CIB BANK Ltd.
and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2014
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

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This is an English translation of the Independent Auditors' Report on the 2014 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 2014 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 2014, which shows total assets of MHUF 1,733,642 the consolidated statement of comprehensive income, which shows loss for the year of MHUF 104,140 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 2014, 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.

KPMG Hungária Kft., a Hungarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Company registration: Budapest, Fővárosi Törvényszék Cégbírósága, no: 01-09-063183

Report on the Consolidated Business Report

We have audited the accompanying 2014 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 2014 consolidated business report of CIB Bank Zrt. and its subsidiaries is consistent with the data included in the 2014 consolidated financial statements of CIB Bank Zrt. and its subsidiaries.

Budapest, 24 February 2015

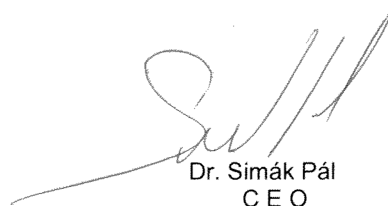
KPMG Hungária Kft.
Registration number: 000202

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

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2014
(million HUF)

	Note	2014	2013
Interest income	7	67 397	87 628
Interest expense	7	(27 366)	(50 110)
Net interest income		**40 031**	**37 518**
Fee and commission income	8	34 243	38 979
Fee and commission expense	8	(4 799)	(7 425)
Net fee and commission income		**29 444**	**31 554**
Income from trading activities	9	13 899	16 935
Other operating income	10	2 868	4 117
Net banking income		**86 242**	**90 124**
Impairment losses on loans	11	(41 482)	(103 105)
Net loan losses and provision according to Settlement Law	11	(70 205)	-
Other impairment losses and provisions	11	(6 865)	(39 253)
Operating expenses without bank tax	12	(56 480)	(62 759)
Loss before bank tax and income taxes		**(88 790)**	**(114 993)**
Bank tax	13	(11 903)	(12 101)
Loss before income taxes		**(100 693)**	**(127 094)**
Income tax expense	14	(3 447)	(9 650)
Net loss for the year		**(104 140)**	**(136 744)**

24 February 2015



Dr. Simák Pál
CEO

Andrea de Michelis
CFO

CIB Bank Ltd.

The accompanying notes on pages 12 to 83 form part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2014
(million HUF)

	Note	2014	2013
Net loss for the year		**(104 140)**	**(136 744)**
Items that may not be reclassified to profit or loss			**4,164**
Income from transaction under common control			4,164
Items that may be reclassified to profit or loss			**765**
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)		236	765
Other comprehensive income for the year (net of taxes)	**16**	**236**	**4,929**
Total comprehensive income for the year		**(103,904)**	**(131,815)**
Attributable to Equity holders of the parent		**(103,904)**	**(131,815)**

24 February 2015

Dr. Simák Pál
CEO

Andrea De Michelis
CFO

CIB Bank Ltd.

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Consolidated Statement of Financial Position
as at 31 December 2014
(million HUF)

Assets	**Note**	**2014.12.31**	**2013.12.31**
Cash and current accounts with central bank	17	27 335	26 792
Due from banks	18	302 857	127 804
Financial assets at fair value through profit or loss excluded derivatives	19	12 476	7 812
Derivative financial assets		19 599	12 489
Loans and advances to customers	20	*1 339 180*	*1 602 268*
Allowance for loan losses	20	*(277 758)*	*(349 736)*
Net loans and advances to customers		1 061 422	1 252 532
Financial investments – Available-for-sale	22	182 793	267 648
Financial investments – Held-to-maturity	22	-	5 533
Non-current assets held for sale		947	1 142
Current tax assets		7 187	11 400
Deferred tax assets	14	750	1 117
Other assets	21	5 038	8 108
Repossessed properties	23	86 199	95 953
Intangible assets	24	7 306	8 325
Property and equipment	25	19 733	22 585
Total assets		**1 733 642**	**1 849 240**

24 February 2015

Dr. Simák Pál
C E O

Andrea De Michelis
CFO

CIB Bank Ltd.

The accompanying notes on pages 12 to 83 form part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position
as at 31 December 2014
(million HUF)

Liabilities and Shareholders' Equity	Note	2014.12.31	2013.12.31
Deposits from banks	26	213 655	316 449
Derivative financial liabilities		18 486	14 216
Deposits from customers	27	1 114 740	1 159 569
Liabilities from issued securities	28	91 410	93 286
Current tax liabilities		4 367	4 263
Deferred tax liabilities	14	1 549	2 194
Other liabilities	29	10 701	12 858
Provisions	30	37 214	6 975
Subordinated debt	31	56 740	66 883
Total liabilities		**1 548 862**	**1 676 693**
Shareholders' equity			
Share capital	32	145 000	145 000
Reserves	33	332 992	216 621
Retained earnings		(293 212)	(189 072)
Total shareholders' equity		**184 780**	**172 547**
Total liabilities and shareholders' equity		**1 733 642**	**1 849 240**

24 February 2015

Dr. Simák Pál
C E O

Andrea De Michelis
CFO

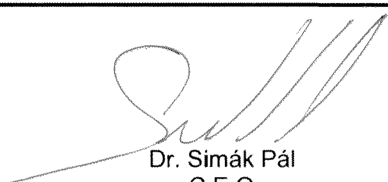
CIB Bank Ltd.

The accompanying notes on pages 12 to 83 form part of these Consolidated Financial Statements.

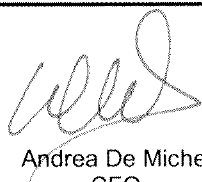
Consolidated Statement of Changes in Equity for the year ended 31 December 2014 (million HUF)

	Note	Ordinary Shares	Retained Earnings	Capital reserve	Revaluation reserve	Other reserve	Total
Balance at 31 December 2012		**145 000**	**(52 328)**	**102 719**	**(1 027)**	-	**194 364**
Other 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	31	-	-	-	-	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**
Other comprehensive income	13	-	-	-	236	-	**236**
Issue of shares	31	-	-	67 000	-	-	**67 000**
Other equity contribution		-	-	-	-	49 137	**49 137**
Net loss for 2014		-	(104 140)	-	-	-	**(104 140)**
Balance at 31 December 2014		**145 000**	**(293 212)**	**243 719**	**(28)**	**89 301**	**184 780**

24 February 2015



Dr. Simák Pál
C E O



Andrea De Michelis
CFO

CIB Bank Ltd.

The accompanying notes on pages 12 to 83 form part of these Consolidated Financial Statements.

CIB BANK

Consolidated Statement of Cash Flows
for the year ended 31 December 2014
(million HUF)

CIB BANK LTD.
and subsidiaries

	Note	2014	2013
Operating activities			
Profit (loss) before tax		(100,690)	(127,097)
Depreciation	12	5,834	6,227
Net unrealized (gain) / loss on financial instruments		(2,944)	(14,973)
Increase in allowance for loan losses		(71,978)	35,319
Increase in allowance for repossessed properties and own properties		(13)	33,637
Working capital charges:			
Decrease / (increase) in due from banks	18		-
Decrease / (increase) in financial assets at fair value through profit or loss	19	(4,799)	18,444
Decrease / (increase) in loans and advances to customers	20	290,067	228,670
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)	21	7,479	830
Increase / (decrease) in deposits from banks	26	(102,794)	(117,322)
Increase / (decrease) in deposits from customers and liabilities from issued securities	28	(46,578)	(110,286)
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	29, 30	28,184	(3,643)
Income tax charged	14	(3,730)	(3,671)
Cash flows used in operating activities		**(1,962)**	**(53,865)**
Investing activities			
Purchase of financial investments		(359,812)	(236,511)
Proceeds from sale of financial investments		267,390	239,540
Acquisitions to intangible and tangible assets		(3,235)	(2,727)
Acquisitions to repossessed properties		(17,105)	(11,492)
Disposals of intangible and tangible assets		1,261	4,492
Cash flows used in investing activities		**(111,501)**	**(6,696)**
Financing activities			
Subordinated debt	31	(10,143)	1,257
Additional payment to cover losses	33	-	36,000
Cash from share capital	32	67,000	74,000
Other equity contribution		49,137	-
Cash flows from financing activities		**105,994**	**111,257**
Net increase / (decrease) in cash and cash equivalents	**41**	**(7,469)**	**50,696**
Cash and cash equivalents at the beginning of year	41	375,451	324,755
Cash and cash equivalents at the end of year	41	**367,981**	**375,451**
Additional information for cash flows from operating activities			
Interest received		67,573	88,188
Interest paid		26,268	51,175
Dividend received		-	46
Income tax paid		2,614	2,843

24 February 2015

Dr. Simák Pál
CEO

Andrea De Michelis
CFO

CIB Bank Ltd.

The accompanying notes on pages 12 to 83 form part of these Consolidated Financial Statements.

Cash and cash equivalents presents the following balance sheet categories

	2014	2013
Cash and current accounts with central bank comprises	27,335	26,792
Due from banks	302,857	127,804
Financial assets at fair value through profit or loss	33	198
Financial investments	37,756	220,657
Cash and cash equivalents at the end of year	**367,981**	**375,451**

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 (67.6905% as at 31 December 2013). 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 2014 (32.3095% as at 31 December 2013).

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 2,921 in 2014 and 2,782 in 2013, respectively.

As at 31 December 2014 the Bank had the following subsidiaries ("the Group"):

Company	CIB Group's % share	Country of incorporation	Principal Business
CIB Leasing Co. Ltd.	100%	Hungary	Financial leasing services
CIB RENT Leasing and Trading Company Ltd.	100%	Hungary	Leasing services
CIB Real Estate Leasing Co. Ltd.	100%	Hungary	Real estate leasing services
CIB Insurance Broker Ltd.	100%	Hungary	Insurance agency services
CIB Factor Ltd.	100%	Hungary	Factoring financing services
Recovery Ltd.	100%	Hungary	Professional services
CIB Car Ltd.	100%	Hungary	Car trading services
Brivon Hungary Ltd.	100%	Hungary	Property development and maintenance services
CIB Leasing Holding Ltd. – under winding up procedure	100%	Hungary	Holding company

The Consolidated Financial Statements for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Management Board on 24 February 2015.

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) Basis of preparation

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 of hedged items attributable to the risks that are being hedged.

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 2014 the euro was EUR 1 = HUF 314,89 (2013: EUR 1 = HUF 296.91) and Swiss Franc was CHF 1 = HUF 261.85 (2013: CHF 1 = HUF 242.14).

Financial assets and financial liabilities are offset and net amount presented in the Statement of Financial Position when, and only when the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(4) 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 accounting policies consistent with those of the parent.

All inter-company balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are investees controlled by the Bank. The Bank controls an investee if it is exposed to or has the right to, variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control commences until the date when control ceases. The list of consolidated subsidiaries is included in Note (1).
Business combinations and transactions under common control during 2014 are detailed in Note 42.

(5) Significant accounting judgments and estimates

In preparing these consolidated financial statements management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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,
- recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used,
- 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

At each reporting date, the Group assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.
Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower,
- default or delinquency by a borrower,
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise,
- indications that the borrower will enter bankruptcy,
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances at both a specific asset and a collective level.
All individually significant loans and advances are assessed for specific impairment. The individual component of the total allowance for impairment is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral.

(5) Significant accounting judgments and estimates (continued)

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by Credit Risk function.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant, and
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported).

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentration and economic factors.

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

(c) Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used

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 estimation 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 2014. 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.

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.

(5) Significant accounting judgments and estimates (continued)

(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.

(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.

Supreme Court's Law and Settlement Law released in July and October, 2014 covers all HUF and foreign currency retail loan and financial leasing contracts. According to the Supreme Court decision the exchange rate bid-ask spread used by the banks was considered as null and void, and general contract conditions are unfair, which allowed the unilateral changes of prices. Settlement with the customers will take place with the reference date of 1 February 2015.

As of 31 December 2014 the Group made provision on the future payments towards customers based on estimation. The estimation is made taking into consideration the following assumptions:

- The calculation includes existing and expired, performing and non performing mortgage, personal loan and car finance FX denominated portfolios. Exemptions are considered, e.g. early mortgage repayment portfolio, loans expiring before July 2009.
- The estimation of the bid ask spread provision is based on the analytical accounting of the previous years capitalized using a compounded interest rate on the calculated adjustments.
- The estimation of the impact of the alleged unilateral rate increase is calculated on the average balances of the loan portfolio by applying the interest rate and handling fee increases on the different product groups.
- No effects of the tax obligations were taken into account as the bank is carrying tax losses.

(5) Significant accounting judgments and estimates (continued)

(g) Impairment on repossessed properties

Repossessed assets classified under IAS 2 shall be measured at the lower between cost and net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group verifies once a year whether there is an indication that the asset may be impaired, whether the amount recognized in the balance sheet requires an adjustment following the impairment test.

(6) Significant accounting policies

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

6.1 Foreign currency transactions

The presentation currency of the Group is the Hungarian Forint (HUF). Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of transactions

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 are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined.

Foreign currency differences arising on translation are generally recognized in profit or loss. However foreign currency differences arising from the translation of the following items are recognized in OCI:

- available-for-sale equity instruments.

6.2 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.

6.3 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.

(6) Significant accounting policies (continued)

6.4 Derecognition

A financial asset is derecognised when:

- The contractual 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 and either:
  - the Group has transferred substantially all the risks and rewards of the asset, or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

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

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

6.5 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. Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position with transaction costs recognized in the profit or loss. 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 category debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking.

6.6 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in the fair value and are used by the Group in the management of its short term commitments.
Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(6) Significant accounting policies (continued)

6.7 Derivative financial instruments and hedge accounting

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

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

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.

(6) Significant accounting policies (continued)

6.8 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.
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).

6.9 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.

(6) Significant accounting policies (continued)

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.

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). For more information on non-performing loans see Note (47) on Risk Management.

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 repossessing. Furthermore, the Group shall consider renting aspects to existing debtors subject to case by case evaluation through either appointed or self managed company.

(6) Significant accounting policies (continued)

6.10 Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incident to ownership of the leased 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 at the inception of the lease and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the Statement of Comprehensive Income, except for the residual value accounted as other operating income (expense) when closing the contract.

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.

6.11 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.

6.12 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.

(6) Significant accounting policies (continued)

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 profit or loss.

6.13 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.

6.14 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 unobservable 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.

6.15 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 in the respective period.

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 in the respective period.

(6) Significant accounting policies (continued)

6.16 Intangible assets, property and equipment

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

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%	individually assessed
Software	20%	individually assessed
Motor vehicles	20%	20% of gross value

During 2014 the residual values set up in the Accounting Policy were reviewed. As a result, the residual value was changed from 30% to 20% in case of company cars.

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 and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the asset is included in the Statement of Comprehensive Income as Operating 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.

6.17 Goodwill

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

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

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

(6) Significant accounting policies (continued)

6.18 Inventories and other assets

Inventories classified as other assets 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. At initial recognition repossessed properties are measured at market value. Subsequent to initial recognition repossessed properties are annually tested for impairment and stated at the lower between cost and net realizable value. Repossessed properties are derecognised when either they have been disposed 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.

6.19 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, equipment and intangible assets once classified as held for sale are not depreciated or amortised.

6.20 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.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

For liabilities carried at amortized cost, any gain or loss is recognized in profit or loss when the liability is derecognized.

6.21 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.

(6) Significant accounting policies (continued)

6.22 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.

Fees earned for providing services over a period of time - such as servicing fee, account turnover fee, card fee, investment services fee, documentary fee and cash management fee - 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.

6.23 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.
Local business tax and Innovation contribution are both revenue driven taxes, thus considered income tax.

(6) Significant accounting policies (continued)

Deferred tax

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each 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 as Income tax expense.

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.

(6) Significant accounting policies (continued)

Bank tax

In August 2010 the Hungarian Parliament approved a new Act called the "bank tax". The tax remained in place also in 2014 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.

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 2014 and 2013 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 2014 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.

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 withdrawal 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 withdrawal 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.

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

6.24 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.

(6) Significant accounting policies (continued)

6.25 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.

6.26 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.

6.27 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.

6.28 Operating profit

Operating profit represents profit from business operations and is defined as profit before tax connected to non-financial operations.

6.29 Employee benefits – Share based payment transactions

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.

6.30 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. The list contains standards and interpretations issued and expected to be relevant to the Group and to be adopted when they become effective.

(6) Significant accounting policies (continued)

IFRS 9 Financial instruments

IFRS 9 published in July 2014 replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruemnts from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Group is assessing the potential impact on its consolidated its consolidated financial statements resulting from the application of IFRS 9.

(5) Significant accounting judgments and estimates (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, now much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017.

