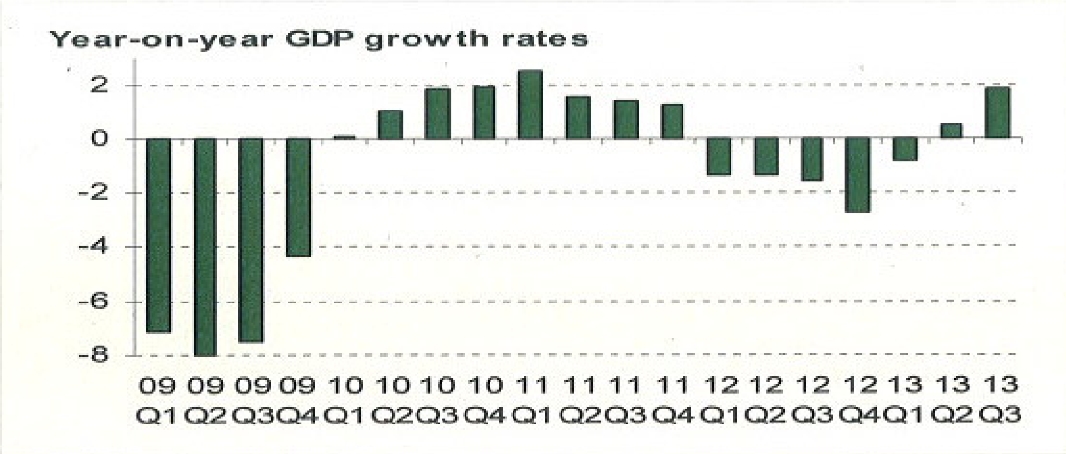
The 2012 recession was followed by a period of stagnation in the first half of 2013 but economic activity has started to accelerate afterwards. Although, the q-o-q real GDP growth rate (seasonally and working day adjusted) posted 0.9% rise, the year over year growth rate remained in the red in Q1. From the second quarter of 2013, the yearly indices moved into positive territory. The economy expanded by 1.8% y-o-y in unadjusted terms, and posted 1.6% year over year rise according to adjusted data in Q3. Flash Q4 estimates revealed, that although the qurterly growth rate eased slightly (from 08% to 0.6%) the y-o-y rate of expansion accelerated to 2.7% (unadjusted) –partly supported by the low base. In 2013 real GDP increased by 1.1%. At the time of writing detailed Q4 figures were not available, the next two paragraphs refer to Q3 data.

At the production side, the engines of growth were agriculture and industry; as a result of the extremely low base, value added in the agricultural sector increased by almost 30% contributing more than 1%point to overall GDP growth. It also implies that adjusting the data for the weather-dependent sector, the economy's overall performance was far less impressive in this period. The industrial sector was supported by the gradual revival of the main export markets, but the newly established vehicle manufacturing plants have also started to contribute positively to the growth of the sector. It is also a positive sign, that the crisis-hit construction sector had hit the bottom and output has even started to accelerate from H2 2013. However, after contracting by 0.4% in Q2, the services sector showed a very moderate, 0.1% growth rate in Q3 –mirroring the weakness of domestic demand.

At the absorption side, households' final consumption has failed to recover so far despite rising real wages, improving labor market conditions and the different measures aimed at supporting FX borrowers. Hence, the drivers of growth remained net exports and investments. After a long period of contraction, investments posted the first year over year rise in Q2, and gained further momentum in Q3 (9.8%). Although the bulk of this improvement was related to public sector projects, it is a positive signs, that private sector investments have also started to show tentative signs of recovery.

The economy is expected to gain further momentum in 2014; but although the structure of growth may become more balanced, the driving engines are expected to remain net exports combined with a stronger contribution by investments. Exports could benefit from strengthening external demand and from the rising output of the vehicle-manufacturing segment, while investments are going to get a boost from the NBH's LFG program. The impact of investment projects financed from EU funds will remain significant as well. After a long period of negative growth rates, households' consumption is set to contribute positively to overall GDP, but the rate of growth is likely to remain subdued –in spite of rising real wages and other positive developments, deleveraging could remain the main theme in this sector.





Source: NBH, CSO

According to the most recent Reuters poll (the median expectation of analysts) 2014 real GDP growth can be expected at 1.9%. The November forecast of the European Commission pencils in 1.8% expansion, meanwhile the latest (October 2013) IMF report forecasts 1.3% growth for this year. The government's macroeconomic projection (on which the 2014 budget is based) calculates with 2% and the NBH foresees 2.1% real growth rate.

2. Internal and external balances

Following the measures aimed at reaching the 2012 budget deficit goal, the Parliament approved additional corrective measures in H1 2013. The need for adjustment stemmed from different reasons, the most important ones being the overly optimistic macroeconomic scenario (on which the budget was based), the shortfall of some revenue items and the intention and commitment to exit the EDP. The measures assured the European Commission that Hungary's official budget deficit target of 2.7% was within reach; hence the EDP was lifted in June 2013.

Concerning the FY cash flow based figures, the central state budget registered HUF 929.2 billion deficit, the special purpose funds were in the black, and the social security funds were balanced. According to the statement of NGM, the overall balance is to be further improved by the ESA-bridge, and the consolidation of the municipalities. The 2014 budget, approved by Parliament calculates with 2.9% GDP-proportionate ESA95 deficit. Meeting the target is not unrealistic, although the low level of reserves, any changes (compared to the baseline scenario) in the macroeconomic variables or possible slippages on the revenue front may require corrective measures in the course of the year.

The public debt/GDP ratio stood at 80.2% in Q3, and is expected to decrease below the 80% threshold by December. In spite of all efforts, the cabinet failed to decrease the level of public debt significantly in the last couple of years.

The external balances of Hungary remained strong in 2013. According to preliminary data, the trade balance registered EUR 7.27 billion surplus. Exports grew by 2.5% y-o-y outpacing the 1.8% growth rate of imports. It is a positive development that after a long period of stagnation (starting from 2011) exports showed a gradual revival – the end-year slowdown in the export segment does not change the overall positive picture. Meanwhile, the growth momentum of imports - due to the still weak domestic demand - lagged those of exports, hence the rising positive balance in trade.

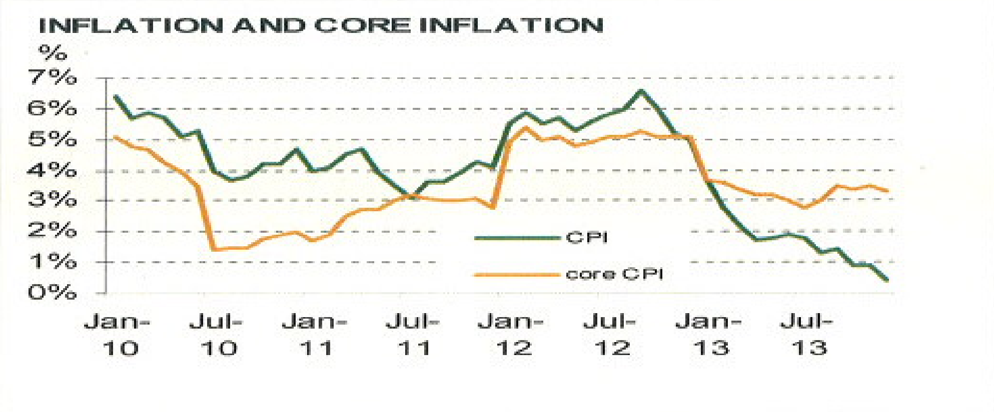
The C/A posted EUR 2.3 billion surplus in the first three quarters of 2013, the FY surplus may come out above EUR 2.5 billion. The main driver of the increasing surplus was the improvement of the trade balance. The net external financing capacity of Hungary reached 6.3% of GDP in Q3 and is expected to remain at high levels. Therefore, the gradual decrease in the external debt level is set to continue – mainly in the case of net external debt, but gross external debt has started to inch down in H2 2013 as well.

