Annual Report 2011

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Hungary

Raiffeisen BANK

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Consolidated key data of Raiffeisen Bank Zrt.

Monetary values in euro mn	2011	Change	2010
Income statement			
Net interest income	188	(29.20%)	253
Net fee and commission income	68	(9.09%)	75
Trading profit (loss)	136	2.63%	131
Operating expenses	136	(17.95%)	164
Profit before tax	(295)	1295.24%	(24)
Profit after tax	(286)	1914.29%	(19)
Balance sheet			
Loans and advances to banks	321	18.94%	296
Loans and advances to customers	4,905	(15.18%)	5,793
Deposits from banks	1,022	(36.00%)	1,903
Deposits from customers	4,611	(2.86%)	4,749
Equity (incl. minorities and profit)	517	(5.21%)	544
Balance sheet total	7,393	(12.61%)	8,496
Resources			
Average statistical number of staff	3,101	(10,02%)	3,446
Banking outlets on balance-sheet day	132	(7,1%)	142

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2011 was 311,13 HUF/EUR in 2010 was 278,75 HUF/EUR.

Contents

Consolidated key data of Raiffeisen Bank Zrt. 2

Foreword by the Chairman of the Board 5

Foreword by the Chief Executive Officer 7

Overview of the 2011 business year 9

Shareholder of Raiffeisen Bank Zrt. 18

Board of Directors and Supervisory Board 18

Management of Raiffeisen Bank Zrt. 19

Declaration on Corporate Governance Practice 20

General remarks on the Bank's operations in the 2011 business year 26
- Large corporations 26
- Small and medium-sized enterprises 26
- Retail customers 27
- Municipalities 28
- Private Banking customers 28
- Financial institutions 29

Raiffeisen Bank International at a glance 31
- Vision, Mission 33
- Raiffeisen glossary 34

Consolidated Financial Statements, 2011 36
- Independent Auditor's Report 36
- Consolidated income statement 37
- Consolidated statement of comprehensive income 38
- Consolidated statement of financial position 39
- Consolidated statement of changes in equity 40
- Consolidated statement of cash flows 42
- Notes to the consolidated financial statements 44

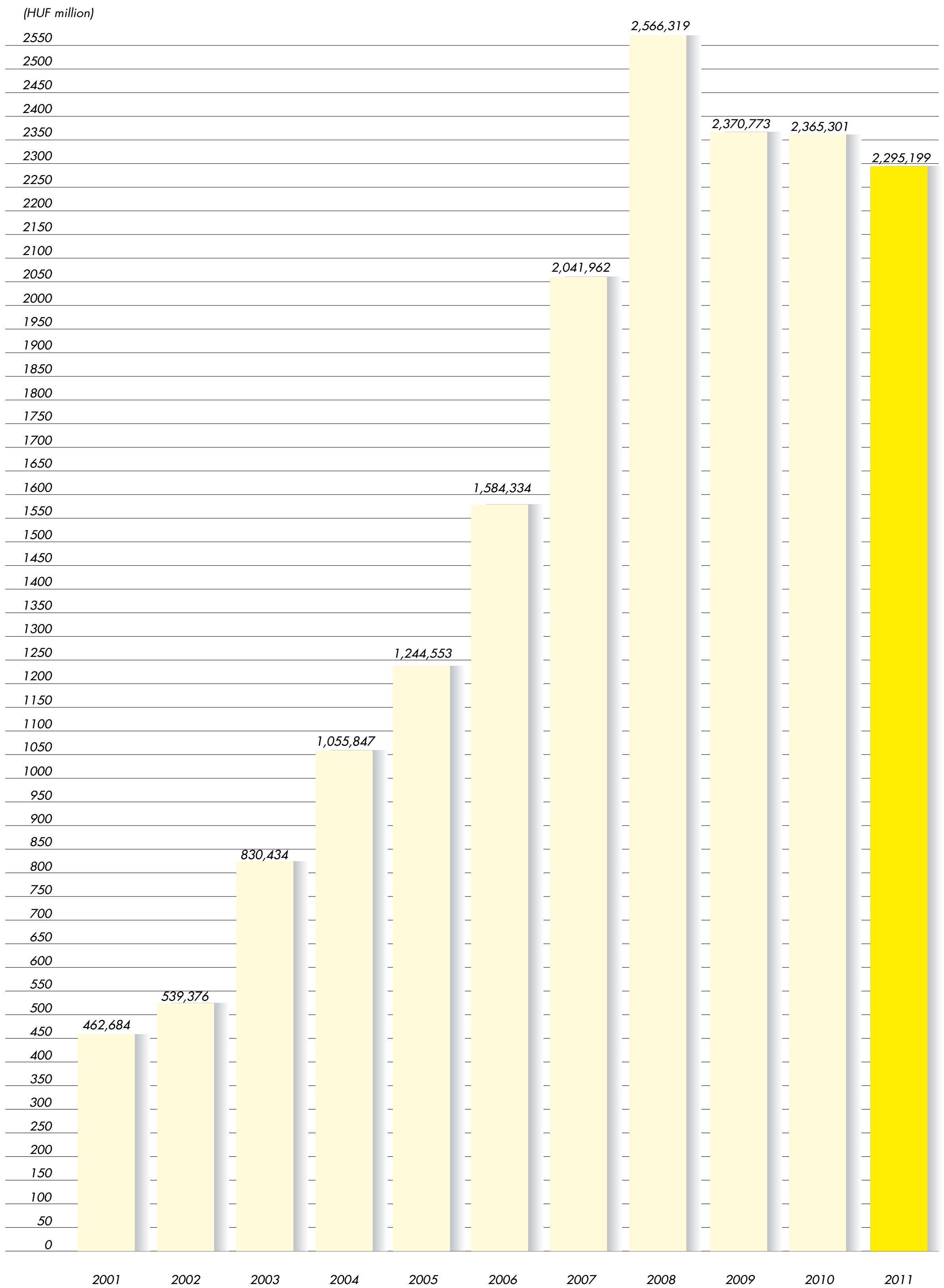
Consolidated income statement and financial position in euro 120