Part B – Information on the Consolidated Statement of Comprehensive Income

(7) Interest income and interest expense

Interest income comprises	(million HUF) 2014	2013
Interest from customers	58,807	72,129
Interest income from financial investments – Available-for-sale	4,443	10,950
Interest from banks	3,277	3,111
Interest income from financial investments – Held-to-maturity	45	390
Subtotal	**66,572**	**86,580**
Interest from financial assets at fair value through profit or loss	825	1,048
Total	**67,397**	**87,628**

Interest expense comprises	(million HUF) 2014	2013
Interest paid to customers	19,605	40,080
Interest paid to banks	3,775	5,161
Interest paid on issued securities	3,986	4,869
Total	**27,366**	**50,110**

Interest expense related to financial liabilities not carried at fair value through profit and loss amounts HUF 27,138 million as at 31 December 2014 and HUF 49,886 million in 2013, respectively.

(8) Fee and commission income and expense

Fee and commission income comprises	(million HUF) 2014	2013
Servicing fee income for loans	6,198	6,815
Account turnover fee income	12,033	13,104
Card fee income	5,562	6,510
Investment services fee income	4,346	3,624
Documentary fee income	1,199	1,194
Cash management fee income	1,766	1,972
Agent fee income	636	1,086
Other fee income	2,503	4,674
Total	**34,243**	**38,979**

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

Fee and commission expense comprises	(million HUF) 2014	2013
Card fee expense	2,501	2,782
Account turnover fee expense	494	521
Investment services fee expense	183	250
Documentary fee expense	199	180
Servicing fee expenses for loans	36	44
Agent fee expense	91	93
Other fee expense	1,295	3,555
Total	**4,799**	**7,425**

(9) Income from trading activities

Income from trading activities comprises	(million HUF) 2014	2013
Net revaluation gain/(loss) from derivatives and trading with foreign currencies	7,932	7,178
Net realised gain/(loss) from derivatives	5,236	9,918
Net revaluation gain/(loss) on hedging instruments	8	21
Net revaluation gain/(loss) from trading with financial assets through profit or loss	30	(67)
Net realised gain/(loss) from trading with financial assets through profit or loss	490	168
Net gain from financial investments – Available-for-sale	203	(283)
Total	**13,899**	**16,935**

(10) Other operating income

Other operating income / (expenditures) comprises	(million HUF) 2014	2013
Net losses from selling of tangible and intangible assets	(5)	(172)
Dividend and similar income	3	46
Result on disposal of inventories	(121)	476
Income from property management	2,247	2,223
Net result on non-current asset held for sale	(125)	(492)
Other operating income / (expenditures)	869	2,036
Total	**2,868**	**4,117**

(11) Impairment losses, provisions and net loan losses

Impairment losses, provisions and net loan losses comprises	(million HUF)	
	2014	**2013**
Individual impairment for loan losses	43,490	92,666
Collective impairment for loan losses	(2,008)	10,439
Impairment losses on loans subtotal	***41 482***	***103 105***
Net loan losses and provision according to the Loan Settlement Law	70,205	-
Net loan losses and provision according to the Loan Settlement Law subtotal	***70,205***	**-**
Provision expense/(reversal) for financial guarantees	(182)	(976)
Provision expense/(reversal) for other commitments and contingencies	(323)	897
Result on sale of loans	2,235	2,630
Net losses on repossessed properties	3,425	33,007
Other impairment losses for other receivables	970	(24)
Other provision expenses/(reversal)	740	3,719
Other impairment losses and provisions	***6 865***	***39 253***
Total	**118,552**	**142,358**

(12) Operating expenses without bank tax

Operating expenses comprises	(million HUF)	
	2014	**2013**
Personnel expenses	23,066	23,315
a, Salaries	*16,017*	*16,530*
b, Other benefits	*1,498*	*1,455*
c, Social contributions	*5,551*	*5,330*
Depreciation	5,853	7,664
Office and Information Technology maintenance	5,936	5,889
Financial transaction duty	4,634	9,494
Other taxes and obligatory fees	4,128	3,983
Material expenses	2,118	2,652
Rent and leasing	2,167	2,266
Communications	2,296	2,086
Advertising	1,968	966
Expert fees	139	327
Other expenses	4,175	4,117
Total	**56,480**	**62,759**

(13) Bank tax

The following table illustrates the bank tax obligation of the Group in 2014 and 2013.

Company	(million HUF) 2014	2013
CIB Bank Ltd.	11,384	11,581
CIB Leasing Co. Ltd.	420	420
CIB Real Estate Leasing Ltd.	51	52
CIB Faktor Ltd.	48	48
Total	**11,903**	**12,101**

(14) 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 tax base of a company is below HUF 500 million the corporate income tax rate is 10%. If the tax base 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) 2014	2013
Current income tax charge	(3,730)	(3 671)
A, Corporate Income tax	*(386)*	*(181)*
B, Local business tax	*(2,919)*	*(3,039)*
C, Innovation contribution	*(425)*	*(451)*
Deferred income tax	283	(5,979)
Total	**(3,447)**	**(9,650)**

Deferred income tax	(million HUF) 2014	2013
Deferred tax asset write-down	0	(7,963)
Origination and reversal of temporary differences	283	1,984
Total	**283**	**(5,979)**

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

Reconciliation of income tax expense to profit before tax (million HUF)	2014		2013	
Profit before tax	(100,693)		(127,094)	
Theoretical income tax expense at the statutory rate	(19,132)	19.00%	(24,148)	19.00%
Tax base amending items according to the local regulations	14,327	(14.00%)	12	(0.01%)
Use of deferred losses	*(323)*	*0.32%*	*(160)*	*0.13%*
Non-deductible provision	*293*	*(0.29%)*	*(699)*	*0.55%*
Non-deductible expenditure	*14,356*	*(14.26%)*	*871*	*(0.69%)*
Effect of applying tax rate of 10%	105	(0.10%)	167	(0.13%)
Not recognised tax asset	4,803	(4.77%)	22,166	(17.44%)
Write-down of deferred tax asset	-	-	7,963	(6.27%)
Other income type taxes	3,344	(3.32%)	3,490	(2.75%)
Income tax at effective tax rate	**3,447**	**(3.42%)**	**9,650**	**(7.59%)**

Deferred tax assets and liabilities comprise (million HUF)	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Loans		265	23	231
Leasing	740	746	1,079	1,079
Properties		421	-	656
Securities at fair value		10	-	24
Other assets and liabilities	10	107	-	204
Total deferred tax to profit or loss	**750**	**1,549**	**1,112**	**2,194**
Deferred tax recognised in OCI		-	5	-
Total deferred tax	**750**	**1,549**	**1,117**	**2,194**

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 2014 at those companies where the profitability of the entity in the near foreseeable future is doubtful or uncertain.
In 2013 the Group made impairment on deferred tax asset in relation to carry forward tax losses previously recognized in the Consolidated Financial Statements.
Deferred tax asset is not recognized on the balance of carry forward unused tax losses; which amount was 277,584 million Huf as at 31 December 2014 and 229,971 million Huf as at 31 December 2013.

(15) Dividend paid

There were no dividends, declared or paid in either 2014 or 2013.

(16) Other Comprehensive income

Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes) and Income from transaction under common control

Other comprehensive income comprise	(million HUF)	
	2014	**2013**
Net gains/(losses) from changes in fair value	28	17
Deferred tax effect of net gains/(losses) from changes in fair value		-
Amortization of AFS securities	208	987
Deferred tax effect of amortization to net profit		-
Deferred tax asset impairment		(239)
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)	**236**	**765**
Income from transaction under common control		4,164
Other comprehensive income	**236**	**4,929**

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.

Part C – Information on the Consolidated Statement of Financial Position

(17) 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 as a restricted deposit 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 2014 and 2013 respectively.

Cash and current accounts with central bank comprises	(million HUF)	
	2014	**2013**
Cash	9,076	10,607
Current HUF account with the National Bank of Hungary	18,259	16,185
Total (Included cash and cash equivalents Note 41)	**27,335**	**26,792**
Compulsory reserve set by the National Banks	18,765	18,753

(18) Due from banks

Due from banks comprises	(million HUF)	
	2014	**2013**
Foreign currency nostro accounts	16,352	6,076
Due from banks	286,505	121,728
Included in cash equivalents (Note 41)	**302,857**	**127,804**
Total	**302,857**	**127,804**

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

Financial assets at fair value through profit or loss comprises	(million HUF)	
	2014	**2013**
Hungarian Government securities – HUF	33	198
Included in cash equivalents (Note 41)	**33**	**198**
Hungarian Government securities – HUF	12,044	7,025
Hungarian Government securities – NON-HUF	168	360
Bank and corporate bonds – HUF	48	112
Shares listed on stock exchange – HUF	158	94
Shares listed on stock exchange – NON-HUF	25	23
Total	**12,476**	**7,812**

(19) 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.

(20) Loans and advances to customers

Analysis by sector

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

(million HUF)	**2014**	**%**	**2013**	**%**
Private customers	388,780	29.03	434,126	27.09
Real estate investments	289,560	21.62	397,627	24.82
Other, mostly service industries	212,797	15.89	273,722	17.08
Trading	104,353	7.79	120,633	7.53
Transportation and communication	79,237	5.92	95,773	5.98
Financial activities	51,206	3.82	67,649	4.22
Agriculture	55,972	4.18	65,931	4.11
Light industry	46,467	3.47	47,468	2.96
Heavy industry	35,126	2.62	40,056	2.50
Food processing	41,109	2.98	36,288	2.26
Chemicals and pharmaceuticals	34,573	2.58	22,995	1.45
Total	**1,339,180**	**100.0**	**1,602,268**	**100.0**

The leasing subsidiaries of the Bank operate in the domestic leasing market and provide finance lease products to customers. For changes in gross loan portfolio see explanation in Note (33).

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)	
	2014	**2013**
Future minimum lease payments		
Within one year	37,802	42,283
One to five years	62,703	73,165
More than five years	27,000	31,807
Total	**127,505**	**147,255**

(20) Loans and advances to customers (continued)

The present value of minimum lease payments receivables comprise	2014	2013
Within one year	32,086	35,135
One to five years	53,938	61,814
More than five years	22,018	25,595
Total	**108,042**	**122,544**
Unearned finance lease income	19,463	24,710
Accumulated allowance for uncollectible minimum lease payments receivable	**12,213**	**12,317**

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)	
	2014	**2013**
Opening balance	**349,736**	314,417
Increase of allowance during the year	174,978	216,675
Decrease of allowance during the year	(206,500)	(159,337)
Write-off	(40,456)	(22,019)
Closing balance	**277,758**	**349,736**

Allowance for loan losses comprise	(million HUF)	
	2014	**2013**
Individual allowance	252,132	325,737
Collective allowance	25,626	23,999
Total	**277,758**	**349,736**

The revaluation loss on loans specified as hedged items was HUF 499 million as at 31 December 2014 and HUF 551 million as at 31 December 2013, respectively. Main reason for the in decrease of allowance during the year is explained in Note (33).

(20) Loans and advances to customers (continued)

The liquidation value of collateral that the Group holds relating to loans at 31 December 2014 amounts to HUF 1,173,159 million and HUF 1,109,905 million as at 31 December 2013 respectively.

The amount of restructured loans was HUF 36,306 million as at 31 December 2014 and HUF 18,604 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 2014 the Group has active repurchase agreement with an amount of 404 million HUF. As at 31 December 2013 the Group had no reverse repurchase and securities borrowing agreements.

(21) Other assets

Other assets comprises	(million HUF)	
	2014	**2013**
Accrued incomes, costs and expenses	893	2,038
Settlement accounts	578	1,225
Trade receivables	1,387	2,346
Inventories	1,233	1,170
Other assets	947	1,329
Total	**5,038**	**8,108**

(22) Financial investments

Financial investments - Available-for-sale comprises	(million HUF)	
	2014	**2013**
Government securities – HUF	37,756	220,657
Included in cash equivalents (Note 41)	**37,756**	**220,657**
Government securities – HUF	44,867	46,581
Government securities – NON-HUF	100,147	-
Other securities - HUF	-	327
Equity investment – HUF	23	83
Total	**182,793**	**267,648**

Financial investments - Held-to-maturity comprise	(million HUF)	
	2014	**2013**
Hungarian Government securities - HUF	0	5,533
Total	**0**	**5,533**

(23) Repossessed properties

Repossessed properties comprise	(million HUF) 2014	2013
Opening balance	95,953	115,687
Additions	20,064	24,289
Sales	(18,150)	(13,124)
Depreciation	-	(162)
Net loss from impairment adjustment	(6,931)	(30,737)
Other changes	(4,737)	-
Closing balance	**86,199**	**95,953**

(24) Intangible assets and goodwill

At 31 December 2014 and 2013 intangible assets and the related accumulated depreciation comprised the following

	Cost of intangible assets				
(million HUF)	**2014**	**Other changes**	**Disposals**	**Acquisitions**	**2013**
Software licenses and development	38,413	(852)	2	3,749	35,518
Goodwill	833	-	-	-	833
Other	713	(1)	1,371	-	2,085
Total	**39,959**	**(853)**	**1,373**	**3,749**	**38,436**

	Depreciation/Impairment of intangible assets				
(million HUF)	**2014**	**Other changes**	**Disposals**	**Additions**	**2013**
Software licenses and development	31,948	-	-	2,727	29,221
	56	-	-	-	56
Other	649	(1)	202	18	834
Total	**32,653**	**(1)**	**202**	**2,745**	**30,111**

	Cost of intangible assets				
(million HUF)	**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**

(24) Intangible assets (continued)

(million HUF)	Depreciation/Impairment 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)	Net book value of intangible assets	
	2014	**2013**
Software licenses and development	6,465	6,297
Goodwill	777	777
Other	64	1,251
Total	**7,306**	**8,325**

The goodwill concerns to the purchase of CIB Faktor Ltd and CIB Insurance Broker Ltd. in 2012. The Group applied an impairment test on goodwill and other intangible assets, whether the carrying amount is less than its value in use. The value in use calculation is based on a discounted cash flow model with a discount rate of 11.42% and 11.6% and a growth rate of 0%. The cash flows are derived from the budget for the next 4 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 1,992 million as at 31 December 2014 and HUF 437 million as at 31 December 2013, respectively.

(25) Property and equipment

At 31 December 2014 and 2013 property and equipment and the related accumulated depreciation comprised the following:

(million HUF)	Cost of property and equipment				
	2014	**Other changes**	**Disposals**	**Acquisitions**	**2013**
Land, premises	22,455	(61)	3,552	124	25,944
Leasehold improvements	6,926	52	517	16	7,375
Electronic equipment and office furniture	10,555	(73)	567	123	11,072
Computer equipment	8,682	18	530	159	9,035
Motor vehicles	588	(168)	172	-	928
Other	121	-	-	-	121
Total	**49,327**	**(232)**	**5,338**	**422**	**54,475**

(25) Property and equipment (continued)

(million HUF)	2014	Depreciation of property and equipment Other changes	Disposals	Addition	2013
Land, premises	6,874	(20)	3,551	466	9,979
Leasehold improvements	5,362	24	517	1,006	4,849
Electronic equipment and office furniture	9,331	(94)	529	664	9,290
Computer equipment	7,655	(58)	530	897	7,346
Motor vehicles	372	-	121	66	427
Other	-	-	-	-	-
Total	**29,594**	**(148)**	**5,248**	**3,099**	**31,891**

(million HUF)	2013	Cost of property 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 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**

(25) Property and equipment (continued)

Net book value of property and equipment	(million HUF) 2014	2013
Land, premises	15,581	15,966
Leasehold improvements	1,564	2,526
Electronic equipment and office furniture	1,224	1,782
Computer equipment	1,027	1,689
Motor vehicles	216	501
Other	121	121
Total	**19,733**	**22,585**

(26) Deposits from banks

Deposits from banks comprise	(million HUF) 2014	2013
Deposits from banks in Hungary	78,519	54,412
Deposits from banks in other countries	135,136	262,037
Total	**213,655**	**316,449**
- from which related party	20,656	115,612

(27) Deposits from customers

Deposits from customers comprise	(million HUF) 2014	2013
Deposits from customers in Hungary	1,039,657	1,083,743
Deposits from customers in other countries	75,083	75,826
Total	**1,114,740**	**1,159,569**
- from which related party	48,575	45,663

The revaluation gain on deposits specified as hedged items was HUF 210 million as at 31 December 2014 and HUF 299 million as at 31 December 2013 respectively.