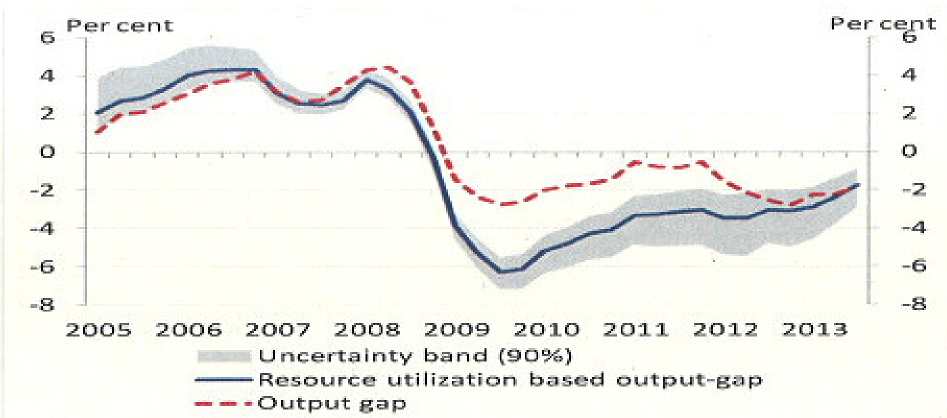
3. Inflation

The disinflation trend - that had started during the last months of 2012 - continued and even accelerated in the course of 2013. As a result of the steep falls in the headline CPI, average inflation nose-dived from 5.7% to 1.7%, the December year over year reading fell as low as 0.4%. Core inflation that excludes volatile items, such as food and energy posted a less pronounced decline; average core CPI came out at 3.3% and stood at 3.5% in December.

One-off factors – such as the administrative cuts in households' utility prices and the good harvest resulting in lower unprocessed food prices – contributed significantly to the plunge in the headline reading. Nonetheless, the negative output gap, weak domestic demand, loose labor market conditions alongside with the lack if imported inflationary pressures were also factors pointing to lower inflation. On the other hand, certain tax changes (e.g. financial transaction tax, the raise in the retail margin of tobacco products etc.) added to the headline reading, but the above factors could fully offset these impacts.

Inflationary pressures may remain muted in the economy in 2014. Global inflation, therefore imported inflation could remain subdued, and although economic activity is widely expected to accelerate and reach potential, the structure of growth (as discussed above) should not raise worries over strengthening demand-led inflationary pressures. The next round of households' utility price cuts will be a decisive factor in shaping the 2014 inflation path; nonetheless, even without this impact, average inflation could remain below the 3% medium term target of the NBH.





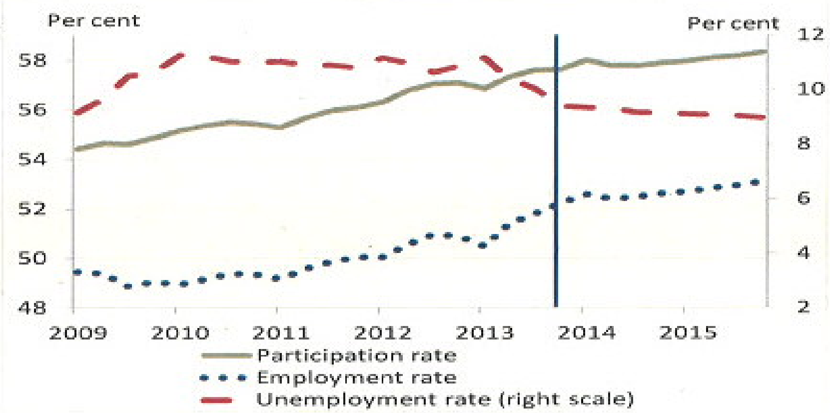
Source: NBH, CSO

4. Labor market

At the very beginning of 2013, the unemployment rate moved higher and temporarily neared the 12% level. The rate started to inch down later and moved below end - 2012 level by May (10.5% compared to 10.7%). The gradual improvement went on in H2 2014: in August, the unemployment rate fell below 10% and was reported at 9.1% in December. The number of unemployed stood close to 509 thousands in March, but fell as low as 403 thousands by December. Due to seasonal reasons the number of employed decreased in the first few months of 2013 and reached a low at 3.8172 million in February. Later on, however, employment started to increase and rose above the 4 million level by the end of the year. In line with these developments, the employment ratio inched up from 51.1% to 52.7% between December 2012 and December 2013, while the activity ratio rose from 57.2%to 58%.

The improvement in the November-December period was especially significant but it was mainly the result of the extension of the government's public work scheme. Both the public work scheme and the rising number of Hungarian citizens working abroad had a significant impact of labor market developments throughout the year. Adjusting the official figures for these impacts, the underlying trend failed to show a turnaround in the labor market, the number of employed stagnated/rose marginally – in line with subdued economic growth.

Gross wages rose by 3.4% in 2013, net wages were 4.9% higher and in line with the pronounced fall of inflation, real wages grew by 3.1%.

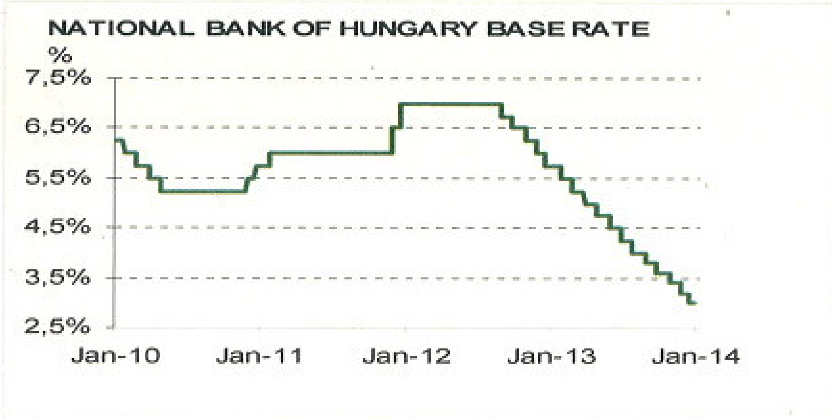


Source: NBH, CSO

5. Monetary policy

The NBH proceeded with the easing cycle (that had started in August 2012) in 2013. In the first half of 2013, the Monetary Council went on cutting the policy rate with the regular 25 bps moves; hence, the 2W rate hit 4% in July. The rate-setting body decided to slow down the pace of easing afterwards (from 25 bps to 20 bps), therefore the policy rate stood at 3% (a historic low) in December.
The continuation of monetary easing was supported both by domestic and external factors. Besides the negative output gap, the excess capacities in the economy, loose labor market conditions, the positive inflation outlook, the generally supportive external climate (despite some short-lived rise in risk aversion, general risk sentiment remained strong throughout the year) and the positive risk assessment of Hungary widened the NBH's room for maneuver. Although some periods of falling global risk appetite were experienced during 2013, these periods proved to be rather short-lived. Moreover, the CEE region – including Hungary - was relatively resilient to negative external developments and to the emerging market sell-offs (thanks to the strong external and internal positions and the gradual revival of the euro zone economies). In these circumstances, the EUR/HUF FX rate was relatively stable, the GDMA faced no difficulties in debt financing, and the NBH proved to be very successful in guiding market interest rate expectations. The rate cuts (totaling 250bps) and the accompanying narrowing of interest rate differentials did not endanger financial stability.

However, in the latter part of 2013, the communication of the NBH turned more cautious, moreover according to the Minutes of the December rate-setting meeting two rate-setters already voted for slowing down the pace of rate cuts. Taking into consideration the change in the communication and the expected external developments, heading toward 2014 the room for policy easing is getting narrower; the rate cycle could turn during H2 2014.

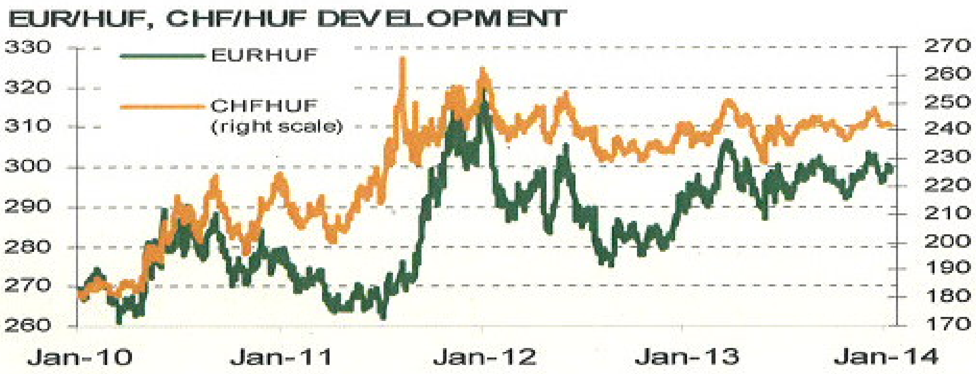


Source: NBH

Despite some short periods of hectic movements, EUR/HUF spent most part of 2013 in a relatively narrow range between 290-300. The year was characterized by a slow and gradual depreciation of the forint vis-à-vis the EUR, at the end of December EUR/HUF was 4% higher compared to the same period of 2012. Volatility reached the highest levels in spring 2013, the uncertainties surrounding the NBH leadership change and the expected course of monetary policy triggered rising volatility and the weakening of the FX rate. Nonetheless, market nervous eased soon after the appointment of the new central bank governor. From mid-February to March HUF weakened from EUR/HUF 290 to EUR/HUF 306, but the pair corrected back to around 290 by May, at one point fell as low as 287.