Affiliated companies 122
- Raiffeisen Leasing Zrt. 122
- Raiffeisen Investment Fund Management Zrt. 124
- Raiffeisen Insurance Mediator Kft. 127

Central offices and branches in Hungary 130

Addresses and contacts 134

Non-consolidated total assets, 2001–2011



The Board of Directors' report on 2011

Foreword by the Chairman of the Board

Ladies and Gentlemen,

2011 was once again a fairly eventful year. The developments in Europe, and particularly in the peripheral states of the eurozone, left their mark on the group headed by Raiffeisen Bank International AG (RBI), the parent company of Raiffeisen Bank Zrt. While our exposure to these states was traditionally low and we were not directly affected, we too were unable to escape the effects of the market environment following the sovereign debt crisis.

RBI and banks in general are facing a lot of new rules. From our point of view, however, they are introduced at an unfortunate time and in too much haste. The regulations published by the European Banking Authority (EBA) at the end of October which call for a core tier 1 capital ratio of 9 per cent by the end of June 2012 put pressure on many banks in Europe. However, we – to be more exact, the RZB Group – are well-equipped to handle this. We have put together a comprehensive bundle of measures, consisting of numerous individual measures. We are also in the fortunate position of making profits which are strengthening our equity. As a result, we can meet the new requirements from our own resources.

By meeting the EBA ratio, RBI is also reaching the Basel III ratio of 7 per cent, which the Austrian regulators have set as mandatory earlier than previously planned, namely from the start of 2013. Moreover, the Austrian regulators implemented a ratio system for banks operating in Central and Eastern Europe to bring funding from other sources than the shareholder and loans into balance. We do not regard the guideline that only € 110 should be lent for every € 100 of deposits (including certain other forms of funding) as a major restriction. As growth in lending is tied to economic growth, it is likely to be moderate in the next few years. Looking at growth rates, we have to distinguish between markets. While in the eurozone we are facing a real systemic and political crisis, in Central and Eastern Europe the economic uptrend is largely continuing. This region is and will continue to be the growth driver for Europe. Even if economic growth in the CEE region slows from 3.7 per cent in 2011 to 2.6 per cent in 2012, this is still higher than in the eurozone. This is not a bad outlook for us.

In this difficult environment, the RBI Group generated a profit before tax of € 1.37 billion, which is a solid result we can rightly be proud of. One thing that made this possible is that the markets in Central and Eastern Europe continued to show comparatively high economic growth, which also resulted in a significant improvement in our risk situation. Our result confirms our sustainable business model, which will continue to keep us very competitive!

On behalf of the Board of Directors, I thank all employees and the Management Board for the significant improvements achieved in 2011. I also extend my thanks to the clients for choosing Raiffeisen Bank and other members of the Raiffeisen Group as their financial partner.

Herbert Stepic
Chairman of the Board of Directors

Foreword by the Chief Executive Officer

2011 was the most difficult year in the Hungarian Raiffeisen Group's history, having produced a loss amounting to HUF 88.9 billion.

This loss was due to several factors:

- In addition to the banking tax, the government introduced a pre-payment act for foreign currency mortgage customers, allowing them to pre-pay their foreign currency loans at a significant discount to the actual exchange rate. At Raiffeisen Bank, almost 30 per cent of the eligible customers made use of this option causing a net loss of HUF 31.3 billion in addition to a continuous decrease in interest income going forward.

- The second factor was that major sectors of the Hungarian economy did not perform well, causing non-performing loans to rise further by HUF 51.7 billion y-o-y. The commercial and residential real estate market is not yet picking up, and the overall economy has not yet started to recover from the crisis which had started in 2009.

- Thirdly, demand for new loans in both the corporate and retail segments was down from last year, resulting in lower overall lending volumes and reduced income.