(28) Liabilities from issued securities

Liabilities from issued securities comprise	(million HUF) 2014	2013
Gross amount of issued securities	125,099	108,491
Repurchased amount of issued securities	(38,992)	(19,114)
Revaluation due to fair value hedges	(4)	33
Accrued interest payable from the net amount of issued securities	5,307	3,876
Net amount of liabilities from issued securities	**91,410**	**93,286**

(28) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities	(million HUF) 2014	2013
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.	6,759	6,383
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 with quarterly interest payment.	-	8,007
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 with half-yearly interest payment.	-	4,025
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 with quarterly interest payment.	10,444	10,463
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 with half-yearly interest payment.	6,359	6,005
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
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
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 44% annually.	12,690	11,782
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 plus 30 basis points with quarterly interest payment.	7,908	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 plus 220 basis points with half-yearly interest payment.	7,820	2,957

(28) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities	(million HUF) 2014	2013
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 2.5% with annual interest payment.	4,790	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% with quarterly interest payment.	4,006	4,020
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% with quarterly interest payment.	14,036	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.	5,800	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.	4,016	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.	2,244	1,400
CIB CL 2016/A bonds were issued in HUF since 6 June 2014 and will mature on 7 June 2016. The bonds bear interest at 3 month BUBOR plus 30 basis points.	1,587	-
CIB E FIX 17/A bonds were issued in HUF since 18 July 2014 and will mature on 18 July 2017. The bonds pay fix interest of 1.75% annually.	1,029	-
CIB E 2FIX 16/A bonds were issued in HUF since 18 July 2014 and will mature on 18 July 2016. The bonds pay fix interest of 1.5% annually.	1,296	-
CIB C LE 17/A bonds were issued in HUF since 17 September 2014 and will mature on 18 September 2017. The bonds bear interest at 6 month EURIBOR plus 110 basis points.	618	-
CIB Kincsem bonds	8	8
Total	**91,410**	**93,286**

(29) Other liabilities

Other liabilities comprise	(million HUF) 2014	2013
Accrued liabilities	3,245	2,299
Settlement accounts	1,169	2,328
Suppliers	3,246	4,004
Financial guarantees	1,836	1,984
Other liabilities	1,205	2,243
Total	**10,701**	**12,858**

The balance of settlement accounts contains those items in transit which are unsettled as at period end.

Financial guarantees comprise	(million HUF) 2014	2013
Opening balance	1,983	2,948
Increase during the year	822	1,002
Decrease during the year	(969)	(1,967)
Closing balance	**1,836**	**1,983**

Concerning Financial guarantees see Note (36) on Commitments and contingencies.

(30) Provisions

2014 (million HUF)	Commitments and contingencies	Other	Total
Opening balance	4,877	2,098	6,975
Increase of provision during the year	1,009	31,654	32,663
Decrease of provision during the year	(1,303)	(1,121)	(2,424)
Closing balance	**4,583**	**32,631**	**37,214**

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**

Provisions for commitment and contingences were created for future credit obligations (see also Note (36) on Commitments and contingencies). 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.
Other provisions includes provision on personal type expenses as well as provision made on Settlement Law based on our best available estimation.

(31) Subordinated debt

Subordinated debt comprises	(million HUF) 2014	2013
From Intesa Bank Ireland plc. for 45 million EUR. The debt's expiry date was 24 October 2014 with interest payable at 3 months EURIBOR plus 0.80%;	-	13,385
From Intesa Bank Ireland plc. for 30 million EUR. The debt's expiry date is 26 November 2021 with interest payable at 3 months EURIBOR plus 0.37%;	9,452	8,913
From Intesa Sanpaolo S.P.A for 150 million EUR. The debt's expiry date is 23 December 2019 with the interest payable at 3 months EURIBOR plus 4.06%.	47,288	44,585
Total	**56,740**	**66,883**

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

(32) Share capital

During 2014 the authorized share capital was increased by HUF 3 by Intesa Sanpaolo S.p.A. through the issuing of 3 ordinary shares of HUF 1 each.

At 31 December 2014 the fully paid share capital consisted of 145,000,000,008 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.

There were no significant incremental costs directly attributable to the issue of shares 2014 and 2013.

(33) 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 recognized in the capital reserve in the amount of HUF 67,000 million during 2014.

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.

(33) Reserves (continued)

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 comprises the Group's income from transaction under common control in the amount of HUF 4,164 million. These reserves are non-distributable as dividends. In addition to the above other reserve includes proceed received on sale of loan portfolio to the shareholder in amount of HUF 49,137 million.

(34) Commitments and contingencies

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

2014		(million HUF)	
	Gross amount	Other liability	Provision
Guarantees	39,408	(1,799)	
Letters of credit	3,578	(37)	
Total financial guarantees	**42,986**	**(1,836)**	
Loans and overdraft facilities not disbursed	162,250		(4,582)
Total	**205,236**	**(1,836)**	**(4,582)**

2013		(million HUF)	
	Gross amount	Other liability	Provision
Guarantees	41,993	(1,929)	
Letters of credit	4,761	(54)	
Total financial guarantees	**46,754**	**(1,983)**	
Loans and overdraft facilities not disbursed	152,168		(4,877)
Total	**198,922**	**(1,983)**	**(4,877)**

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 15,020 million as at 31 December 2014 and HUF 19,325 million as at 31 December 2013, respectively.

The amount of the securities in custody is HUF 883,618 million at 31 December 2014 and HUF 780,557 million at 31 December 2013, respectively.

(35. a) **Carrying amount of assets and liabilities at 31 December 2014 by earlier of contractual repricing or maturity date**

Assets	Current	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	18,259						9,076	27,335
Effective interest rates	*2.10*							*1.40*
Due from banks	16,355	286,387	115					302,857
Effective interest rates	*0.00*	*1.60*	*2.84*					*1.51*
Financial assets at fair value through profit or loss excluded derivatives		35	6,655	4,364	373	865	184	12,476
Effective interest rates		*1.42*	*2.45*	*1.66*	*2.30*	*3.51*		*2.20*
Derivative financial assets		6,613	8,906	4,079	1			19,599
Loans and advances to customers	106,949	298,357	321,582	249,620	74,136	10,778		1,061,422
Effective interest rates	*1.08*	*3.70*	*3.36*	*5.18*	*4.11*	*3.29*		*3.75*
Financial investments		7,493	84,927	90,350			23	182,793
Effective interest rates		*1.41*	*1.62*	*0.2*				*0.91*
Other assets							127,160	127,160
Liabilities								
Deposits from banks	621	53,373	39,515	68,776	43,282	8,088		213,655
Effective interest rates		*0.42*	*0.22*	*0.48*	*0.51*			*0.40*
Derivative financial liabilities		8,528	8,899	1,057	2			18,486
Deposits from customers	539,350	210,800	214,991	88,205	61,394			1,114,740
Effective interest rates	*0.63*	*1.49*	*2.27*	*2.58*	*3.82*			*1.44*
Liabilities from issued securities		18,049	39,606	19,370	14,385			91,410
Effective interest rates		*2.54*	*2.94*	*2.34*	*2.20*			*2.62*
Subordinated debt			47,288	9,452				56,740
Effective interest rates			*4.13*	*0.55*				*3.54*
Other liabilities							53,831	53,831
Net repricing gap	(398,408)	308,135	71,886	161,553	(44,553)	3,555	82,612	184,780

(35. b) **Carrying amount of assets and liabilities at 31 December 2013 by earlier of contractual repricing or maturity date**

Assets	Current	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 excluded derivatives	-	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*	*4.35*	*0.69*	-	-	-	*3.20*
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

(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 2014 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	27,335	-	-	-	-	27,335
Due from banks	302,742	115	-	-	-	302,857
Financial assets at fair value through profit or loss	220	51	3,997	7,224	984	12,476
Derivative financial assets	4,683	5,177	5,289	4,450	-	19,599
Loans and advances to customers	160,293	37,746	156,676	350,082	356,625	1,061,422
Financial investments	7,495	47,081	90,350	37,844	23	182,793
Non-current assets held for sale	-	-	947	-	-	947
Tax assets	-	-	-	7,937	-	7,937
Other assets	893	-	574	3,571	-	5,038
Intangible assets, property and equipment, repossessed properties	-	-	-	113,238	-	113,238
Total Assets	**503,661**	**90,170**	**257,833**	**524,346**	**357,632**	**1,733,642**
Liabilities						
Deposits from banks	12,993	4,529	26,034	98,269	71,830	213,655
Derivative financial liabilities	6,786	7,137	769	3,794	0	18,486
Deposits from customers	722,779	104,952	90,578	78,637	117,794	1,114,740
Liabilities from issued securities	-	20,607	46,393	24,410	-	91,410
Tax liabilities	-	-	-	5,916	-	5,916
Other liabilities	3,245	-	1,169	6,287	-	10,701
Provisions	-	-	-	37,214	-	37,214
Subordinated debt	-	54	5	47,234	9,447	56,740
Total Liabilities	**745,803**	**137,279**	**164,948**	**301,761**	**199,071**	**1,548,862**
Net position	**(242,142)**	**(47,109)**	**92,885**	**222,585**	**158,561**	**184,780**

(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 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 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**

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

The following table summarize 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.

2014	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	13,013	4,627	28,809	101,590	75,872	221,911
Derivative instruments	6,786	7,137	769	3,794	-	18,486
Deposits from customers	722,893	105,549	95,021	100,061	124,438	1,147,962
Liabilities from issued securities	114	20,908	47,621	25,488	-	94,131
Subordinated debt	-	494	1,535	56,053	9,705	67,787
Total undiscounted financial liabilities	**742,806**	**138,715**	**171,755**	**286,986**	**210,015**	**1,550,277**

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**

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/ (ultimate 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.

	2014		
(million HUF)	Parent	ISP Group Companies	Total
Assets			
Cash and current accounts	2,789	123	2,912
Loans and advances to customers / Due from banks	47,171	23	47,194
Financial investments	25		25
Derivative financial assets	4,994	260	5,254
Other assets		866	866
Liabilities			
Current accounts		179	179
Deposits from customers / banks	64,163	4,659	68,822
Subordinated debt	47,288	9,452	56,740
Derivative financial liabilities	9,909	826	10,735
Other liabilities		12	12
Commitments			
Guarantees	126	37	163
Loan commitments		2	2
Interest rate derivatives	335,546	42,165	377,711
Currency derivatives	785,863	432	786,295
Interest expenses, net	(3,211)	(664)	(3,875)

(38) Related Party Transactions (continued)

(million HUF)	Parent	2013 ISP Group Companies	Total
Assets			
Cash and current accounts	3,177	326	3,503
Loans and advances to customers / Due from banks	60,879	-	60,879
Financial investments	23	-	23
Derivative financial assets	4,482	143	4,625
Other assets	-	688	688
Liabilities			
Current accounts	629	-	629
Deposits from customers / banks	62,587	98,059	160,646
Subordinated debt	44,585	22,298	66,883
Derivative financial liabilities	4,804	820	5,624
Commitments			
Guarantees	79	196	275
Loan commitments	-	2	2
Interest rate derivatives	311,135	54,779	365,914
Currency derivatives	793,969	15	793,984
Interest expenses, net	(3,471)	(1,330)	(4,801)

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 2014:

Dr. Pál Simák (CEO) – CIB Bank Ltd.
Eduardo Bombieri – CIB Bank Ltd.
Giorgio Gavioli – CIB Bank Ltd.
Michael Ralph Clark – CIB Bank Ltd.
Johann Friedrich Strohmayer – CIB Bank Ltd.
Andrea DeMichelis – CIB Bank Ltd.
Tamás Ákos – CIB Bank Ltd.

Members of the Bank's Supervisory Board as at 31 December 2014:

Massimo Malagoli (DChairman) – Intesa Sanpaolo Group
Giorgio Spriano – Intesa Sanpaolo Group
Christophe Velle – Intesa Sanpaolo Group
Giampiero Trevisan – Intesa Sanpaolo Group
Ezio Salvai (Chairman) – Intesa Sanpaolo Group
Adriana Saitta – Intesa Sanpaolo Group

Exposures to / from Board members

	(million HUF)	
	2014	**2013**
Assets		
Current accounts		3
Loan	73	23
Share	25	23
Liabilities		
Current accounts	210	162
Deposits	42	93
Commitments		
Loans and overdraft facilities not disbursed	2	-
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	888	558

There were changes and extension in the Group's key management members during 2014 and 2013.

(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)	2014 Average carrying amount	2014 Average interest rate (%)	2013 Average carrying amount	2013 Average interest rate (%)
Financial assets				
Cash and current accounts with central bank	95,726	1.24	93,521	2.46
Due from banks and subordinated loans	134,023	1.47	71,955	0.89
Financial assets at fair value through profit or loss	25,285	2.24	18,953	2.89
Loans and advances to customers	1,546,344	3.82	1,738,387	4.17
Financial investments	193,568	2.29	242,384	2.07
Other assets	158,158	-	216,004	-
Financial liabilities				
Deposits from banks	259,048	0.52	374,786	0.67
Deposits from customers	1,132,197	1.67	1,248,681	3.13
Liabilities from issued securities	98,466	4.67	93,075	5.15
Subordinated debt	67,173	3.23	67,289	3.13
Other liabilities	427,719	-	417,574	-

(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 2014 (million HUF)	Variable rate instruments **Book value**	Variable rate instruments **Fair value**	Fixed rate instruments **Book value**	Fixed rate instruments **Fair value**
Financial assets				
Due from banks	16,355	16,355	286,502	286,510
Loans and advances to customers	952,646	971,107	108,776	102,989
Financial investments –				
Financial liabilities				
Deposits from banks	143,707	144,083	69,948	66,880
Deposits from customers	687,096	692,237	427,644	430,589
Subordinated debt	56,740	58,539		
Liabilities from issued securities	52,785	52,790	38,625	39,364

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

31 December 2013 (million HUF)	Variable rate instruments		Fixed rate instruments	
	Book value	**Fair value**	**Book value**	**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	47,337	49,023	45,949	46,067

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:

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

31 December 2014 Financial assets	Level 1	Level 2	Level 3	Total
Derivative financial assets		19,599		19,599
Financial assets at fair value through profit or loss	12,476			12,476
Financial investments - Available-for-sale	182,770			182,770
Financial liabilities				
Derivative financial liabilities		18,486		18,486

31 December 2013 Financial assets	Level 1	Level 2	Level 3	Total
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

During the reporting period ending 31 December 2014 and 2013 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 2014	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current accounts with central bank	27,337			27,337	27,337
Deposits with banks			302,865	302,865	302,857
Loans and advances to customers			1,074,096	1,074,096	1,061,422
Financial liabilities					
Deposits from banks			210,963	210,963	213,655
Deposits from customers			1,123,096	1,123,096	1,114,740
Liabilities from issued securities		92,154		92,154	91,410
Subordinated deposits			58,539	58,539	56,740

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

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			127,802	127,802	127,804
Loans and advances to customers			1,280,082	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	-	95,090	-	95,090	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) 2014	2013
Cash and current account with central bank (Note 17)	27,335	26,792
Due from banks (Note 18)	302,857	127,804
Financial assets at fair value through profit or loss (Note 19)	33	198
Financial investments (Note 22)	37,756	220,657
Total	**367,981**	**375,451**

(42) Business combinations and transactions under common control

Business combinations and transactions under common control in 2014

There was no business combination and transaction under common control in 2014.

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.

(43) Events after the reporting period

The settlement of bid/offer spread and unilateral interest increases connected to foreign exchange consumer loans will occur in March-April 2015. The Group set aside the adequate level of net loan losses and provisions in 2014 to cover the expected loss coming from the settlement. No other 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.

The winding up procedure of CIB Leasing Holding Ltd. closed on 13 January 2015.

(44) Segment report

For management purposes the Group is organised into operating segments based on services and products. The Management Board of the Bank 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. Operating segment result represents the banking income less of impairment loss, provision and net loan losses. 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 contains private customer current accounts, savings, deposits; customer loans and mortgages; financial leasing services
- Corporate banking contains banking services, savings, deposits, investment savings products and corporate loans.
- Treasury and Bank segment contains trading and treasury services.
- The other segment contains both the subsidiaries whose activities are not financial and public sector, such as property management.

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.

Geographical segments are not presented in the consolidated financial statements as the cost of producing such information would exceed its merits.