The forint hit its weakest level versus the CHF in March (EUR/CHF 251), but the pair retreated afterwards and fell as low as 228-229 in May. Looking at 2013 as a whole, EUR/CHF mostly traded in the relatively tight 235-245 range.

Neither the lifting of the EDP or the end of the IMF program had significant market impact; both events had been priced in earlier and had not been unexpected. The CEE region –including Hungary- proved to be quite resilient to the emerging market sell-off that started in June; the relatively healthy external and internal balances and the expected euro zone recovery provided a shelter to CEE currencies. Mirroring the easing cycle of the NBH, the interest rate premium of Hungarian assets was steadily narrowing. However, the decrease in the interest rate premium did not reach a level that could have caused portfolio outflows and consequently could have weakened the forint significantly. Though, the fact that in spite of the very supportive external sentiment that prevailed during the last months of the year, the Hungarian unit was unable to gain and EUR/HUF could not break significantly below the 300 threshold may suggest that the decreasing interest rate premium might have weakened the HUF's appeal.



Source: Bloomberg

6. Changes in the banking environment

The Hungarian banking sector still faces significant burdens and challenges in 2013 and 2014:

- government actions have a significant negative effect on the profitability of the Hungarian banks;
- high ratio of non-performing loans due to the deterioration of corporate and household portfolio quality, as a consequence of the continued recession;
- outflow of external funds of the banking sector continued, however banking sector liquidity improved parallel to financial markets.

Deterioration of the corporate loan portfolio continued in 2013. On the supply side credit conditions remain tight, which the banks are mainly justified by the prevailing macroeconomic uncertainty. However on the demand side signs of recovery are observed, which includes long-term loans as well, this had not happened since 2010. Due to the Funding for Growth Program which was expanded in September the decline of corporate lending may stop, and there might be an increase in the SME segment next year, however on the long term further easing of credit conditions is needed.

Household debt in 2013 also continued to decline, however this year a strengthening in the demand side could be observed, so for the first time in years new loan disbursements increased.

Although the decline in lending basically can be traced back the macro environment and the poor prospects of profitability and predictability of the regulatory environment, the ratio of non-performing loans had a major role in deterioration as well. The biggest challenge of the domestic financial intermediary system is to manage the deteriorating portfolio quality. New defaults weigh on profitability through loan loss provisioning. High NPL ratio reduces willingness to lend, deteriorates liquidity, increases maturity mismatch and diverts funds from lending.

Total assets and liabilities

As of December, 2013 the bank sector's overall total assets remained at the 2012 level and amounted to HUF 29,450 billion.

The gross loan portfolio decreased by 5.7% (HUF 17 135 billion) compared to December 2012 (-6.4% excluding the foreign exchange effect). The lending capacity of Hungarian banks remained under pressure also because of liquidity constraints on the market and due to low profitability. While Hungarian banking sector shows a continuous decrease in customer loans, lending in other countries of the region are improving (Poland, Czech Republic and Slovakia).

Despite the stimulating effect of the Funding for Growth programme (total amount of HUF 701 billion was lent within the framework) the corporate lending kept on contracting during 2013.

The household debt is not particularly high compared to international standards. Households have undergone significant rebalance process since the crisis. In a regional comparison, Hungary's households' loan / GDP ratio is average, while in Poland and the Czech Republic loan / GDP ratio continued to rise even after the crisis. The households' loan / GDP ratio of the Central and Eastern European countries is still significantly below the euro zone average.

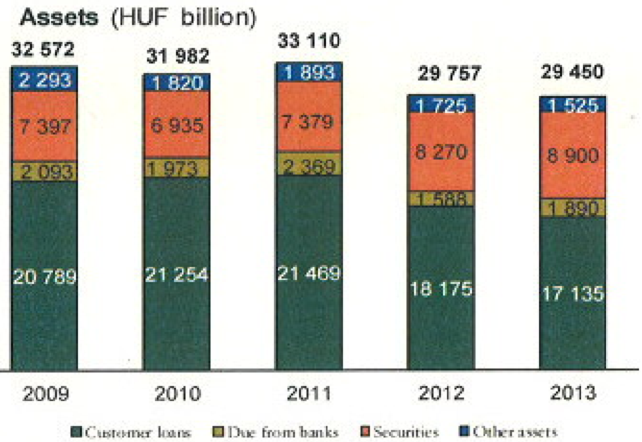
Loans to households decreased continuously during the year by 4.9% (excluding FX effect: 5.2%) as new disbursement is significantly lower than the maturing volumes.

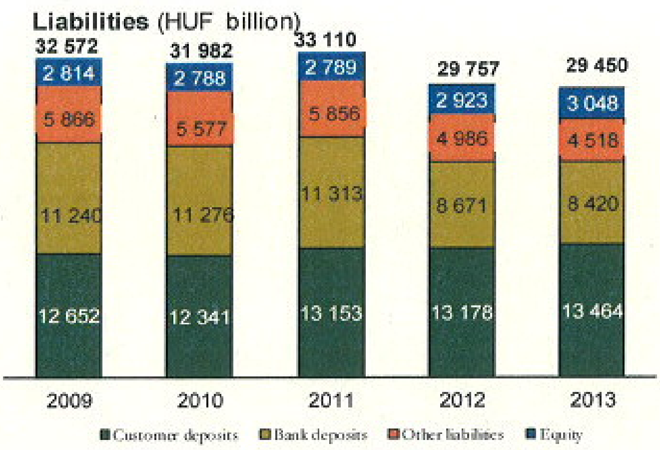
However, some improvement can be seen in the demand for household loans, according to the NBH's Stability Report as of November, 2013. The results of the survey tell a lending turnaround compared to the previous trends: In the second quarter of 2013, loan demand have been increased for the first time in years.

The main role in the increase of demand for home loans can be the central bank's interest rate cuts and decreasing funding costs due to state interest aid. The first time in years growing credit demand can be traced in the increase of new disbursements.

The sector is still characterised by high volume of foreign currency loans (58.0% as of Dec 2013), However, this ratio decreased by 3.3% compared to the end of last year.

The volume of deposits from customers increased by 2.2% compared to the end of 2012, amounted to HUF 13,464 billion at the end of December 2013. Retail customer deposit contributed to the decrease of December, 2013 (-10.7%), while corporate deposit increased by 14.6%, and other deposits increased by 14.3% compared to December 2012. At the same time the net asset value of investment funds increased by 38.7% (HUF 1,242 billion) compared to the end of last year and totaled to HUF 4,450 billion.

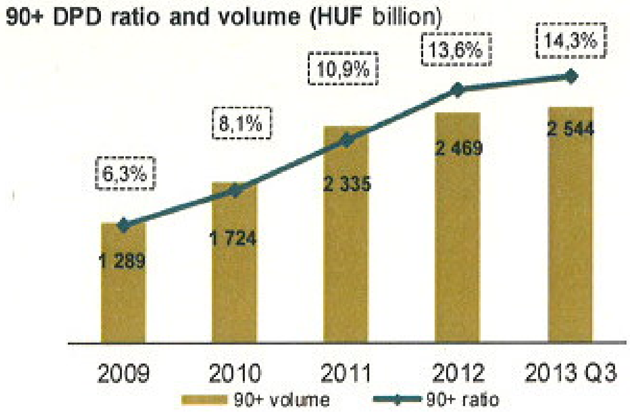


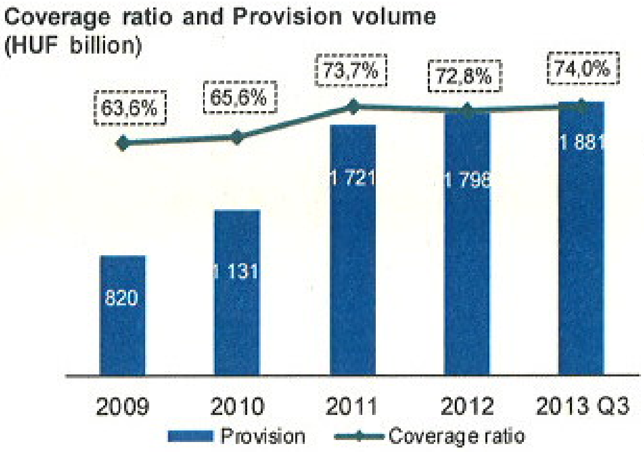


Data source: NBH, HAS

Credit quality

Portfolio quality deterioration continued in 2013, 90+ past due ratio rose by 0.8% points and reached 14.3% by September 2013. Due to significant new provisions the coverage ratio (Loan loss provisions / 90+ PD) increased by 1.4% points to 74.0%. Volume of corporate loans with more than 90 days past due within total loan showed a small decrease of 0.6% points and was 17.3% at the end of September 2013. The retail segment's portfolio quality continued to deteriorate as well; it grew by 2.3 points to 18.5% as of Q3 2013.