In order to partly compensate for the high risk costs and lower income, we managed to reduce our cost base by 11 per cent to HUF 74.9 billion. (Operating expenses without impairment and write offs). We reduced staff by 10 per cent to 3,100, closed down a few unprofitable branches and introduced a rigorous cost management system.

The banks reached an agreement with the government in December on how to continue with the remaining foreign currency mortgages, and solutions have been found for both performing and non-performing customers. This agreement should help managing the foreign currency mortgage exposure for the coming years. However, there are no single action steps which will solve this issue at once, only a series of steps which will address it gradually and over a long period of time.

Towards the end of last year, our shareholders increased the equity in Raiffeisen Bank by HUF 105.9 billion, ensuring a healthy capitalisation and underlining the strong commitment of Austrian Raiffeisen Bank International towards Hungary. Despite the challenging environment, Raiffeisen continues to play an important role in the Hungarian banking sector. We managed to increase our market share in several important segments, especially in retail deposits, our market share grew from 6.1 per cent (year-end 2010) to 6.8 per cent (year-end 2011).

We are continuing our relentless drive for customer and service quality excellence. We are strengthening customer relationships and putting even more emphasis on the customers' demands and needs, which in turn helps us increase both satisfaction and sales. This is a general philosophy and strategy at Raiffeisen, now and in the future.

Our outlook for the coming year is somewhat mixed, as there are still many uncertainties regarding the economic, financial and regulatory environment, both in Europe and in Hungary. 2012 will again be a very challenging year for Raiffeisen, but we are confident that it will be better than the previous one.

Heinz Wiedner
Chief Executive Officer

Overview of the 2011 business year

Macroeconomic environment

1. Global economic environment

The year 2011 presented a new set of challenges for the global economy. The economic recovery was set back significantly by several unforeseeable circumstances, with the result that in most developed regions it has still not been possible to regain the ground lost due to the 2008 financial crisis. Although the output of companies and even world trade have picked up, the rate of growth has fallen sharply in comparison to the previous period. Consequently, last year was typified by sharp changes in economic policy: while in the first months of the year there was talk of phasing out the extraordinary measures in several countries, by the end of the year an unprecedented number of new measures were being discussed at increasingly frequent meetings between the top leaders. Attention has now clearly shifted from the crisis of the financial institutions to the debts of individual states, and it seems likely that this topic will remain on the agenda for some while to come. Meanwhile, expectations of a double-dip recession have become commonplace, and the outlook for growth is gloomy.

This time the setbacks for the US economy were mainly caused by external shocks such as the Japanese catastrophe and the debt turmoil in the eurozone, which were offset by US economic policy. America's GDP grew by around 1.7% in 2011. The budget continues to be exceptionally expansive, and owing to the tax benefits remaining in effect as a legacy of the Bush administration, as well as to a series of other economic stimulus measures, there is now an alarming gap between the revenues and expenses of the federal government. This was one of the reasons for a historical event that took place in 2011: in August of last year the sovereign debt of the United States was downgraded from the best possible category by credit rating agency Standard & Poors. Such a step is completely without precedent. And at first glance it is true that the statistics present a less than inspiring picture: last year the state debt was estimated to exceed 100% of America's gross domestic product, a figure that before the crisis had stood at around 60%. There is no doubt that this trend is unsustainable in the long term, even if the current rate of indebtedness is not giving rise to any acute problems just yet. Following the two rounds of quantitative easing, one in 2009 and the other in 2010, last year the US Federal Reserve, or Fed as it is more commonly referred to, tried to encourage the American banking sector to pass on low interest rates to participants in the economy through new means. This time, rather than pumping more money into the system, it altered the structure of the system itself.

Since the members of the Federal Open Market Committee effectively promised that they would not change the zero-percent base rate until the middle of 2013, short-term yields were now sufficiently low. For precisely this reason, the short-term bonds that had previously been bought by the sackful began to be replaced with long-term bonds, in the interest of pushing the long-term yields down even further. All things considered, it now appears that the US economic policy measures can be regarded as having been successful, at least over the short term. Labour market conditions have clearly started to improve, as unemployment fell from 9.5% in 2010 to below 9% in the second half of last year. Another indication that companies have begun to hire again is the fact that last year a total of two million new jobs were created in the USA, which exceeds the number needed to keep pace with population growth.

Last year, especially the second half, was dominated by the events in the eurozone, and barely a day passed without this economic bloc featuring in the news. The turmoil also led to casualties in the real economy. True, this is not clearly reflected in the average figures: following the 1.7% GDP growth of 2010, last year output was on average 1.5% higher. But while in the first quarter it was still as high

The Board of Directors' report on 2011

as 2.2%, following a steady loss of momentum the figure for the last quarter was only 0.7%. What's more, according to our calculations the eurozone is technically in recession: in the fourth quarter, gross output fell in comparison to the previous months, and will continue to do so in the first quarter of this year. In many member countries, technical recession (negative growth in two consecutive quarters) had already set in last year, and these include not only the oft-discussed peripheral countries, but northern states such as Holland, for example. The German economy also slowed a great deal, and in the last three months a slight decline was registered in its economy, which accounts for around a quarter of the eurozone's output.