44) Segment report as at 31 December 2014 (continued)

2014	Retail banking	Corporate banking	Treasury/Bank	Other	Total
Net Interest Income	28,427	13,728	(5,394)	3,270	40,031
Net Commission Income	18,353	11,091	-	-	29,444
Trading Income	-	-	13,899	-	13,899
Other operating Income	-	-	-	2,868	2,868
Net banking income	**46,780**	**24,819**	**8,505**	**6,138**	**86,242**
Impairment losses, provisions and net loan losses	(84,962)	(28,322)	-	(5,268)	(118,552)
Segment result	**(38,182)**	**(3,503)**	**8,505**	**870**	**(32,310)**
Unallocated cost					(68,383
Profit before tax					(100,693)
Income tax					(3,447)
Profit for the year					(104,140)
Segment assets					
Loan and advances to customers	367,157	694,265	-	-	1,061,422
Deposit with banks	-	-	302,857	-	302,857
Securities	-	-	195,246	23	195,269
Derivative financial assets	-	-	19,599	-	19,599
Other assets	-	-	-	153,745	153,745
Unallocated assets	-	-	-	750	750
Total asset	**367,157**	**694,265**	**517,703**	**154,516**	**1,733,642**
Segment liabilities					
Deposit from customers and liabilities From issued securities	603,932	554,606	47,612	-	1,206,150
Deposit from banks and subordinated debt	-	-	270,395	-	270,395
Derivative financial liabilities	-	-	18,486	-	18,486
Other	-	-	-	52,282	52,282
Unallocated liabilities	-	-	-	1,549	1,549
Total liabilities	**603,932**	**554,606**	**336,493**	**53,831**	**1,548,862**

44) Segment report as at 31 December 2014 (continued)

2013	Retail banking	Corporate banking	Treasury/Bank	Other	Total
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**
Impairment losses, provisions and net 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**

Part E – Information on risks

(45) 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 relating to financial instruments to which the Group is exposed are credit, interest rate, liquidity, foreign exchange risks and other price risk. 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. Besides to the Management Committees, an independent Risk Assumption and Risk Management Committee has been established according to the legislative requirements further strengthening the risk control.

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. Risk management framework is also comprehensively examined yearly by the National Bank of Hungary in the course of the Supervisory Review and Evaluation Process.

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.

(45) Risk management (continued)

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.

(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. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

(million HUF)	2014	2013
Cash and balances with central bank	27,335	26,790
Due from banks and subordinated loans	302,935	127,849
Financial assets at fair value through profit and loss	12,476	7,812
Derivative financial assets	19,599	12,489
Loans and advances to customers	1,339,180	1,602,268
Financial investments – Available-for-sale	182,793	267,649
Financial investments – Held-to-maturity	0	5,533
Other assets	2,044	5,374
Total maximum exposure	**1,886,362**	**2,055,764**
Total maximum exposure to credit risk	1,634,230	1,730,117
Financial guarantees	42,896	46,431
Commitments	162,250	152,166

(45) Risk management (continued)

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.

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)	2014	2013
Hungary	1,307,451	1,567,684
Euro Zone countries	10,510	27,872
- of which PIGS countries	*947*	*954*
European but Non-Euro Zone countries	20,763	6,303
Other regions	456	409
Total	**1,339,180**	**1,602,268**

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 20.

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.

Effect of Credit Risk Mitigation on the exposure to credit risk:

(million HUF)	2014	2013
Financial collateral	(21,514)	(20,206)
Guarantees	(7,606)	(7,366)
Total	**(29,120)**	**(27,572)**

(45) Risk management (continued)

The Group assesses the loans with internal rating system, which differentiates the quality of non-overdue loans. The table below shows the credit quality of the loans and advances to customers based on the Group's credit rating system.

Performing Loans	2014 (million HUF)	2013 (million HUF)
A – Excellent	13,231	30,654
B – Stable	139,550	213,789
C – Acceptable	457,821	449,304
D – High Risk	120,378	91,655
Other	24,709	12,526
Retail	137,481	207,287
Total Performing Loans	**893,170**	**1,005,215**
Non-performing Loans		
Corporate loans	300,203	448,851
Retail loan	145,807	148,203
Total Non-performing Loans	**446,010**	**597,054**

The „Other" rating refers to clients, which were assessed with not the latest, but a previous rating model.
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
2014	36,644	14,387	50,077	194,431	48	7,270	**302,857**
2013	37,096	5,824	70,908	13,301	32	643	**127,804**

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

2014	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	12,823	1,083	154	244	14,304
Retail loans	24,615	5,651	2,260	2,770	35,296
Total	**37,438**	**6,734**	**2,414**	**3,014**	**49,600**

(45) Risk management (continued)

2013	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loans	37,177	4,530	3,699	352	45,758
Retail loans	29,722	7,477	3,342	3,244	43,785
Total	**66,899**	**12,007**	**7,041**	**3,596**	**89,543**

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 2014 HUF 52,826 million and was HUF 83,706 million as at 31 December 2013, 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 NPL rate is the ratio of non-performing exposure and total exposure. 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)	**2014**	**2013**
Doubtful loans	109,426	158,895
Problem loans	46,082	87,958
Restructured loans	36,050	18,604
Overdue impaired	2,320	4,607
Total	**193,878**	**271,317**

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.

(45) 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 Management Board is responsible for maintaining a level of liquidity and the definition of control policies and management processes relating to the specific risk profile. Financial Risk Committee monitors the implementation of the Liquidity Policy of the Bank and delegates day-to-day activities to the most appropriate offices and departments of the Bank. In the day-to-day liquidity management the Head of Treasury and Capital Markets is responsible for implementing the liquidity strategy and maintaining adequate liquidity within the limits described below. The Market and Liquidity Risk Management measures and monitors the liquidity position and controls liquidity limits on a daily basis, and also in charge of reporting to the management bodies and to the Parent Company with regard to liquidity conditions and limits.

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 key elements of the CIB Group's liquidity strategy are as follows:

Increase Self Financing Capacity in all segments
Improve Structural Liquidity Position through matched funding (shareholder or market driven)
Focused approach to short-term, medium-term, long-term product definitions in each business line
In line with new regulations recently introduced in Hungary, the Bank will always strictly respect all regulatory liquidity ratios.

Through active participation in monetary and financial markets, the Treasury and Capital Markets ensures integrated management of liquidity in Forint and foreign currencies of the Group; optimizes the liquidity portfolio, guaranteeing efficient collateral management; and with regard to the other CIB group companies, the Treasury and Capital Markets coordinates and facilitates intragroup cash flows, favouring organised, efficient development in compliance with internal and external regulations. It also acts to resolve any liquidity imbalances of the subsidiaries, in cooperation with the Market and Liquidity Risk Management, and promotes all operating activities deemed suitable to return or keep the subsidiaries within the limits set forth by internal or external rules

The Liquidity Policy is includes to the Contingency Funding Plan which is to clearly set out the strategies for addressing liquidity shortfalls in emergency situations and describing the liquidity early warning system in operation.

(45) Risk management (continued)

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	(%)	
	2014	**2013**
31 December	22,80	12.63
Daily average during the period	17,13	16.04
Highest	22,80	18.81
Lowest	13,46	12.26

(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 2014 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 different risk factors. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

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

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

45) Risk management (continued)

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.

VAR – 2014	(million HUF)				
	Foreign exchange	Interest rate	Equity	Correlation Effect	Total
31 December	59	37	3	(34)	65
Daily average during the period	31	31	2	(18)	47
Highest	115	73	3	(85)	107
Lowest	6	2	2	9	19

VAR – 2013	(million HUF)				
	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

(As the market risk 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.

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– Non-trading

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 the senior management, by Risk Management, and by the Parent Company. Risk tolerance limitation and the related policy are set by the Group's Management Board. On the tactical horizon interest risk is managed by the Financial Risk 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.

45) Risk management (continued)

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 2014. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2014 for the effects of the assumed changes in interest rates. The Group uses for the sensitivity of equity calculations, among others, the NPV and modified duration method, with zero floor on interest rates.
Threshold of zero is implemented in the calculation for those cases when the decrease of basis points would indicate a negative interest income. This method amends the symmetry of the sensitivity analysis.

(million HUF)

2014	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	563,5	(25,5)	241,4	115,7	895,1	563,5
EUR	+ 100	(693,1)	22,8	(136,8)	0,0	(807,1)	(693,1)
USD	+ 25	4,3	(4,3)	(0,2)	0,0	(0,2)	4,3
CHF	+ 25	(104,7)	25,2	(0,1)	0,0	(79,5)	(104,7)
Others	+ 25	0,5	0,3	0,0	0,0	0,8	0,5

(million HUF)

2014	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)	(573,5)	26,0	(264,8)	(136,0)	(948,2)	(573,5)
EUR	(100)	97,5	(4,5)	19,4	0,0	112,4	97,5
USD	(25)	(4,1)	4,3	0,2	0,0	0,5	(4,1)
CHF	(25)	(25,6)	(0,7)	(0,0)	0,0	(26,4)	(25,6)
-Others	(25)	(0,3)	(0,3)	0,0	0,0	(0,7)	(0,3)

(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

45) Risk management (continued)

(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

Foreign exchange risk– Non-trading

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.

Any non-trading foreign exchange risk is transferred through internal hedges to trading book and is therefore reflected and managed via the value-at-risk figures in the trading books described under section (c) Market risk – Trading, with the exception of strategic and residual foreign FX positions. Strategic foreign exchange transactions were related to the recent governmental measures in connection with the conversion of foreign exchange mortgages, but overall strategic FX portfolio was closed (hedged) on the 31 December 2014, meaning no open FX position and FX exposure related to the conversion of mortgages while the Group has residual FX position.

The following table demonstrates the sensitivity of the Consolidated Statement of Comprehensive Income to reasonable possible changes in exchange rates, with all other variables held constant.

2014	Foreign exchange risk – Non-trading (million HUF) Sensitivity of net income		
	EUR	CHF	Total
5% strengthening of currencies vs. HUF	(134)	956	822
5% weakening of currencies vs. HUF	134	(956)	(822)

(45) Risk management (continued)

The currency structure of the Group's assets, liabilities and equity as at 31 December 2014 and 2013 is as follows (currency equivalents in million HUF)

2014	HUF	CHF	EUR	USD	Other	Total
Cash and current accounts with central bank	26,191	43	813	222	66	**27,335**
Due from banks	235,392	1,137	59,265	3,815	3,248	**302,857**
Financial assets at fair value through profit or loss	12,283	-	76	117	-	**12,476**
Loans and advances to customers	334,809	274,896	449,137	2,264	316	**1,061,422**
Financial investments – Available-for-sale	82,623	-	100,147-	-	-	182,770
Other assets	4,346	124	551	12	5	**5,038**
Total assets	**695,644**	**276,200**	**609,989**	**6,430**	**3,635**	**1,591,898**

2014	HUF	CHF	EUR	USD	Other	Total
Deposits from banks	56,958	101,640	52,376	1,886	795	**213,655**
Deposits from customers	813,307	52,942	200,708	39,686	8,097	**1,114,740**
Liabilities from issued securities	63,698	-	27,712	-	-	**91,410**
Other liabilities	9,566	19	705	398	13	**10,701**
Provisions	30,450	6,312	452	-	-	**37,214**
Subordinated debt	-	-	56,740	-	-	**56,740**
Total liabilities	**973,979**	**160,913**	**338,693**	**41,970**	**8,905**	**1,524,460**
Net on- Statement of Financial Position	**(278,335)**	**115,287**	**271,296**	**(35,540)**	**(5,270)**	**67,438**
FX position of derivatives	**345,466**	**(109,863)**	**(277,029)**	**35,292**	**6,134**	
Off-balance	*144,238*	*1*	*38,527*	*16,050*	*2*	*198,818*
Guarantees	25,511		11,681	415	2	**37,609**
Letters of credit			2,820	721		**3,541**
Loans and overdraft facilities not disbursed	118,727	1	24,026	14,914		**157,668**

(45) Risk management (continued)

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**
Loans and advances to customers	334,415	403,395	512,895	1,498	329	**1,252,532**
Other assets	7,372	73	644	15	4	**8,108**
Total assets	**435,741**	**403,835**	**561,286**	**16,588**	**5,598**	**1,423,048**

2013	HUF	CHF	EUR	USD	Other	Total
Deposits from banks	55,568	117,884	141,725	1,264	8	**316,449**
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**
Subordinated debt	-	-	66,883	-	-	**66,883**
Total liabilities	**961,308**	**166,963**	**474,815**	**45,822**	**6,596**	**1,655,504**
Net on- Statement of Financial Position	**(525,567)**	**236,872**	**86,471**	**(29,234)**	**(998)**	**(232,456)**
FX position of derivatives	**321,398**	**(256,096)**	**(97,197)**	**29,845**	**2,050**	
Off-balance	*145,094*	*1*	*39,102*	*6,834*	*30*	*192,062*
Guarantees	30,730		9,248	56	30	**40,064**
Letters of credit			3,971	736		**4,707**
Loans and overdraft facilities not disbursed	115,364	1	25,883	6,043		**147,291**

(e) Operational risk

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of internal processes, human resources and internal systems, or as a result of external events. Operational risk includes:

- legal risk, meaning the risk of losses resulting from the breach of laws or regulations, contractual or other liability or from other disputes;
- model risk, defined as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models;
- compliance risk, defined as the risk to incur judicial or administrative penalties, significant financial losses or damage to reputation as a result of the violation of mandatory rules or self-governance regulation;
- ICT risk (Information and Communication Technology risk), defined as the risk of economic, reputational and market share losses related to the use of information and communication technology.

Strategic and reputational risks are excluded.

(45) Risk management (continued)

In the CIB Group, Operational Risk Management measures and monitors the Group's exposure to operational risk and reports thereon to the senior management and supervisory bodies. Operational Risk Management is also responsible for the consistent application and operation of the Intesa Sanpaolo Group's operational risk management framework, also taking into account the local idiosyncrasies.

In the CIB Group, the governing committee responsible for overviewing operational risk management activities is the Operational Risk Committee (ORC). The primary purpose of the Committee is to propose, advise on and investigate matters related to operational risk, thereby support the Management Board of the Bank. The Committee meets in every second month when it reviews and discusses the Bank's operational risk exposure and the ongoing risk mitigation actions.

In managing the CIB Group's operational risk exposure, both qualitative and quantitative tools are being applied.

One of the qualitative tools is the annual operational self-diagnosis where operational criticalities are identified and mitigating actions are defined in response to those criticalities. A set of operational key risk indicators is also used as a qualitative measure aiming at conveying an easily understandable overall picture to the senior management about the operational risk profile of the Group, and in the meanwhile, enabling the Group to react in a timely manner to adverse changes in that risk profile.

As a quantitative measure historical operational risk loss data have been collected and analysed in a systematic way since 2004. On the basis of the analyses performed by Operational Risk Management, mitigating actions are initiated to avoid the re-occurrence of similar losses or prevent the materialisation of potential risks. In 2014, CIB Group detected and recorded in its internal loss database 423 operational risk events which caused HUF 1,982 million effective operational loss (excluding losses boundary with credit risk and specific provisions). In 2013 372 events caused HUF 1,623 million operational loss to the Group.

Since January 2008 both the Bank on a stand-alone basis and the CIB Group on the consolidated basis have been calculating the regulatory capital requirement of the operational risk on the basis of The Standardised Approach (TSA).

Part F – Information on capital

(46) 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 aimed to make the framework more risk sensitive and representative of the bank's risk management practices. There are four main components to the new framework:

- It is more sensitive to the risks that the bank faces: the new framework includes an explicit measure for operational risk and includes more risk-sensitive risk weightings against credit risk.
- It reflects improvements in the bank's risk-management practices; the internal ratings-based approach (IRB) allows the banks to rely to a certain extent on their own estimates of credit risk.
- It provides incentives for the bank to improve their risk-management practices, with more risk-sensitive risk weightings as firms adopt more sophisticated approaches to risk management.

The framework consists of three 'pillars'.

- Pillar I sets out the minimum capital requirements the bankhas to be required to meet for credit, market and operational risk.
- Under Pillar II, the bank and the Supervisor have to take a view on whether the bank 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 the bank to publish certain details of their risks, capital and risk management.

From 2014 Basel III has been introduced. Aim of the Basel III requirements was to further strengthen the risk management framework, with special focus on the liquidity risk management tools and the capital requirement.

(46) 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.

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.

(46) 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 is reviewed and improved periodically.

(46) Capital and capital management (continued)

Capital management

The Group's regulator, National Bank of Hungary sets and monitors capital requirements for the Group. National Bank of Hungary adopted the Basel III capital requirements with the effect from 1 January 2014. As a result, the Group's regulatory capital requirements were based on Basel II in 2013 and on Basel III in 2014. The Group is using standard approach for credit risk. The Group calculates requirements for market risk in its trading portfolio based ont he Group's VaR models.

The Groups's regulatory capital consists of the sum of the following elements:

- Tier 1 (all qualifies as Common Equity Tier 1 (CET1) capital), which includes ordinary share capital, related share premiums, retained earnings, reserves and deductions for intangible assets and deferred tax other than temporaray differences
- Tier 2 capital, which includes qualifying subordinated liabilities

There are differences between the definition of capital between Basel II and Basel III. The impact is not significant.