Data source: HFSA

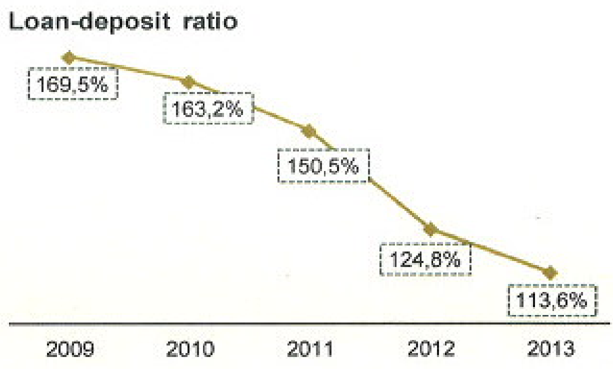
Liquidity

Although the amount of foreign funds kept on declining, the deleveraging also continued and as a consequence liquidity position of the banking sector remained stable.

In overall the sector's loan to deposit ratio (net customer loan / customer deposits) improved from 124.8% as of December 2012 to 113.6% by December 2013 which is primarily due to the decrease in the customer loan portfolio.

The new liquidity measures by the Hungarian National Bank introduced in 2011 also contributed to the improving liquidity. 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%.

The amount of securities increased by HUF 630 billion (+7.6%) primarily as a result of the significant increase in the volume of NBH bonds in 2013.

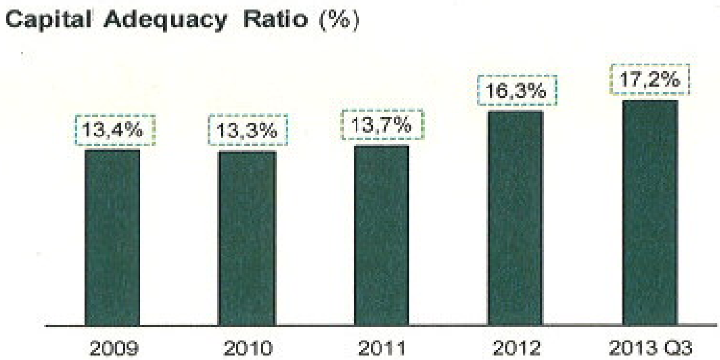


Data source: NBH, HAS

Capital

The capital position of the banking sector is still adequate, the Capital Adequacy Ratio (CAR) increased from 16.3% as of December 2012 to 17.2% as of September 2013, due to the capital increases in several banks and as a result of the profitable operation of the sector.

Capital injections by parent banks, steady deleveraging resulted in higher capital adequacy ratio, despite persistently high risk costs and fiscal burdens on the banking sector.



Data source: HFSA, Credit institutions operating as join-stock companies and Specail Financial Institutions aggregate figures

7. Government Actions

The Hungarian banking sector has undergone several government actions during the previous years.

- **Extraordinary bank tax**

The extraordinary bank tax of almost HUF 200 billion per annum for the whole banking sector has remained in place in 2012 and 2013 and has been extended as a permanent tax element for the future years. 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.

- **Transaction duty**

The banking sector's fiscal burdens increased due to the new financial transaction tax. The Financial Transaction Duty Act came into effect from 1 January 2013. From 1 January 2013 to 31 July 2013 the transaction duty rate was 0.2% of the transaction amount, except cash withdrawal transactions, where 0.3%, but capped at HUF 6,000 per transaction. On 27 June 2013 the Parliament approved a modification of the Act that included the increase of the financial transaction duty rate. In case of cash transactions duty was increased from 0.3% to 0.6% and the HUF 6,000 per transaction cap was abolished, while the 0.2% rate increased to 0.3% and the HUF 6,000 cap remained. The revised duty rates came into force from 1 August 2013.

- **"One-off Financial Transaction Duty payment"**

In addition to the increased financial transaction duty rate, the new modification of the act obliged banks to make one-off supplementary payments as financial transaction tax being below the budgeted volume of the government. The additional payments amounted to 208% of the total paid transaction duty between January and April 2013. The one time cost increased the burden of the banking sector by approximatly HUF 75 billion.

- **NAMA**

Debtors who are socially most in need and unable to repay their mortgage loans may initiate with the National Asset Management Agency (NAMA) the purchase of their homes provided as collateral for the mortgage loan. NAMA buys the property at a significantly discounted price and offers a rent back to the debtor at a preferential rental fee.
The number of residential properties designated for forced liquidation was 28,816 pieces between Q4 2011 and Q4 of 2013 (15,216 pieces of real estate in 2013), of which 3,228 properties were sold in the first three quarters of 2013. Financial institutions sold 5% of the properties and debtors sold additional 25%, while 70% of them were purchased by the National Asset Management Agency.

- **Buffer Account (Debt servicing at a fixed exchange rate)**

Under this program, the debtor's instalments are reduced for maximum 60 months. During this period the debtors pay their FX mortgage loans instalments at a fix exchange rate (fixed rate: 180 HUF/CHF, 250 HUF/EUR, 2.5 HUF/JPY), while the difference of the current exchange rate and the fixed rate will be paid after the grace period. The FX rate difference on capital part is worn by the debtor, while the FX difference on interest is shared equally between the loan provider bank and the state. The legistlation was changed, abolished the time limit to applying buffer account construction, so the borrowers initiate it in writing at any time at the mortgage loan lender financial institution.

Between 1 April 2012 and 30 November 2013 more than 166 thousand debtors entered the program, together with the Buffer Account I. construction (5,712 contracts) it is amounted to 171,801 pieces. These clients' loan volume amounted to HUF 1,329 billion at the end of the period. Clients were exempted from the payment of HUF 24.2 billion interest as of November, 2013. Half of this amount was borne by the banking sector while the other half is by the government. (Source: HFSA).

- **Funding for Growth Program**

The Funding for Growth Program has significantly improved the conditions for access to loan. Under the Funding for Growth Program HUF 701 billion loans were disbursed, which means more than 93 percent of the credit line, so the program both demand and supply side had significant effect on the activity of participants. In pillar I. the amount of new loans made up 63 percent of the disbursements, and especially favorable that 60 % of these loans were investment loan. Thanks to the maximum 2.5 percent margin, business interest burden both for new loans, as well as the refinancing loans declined significantly. (Source: NBH)

- **Free cash withdrawal**

The government introduced the free cash withdrawal option for retail clients up to two transactions per month with a cap of 150 thousand forints from February, 2014. The new burden will negatively impact the sector's profitability by app. HUF 40 billion

II. Business strategy and priorities

In 2013 CIB Group has reconsidered and reinstated its business strategy and decided to continue to build the Bank and grow in the strategically important segments and product categories, while maintaining the market position of the portions of the portfolio where the growth is not an objective. After having received the necessary approvals and support from Intesa Sanpaolo the ultimate goal of the strategy is increased profitability through more effective and efficient processes by focusing on multi-channel distribution and cross-selling.

The strategy has three main pillars:

- clear internal separation by strict organizational segregation of the legacy and non-strategic portfolio,
- repositioning/rebalancing the bank by developing the retail consumer and small business segments and maintaining current market share in the corporate segment, and
- proactive management of the most risky part of the portfolio.

Our goals are clear:

- become primary bank for our customers;
- gradually creating solid profitability;
- become a powerful, sustainably profitable bank again while operating on a smaller scale.

CIB offers numerous channels to customers for providing direct feedback, and focuses on ensuring that the Group becomes the primary financial services provider for customers by providing the best overall value proposition in the market. In line with the above strategy, CIB also aims to adopt a coordinated, reasoned and focused approach in constant fine-tuning its business model. Key elements of this approach include simplification of banking processes and enhancement of customer satisfaction. With that said, **CIB Group strives to distinguish itself from competitors in all segments by further developing its high-quality banking processes and offering service excellence to customers,** and not by pricing.

CIB places extra focus on the development of its retail business, and, accordingly, it aims to become a primary retail bank for its customers. This goes hand in hand with the ability to further improve deposit collection efficiency and provide high-quality asset management services as well as provide high quality standardized services via electronic channels and branch network. On the retail segment lending side, in addition to maintaining its major position in the market, the bank aims to develop mortgage and unsecured lending processes and systems that give a boost to lending output. CIB Group continues to improve its bank insurance product line and multichannel approach."

The focus 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. Leasing and Micro enterprise sectors, as well. 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.