At the beginning of the year we were only concerned with the bailouts of lightweight, less influential economies such as Portugal, but in August the European debt crisis escalated, and unfortunately no rapid solution was forthcoming. At first the EU's leaders failed to appreciate the scale of the problem, then they regularly overestimated the measures they had implemented. It was due to this that the debt problem of the European countries has remained on the agenda almost continuously ever since, and even the government bonds of key nations such as Italy, the third largest member state, have faltered. The political leadership has also suffered as a result of the above, and the debt crises were accompanied by minor political crises: since last August governments have fallen in six of the 17 member countries of the eurozone.

Economic policy underwent a major change of direction in Europe in 2011. As long as yield increases typically only impacted small peripheral countries, fiscal and monetary policy was concerned with the timing of tightening measures. The ECB, taking everyone by surprise, started raising the base interest rate as early as the first quarter, and by summer it had increased the benchmark rate to 1.5%. Following this, the new policy introduced upon the arrival of the new chairman Margio Draghi represented a sharp change of direction, as it not only restored the all-time low base rate of 1%, but also set in motion a form of extraordinary easing. Since December, the Frankfurt-based central bank has placed a record quantity of long-term credit at the disposal of the eurozone's banks, effectively removing the financing problems from the map.

The other important change relates to fiscal policy, and also began to take shape at the end of the year. It is often said of the EU that it evolves during its crises, and last year was an excellent example of this, as during the noisy months of the debt crisis, the central powers grew steadily stronger. At the December summit, a resolution of historical significance was passed, with the members of the eurozone agreeing to establish a fiscal union. Both of these were inevitably necessary steps in the interest of preserving monetary union intact. These two important changes to economic policy also elicited positive feedback from investors, as the money and capital markets stabilised almost everywhere. The confidence that had been so visibly shaken during the crisis appeared, in the main, to have been successfully bolstered. The government bond markets of the big economies returned to low, single-digit yields that can be realistically generated and that make it possible for them to keep their national debt on a sustainable path. For this, of course, direct budgetary measures will also be necessary, but in contrast to the previous situation, economic policy now also takes the same view of this. It is highly probable that the year 2012 will be far less turbulent, even if the bulk of the problems still lie ahead of us waiting to be dealt with.

2. The Hungarian economy

In terms of the real economy, last year was very similar to the previous year, 2010. Gross domestic product grew by 1.7% over the year as a whole, and although this is higher than the 1.3% of the previous year, its structure remains unchanged and shows that we still lag significantly behind our regional peers. Similarly to the trend of previous years, the main drivers of the economy were the export manufacturing industry and, surprisingly, agriculture. The agricultural sector has not had an especially good year, but after the appalling crops of 2009/10 even a period of middling performance was sufficient for the sector to produce double-digit growth, thus giving a boost to the whole economy.

The massive growth in industry in the first half of the year was linked to the dynamic performance of the German economy, but with the steady deterioration of the situation in Europe it slowed to near-stagnation in the second half. Industrial output nevertheless increased by 5.4% in 2011, with the vehicle industry making the largest contribution to this. On the downside, however, the production of electronic goods showed a continuous decline, a development that is related to the Nokia factory closure that took place later (at the start of this year).

At the same time, the household consumption figures brought a positive surprise. Retail trade showed no change in 2011, which can be seen as a positive trend given that a decrease was generally observed in the neighbouring countries. This was for the most part attributable to the changes in the tax system, though these were still far from delivering the benefits the government had hoped from them. The situation in the labour market showed no significant improvement, as unemployment remained effectively unchanged at 11% and households continue to be net savers (or to be more precise, net repayers of loans), despite the increasing sacrifices that this demands of them.

The Swiss franc exchange rate rose to alarming heights last year, and unfortunately remained at the pain threshold even after the Swiss national bank deployed extraordinary measures to curb the strengthening of its own currency. The SNB imposed a rock-hard ceiling on how far the franc could strengthen against the euro, promising to do everything in its power to prevent the EUR/CHF rate from falling below the 1.2 level. So far this measure appears to have been successful, and is expected to remain in effect throughout this year too.

The words most commonly used to describe domestic economic policy in 2011 were "unconventional" and "unpredictable". The 12 months brought a number of sudden, often 180-degree changes of direction. Following the much-criticised steps of 2010 (the levying of HUF 160 billion in sector-specific crisis taxes and HUF 180 billion in bank tax, the restructuring of the pension system), the government kicked off the year by announcing the Széll Kálmán Plan, a package of structural reforms that was totally conventional within its own genre. The end of summer 2011, however, marked the beginning of another tempestuous period. The government's package of measures was watered down with revenue-boosting measures (excise duty hikes, the introduction of new taxes, and the VAT increase that took effect this year), while another unconventional measure, the discounted redemption of foreign-currency loans, ruffled a lot of feathers. This step, which drew vocal criticism, caused substantial losses in the bank sector and significant turbulence in the capital markets. Seeing the considerable weakening of the forint and the faltering of bond market auctions, in November the government was compelled to turn to the EU and the IMF for financial assistance, although this was not necessarily justified by the direct financing requirement.