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 based on total capital ratio.

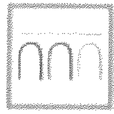
The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To strengthen the Bank's capital position the shareholders increased the Share Capital of the Bank by HUF 2 as the face value of the issue shares in 2013. The total capital contribution that 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.
To strengthen the Bank's capital position the shareholders increased the Share Capital of the Bank by HUF 3 as the face value of the issue shares in 2014. The total capital contribution that was paid by the shareholders was HUF 116,137 million in 2014 from which HUF 49,137 million was the other equity contribution to cover financial losses.
The difference between the face value of the shares and the total paid contribution was registered as capital reserves.

(46) Capital and capital management (continued)

Regulatory capital	2014	2013
Share capital	145,000	145,000
Reserves	143,143	146,499
Current year's profit or (loss)	(104,140)	(112,698)
Total shareholder's equity	**184,003**	**178,801**
Deduction items:		
Intangible assets	(6,529)	(6,293)
Tier 1 Capital	**177,474**	**172,508**
Subordinated capital	56,473	56,116
Revaluation reserve	28	35
Deductions from Tier 2 Capital	(28)	(30)
Tier 2 Capital	**56,473**	**56,121**
Total Capital	**233,947**	**228,629**
Risk weighted assets for Credit risks	1,053,292	1,225,282
Risk weighted assets for Market risks	31,770	29,563
Risk weighted assets for Operating risks	201,300	220,913
Credit Valuation Adjustment	2,299	
Risk weighted assets	**1,288,661**	**1,475,758**
Tier 1 capital ratio	13.80%	11.69%
Total capital ratio	18.19%	15.49%

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 for the period 2013 and based on the consolidated financial figures according to the International Financial Reporting Standards for the period 2014.

 CIB BANK

CIB BANK ZRT.

AND ITS SUBSIDIARIES

BUSINESS AND MANAGEMENT REPORT

for 31 December 2014

based on the consolidated, audited IFRS annual financial statements of CIB Bank

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I. Business environment

Macro and microeconomic environment

1. GDP

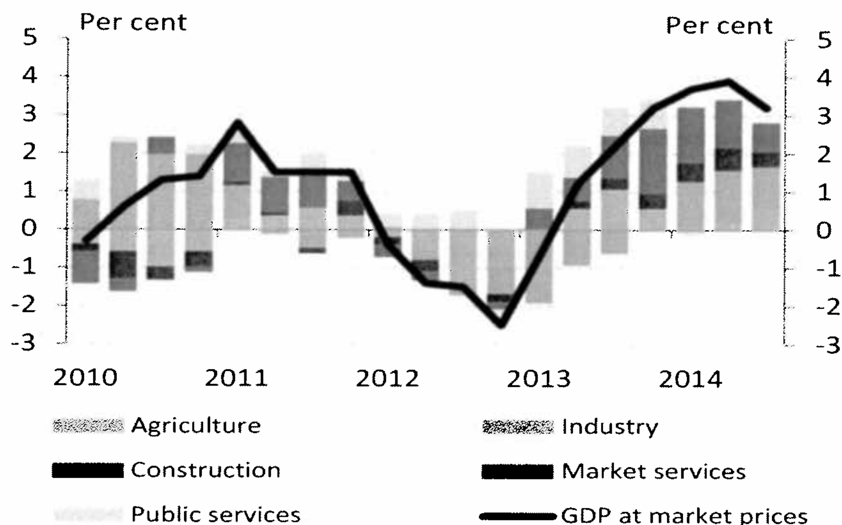
Following the recession of 2012, and the gradual recovery of 2013, the Hungarian economy gained further momentum in 2014. During the last quarter of 2013 and the first quarter of 2014, the base effect contributed significantly to the above-3% yearly growth rates, but looking at the year 2014 as a whole, strong investment activity (supported by the absorption of EU funds and related public investments) was an extremely important engine of growth. The rise in household consumption also made a stronger contribution to growth, while the smaller growth contribution of net exports can partly be explained by the import-boosting impact of strengthening domestic demand.

As for how the trend developed up to the fourth quarter, despite the rapid year-on-year growth not seen since the start of the crisis, there was a weakening in the trend-line over the course of the first three quarters (0.9%, 0.8% and 0.5% respectively). The data for the fourth quarter was not yet available at the time this report was closed. The Central Statistical Office (KSH) will release preliminary figures on 13 February, while the final statistics will come out in March.

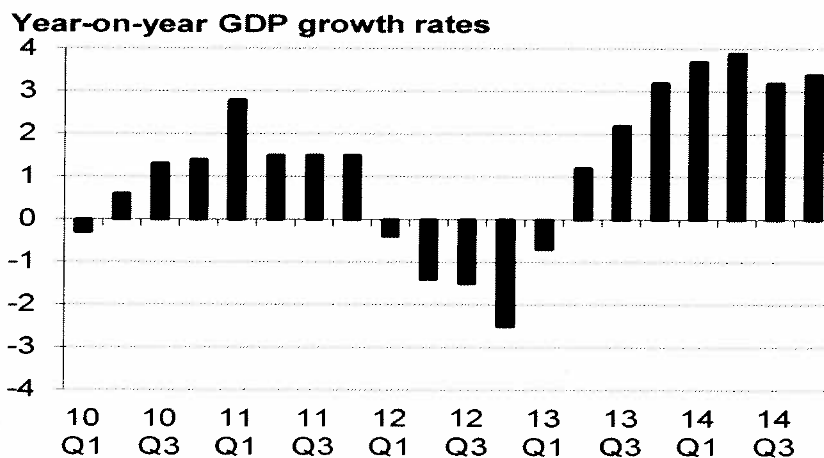
Based on the detailed figures for the first three quarters, it is clear that in contrast to 2013, household consumption, private and government investment and exports all increased in 2014, and as far as the structure of growth is concerned, the impact of domestic demand, and within that, the recovery of previously stagnating household consumption, was more pronounced. The latter was driven in part by the improving labour market situation, and in part by the (mainly low, and in part negative) inflation rate, which was also reflected in the growth in retail sales. Continued loan repayments and the mitigation of loan-related risks contributed to the improvement in the position of households, and at the same time the increase in precautionary savings also slowed slightly. The investment activity of households expanded, primarily due to spending on home construction and improvement, which slowly began to pick up from the bottom.

Corporate investment activity was dominated by export-driven branches of the economy and the government and state-owned sectors. The pace of growth in manufacturing investments fell slightly relative to the previous quarters, despite the fact that the ripple effect from major investment projects in the automotive sector appeared to strengthen. Agriculture investments also grew significantly, in which the use of funds from the government's Funding for Growth Scheme (FGS) may well have played a key role.

With regard to production, both industrial and construction output increased, but began to show signs of a slowdown in the second quarter. Based on preliminary crop data, the performance of the agriculture sector was also rather good this year. Output continued to increase as compared to 2013. At the same time, a technical factor also contributed to the more favourable figures with regard to both investments and total output: the methodological changes introduced under ESA2010 improved the total figures as well as the recorded rates of change.



Year-on-year GDP growth rates



Data sources: MNB, KSH

According to the consensus (the average of market players' GDP forecasts) calculated by Reuters and Consensus Economics, the growth predicted for 2015 will be much slower than that of 2014, at around 2.2%. The 2014 autumn forecast of the EU Commission predicts 2.5% GDP growth in Hungary for 2015. The IMF prognosis, also released in the autumn, projects that Hungary's economy will grow by 2.3% in 2015. The government's macroeconomic forecast (which budget calculations are based on) assumes 2.5% GDP growth, while the MNB prognosis published in December 2014 includes a 2.3% growth prediction.

2. Budget and external equilibrium

The 2014 budget continued to be determined essentially by the reliance on specific sectoral taxes and on revenues from the bank tax, the effect of growing VAT revenues boosted by more rapid GDP growth and the impact of certain extraordinary EU revenues. In addition, the rising demand for investment in the government sector also had an effect on budget policy through the increased use of funds as the 2007-2013 EU budget cycle was gradually coming to an end. All in all, budget policy

remained committed to maintaining a low government budget deficit (below 3% of GDP, in compliance with the Maastricht criteria).

Based on preliminary figures, the central subsystem of the general government amassed a deficit of HUF 826 billion in the year as a whole, which is smaller than the corresponding 2013 figure both nominally and as a percentage of the GDP. Within that, both the 'separated state funds' and the social security funds reported a slight surplus for the year. According to the Ministry for National Economy (NGM), this way the annual budget target calculated in accordance with the ESA methodology was also safely achieved, and the actual deficit may even be smaller than the accrual-based deficit. The ESA balances are expected to be released in March.

The 2015 budget passed by Parliament projects a 2.4% accrual-based (GDP-proportionate ESA) deficit, which is less than the figures for the previous years. Reaching this target is not an unrealistic objective, although the evaluations carried out by the Fiscal Council and the MNB both identified several sources of risk in the projection.

The country's external equilibrium was favourable again in 2014. According to the figures available by November, the balance of trade had accumulated a surplus of over EUR 6 billion, and the 3.5% growth rate of exports was accompanied by a 4.1% expansion in imports. This represents a change relative to the situation seen in previous years, when the increase in imports regularly fell short of export growth. While the output of automotive manufacturing capacities boosted exports, growth was limited by the weaker-than-expected upturn in the eurozone. At the same time, the recovery in internal demand, which served to accelerate import growth, was not of an extent such as to significantly erode the positive trade balance, although the surplus fell short of that seen in 2013.

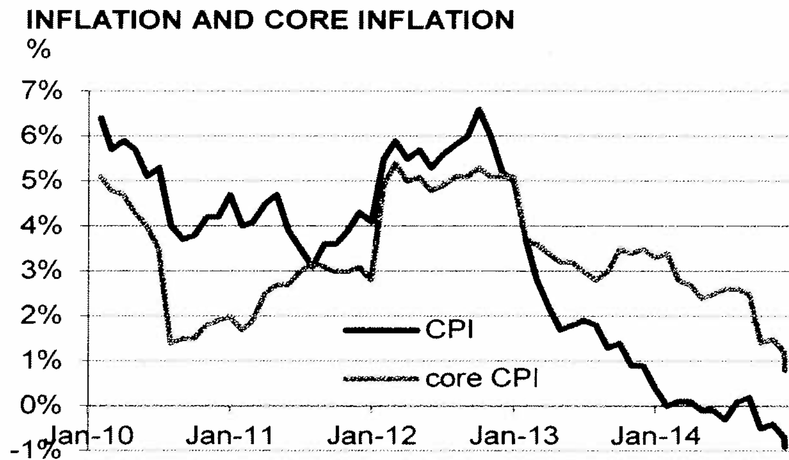
The current account reached a surplus of EUR 3.3 billion in the first three quarters of 2014, and may also show a surplus for the year as a whole; the most important factor behind the positive balance was the significant surplus on the trade balance. In Q3 2014 the country's net lending (the combined balance of the current account and the capital account) came to EUR 2.4 billion, before adjustments. Adjusted for seasonal effects, the figure was EUR 2.2 billion, or 8.3% of the quarterly GDP. No significant deterioration is expected in this regard in 2015 either. The high external financing capability may make it possible to continue the gradual reduction of external debts.

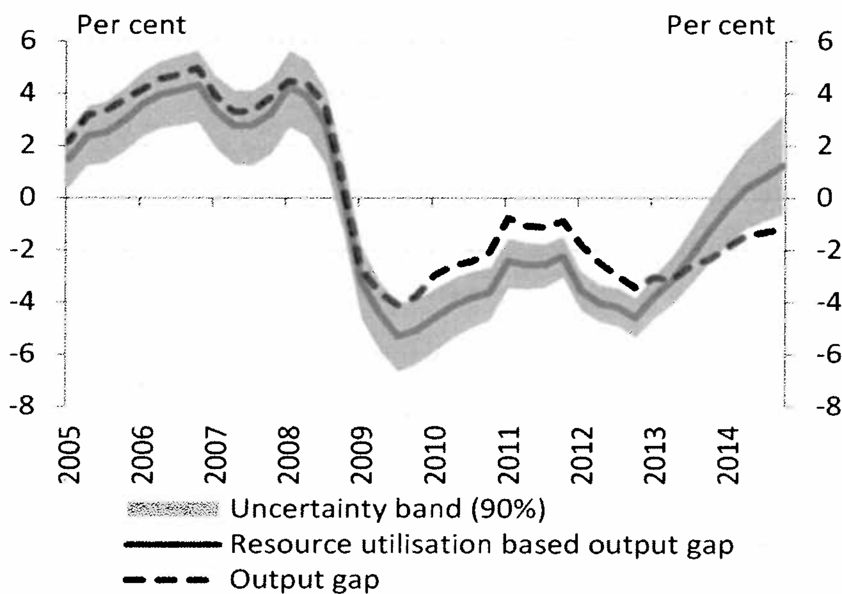
3. Inflation

The disinflation (deflation) trend that had begun in the last months of 2012 and gained strength in 2013 continued and even picked up speed in 2014. As a result, the average annual inflation rate fell from 1.7% to -0.2%, creeping into negative territory for the first time, while in December the year-on-year change in the consumer price index was already -0.9%. Core inflation, stripped of volatile components, came to an average 2.2% for 2014, while in December it stood at 0.8%.

The slowdown in inflation was mainly driven by one-off factors, and domestic administrative measures (the most important being the continued reduction in utility rates), though plummeting global energy prices also made a substantial contribution in the second half of the year. That is why – although a slightly negative change in the price index had already occurred in Q2 and the inflation rate was in negative territory in 7 out of 12 months during the year – there is no reason to speak of deflation in connection with 2014: the price decrease did not affect a broad range of product groups and was not driven by narrowing demand.

Inflationary pressure is not expected to increase significantly in 2015 either. The global inflation rate could remain low, and so far the rate and structure of economic growth does not suggest that internal demand will increase inflationary pressure significantly. The course of inflation in 2015 may be an ascending one, but even so, its rate may well remain below the MNB's 3% medium-term goal.





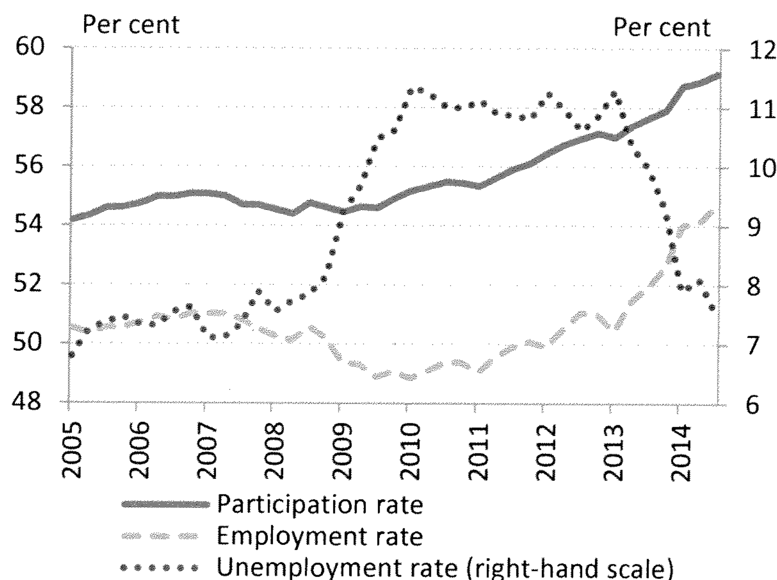
Data source: KSH, MNB

4. Labour market

Labour market indicators (unemployment rate, employment) continued to improve in 2014, but the role of the government-funded public works program also remained significant. The unemployment rate, which was over 9% at the end of 2013, had fallen to 7.1% by the end of the year. The decrease was almost continuous apart from a short halt at the start of the summer. In October-December 2014, of those with jobs, 4.11 million belonged to the 15-64 age group, and the rate of employment of this group was 62.6%, or 3.2 percentage points higher than in October-December 2013. In the second half of the year the increase in the number of those in work exceeded the rate of growth of the preceding months, while the decrease in the number of unemployed persons accelerated in the autumn months. An important role in this was played by employment in public works programs, which picked up again after a temporary halt in May.

In the last quarter of 2014, 4.142 million people were employed in Hungary, 172,000 more than a year earlier. The employment rate of those aged 15-64 rose to 62.6%.

Gross wages increased by 2.7% in the national economy in January-November 2014, and net wages rose at the same rate. In parallel with the slowdown in inflation, real wages exceeded the year-earlier level by approximately 2.9%.