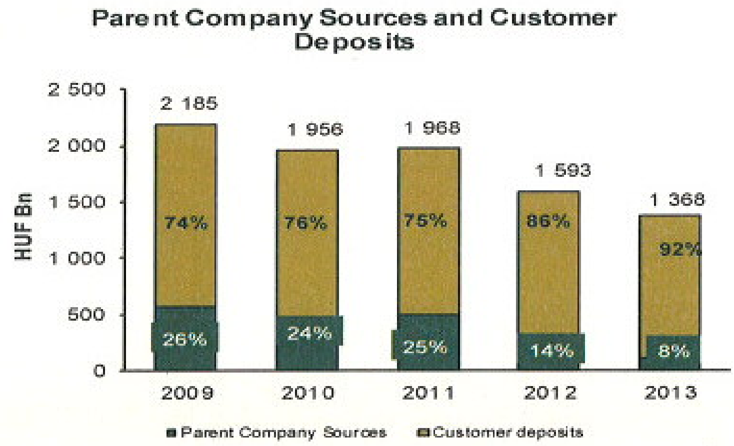
CIB will concentrate its business focus on the profitable part of the operations and therefore continues to manage separately those customers that have loan products which the Bank no longer wishes to keep in the portfolio. This non-legal internal separation is crucial for successful deployment of the business strategy.

III. Strengths and potential risks of CIB Group

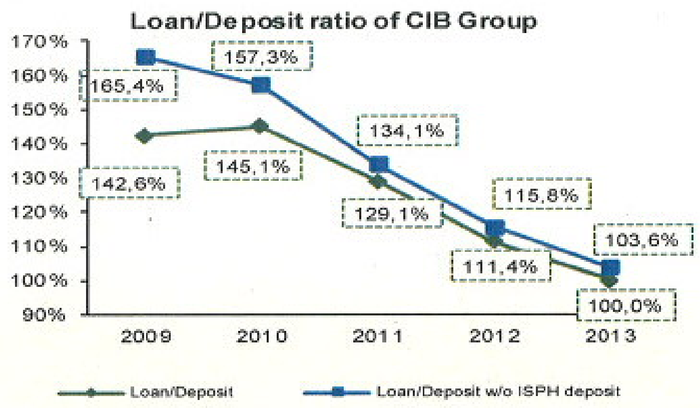
Main strengths

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 two years. The high degree dependency on Intesa Sanpaolo has begun to decrease over the past 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 26% as of December 2009 to 8% as of December 2013. Efforts in the previous years to increase the customer deposit base and the deleveraging have improved the loan to deposit ratio of the CIB Group from 165.4% in December 2009 to 103.6% in December 2013.



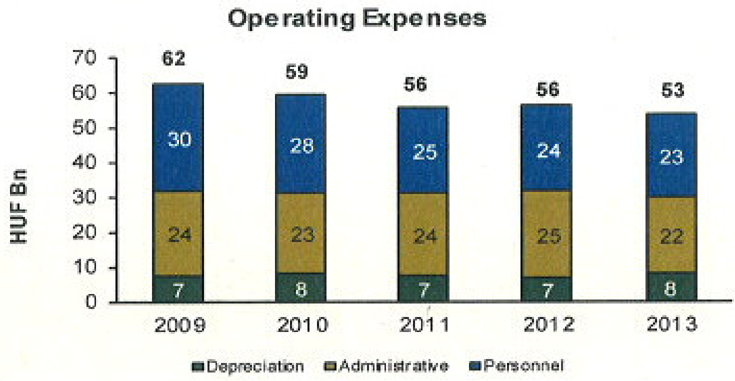
Data source: CIB Group, IFRS



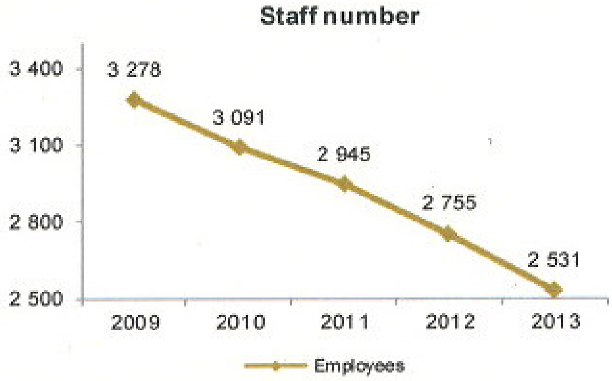
Data source: CIB Group, IFRS

2. Cost efficiency

Significant operating cost reduction has been undertaken to mitigate the impact of declining revenues that resulted in 4,3% cost decrease compared to 2012, thanks to lower employee number (-8% compared to December 2012) and administrative cost savings. Overall cost savings reached 15% compared to 2009 despite the additional recovery unit expenses which were necessary to improve overall recovery rate on NPLs.



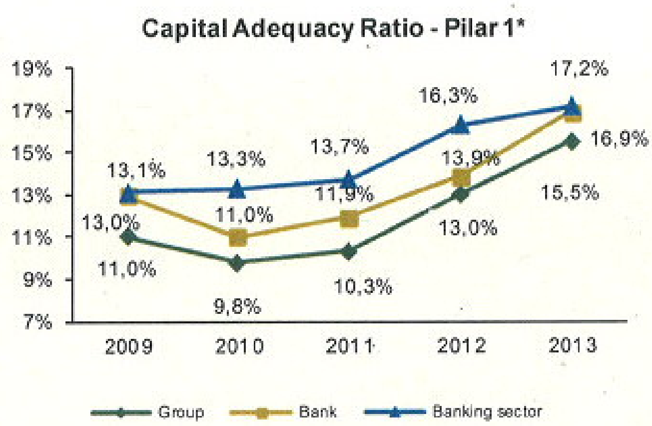
Data source: CIB Group, IFRS (excluding bank tax and transaction duty)



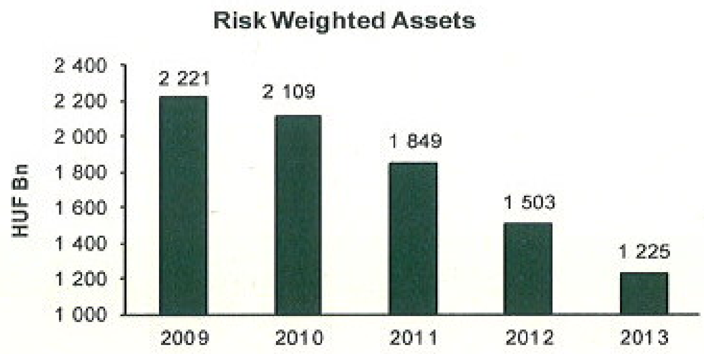
Data source: CIB Group, IFRS

3. Capital adequacy

The capital adequacy ratio of CIB Group under Pillar 1 is higher than the regulatory minimum of 8% and totaled 15,5% at the end of December 2013. To offset the losses CIB's owner increased the Group's equity by HUF 101.7 billion in 2012 and a further HUF 110 billion capital injection was received during 2013. The capital adequacy ratio of the Bank was 16.9% (December 2013) under Pillar 1. Further actions to maintain stable capital adequacy still remained a top priority for the Group.



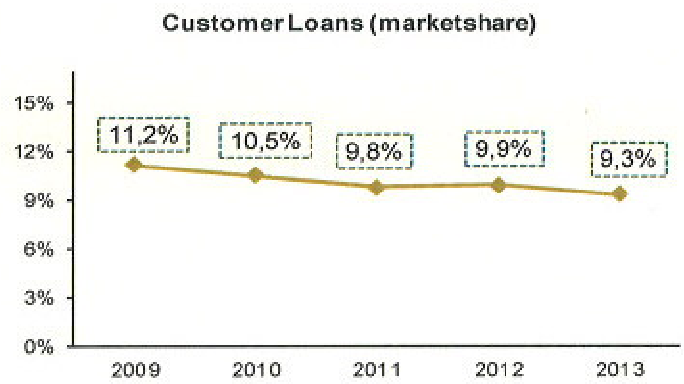
Data source: HFSA, CIB Group, HAS. Solvency capital / Risk Weighted Assets

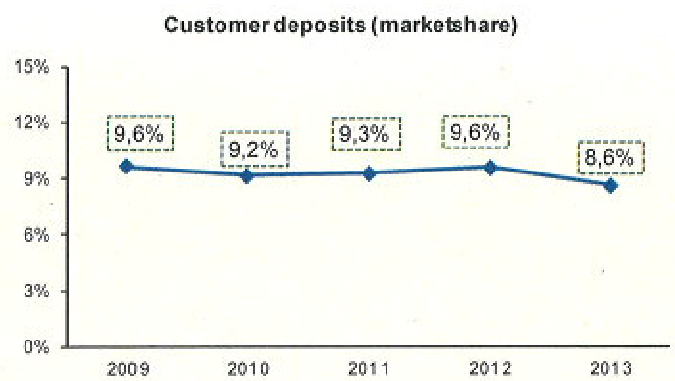


Data source: CIB Group, HAS

4. Strong market position

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 is one of the largest players in corporate lending where it had 12.5% market share according to the latest available data (December 2013) and in the retail deposits market (8.0% share in December 2013). Its customer base totaled to 560,000 customers by the end of December 2013.