3. Interest rates and money markets

After the previous sections of this report it should come as no great surprise to anyone that 2011 was an extraordinary year in Hungary's capital markets too. The markets, which had quietened down after the years 2008/09, were once again shaken by extreme price changes and halting bond auctions. This time, of course, the market reactions were not as dramatic, but the forint nevertheless plunged to an all-time low against the Swiss franc, and the average exchange rate with the euro also approached the record level of 280 (last seen in 2009).

Although the budget showed an overall surplus primarily due to last year's transfer of assets from private pension funds, this weakening of the forint exchange rate meant that the reduction of the state debt was not the resounding success it should have been. At the end of the year, in contrast to the planned 75.5%, it stood at 80.3% of GDP. Meanwhile, the structural budget deficit, adjusted for one-off factors, was substantial, at over 6% last year. These two factors certainly played a major role in the

The Board of Directors' report on 2011

fact that all the international credit rating agencies withdrew their investment grade credit rating issued in respect of Hungarian debt more than a decade ago. Following the more detailed elaboration of the planned structural measures, we expect Hungary's prospects in the credit rating system to get better rather than worse.

We do not see it as likely that Hungary will be taken out of the unattractively named "junk" category this year, but this should certainly be the case after the structural reforms have been implemented. In response to these developments the Monetary Council also changed its policy. In the second half of last year, it added one percentage point to the base rate, which had stood at 6% for most of the year, and then carried out two more raises of 50 basis points each at its meetings of November and December. We do not expect the National Bank of Hungary's cycle of interest rate increases to continue; indeed, following the signing of the international agreement, the Council may begin to cautiously lower it, and our expectation is that the forint may begin to strengthen slightly.

4. The bank sector

The most significant factor affecting the performance of the Hungarian bank system in 2011 was the redemption of foreign currency loans at a discounted exchange rate. In total, customers redeemed retail loans in a value of HUF 1,355 billion, which represented a 23% decrease in the portfolio of retail foreign currency mortgage loans (after adjusting for exchange rates). This resulted in a loss of HUF 370 billion gross (HUF 260 billion net) for the sector. Some 20% of borrowers took advantage of the loan redemption scheme, which caused losses for market players on an unprecedented scale, substantially reducing their financing ability and market activity. The upturn in demand for loans at the end of the year was clearly related to the loan redemption scheme.

The bank system's overall loan portfolio showed a 2% fall, a substantial part of which was due to the impact of exchange rate changes. Deposits grew by 6%, which is attributed to the general trends in the market. The deterioration in portfolio quality continued throughout the year, and the non-performing loan (NPL) rate also increased due to the loan redemptions.

Profitability in the bank sector fell considerably in the course of the year, and the banking system overall was unable to maintain its profitability. In 2011, again, this was partly due to the increase in impairment recognition, but the special tax on banks and – in particular – the losses related to the loan redemptions were more important factors. The differences between the market operators are increasingly large, as some financial institutions are profitable while others suffered losses of around HUF 100 billion. The capital position of the bank sector is stable, although several market players only managed to achieve the required capital adequacy through capital injections.

Continuous developments

As a universal bank, Raiffeisen Bank is continuously developing its products and services, adapting to changing market conditions and demands. As in preceding years, the bank won several important awards for its developments introduced in 2011. The bank has a countrywide network of 132 branches, 138 ATM machines and a 24-hour telephone customer service and internet interface available to its customers.

In the retail savings segment, the bank's savings portfolio grew by 15%, compared to a growth of close to 5% in the market as a whole. Among product innovations in 2011, the Raiffeisen Flexible Deposit Duo scheme won first prize in the category of "Retail Savings Product of the Year" adjudged by MasterCard. At the start of the year, the bank was among the first to introduce a touch-free payment method equipped with PayPass™ technology to the market under the name MasterCard Paypass™ Mini-Card.

In the retail lending area, the bank continued to reinforce its lending activity in 2011, with the focus being primarily on new retail credit products provided without collateral (personal loans, credit cards, overdraft facilities). As a consequence of this, the bank almost doubled its performance compared to the preceding year. Significantly contributing to this result was the range of credit products offered to existing customers under simplified credit appraisal conditions, as well as the introduction of the unsecured "Névre szóló" ("Just for You") Personal Loan credit product with risk-based pricing. In addition, the bank is making continuous efforts to provide tailor-made solutions to help customers struggling with payment difficulties find a feasible way to manage the problems that have arisen.

Development of the Raiffeisen Premium Banking service launched in 2010 was continued in 2011. The credit card product – which has enjoyed ever-increasing popularity among our customers – has been made an organic part of the Premium offer. We also introduced a Premium mortgage offer, and also expanded the investment palette to include new innovative products. In 2011 the range of services also incorporated a special financial planning software product, helping customers make a comprehensive assessment of their financial needs and to apply a responsible and rational approach to their finances.