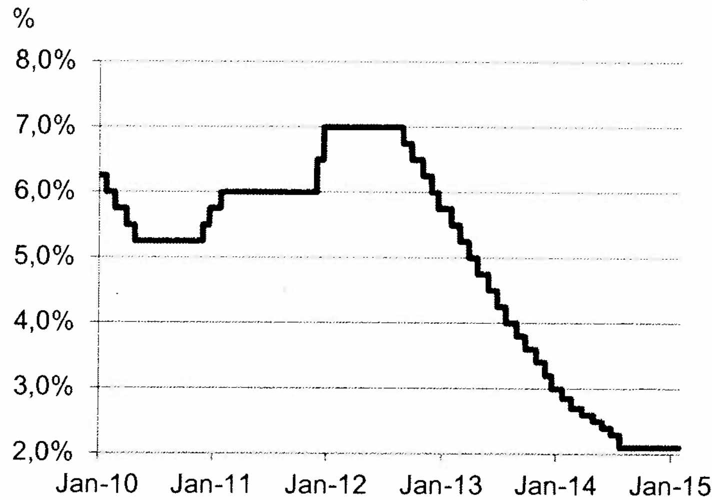
Data source: MNB, KSH

5. Monetary policy

The MNB's rate cut cycle, which had begun in August 2012 and persisted through 2013, continued in 2014 as well. The interest-rate path, which had moved in 20-basis point steps from August 2013, changed pace at the start of 2014 (from a level of 3%) to cuts of 15 basis points, and again in March, when the monthly change was reduced to 10 basis points. Finally, in July, the two-year cycle was declared over after a 20-basis point cut, which left the base rate at 2.10%.

The continuation of the easing cycle was supported by both external and internal factors, most importantly Hungary's inflation rate, which slid into negative territory. Besides this, the negative output gap, the unused capacities in the economy and the loose labour market, as well as an external environment that, despite some slight swings, was overall supportive, and the country's relatively favourable risk assessment, all served to increase the central bank's room for manoeuvre. Although we witnessed some wavering in global risk appetite several times during the year, these negative mood swings turned out to be temporary, and the Central Eastern European region proved quite resilient to the seller pressure that afflicted other emerging markets. In these circumstances the forint exchange rate also did not show any major swings that might have threatened financial stability and inflation, the financing of government debt did not present any major difficulties, and as the central bank was also quite successful in controlling market expectations, the easing of monetary conditions in the first half of the year (cuts totalling 90 basis points in 2014, after the 250-basis point easing of the previous year) was not accompanied by any dangerous swings in the market.

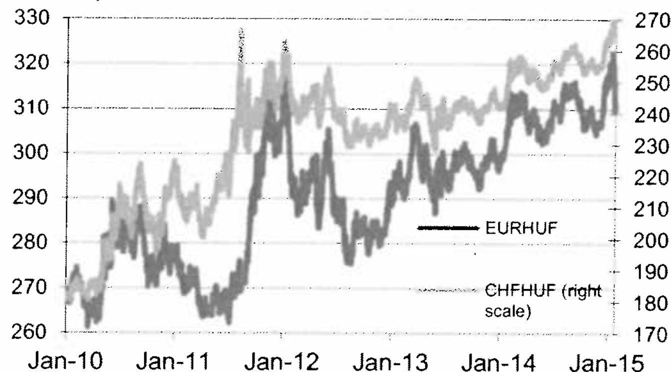
At the extensive press conference following the July rate cut the central bank's representatives clearly emphasized that the MNB would try and keep the base rate low in the long term.



Data source: MNB

The forint was characterised by a weakening trend in 2014 (similarly to 2013). In the first half of the year the forint hovered between levels of 302 and 312 against the euro, while in the second half of the year the EUR/HUF rate remained mainly in the 305-320 range. At the end of December the EUR/HUF rate was almost 6.5% higher than a year earlier, which represented more pronounced depreciation than in 2013. The average EUR/HUF rate was 308.7 in 2014. We saw a marked weakening of the Hungarian currency at the start of the year, in the summer months and in December, typically as a result of external market factors. At the end of the year the exchange rate was influenced primarily by the direct and indirect effects of the conflict between Russia and Ukraine. The exchange rate of the forint against the Swiss franc hovered between 241 and 264, also showing a weakening trend.

Although the yield premium on forint instruments decreased gradually in parallel with the MNB's rate cutting cycle, the rate cutting cycle seen in the first half of 2014 and the continued fall in market yields did not yet reach a critical level that might otherwise have caused portfolio withdrawals and a major depreciation of the forint. Nevertheless, the shrinking interest premium most certainly played a part in forex market movements, and the forint also weakened against the major regional currencies in the last months of the year.



Data source: Bloomberg

6. Banking Environment

The Hungarian banking sector still faces significant burdens and challenges:

- government actions have a significant negative effect on the profitability of the Hungarian banks (please see section 7. for more details);
- 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.

Corporate lending, in particular to SMEs, improved substantially in 2014. Further acceleration was seen in lending to non-financial corporations, with the Funding for Growth Scheme (FGS) making a considerable contribution in this regard. Funding for Growth Scheme was launched in June 2013 by the National Bank of Hungary. Thanks to the program, which was extended until the end of 2015 the decline in corporate lending stopped and corporate lending is expected to grow over the forecast horizon. At the same time, there are no signs of significant easing in credit conditions, while a sustainable uptrend and meanwhile that confidence and predictability at the market would also require an improvement in market-based lending.

The household loan portfolio declined further primarily in foreign currency lending, while HUF lending increased in 2014. The share of housing loans in new loan disbursements increased substantially: rising employment, higher real wages and decreasing lending rates had a positive joint impact on household borrowing through consumption and household investments.

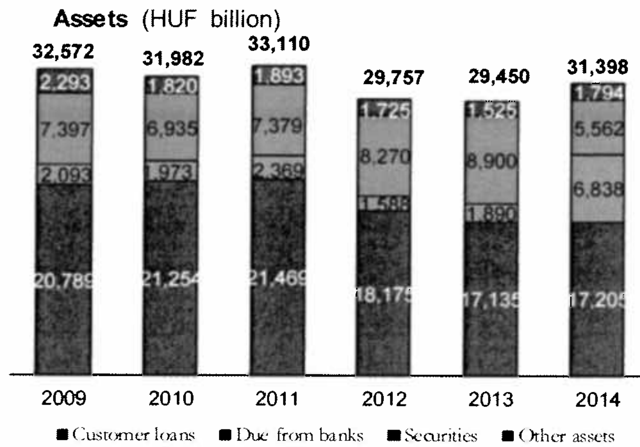
Total assets and liabilities

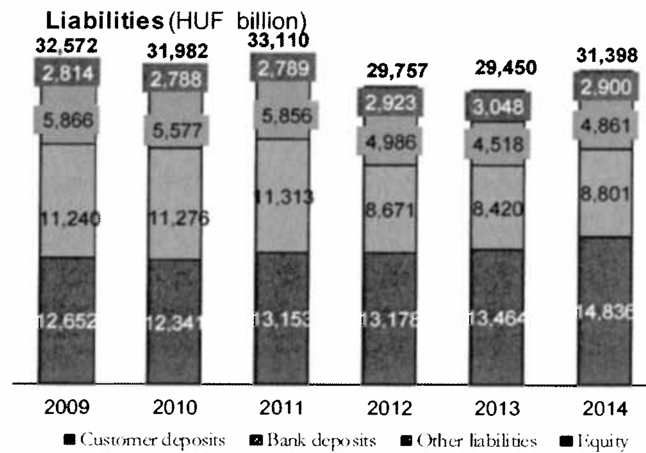
Based on the most recent available figures (as of Dec 2014) the bank sector's overall total assets increased by 6.6% (FX adjusted + 5.2%) and amounted to HUF 31,398 billion.

The gross loan portfolio increased by 0.4% (HUF 17 205 billion) compared to December 2013 (-1.5% 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.

Loans to households decreased continuously during the year by 0.8% (excluding FX effect: -1.5%) as new disbursement is lower than the maturing volumes. Demand for new loans was at very low level during the recent years, however in 2014 households new disbursement significantly increased compaired to 2013 (+49.4% as of Dec-14). The sector was still characterised by high volume of foreign currency loans (56.8% as of December 2014), however after the conversion of the foreign currency mortgage portfolio, it is expected to decrease to 40%.

The volume of deposits from customers increased by 10.2% compared to the end of 2013, amounted to HUF 14,836 billion at the end of December 2014. Retail customers slightly increase (+2.3%), while corporate deposit increased by 4.5%, furthermore other deposits increased by 35.7% compared to December 2013. At the same time the net asset value of investment funds increased by 20.0% (HUF 894 billion) compared to the end of last year and totaled to HUF 5,356 billion. While government bond portfolio of consumer customers increased by 20.5%.

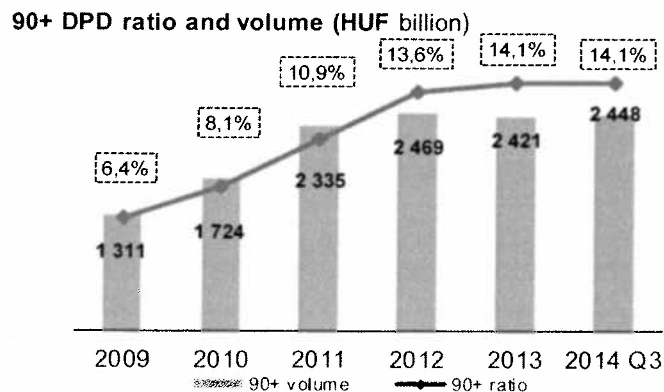


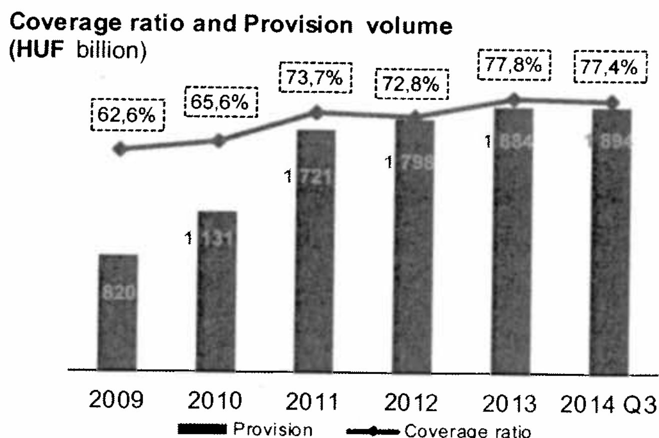


Data source: NBH, HAS

Credit quality

Portfolio quality deterioration stopped in 2014, 90+ past due ratio remained at last year level (14.1% as of Sept 2014). The coverage ratio (Loan loss provisions / 90+ PD) decreased by 0.4% points (77.4%). Volume of corporate loans with more than 90 days past due within total loan showed a small decrease of 2.2% points and the 90+ ratio was 15.8% at the end of September 2014. The retail segment's portfolio quality continued to deteriorate; it grew by 0.6% points to 19.3% as of Q3 2014.

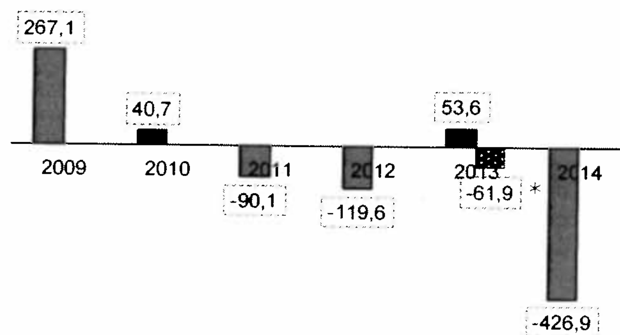




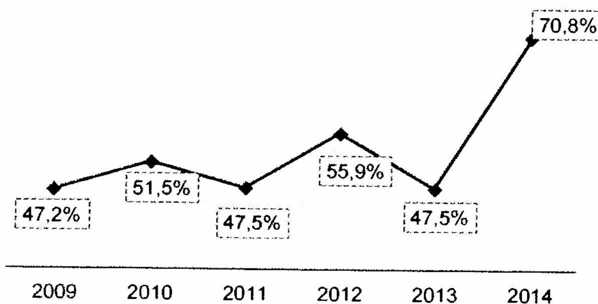
Data source: HFSA

Profitability

The profitability of the banking sector decreased as of December 2014 compared to last year, mainly due to the significant provisioning on the expected loss coming from repayment of bid/offer spread and unilateral condition increase on consumer loans. Profit after tax under local GAAP totaled to HUF -426.9 billion. Net Interest Income increased by 0,9%, while Profit from Trading Activities decrease was offset by the increased Net Commission Income. The cost / income ratio worsened to 70.8% at the end of December 2014 from 55.9% in 2013.



*Normalised with a one-off non-core bank transaction



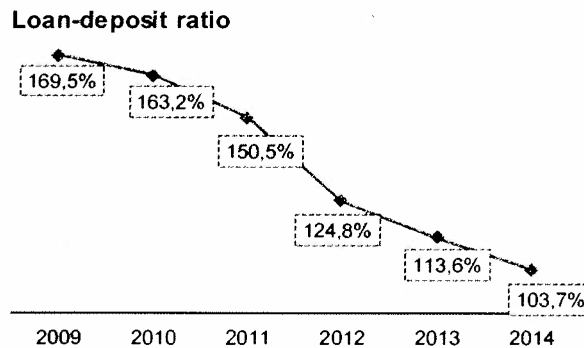
Data source: NBH, HAS

Liquidity and Capital

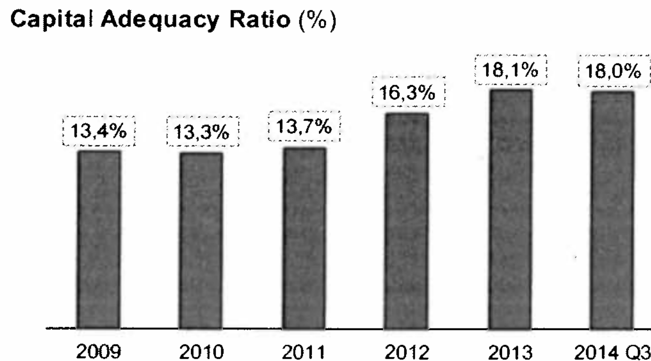
The amount of liquid assets (securities and interbank receivables) increased by HUF 1,610 billion (+14.9%) while the sector's loan to deposit ratio (net customer loan / customer deposits) improved by 9.9% (113.6% as of December 2014) due to the increase in the customer deposit portfolio and stagnating customer loans.

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 capital position of the banking sector is still adequate, the Capital Adequacy Ratio (CAR) remained at last year level, 18.0% as of September 2014.



Data source: NBH, HAS



Data source: NBH, Credit institutions operating as joint-stock companies and Special Financial Institutions aggregate figures

7. Government / Regulatory Actions

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

- **Exchange rate gap/ unilateral contract modification**

Supreme Court's Act and Settlement Act released in July and October, 2014 covers all HUF and foreign currency retail loan and financial leasing contracts. According to the Supreme Court decision

the exchange rate gap used by the banks was considered as null and void, and general contract conditions are unfair, which allowed the unilateral changes of prices. According to NBH's calculations, the total cost of the banking sector may amount to almost HUF 950 billion, the overwhelming majority of which – nearly HUF 700 billion – is generated on the FX-denominated mortgage loan portfolio.

- **HUF conversation**

According to the agreement made between the banks and NBH the banks will convert all foreign currency mortgage loans at a fixed exchange rate of 309 HUF/EUR and 256.5 HUF/CHF. Disappearance of the exchange rate risk of FX-denominated mortgage loans following the conversion will have a positive effect on the sector.

- **New regulation regarding PTI and LTV in consumer lending**

National Bank of Hungary adopted a regulation aimed at the prevention of excessive household loan outflows in the form of an NBH Decree. Entering into effect on 1 January 2015, the new regulations are applicable to all new loan contracts concluded in the territory of Hungary. The new regulation basically consists of two main pillars. The payment-to-income ratio (PTI) reduces customers' debt accumulation by limiting the debt-servicing burden that can be undertaken by customers when they take out a new loan in a pre-specified proportion of their regular legal income. In the case of collateralised loans (e.g. mortgage loans), the loan-to-value ratio (LTV) limits the size of available loans in proportion to the collateral (home value). In the case of new HUF-denominated loans granted after 1 January 2015, the payment-to-income ratio may not exceed 50 per cent and, for customers in higher income brackets (a net income of HUF 400,000 or above), 60 per cent.

- **Sectorwise Bad Bank**

The asset manager proposed by the central bank, as a voluntary option for the banks could efficiently remedy the problem of the distressed corporate portfolio. According to the Monetary Council decision, the MNB will provide HUF 300 billion in financing to the asset manager for the purchase of commercial real estate loans and foreclosed properties serving as collateral for these claims. This will relieve much of the strain on the banking system, which may increase the efficiency of monetary policy.