Data source: HFSA, CIB Group, HAS

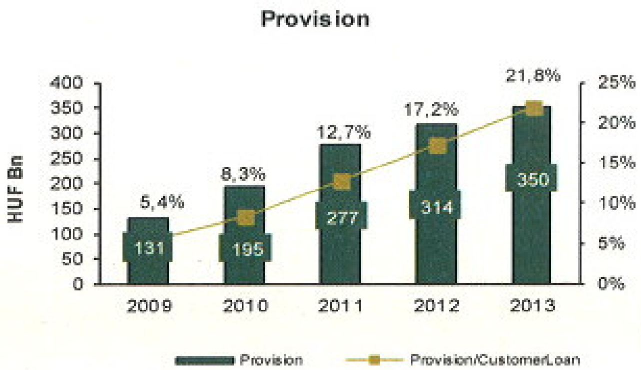
5. Solid shareholder backing

The owner of CIB Group, Intesa Sanpaolo S.p.A, one of Europe's major banking groups. ISP is committed to the central and eastern European (CEE) region and to the Hungarian market, which is a strategically important market for the group. ISP provided ongoing substantial capital and funding support to CIB in the past years, but also shared its group-wide operational best practices.

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. The Group applied prudent provisioning policy so overall provision volumes have cumulatively increased by more than HUF 218 billion compared to December 2009 level. The impairment to customer loans ratio increased from 5.4% (Dececember 2009) to 21.8% (December 2013).



Data source: CIB Group, IFRS

2. Foreign currency exchange and liquidity risk

Foreign currency loans make up almost 74% of the total loan portfolio while foreign currency deposits (including issued securities) represent 27% of total deposits that indicates a significant foreign currency 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 and its foreign currency open position is hedged through medium term EUR/HUF basis swap deals.

3. Regulatory environment

Home rescue programs

The Government adopted numerous new regulations during 2011 at aiming the improvement in the position of households with foreign currency denominated loans. Although the main part of the program was closed in 2012 (early repayment at preferential rate and 25% haircut on non-performing mortgage portfolio), the availability of the **buffer account** structure (debt servicing at a fixed exchange rate being lower than current market rates for 5 years) was lengthened.

Tax burdens

The extraordinary **banking sector tax** (HUF 12 bn) was expected to be halved in 2013, however due to government efforts to keep the budget deficit under control the tax was extended at their original amount to indefinite period of time.

The new **transactional duty** came into effect in 2013 and with increased rates from August 2013 and due to the **one-off additional payment** reaching 208% of the first four months duty causes additional HUF 4,9 billion tax burden. Transactional duty amounted to HUF 13.8 billion in 2013 including the one-off payment.

4. Slow market recovery in Hungary

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.

Although in 2013 the Hungarian economy came out from recession, the primary source of growth is still the export. From 2014 moderate recovery in domestic demand and investment growth is expected, due to the employment and real wage growth, and because of the "Funding for Growth Program". However if the European recovery turns out to be slower than expected, or the end of the monetary easing in the US or in the Eurozone results in capital withdrawal from emerging markets, the Hungarian banking sector could be affected negatively through increased funding cost and limited available liquidity.

IV. Outlook for the Bank Group

Improvement is foreseen for 2014 as the worsening of asset quality is expected to slow down, but will remain at the current high level, due to tentative economic recovery and material exposure to troubled commercial real estate construction sector and foreign currency denominated mortgages. Demand for financing might pick-up thanks to the Funding for Growth program of the central bank.

1. Slight recovery in banking sector

A moderate growth is expected in the Hungarian economy in 2014, but the country's economy will remain vulnerable to external shocks. Demand for new loans will remain at a low, but slight improvement might occur as investments and retail consumption gradually pick up. Corporate loan portfolio is likely to stop declining in the upcoming years also supported by the Funding for Growth Scheme. However, a sustained recovery in lending will require further improvement of basic macroeconomic perimeters and easing of the burdens of the banking sector.

The residential real estate market will be under pressure in the future that also deteriorates business environment of the retail mortgage market and negatively influences the banking sectors' risk appetite in this field. The commercial real-estate market is suffering from the excess capacities that were built in the pre-crisis years, which makes the banks extremely cautious in financing new real estate projects.

2. Sector profitability remains weak

Profitability of the Hungarian banking sector will remain under huge pressure due to low credit demand, shrinking loan portfolio, generally poor credit quality and high level of taxation burden. The high volume of non-performing loan portfolio will significantly affect the profitability of the banks including CIB through further impairments, lower income generation and increased costs of recovery activities.

Low predictability of the banking sector and the constant depressed level of profitability may influence some players of the banking market to revise their strategies and it may lead to consolidation in the banking sector.

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

Assets

The balance sheet total of CIB Group amounted to HUF 1,849 billion (-12.7%) as of December 2013. The lower balance was primarily a consequence of shrinking customer loan portfolio.

Customer Loans

At the end of December, 2013 CIB Group's consolidated gross loan portfolio was HUF 1,602 billion (-12.6%). Within the total portfolio the proportion of retail loans (mortgage, car financing and others) reached 30.3% (-0.8%) by the end of December 2013, while real estate financing accounted for 32.1% (+0,5%) of the portfolio. The share of large corporate loans increased slightly during the current period, while SME financing decreased by 2%. Demand for new financing was low through the whole period, retail new disbursements decreased slightly compared to the same period of 2012, even excluding the effect of last year's refinancing of fixed rate mortgage conversion deals. Sale of non performing loans reduced the customer loans balance by almost HUF 61 billion.

Loan portfolio quality

The credit quality of CIB Group's loan portfolio stabilized during 2013. The amount of 90 days past due loans decreased to HUF 425.2 billion (-3.3%), although the share of 90 days past due loans increased by 2.5% points to 26.5%, as a result of the shrinking performing loan portfolio. One of the most increase occurred in the retail segment, where the share of 90 days past due portfolio rose by 4.2% points compared to December 2012 and reached 26.0% by the end of Dec 2013. In case of real estate finance the worsening of the portfolio continued in line with the depression of the sector and the share of 90 days past due portfolio reached 35.3% (+4.8%) by the end of December 2013. During 2013 CIB provisioned HUF 103.1 billion to cover potential losses from loan portfolio.

Securities

The Group held securities portfolio of HUF 281 billion by Dec 2013 (+7.6%) of which trading portfolio amounted to HUF 7.8 billion; available for sale portfolio reached HUF 267.6 billion, while held to maturity portfolio was HUF 5.5 billion. The majority of the security portfolio (97.8% of total securities held) consisted of Hungarian government bonds..

Repossessed properties, Tangible and Intangible Assets

As part of the recovery strategy CIB Group continued to repossess real-estates in 2013 that previously served as collateral for non performing loan. As a result of this the net book value of fixed and intangible assets reached HUF 126.9 billion of which the net book value of repossessed properties was HUF 96 billion. New repossession during 2013 amounted to HUF 11.7 billion. On the other hand the Group sold HUF 12 billion repossessed real estates through two different channels. The Group held very successful auctions which resulted in the sale of more than 40 real estates.

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 154.6 billion (+9.9%) by the end of Dec of which 42% was placed within Intesa Sanpaolo Group.

Liabilities

Customer Deposits

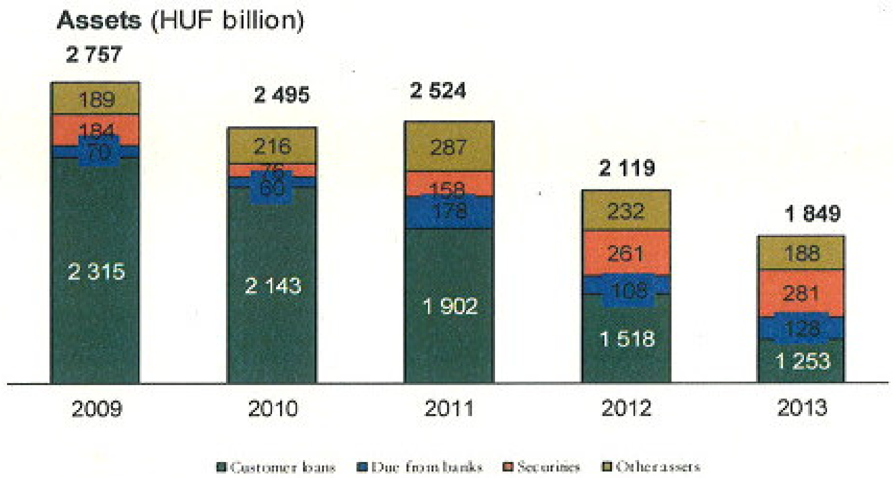
Total customer deposits, including issued bonds, amounted to HUF 1,253 billion (-8.1%) by the end of Dec 2013. The balance was negatively affected by the competition of government bonds and investment funds which eroded consumer deposits. Consumer funds (including issued bonds and investment funds) were HUF 791 billion at the end of December 2013 (-9.0%) and their share within total customer savings amounted to 51.2%. Investment funds increased by HUF 113.4 billion (+68.1%), which was the number one increase on the market.