The service provided to the business segment was enhanced in 2011. Our basic account management and lending services are now available at all Raiffeisen branches, while our dedicated client relationship managers are continuously trained in providing professional advice and serving the needs of our premium clients even on the given customer's own premises. Simultaneously with the renewal of our credit products, terms and conditions have also been simplified. In the wake of a complete overhaul of the credit process, the time required for approval and disbursement of loans has been significantly shortened, enabling the bank's customers to gain access to financing more simply and quickly than before. Through the instant currency exchange service available from the spring, the bank's customers – with the help of the DirektNet internet banking service – can carry out an unlimited number of transactions daily at competitive, up-to-the-minute market prices, with immediate processing.

Similarly to the previous years, the events of the Business Partners Club (Üzlettárs Klub) continued in 2011, with a series of conferences for SME customers held in 19 towns and cities across the country. At these events, the bank's experts outlined expected economic processes and the development of market trends, as well as helping answer questions relating to financial matters of particular interest to business owners.

Raiffeisen Bank's Corporate Division managed to preserve its leading market position despite the negative effects of the economic crisis and the intensifying competition characteristic of the segment as a whole. The year saw significant restructuring within the division in the interests of better serving customers and improving efficiency – a part of which was to establish independent business units to serve the large corporate and medium-sized enterprise segments. The new differentiated service model, with the help of more individually based pricing and dedicated experts, will enable the bank to provide a more tailor-made brand of service to satisfy the needs of its corporate clientele. Interest in cash management products has further increased in the last year, and this range of products has continued to grow in value. In 2011, besides fulfilling these customer demands, we have created the conditions for managing accounts in Chinese yuan. The Raiffeisen Bank Treasury has continued to play a market-leading role in the past year on the domestic money, foreign currency and capital markets. Based on statistics of the National Bank of Hungary (MNB), it handled the highest volume of foreign currency turnover in 2011 in Hungary, while purchasing the greatest number of Hungarian government bonds at auctions of the Government Debt Management Agency (ÁKK).

In order to mitigate the impact of the financial crisis on municipalities, from 2011 Raiffeisen Bank's Municipality Division has placed increased emphasis on financing investments aimed at generating revenues and reducing operational costs in the sector. Besides energy efficiency projects, we have provided financing for the implementation of municipality-related projects, thereby helping to improve the financial situation of our customer base (tax revenues, dividends), while also significantly boosting the standard of living of inhabitants of the region (more services, job creation). In 2011, the division participated in preparations for the financing of major environmental projects subject to derogation (sewage and waste management utility investments). The investments affect several hundred municipalities, with the total cost of the projects exceeding HUF 70 billion.

Friedrich Wilhelm Raiffeisen Private Banking closed a successful year in every respect in 2011. As the result of our consciously conservative investment policy, we have safeguarded and augmented the assets of our clients even amid the turbulent conditions on capital markets that characterised 2011. Accordingly, the total value of customer assets under our management amounted to HUF 251 billion at the end of the year, which translates to an average of HUF 75 million per family.

The bank devotes great attention to developing financial awareness and expanding access to information, as well as to stimulating household savings. The Raiffeisen Regular Savings Program continued in 2011, while the bank took an active role in supporting financial education programs in the media. The bank also continued technical and technological developments, making new functions available on its website and internet banking interface.

Expert staff

The employee headcount at Raiffeisen Bank decreased in 2011, reaching 2,860 (not group-level data, valid only for Raiffeisen Bank Zrt.) as of 31 December. Accordingly, the rationalisation of personnel costs was an important focus of attention – supported, among other things, by the introduction of a framework headcount and payroll management system. At the same time, during the process of rationalisation the bank endeavoured as much as possible to take into account the points of view of employees. The differentiated restructuring of the system of non-wage (Cafeteria) benefits took place in this spirit, as did the maintenance and further development of solutions promoting financial reward for employees delivering outstanding performance.

Aspects of the bank's performance management practices include setting organisational and personal targets, identifying personal focus areas for development, reviewing individual career expectations and conducting assessments of organisational and personal objectives within the framework of personal discussions held twice yearly.

Development programs are geared to business strategy, organisational and personal objectives, and prevailing market conditions. The programs are partly aimed at ensuring that tasks are carried out efficiently and partly at aiding personal growth, adjusting to individual career goals in order to assist employees' personal development. Besides programs helping new employees to integrate, various classroom and online training courses and job-rotation programs are available to promote skills development. Support for managers' personal development is provided by skills assessment tools and goal-oriented training schemes.

Some training courses are conducted by external service providers, but internal information-sharing also takes place within an efficient and clearly defined framework.
In 2011, employees spent a total of some 14,000 working days attending various professional training and skills development courses, team-building programs and conferences.

Changes in the bank's organisation

The position of deputy CEO responsible for the bank's corporate and municipality business has been filled since 4 July 2011 by Ferenc Kementzey. Csaba Soós, former deputy CEO for the retail business (individuals and SMEs), left the bank in November 2011, with his position taken up temporarily by CEO Mag. Heinz Wiedner.