- **Extraordinary bank tax**

The extraordinary bank tax of almost HUF 200 billion per annum for the whole banking sector has remained in place in 2013 and 2014.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. 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.

- **Funding for Growth Program**

The Funding for Growth Program has significantly improved the conditions for access to loan. In the second part of the program the participating credit institutions concluded contracts in the amount of HUF 584.2 bn of which HUF 472.3 billion was disbursed until the end of the year. (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.

- **Fair banking law**

The banking sector has to apply the new regulation on consumer loan pricing (fair banking pricing) for the converted mortgage loans according to the HUF conversion Act. It has been placed from the the 1st of January.

II. Business strategy and priorities

In 2013 CIB Bank, with the approval and support of parent bank Intesa Sanpaolo, formulated its new strategy; over the medium term, the Bank is focusing on growth in strategically important segments and products, while maintaining its market position in areas where growth itself is not the primary target. The most important objective of the strategy is to ensure that the Bank will operate profitably over the long term by applying an efficient and effective operating model.

The strategy is based on three main pillars:

- internal separation of the "Core bank" from the management of non-strategic assets,
- rebalancing of the Bank business by developing the consumer and small- and medium-sized enterprises segments and
- proactive management of the non-performing part of the loan portfolio.

The strategic objectives of the plan are:

- to deliver excellent client service to ensure the Bank becomes the primary financial service provider for its customers;
- to ensure a sustainable and gradual return to profitability of the "Core Bank";
- to wind down value eroding assets and business.

CIB is placing particular emphasis on the development of its retail business, and as a part of this, it aspires to become the primary bank for its customers. Key elements of this approach include the simplification of banking processes and the improvement of customer satisfaction. This will require a continuous expansion of the offer through the addition of premium banking services, as well as the provision of high-standard asset management products and top-quality, standardized banking services through electronic channels and the branch network. On the retail lending side, it is introducing processes and developing commercial channels through which it can increase the number of loan placements in a market that is otherwise undergoing profound change. All of this will be supplemented through a further enhancement of the Group's range of bank insurance products.

The other focus of CIB's medium-term strategy is financing the real economy, and accordingly, it is enhancing the product and service offer for the SME segment. Besides the expansion of financing from its own resources, the aim is to actively offer subsidized forms of financing (Hungarian National Bank's Growth Program, EXIM refinancing), together with professional support if needed. Apart from SME and corporate loans as well as leasing services, CIB Bank provides other financing options for companies, such as factoring.

Although currently it is focusing its efforts on the above sectors, the CIB Group is also set in maintaining its position in the corporate segment. Over the coming years it will make even better use of the synergies inherent in its relationship with its parent company, Intesa Sanpaolo, in order to help strengthen its presence in the multinational corporate sector.

At the focus of CIB's business objectives are the areas that have long-term profit potential, and therefore the Bank will continue to manage separately its customers who have loan products that it no longer wishes to keep in its portfolio. This non-legal internal separation is of critical importance for the successful implementation of the business strategy.

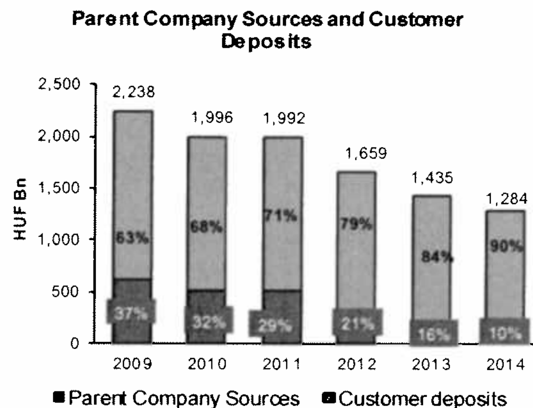
The CIB Group is supporting the achievement of these strategic objectives through a new visual appearance in its marketing materials and a new slogan "Real possibilities".

III. Strengths and potential risks of CIB Group

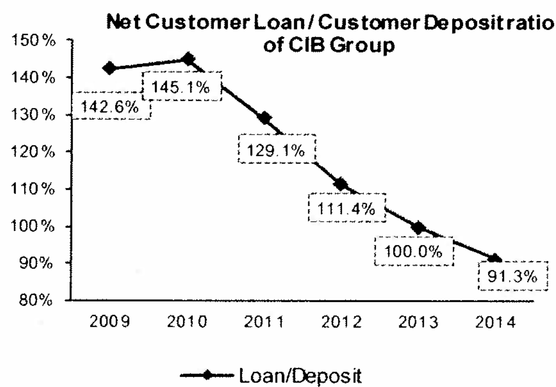
Main strengths

1. Solid liquidity position

CIB Group has a strong liquidity position as the parent company has ensured a consistent commitment towards CIB's funding over the past years. The high degree 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 37% as of December 2009 to 10% as of December 2014. 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 142.6% in December 2009 to 91.3% in December 2014.



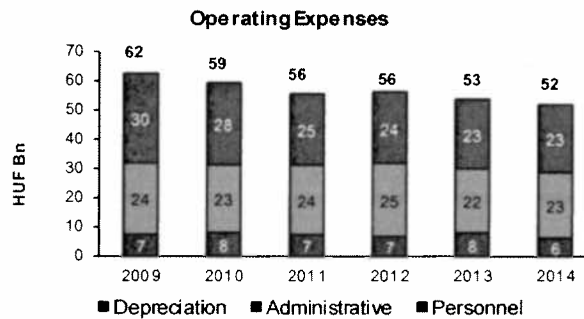
Data source: CIB Group, IFRS



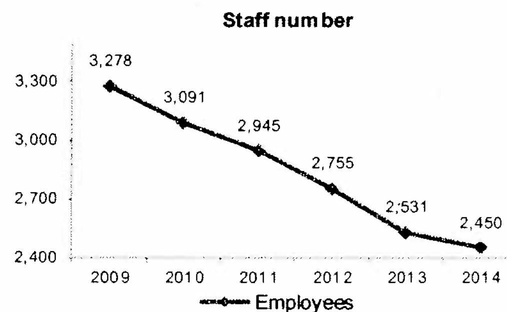
Data source: CIB Group, IFRS

2. Cost efficiency

The Group has initiated and begun the execution of a wide-ranging cost management programs that resulted 25% decrease in staff number compared to 2009 (-3,2% compared to Dec 2013) and lower operating costs. Overall cost savings reached 17% compared to 2009 (-2.7% compared to last year) despite the additional recovery unit expenses which were necessary to improve overall recovery rate on NPLs.



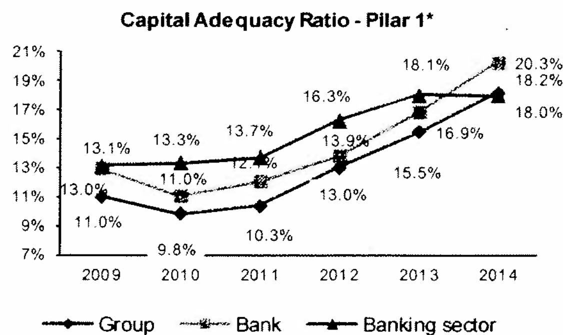
Data source: CIB Group, IFRS (excluding bank tax and transaction duty)



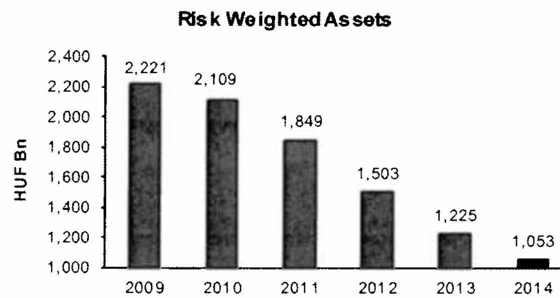
Data source: CIB Group, IFRS

3. Capital adequacy

CIB Group has a solid capital position, the capital adequacy ratio of CIB Group under Pilar 1 is higher than the regulatory minimum of 8% and totaled 18.2% at the end of December 2014. From 2014 the Group applies new Basel III. (CRR) regulations for capital adequacy calculation. Capital adequacy of the Group is based on IFRS consolidated figures. To offset the losses CIB's owner increased the Group's equity by HUF 67 billion in 2014. The capital adequacy ratio of the Bank was 20.3% under Pilar 1 based on HAS figures. Further actions to maintain stable capital adequacy still remained a top priority for the Group.



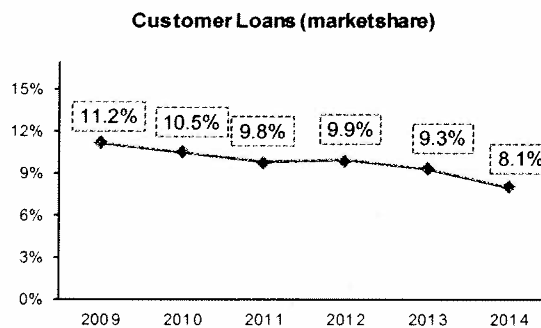
Data source: HFSA, CIB Group, 2009-2013 HAS, 2014 IFRS. Solvency capital / Risk Weighted Assets

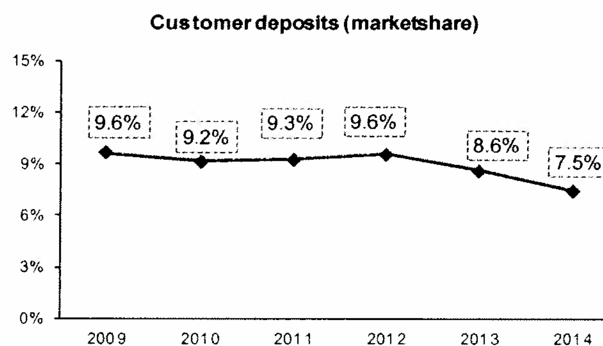


Data source: CIB Group, 2009-2013 HAS; 2014 IFRS

4. Stability and 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 9.93% market share according to the latest available data (December 2014) and in the retail deposits market (7.0% share in December 2014). Its customer base totaled to 490 thousand customers by the end of December 2014.





Data source: HFSA, CIB Group, HAS

5. Clearly Defined Organizational Structure & Strong Governance

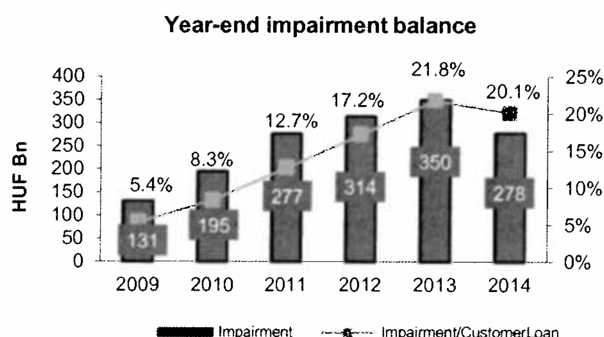
CIB Group has clearly defined organizational structure and strong governance model to ensure transparency, accountability and integrity of its operations. The Group's organizational structure consists of business units, control and support units to enable efficient management across all of the Group's entities. Key executive decision making is further enhanced by operational committees that decide and review spectrum of matters concerning commercial risk assumption, liquidity, distressed asset management, legal, regulatory and compliance related subjects.

Furthermore operational management is enhanced by set of controls and decision making mechanisms concerning Management Board, Supervisory Board and Audit Committee. To comply with local and EU-based regulatory frameworks the Group established Remuneration Committee the Nomination Committee and the Risk assumption and Risk management Committee.

Potential risks

1. Credit risk

The effects of the unfavorable economic environment have negatively impacted asset quality across all segments – and the related cost of risk. The Group applied prudent provisioning policy so overall impairment volumes have cumulatively increased by close to HUF 150 billion compared to December 2009 level and started to decline this year thanks to non performing loan portfolio cleaning activities. The impairment to customer loans ratio increased from 5.4% (December 2009) to 20.1% (December 2014).



Data source: CIB Group, IFRS

2. Interest income and expenses

Low demand for new financing over the past years caused the continuous erosion of the Group's customer loan portfolio. This together with the increasing proportion of Non Performing Loans resulted in a drop of interest income. On the liabilities side the spread on sight deposits decreased continuously due to the base rate cuts of the central bank.

3. Foreign currency exchange and liquidity risk

Foreign currency loans make up almost 70% of the total loan portfolio while foreign currency deposits (including issued securities) represent 25% 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 most of its

swap book is medium term. The conversion of foreign currency retail mortgages into HUF in Q1 2015 will radically decrease the foreign currency balance sheet position of the Group.

4. Repossessed collateral risk

To minimise credit losses the Group started the repossession of real estate collaterals behind non performing loans at the end of 2009. By the end of December 2014 the net book value of the repossessed real estate portfolio was HUF 86 billion.

5. Tax burdens

The extraordinary **banking sector tax** 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 of HUF 11,9 billion. On 9 February 2015 the Government announced that the banking sector tax will be reduced from 2015 through the modification of the tax base and tax rate.

Transactional duty came into effect in 2013 caused additional HUF 10.1 billion tax burden in 2014.

IV. Outlook for the Bank Group

1. Sector profitability remains weak

The Government actions to help consumer customers will determine the operation of the Hungarian Banking sector in 2015. The conversion of foreign currency loans into HUF coupled with the fair banking act will put loan spreads under pressure, while the settlement of bid-offer spread and unilateral interest increases will have a negative effect on loan volume. Although the main part of the one-off loss coming from the settlement was already accounted for in 2014, the above mentioned effects on loan volumes and spreads will have a long lasting negative impact on revenues.

In addition volume of non-performing loans will remain high, which significantly affects the profitability of the banks including CIB through further impairments, lower income generation and increased costs of recovery activities.

2. Improving Balance Sheet position

The conversion of consumer foreign currency mortgage portfolio in February 2015 will significantly reduce foreign currency refinancing need of the Group.

3. Slow recovery in banking sector

Although the Hungarian economy is expected to grow by around 3% in 2014 and 2-2.5% in 2015, and the demand for new loans showed signs of improvement both on the corporate and on the retail market, the volume of customer loans are still decreasing as the new loan volume can not compensate the amortization of the existing exposures and NPL portfolio cleaning. The residential real estate market shows signs of recovery, but is still very far from the pre-crisis level. The commercial real-estate market still suffer from the excess capacities that were built in the pre-crisis years, which makes the banks extremely cautious in financing new real estate projects.

4. Credit quality improvement

The strengthening of households' financial position linked to the regulatory measures will have a positive effect on retail credit quality. Portfolio cleaning and the wind down of NPL portfolio will continue, also supported by the activation of the National Bad Bank and will ease the pressure on the Balance Sheet.

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 1,734 billion (-4.1% compared to Dec-2013) as of December 2014. The lower balance was primarily a consequence of shrinking customer loan portfolio.

Customer Loans

At the end of December, 2014 CIB Group's consolidated gross loan portfolio was HUF 1,339 billion (-16.4%). Within the total portfolio the proportion of retail loans (mortgage, car financing and others) reached 37.3% (+3.5%) by the end of December 2014, while real estate financing accounted for 27.6% (-6.0%) of the portfolio. The share of large corporate loans decreased slightly during the current period, while SME financing stagnated. Demand for new financing increased compared to 2014, retail new disbursements improved by more than 45% compared to 2013, while SME new financing was supported by the Funding for Growth program of the Central Bank.

Loan portfolio quality

The deterioration of the credit quality of CIB Group's loan did not continue in 2014, and the share of 90 days past due loans decreased to 21.8% (-4.8%) thanks to limited new inflow and portfolio cleaning activities. The improvement is connected to the corporate segments, while the quality of the retail loan portfolio, especially mortgages, worsened further. The share of 90 days past due mortgage portfolio rose by 4.1% points compared to December 2013 and reached 31.2% by the end of December 2014. In case of corporate real estate finance there was an improvement this year and the share of 90 days past due portfolio dropped to 23.4% (-11.9%) by the end of December 2014. During the year of 2014 CIB provisioned HUF 43.5 billion to cover potential losses from non performing loans.

Securities

The Group held securities portfolio of HUF 195 billion by December 2014 (-30.5%) of which trading portfolio amounted to HUF 12.5 billion; available for sale portfolio reached HUF 182.8 billion, while there were no held to maturity investments. The majority of the security portfolio (99.9% of total securities held) consisted of government bonds.

Repossessed properties, Tangible and Intangible Assets

As part of the recovery strategy CIB Group continued to repossess real-estates in 2014 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 113.2 billion of which the net book value of repossessed real estates was HUF 86.2 billion (-10% compared to December 2013).