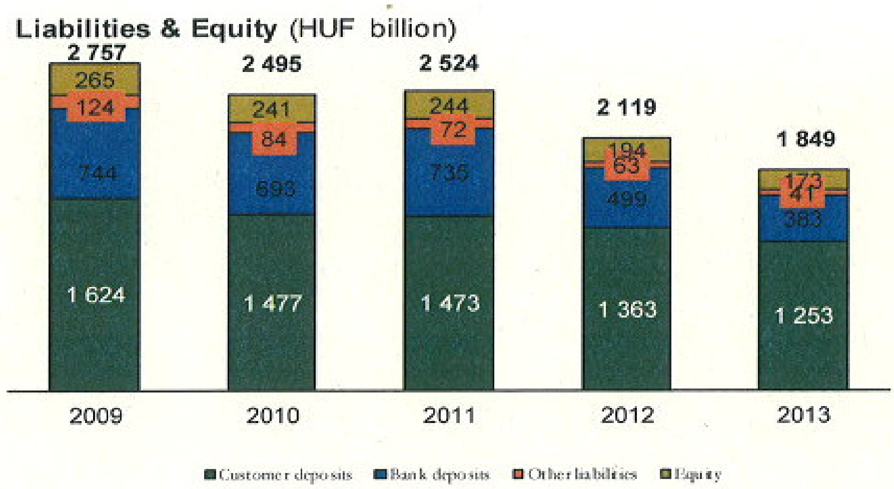
Deposit from banks

Interbank funds – including subordinated deposits – totaled to HUF 383.3 billion (-23.2%) as of Dec 2013. Part of the funds came from the Group's parent company and amounted to HUF 227 billion (-35%) at the end of 2013. All of the parent company loans were medium term lines at year-end, while all short term loans from ISP were paid back during the first half of 2013 as the improving liquidity position of the Group made possible the repayment of short term ISP funds.

Equity

CIB Group's total shareholders' equity was HUF 172.6 billion (-11.2%) following the equity increase of HUF 110 billion received from the parent company in 2013 to offset the losses of the current year.





Data source: CIB Group, IFRS

Profit and loss

Revenues

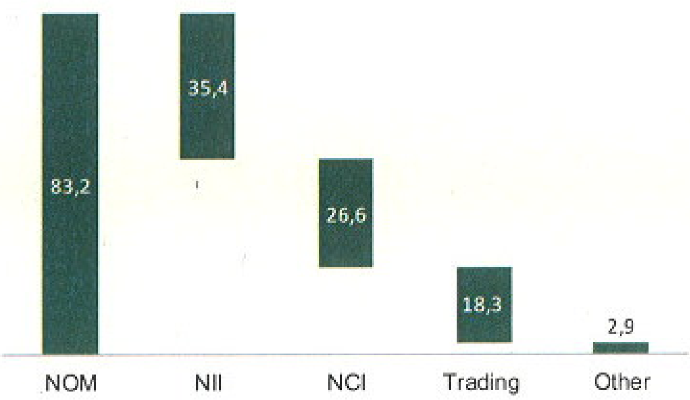
Total revenue of CIB Group amounted to HUF 90.1 billion (+8.4%), out of which Net Interest Income was HUF 37.5 billion (+6.0%). Net Commission Income was HUF 31.6 billion (+18.7%), while Trading Income totalled to HUF 16.9 billion (-7.5%).

Net interest income was higher than in the same period of 2012, thanks to lower interest paid on customer deposits, as a result of the continuous HUF base rate cuts during the year, while the cost of bank deposits also lowered, in line with the decreasing Hungarian riks premium. Lower cost of funding was able to compensate for the decreasing revenue on customer loans, which was the result of the shrinking loan portfolio and deteriorating portfolio quality.

Net commission income increased thanks to higher current account and card fees, however their positive effect was offset by the increased OPEX caused by the financial transactional duty. Fee income connected to investment funds also increased thanks to the higher fund balance.

Slightly higher Trading income was the consequence of lower derivative portfolio revaluation losses, connected to basis swap deals in 2013, while profit from foreign currency operation decreased compared to last year, due to lower customer transactional activity, which was a result of the financial transactional duty.

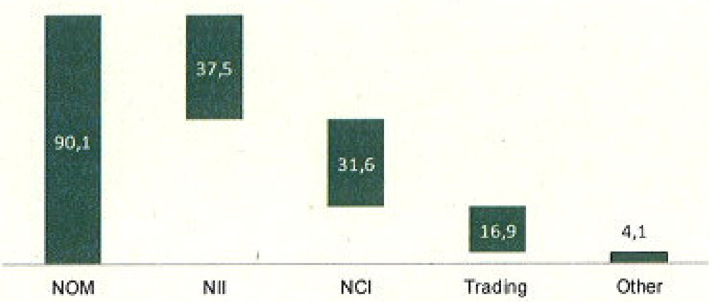
Breakdown of revenues - 2012



Relative weight

42,5% 32,0% 22,0% 3,5%

Breakdown of revenues - 2013



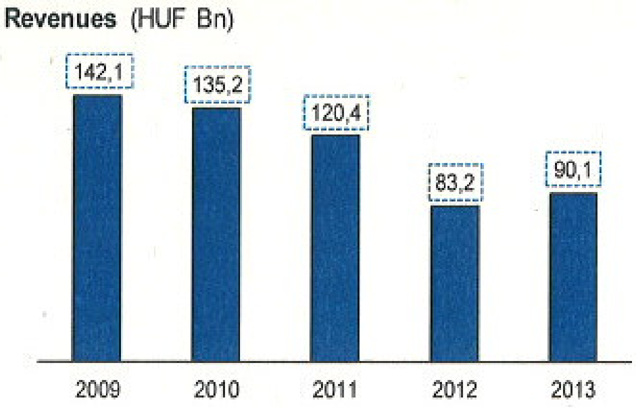
Relative weight

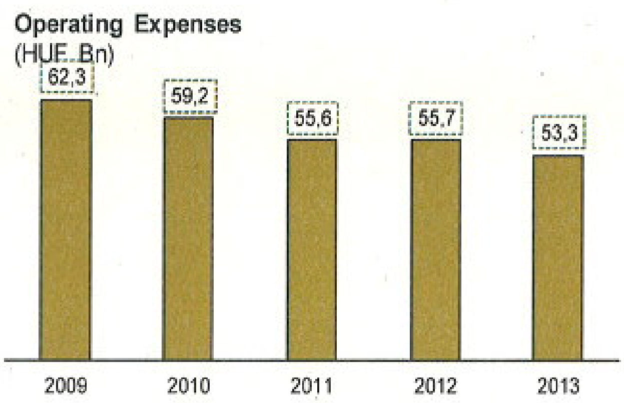
41,6% 35,0% 18,8% 4,6%

Data source: CIB Group, IFRS

Operating Expenses

Total operating expenses totalled to HUF 75 billion at the end of 2013 and increased by 8.6% compared to 2012. However excluding transactional duty and bank tax it decreased by 4.8% compared to the same period of last year and amounted to HUF 53.3 billion. Ordinary expenses kept on shrinking as CIB's management implemented a cost-reduction program in the past years. As a result personnel expenses decreased by 3.7% in 2013 in line with the lower staff number (by an average of 209 persons), while administrative expenses decreased by 10.2% compared to the previous year. The cost to income ratio decreased to 59.1% in 2013 (-7.8% points lower than in the same period of 2012), thanks to higher revenue and reduced cost base.





Data source: CIB Group, IFRS

Banking Sector Taxes and Duties

Total extraordinary bank tax of the Group for 2013 amounted to HUF 12.1 billion. Transactional Duty expense, including the one-off charge payment reached HUF 13.8 billion.

Allowances and impairments

The amount of new allowances and impairments reached HUF 142.4 billion (-9.2%) in 2013. Out of the total, loan impairment expense reached HUF 105.7 billion (HUF 26.4 billion lower than in the same period of 2012). More than 41% of the new provisioning came from the project finance segment (52% in 2012), due to deterioration of portfolio quality in line with the extended recession and its impact on valuations across many asset classes. New impairment in the retail business accounted for 40% of loan impairment expense, due to additional impairment on mortgages connected to the deterioration of collateral values and because of additional collective provision on the performing mortgage portfolio, while in 2012 the share of retail business was only 22%. The cost of credit (Impairment / Loan volume) amounted to 8.4% in 2013 (-28 bps compared to 2012).