The functions of CFO and CRO were separated from 1 December 2011, with Dr. Martin Pytlik assuming the role of deputy CEO responsible for risk management, while the position of CFO continues to be filled by Krisztina Horváth. In order to strengthen investment services, the bank has established an independent corporate finance unit. The organisation of retail sales has been restructured, with retail customers to be served from the autumn within three retail regions. The internal segmentation of the corporate and municipality business has been transformed, with the sales network adjusted to the new structure accordingly. Municipal and large corporate clients have been placed under central sales control, while medium-sized enterprises are served within three regional areas.

Corporate social responsibility

Since 2008, the Raiffeisen Közösen (Raiffeisen Together) program has encompassed the bank's activities in the area of corporate social responsibility, which focus on supporting programs that develop the life skills of children raised in care, as well as the provision of quality meals for children living in hardship. In the bank's CSR activities, we endeavour to instil an approach that permeates the institution as a whole and is integrated organically into the organisational culture, since the bank's activity has a significant impact on society, the environment and the future. For this reason, we promote programs not merely for the benefit of the external community but for our own colleagues as well, whom we actively involve – as far as we can – in the implementation of the programs concerned.
Cooperating in a true partnership with organisations serving a variety of good causes, we contribute to the broader community in which our bank operates – so that, for us, corporate social responsibility means more than merely generating profits and paying taxes.

Together for Children's Meals program

As part of the "Lunch for All" program of the Children's Meals Foundation (GYEA), we transferred food donations on two further occasions in 2011 – in April and November. The program provides needy nursery and primary school children with regular meals at weekends and during school holidays. We subsidised children's meals to the tune of almost HUF 25 million in spring, and HUF 10.5 million in autumn, from donations provided from a fund set aside by the bank through card transactions carried out by the bank's customers. Including its donations in 2011, Raiffeisen Bank has provided a total of HUF 97.5 million in support for children's meals over the past three years, ensuring regular quality meals for more than 6,860 children nationwide for a period of several months.

Volunteer Youth in Action program

Once a year in autumn since 2008, we have issued a public tender for support of innovative programs serving to promote the development of life skills and independent, responsible behaviour among children living in care.

Our innovation for 2011 was to invite tenders for the implementation of volunteer programs organised among children living in care. The subsidised civil organisations organised volunteer projects with the active participation of the children themselves, thus giving them a practical role in responsible management of the schemes concerned. The total HUF 20 million in support provided through the tender was shared among three organisations voted for through our bank's Facebook page, as well as five organisations chosen by a professional committee. The winning organisations were: the Egyesek Youth Association, the Academy of Experience Public Benefit Association, the Nevelők Háza (House of Educators) Association, the Ökorello – A Te világod (It's Your World) Foundation, the Pax Vobis Foundation of Outstanding Public Benefit, the Szivárvány Törzs (Rainbow Tribe) Public Benefit Association, the Tiszadob Public Benefit Association for the Protection of Children and Youth, and the Várfok Foundation.

Our expert NGO partner in the issuing, assessment and implementation of the tender was the Kurt Lewin Foundation (KLA).

Voluntary work for children

Traditionally every year since 2009, we have announced a Bank Corporate Volunteers program for our employees with the professional cooperation of the Volunteer Centre Foundation (ÖKA). Within this program, our colleagues carry out voluntary work ten times yearly in various communities nationwide, primarily in children's care institutions.

In 2011 a total of 170 employees worked 1,360 hours repairing fences, painting wooden toys and walls, renovating playgrounds, sowing grass and planting flowers in parks at, among other locations, the nursery school in Jakabszállás, the Tündérkert Nursery in Halásztelek, the Hársfa Street Nursery in Vác, the children's home in Szegvár and the Meseház Nursery.

Bus to the Museum program

In the autumn of 2008, we launched our free educational museum program in conjunction with the Ludwig Museum under the title of "Bus to the Museum". Our goal was to make it easier for those from communities and schools further away from Budapest to travel to the capital by providing a free bus service. The program includes free bus transport for school groups from the provinces as well as two-hour interactive fun museum activities geared to each age group. We continued this program in 2011, transporting groups of 50 young people from all regions of Hungary three times a week between 26 September and 11 November to the exhibition of the Ludwig Museum entitled "East of Eden – Photorealism: Versions of Reality."

Healthcare support for colleagues

For years the bank has set aside a fixed amount of funds for the support of colleagues who encounter difficulties as a result of long-term health problems arising within their families. Employees must apply for the support under certain conditions. Eleven of our colleagues received such support in 2011.

Our awards

Based on the votes of a professional jury in the "Bank of the Year 2011" competition announced by MasterCard, Raiffeisen Bank won first prize in the category of "Retail Savings Product of the Year 2011" with its Raiffeisen Flexible Fixed Deposit Duo product. The bank achieved second place in the category of "Socially Responsible Bank of the Year", while it placed third in the category of "Retail Account Package of the Year" with its Premium Gold Account Package.