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 330 billion (+113%) by the end of December, of which 14.5% was placed within Intesa Sanpaolo Group.

Liabilities

Customer Deposits

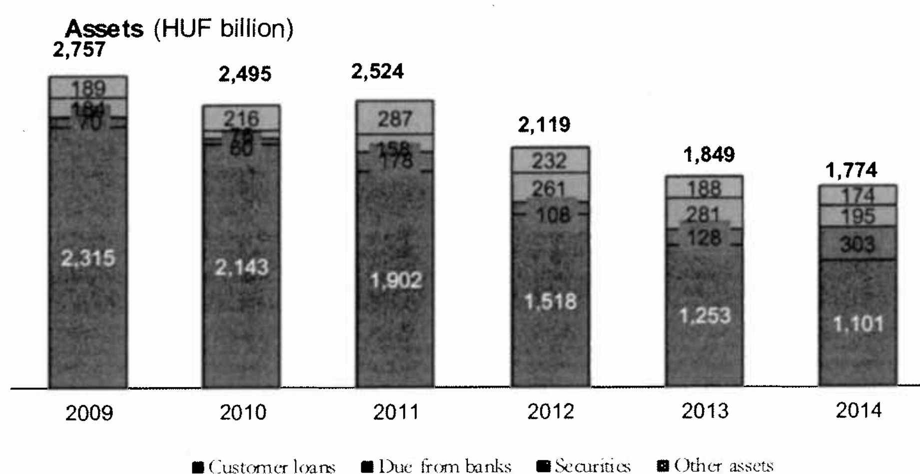
Total customer deposits, including issued bonds, amounted to HUF 1,206 billion (-3.7%) by the end of December 2014. The balance was negatively affected by the withdrawal of some large corporate deposits as well as by the competition of government bonds and investment funds which eroded consumer deposits. Consumer funds (including issued bonds and investment funds) were HUF 769 billion at the end of December 2014 (-1.9%) and their share within total customer savings amounted to 50.5%.

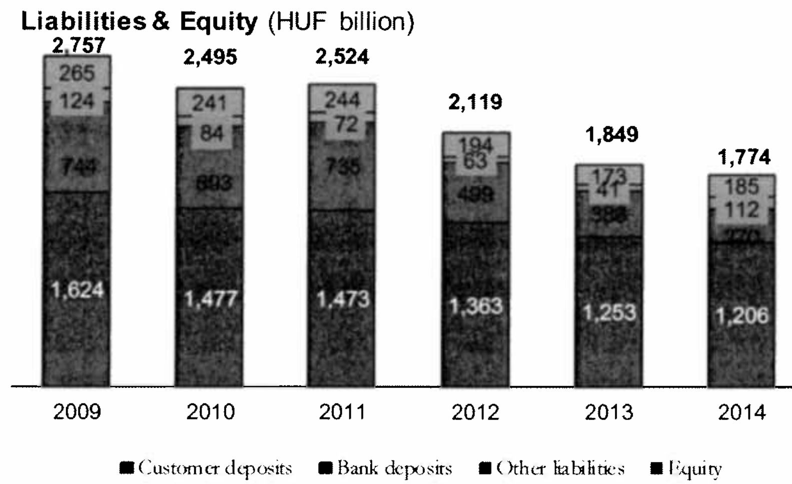
Deposit from banks

Interbank funds – including subordinated deposits – totaled to HUF 270.4 billion (-29.5%) as of December 2014. Part of the funds came from the Group's parent company, accounting for almost 28.6% of the total of interbank deposits, while the remaining part was received from supranational financial institutions and from the central bank.

Equity

CIB Group's total shareholders' equity was HUF 184.8 billion (+7.1%), the reason for the decrease is the HUF 104.1 bn loss in the current year that was offset by HUF 67 bn equity increase and by HUF 49 bn as other equity contribution.





Data source: CIB Group, IFRS

Profit and loss

Revenues

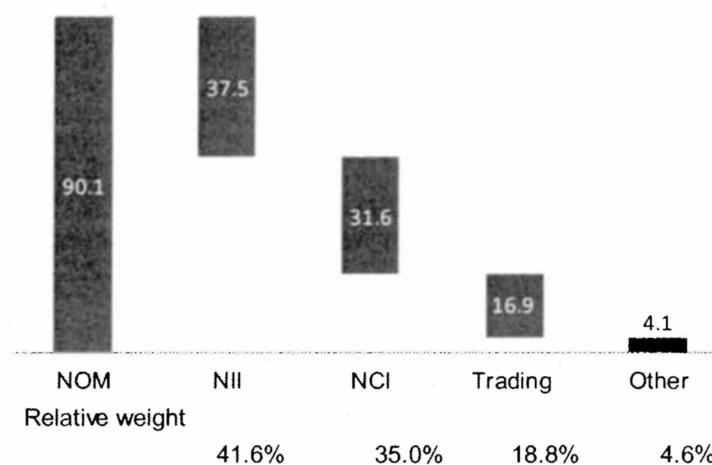
Total net revenue of CIB Group amounted to HUF 86.2 billion (-4.3% compared to the same period of 2013), out of which Net Interest Income was HUF 40.0 billion (+6.7%). Net Commission Income was HUF 29.4 billion (-6.7%), while Trading Income totalled to HUF 13.9 billion (-17.7%).

Net interest income was higher than in 2013, as the negative impact of the decrease of customer loan volume was compensated by the effect of lower funding cost in line with the base rate cuts of the central bank.

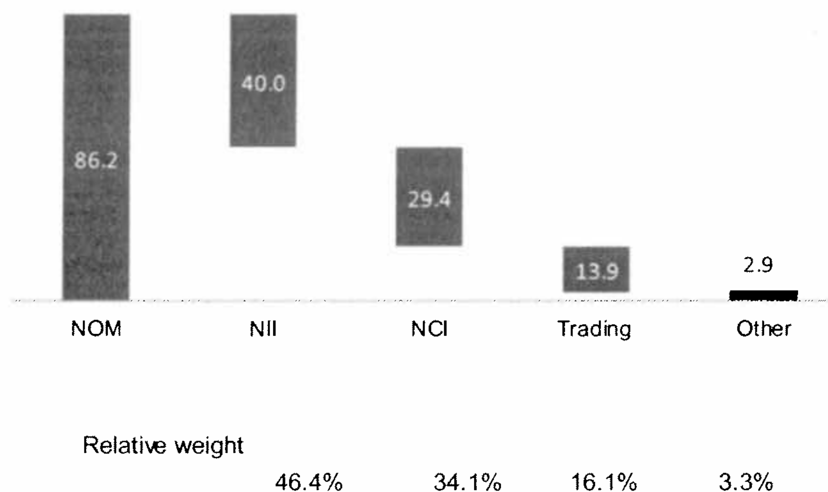
Net commission income decreased due to lower transactional turnover mainly in case of current account, cashier and card transactions.

Lower Trading income was the consequence of lower income from the derivative portfolio. Average balance of derivatives decreased in line with improving Balance Sheet FX position, while the interest differential on EUR/HUF swaps went down in line with the decreasing trend of HUF interest rates.

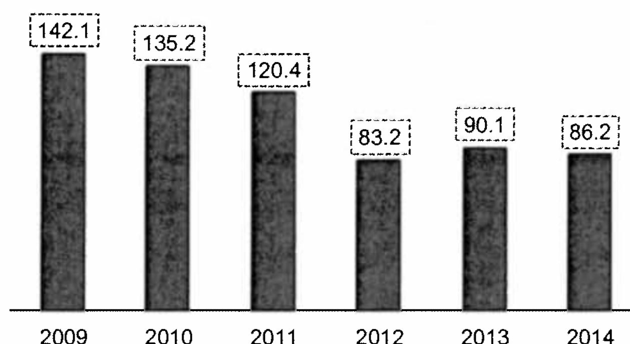
Breakdown of revenues - 2013



Breakdown of revenues - 2014



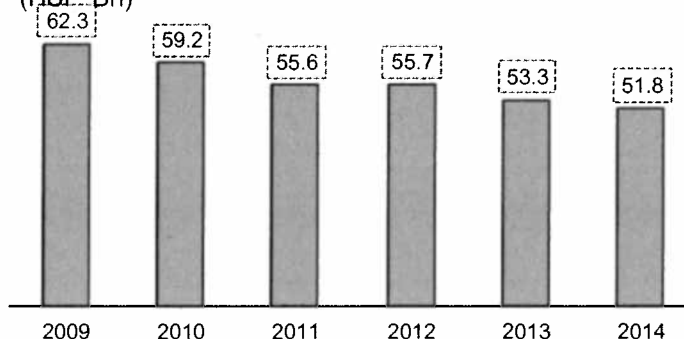
Data source: CIB Group, IFRS



Data source: CIB Group, IFRS

Operating Expenses

Total operating expenses decreased by 2.7% compared to last year and amounted to HUF 51.8 billion without the bank tax. 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 1.1% in 2014, partly offset by salary increases, while administrative expenses increased by 2.9% compared to the previous year, due to higher marketing expenses connected to increased sales activity. The cost to income ratio was 60% in 2014 almost the same as in the previous year.



Data source: CIB Group, IFRS

Banking Sector Taxes and Duties

Total extraordinary bank tax of the Group for 2014 amounted to HUF 11.9 billion. Transactional Duty expense for the year reached HUF 10.1 billion.

Allowances and impairments

The amount of new allowances, impairments and provisions reached HUF 118.6 billion compared to HUF 142.4 billion in 2013. Out of the total, loan impairment expense reached HUF 43.5 bn (HUF 49 billion lower than in 2013). More than 50% of the new provisioning came from the project finance segment (41% in 2013). New impairment in the retail business accounted for 24% of loan impairment expense (40% in 2013), mostly connected to the mortgage portfolio.

As part of the new loan allowances, impairment and provision the Group made a provision of HUF 71 bn on the potential impact of the new regulation concerning the bid/offer spread and unilateral interest increases of retail loans.

Impairment and sales result connected to investment properties amounted to HUF -3.4 bn (HUF 29.5 bn better than in 2013)

The Group closed the year of 2014 with a loss of HUF 104.1 billion, the loss was mainly the effect of the provision on the new retail foreign currency loan regulation and the banking sector related taxes.

VI. Operations of the subsidiaries in 2014[1]

The Group structure was the following at each 31 December:

(number of companies)	**2014**	**2013**
Companies for providing services and products to Group's customers	5	5
Companies responsible for the management of repossessed assets	3	3
Companies under unwinding procedure	1	2
Total	**9**	**10**

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 increased by more than 30% compared to 2013, and reached HUF 450 billion in 2014. With a market share of 5.5% (as of December 2014) CIB Leasing subsidiaries were one of the key players on the market. The total assets of the company in December 2014 were HUF 198.7 billion, significantly affected by the decreasing customer loan portfolio. Net results for the year 2014 was HUF 7.2 billion loss.

- **CIB Rent Zrt.**

The company is specialized in operative leasing transactions. The total assets of the company at the end of 2014 were HUF 7.7 billion, while net loss reached HUF 143 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 2014 total assets of CIB Real Estate Leasing Zrt. amounted to HUF 6.2 billion, while its net result was a loss of HUF 294 million.

- **CIB Insurance Broker Kft.**

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2014 total assets of CIB Insurance Broker Kft. amounted to HUF 1.4 billion, while its net result was HUF 155 million.

- **CIB Factor Zrt.**

The company became part of CIB Group in 2004. Its main activity is the factoring of receivables and the cross-selling of products with the SME division of the Bank. At the end of 2014 total assets of the company reached HUF 17.3 billion, while net results amounted to HUF 127 million.

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

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 94.8 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 11.9 billion.

- **CIB Car Ltd.**

The company was founded in year 2006, to deal with vehicle trading. Total assets at the end of 2014 were HUF 0.4 billion, while the annual result was a loss of HUF 80 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 3.0 billion, while net result for 2014 amounted to HUF 0.1 billion loss.

3. Companies under unwinding procedure

- **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 were HUF 1.0 billion by the end of the year and the company had a loss of HUF 22.7 billion in 2014 connected to impairment of its investments. The winding up procedure of CIB Leasing Holding has been finished in 13 January 2015.

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

The settlement of bid/offer spread and unilateral interest increases connected to consumer loans will occur in March-April 2015. The Group set aside the adequate level of provisions in 2014 to cover the expected loss coming from the settlement. No other 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 196 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 12.2 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 182.4 billion is available for sale (AFS), while there were no securities in the held-to-maturity portfolio. The Group holds a government bond (former municipality bond) portfolio up to HUF 40.7 billion 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 has booked the FX implicit forward transactions related to the recent governmental measures on the mandatory conversion of the FX mortgage portfolio. These FX implicit forwards represent the embedded Forint-foreign currency forwards in the FX mortgage portfolio to be converted by March 2015. The Group has hedged the mortgage conversion related FX open position with the Central Bank of Hungary and on the market before the end of the year.

The financial 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 organizational 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 policy includes the liquidity contingency policy, which 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 tolerance related to Basel 3 regulatory liquidity ratios, the LCR and the NSFR.

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 organizational 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 tolerance 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 2014 and 2013 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 2014 it was prominently highlighted for the Banking Group, to inform the employees about the new business strategy, to reward the outstanding performance, to keep and develop the well performing co-workers, and to make the operation of the human resources more professional. All these efforts were to build a successful banking group, which works as strong society, being motivated and efficient. CIB Banking Group acted in 2014 as well in line with the HR focuses started in 2013:

- Mindset change and development of our corporate culture
- Retention and meritocracy
- Professional HR operation

In the first half of the year, all employees participated on the series of events organized to get familiar with the new business strategy of the Banking Group. In 2014 we continued the management's development with the help of a self-innovated program, which we proceed in 2015.

In line with the top management's intention to strengthen employee engagement; we continued the management of our 13 element CIB Spirit portfolio (Recognitions, Family, Sport, Healthcare, etc.), which were supplemented by divisional action plans and by the programs of the re-organized CIB Spirit Ambassadors' team.

We have started more initiatives aiming to find and further develop our best colleagues. In 2014 the first class of the Leadership Talent Program was terminated, while starting the second edition in the same year. For specialist colleagues, choosing professional evolution vice managerial carrier path; we have processed the concept of our Talent Program for Professionals starting in 2015.

In 2014 the sales incentive scheme of CIB Group was renewed and revised in line with the new business strategy for 2014-2017. The new performance management and incentive processes developed by our Owner, the ISP Group ISBD division served as a basis of this revision. The main goal of this new, extended scheme is to motivate and hereby to retain our successful and effective colleagues and managers to support together the realization of the strategic goals. All of the colleagues in direct business fields and their direct superiors are involved into the new sales incentive scheme.

In 2014 our HR reporting system for senior management was further developed and extended with new elements to support their effective human resources management with full-scale information. Moreover a new so-called HR risk matrix has been developed in order to predict the inappropriate functioning in human resources management as precise as possible and to give effective responses as soon as possible.

In line with the new top management structure we have redesigned the operation of the Strategic HR partner team and established the HR Business Partner role. In the future HR Business Partners will provide HR support primarily to Board members and their direct reports shifting the focus towards organization development and management culture development.

In 2014, in order to simplify our processes and identify and attract talent more effectively we have started to redesign our recruitment, selection and on-boarding process. In addition we have worked on the introduction of new recruitment tools and methods. We expect to launch the completely renewed process in the second half of 2015. However, as a result of the work done so far, we are already starting the widespread use of databases and social media (especially LinkedIn) in recruitment from the beginning of 2015.

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 2014 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.

The steps of environmental protection and energy saving in 2014:

- Continued the advert lights upgrade on branches. As part of that we change the outdated and worst efficiency fluorescent tubes to LED. We gained by this step ap. 70% energy saving on each lamp.

- We made energy audit on the most 20 most energy consumer branches. Investigated the possibility of energy saving, energy efficiency and energy awareness. Collected and summarized the result of them and started to execute the issues.

- Established and implement the energy saving requirements of the technical equipment's, systems and work procedures. We will use this standpoint in our maintenance, purchase and project issues.

- As the part of our energy awareness campaign, we published the main energy consumption numbers, our future plans, some energy saving ideas and suggestions for the employees

- The energy awareness campaign contains the energy saving stickers. We edited them, and prepare for use on the year 2015. We wanted to increase the energy awareness among the employees, because they have to know that the energy saving is a community task.

- The electricity consumption of the operational estates was decreased by 5% compare to last year like for like. The natural gas consumption also decreased by 11% for the same real estates as well.

Budapest, 24 February 2015

Dr Pál Simák
Chairman of the
Management Board and
C E O

Andrea De Michelis
C F O

Representatives of the credit institution