In addition to loan impairment expense the Group recorded HUF 37.4 billion loss connected to its repossessed assets portfolio (HUF 25.4 billion in 2012), that is also a legacy of the project financing activities of the pre-crisis period. The impairment was necessary as appetite for Hungarian real estate, especially larger development assets with no or limited rental income, from domestic or foreign buyers remains limited and will remain so in the medium term.

The Group closed the year of 2013 with a loss of HUF 136.7 billion, due to the high ratio of non-performing loan portfolio and extraordinary taxes.

VI. Operations of the subsidiaries in 2013[1)]

As part of the efficiency improvement program the Group started the simplification of its company structure in 2010 that continued in 2012 and 2013 resulting in a reduced number of subsidiaries. In January 2013 CIB Investment Fund Management Zrt was sold to Eurizon Capital (a member of ISP Group).

The Group structure was the following at each 31 December:

(number of companies)	2013	2012
Companies for providing services and products to Group's customers	5	6
Companies responsible for the management of repossessed assets	3	3
Companies under unwinding procedure	2	2
Total	**10**	**11**

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 merged 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 decreased by 1.9% compared to 2012, and amounted to HUF 342 billion in 2013. With a market share of 9.2% (as of December 2013) CIB Leasing subsidiaries were the second largest players on the market. The total assets of the company in December 2013 were HUF 183.8 billion, significantly affected by the decreasing customer loan portfolio. Net results for the year 2013 was HUF 3.0 billion profit.

- **CIB Rent Zrt.**

The company is specialised in operative leasing transactions. The total assets of the company at the end of 2013 were HUF 12.2 billion, while net profit reached HUF 509 million.

- **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 2013 total assets of CIB Real Estate Leasing Zrt. amounted to HUF 7.3 billion, while its net result was a loss of HUF 514 million.

- **CIB Insurance Broker Kft.**

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2013 total assets of CIB Insurance Broker Kft. amounted to HUF 1.1 billion, while its net result was HUF 328 million.

1) Balance Sheet and P&L figures are based on the HAS stand alone financial statements

- **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 2013 total assets of the company reached HUF 14.4 billion, while net results amounted to HUF 338 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. On 31 December 2011 CIB REAL Zrt. (a company dealing with the management of Group's operating premises) merged with Recovery Kft. The sole legal successor of the merged entities is Recovery Zrt. Total assets of the company closed at HUF 137.1 billion, because of continued asset purchases. Due to financing cost of the real estate portfolio and because of some impairment connected to the previously repossessed real estates, the company closed the year with a loss of HUF 36.7 billion.

- **CIB Car Ltd.**

The company was founded in year 2006, to deal with vehicle trading. Total assets at the end of 2013 were HUF 0.5 billion, while the annual result was a profit of HUF 41.6 million.

- **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 3.1 billion, while net result for 2013 amounted to HUF 1.5 billion loss, due to the interest expenses paid to finance its assets and because of the impairment recorded on the real estate.

3. Companies under unwinding procedure

- **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 2013 were immaterial.

- **CIB Leasing Holding Kft.**

The company was established by a demerger from CIB Rent Zrt. in 2010, executes the owner rights in CIB Leasing Zrt and has no other activity. Total assets of the company reached HUF 23,8 billion by the end of the year, which includes only its shareholding in CIB Leasing Zrt, the company had a loss of HUF 3.6 billion in 2013, due to HUF 1,8 billion Interest expenses and HUF 1.8 billion impairment of its investments.

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

No significant events or processes occurred after the Balance sheet date, during the period prior to the preparation of the financial statements and the approval thereof that could have a material impact on the Group financial or earnings position.

VIII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of financial instruments. The purpose of the HUF 375 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 7.8 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 267.6 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 government bond (former municipality bond) portfolio up to HUF 52 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 performs such transactions mainly for 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 Management Board. 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 containing methodology of 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 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, deal approval, 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 Management Board, under the supervision of the Supervisory Board and in harmony with the group level risk tolerancy of the parent company, 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 banking book interest rate 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.

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 aims 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 2013 and 2012 the Group had no own research and development and not participated in the financing of any research projects.

XII. Employment policy of the Group

In 2013 the human resources strategy of CIB Group has been adjusted to the new business strategy which is set for the next five years. With this step focuses are changed but our main goal is remained the same: build a motivated, co-operative and efficient Group by launching fundamental HR programs and fine tune already existing HR services to be able to support the execution of the new strategy.

Relying on previous year's experiences the following points were highlighted by the Human Resources division in 2013:

Redesigning approach and cultural development:

In 2013 we continued the previously started culture changing process. During the year various workshops were organized for each division in order to make sure that everyone knows and understands the aim and milestones of the new corporate culture. Employees' engagement and loyalty were supported and strengthened by CIB Spirit programs. As a result of this, a team of enthusiastic employees formed a so called "CIB Spirit ambassadors" group that was willing to contribute to the success and execution of the culture changing process. Beside all of these progressions, we introduced a new leadership development program series consisting of several modules and 360 degree feedback. We also built our cultural objectives in the orientation and skill development trainings as well.

Retention and meritocracy

Beside of strengthening the performance aspect in HR systems like recruiting, compensation, promotion and rewarding we have made an extra effort to keep those talented colleagues who have outstanding competencies.

In 2013 we set up our own SAP based performance evaluation (TÉR) and career management systems (KARMA). Starting from the top management panel and feedback discussions have given the opportunity to record last year's evaluation and future career path in a documented way. During panel discussions - included invited managers - assessment of each division's employees were presented, discussed and even those were identified who could be considered as a possible successor in case of managerial positions. For this group we organized a Talent Leadership program, whose members' development process is consciously preparing them for their future role.

In 2013 we reviewed our compensation and reward system and pre-prepared the changes of fringe benefits system. In 2014 we switched from net based calculation to gross based so in this way employees are able to use 40% higher amount as there are tax-exempt choices among the optional elements.

Professional HR processes

In order to provide a more efficient HR support to our inner partners we started to increase the presence of HR, we also simplified our processes and continued the revision of our policies.

HR processes, operations and services have been reviewed, updated and regulated. As a part of these measures modified labour code, training, recruitment and rewarding policies have been approved. Performance evaluation, career management and employee mobile phone policies have also been accepted and carried out successfully. The SAP system training management (KéMény) system was also successfully launched.

HR team also played an important and active role during the organizational changes. According to the decision of the top management last year in December we separated the risky portfolio from the profitable one in order to be able to focus on growth in the business division. The same reason was behind the rationalization of retail and re-segmentation of SME. Number of our branches were reduced in 2 steps to 94. Several other organizational changes were made adjusted to the new business strategy.

XIII. Sites of operation

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

XIV. Environmental protection

Considering the nature of our Company's activities, the protection of the environment does not have a significant impact on our financial position. Nevertheless, our Company is consciously striving to reduce its environmental impact, both direct and indirect, to the minimum. The Bank Group made significant efforts again in 2013 to engage its employees in the various environmental programs and energy conservation initiatives that it had launched. In line with the practice of previous years, these initiatives focus on energy efficiency primarily through communication and engagement, while providing a unified framework for all related activities.

In 2013 we've taken the next steps on the field of Environment protection and energy efficiency:

- The CIB on Group level reduced the electrical energy consumption by 3,2 MWh, which caused reduction of 1.190 tonnes CO2 emission.

- The office-paper consumption is reduced by 17,1 %, compared the 175.828 kg in 2012 to the 145.781 kg in 2013, and in 2013 50 % of the office-paper was recycled product.

- The bycicle useage is more and more popular in the colleagues. In 2012 142 people used the locker and changing rooms, using bycicle to go to work - in 2013 176, and the locker capacity in the HQ Petrezselyem was extended by 30 lockers in 2013 (male and female together).

- Changing the traditional lighting to LED lights is a continuos project. In 2013 a full floor was changed to LED lights in HQ Petrezselyem, also the 24 hours zones in the Budapest Branches, significantly extended the lifetime, and reducing the waste at the future changing this way.

- In 44 Branches and in the HQ Medve the old and unefficient UPS units were changed to new.
- With the modern, smaller and energy efficient UPSs the electrical energy useage was reduced by 10 %, similary the CO2 emission, and with the extended lifeme of the UPS akkus, the hazardous waste was reduced also significantly for the next 4-6 years.

Overall, we are pleased to report that in 2013 we succeeded in significantly reducing both our energy use and our paper consumption, and in the same time the environment-friendly bycicle-traffic was raised also significantly.

Budapest, 24 February 2014

Fabrizio Centrone
CEO

Eduardo Bombieri
DCEO

Representatives of the credit institution