Of the prizes awarded at the 2nd Budapest Calling – International Call Centre Trade Exhibition, Raiffeisen Bank's telephone customer service won the Outstanding Call Centre award in the category of general customer management in the banking sector.

Shareholder

Raiffeisen-RBHU Holding GmbH 100%

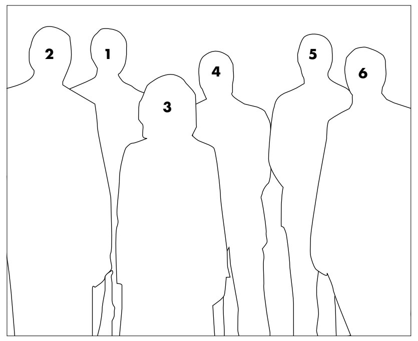
Board of Directors

Chairman	Other Board members	
Herbert Stepic Raiffeisen Bank International AG	**Ferenc Berszán** Raiffeisen Bank International AG	**Dr. Karl Sevelda** Raiffeisen Bank International AG
	Krisztina Horváth Raiffeisen Bank Zrt.	**Dr. Martin Sotter** Raiffeisenlandesbank Steiermark AG
	Mag. Reinhard Karl Raiffeisenlandesbank NÖ-Wien AG	**Dr. Johann Strobl** Raiffeisen Bank International AG
	Julius Marhold Raiffeisenlandesbank Burgenland	**Mag. Heinz Wiedner** Raiffeisen Bank Zrt.
	Martin Melkowitsch Raiffeisen Bank Zrt.	**Dr. Eberhard Winkelbauer** Raiffeisen Bank International AG

Supervisory Board

Chairman	Other Board members	
Georg Feldscher Raiffeisen Bank International AG	**Ursula Wirsching** Raiffeisen Bank International AG	**Mercedes Dr. Tóthné Dr. Szabó** Raiffeisen Bank Zrt.

Management of Raiffeisen Bank Zrt.



1 Heinz Wiedner
Chief Executive Officer

2 Martin Pytlik
Member of the Management Board

3 Krisztina Horváth
Member of the Management Board

4 Ferenc Kementzey
Member of the Management Board

5 Ferenc Szabó
Member of the Management Board

6 Martin Melkowitsch
Member of the Management Board

Corporate Governance Statement

Declaration on Corporate Governance Practice

Responsible corporate governance is an essential means by which the Bank achieves its main objectives, and is a prerequisite for long-term value creation. The purpose of corporate governance is to establish and maintain an operating structure that achieves an appropriate balance between the interests of the company's owners, customers, employees, business partners and the public at large. In the course of its operation Raiffeisen Bank Zrt. complies fully with all the statutory provisions and supervisory regulations that apply to it. The Bank's corporate structure and operating requirements are set out in the Deed of Foundation approved by its Sole Shareholder, and in its Organisational and Operational Regulations.

I. Primary decision-making bodies

I.1. Governing body

As a solely-owned joint-stock company, the Bank's ultimate decision-maker is the Sole Shareholder. Decisions that would ordinarily fall within the scope of authority of the General Meeting are made by the Sole Shareholder, in writing.

I. 2. Executive body

Board of Directors

The strategic governance and management of the Bank is performed by the Board of Directors, whose powers are defined by the effective statutory provisions, the Bank's Deed of Foundation, the resolutions of the Sole Shareholder and the procedural rules of the Board of Directors.

The Board of Directors consists of eleven members three of whom (the executive members) are also in a regular employment relationship with the company. The members of the Board of Directors are elected by the Sole Shareholder, and may be re-elected. All the obligations and prohibitions specified for executive officers under Act CXII of 1996 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.

Members of the Board of Directors:

- Dr. Herbert Stepic (chairman)
- Mag. Heinz Wiedner (executive member)
- Krisztina Horváth (executive member)
- Martin Melkowitsch (executive member)
- Ferenc Berszán (non-executive member)
- Mag. Reinhard Karl (non-executive member)
- Dr. Julius Marhold (non-executive member)
- Dr. Karl Sevelda (non-executive member)
- Dr. Martin Stotter (non-executive member)
- Dr Johann Strobl (non-executive member)
- Dr. Eberhard Winkelbauer (non-executive member)

The Board of Directors convenes as many times as is necessary, but at least once a year. Minutes are taken of the meetings, and the resolutions are documented. The Board of Directors may also pass resolutions without holding a meeting, by means of a written ballot. Written ballots may be held by email, telephone or fax. In 2011 the Board of Directors held five meetings and passed resolutions by means of a written ballot on seven occasions.

The Board of Directors represents the Bank in proceedings before the courts of law and other authorities, and in dealings with external parties. Two executive members of the Board of Directors may assign joint signatory rights, relating to specifically defined groups of issues, to employees of the Bank. Employees who are authorised to represent the Bank may not assign their representation rights to others.

The submission of proposals for amendment of the deed of foundation, the raising or lowering of the share capital, or approval of the company's financial statements prepared in accordance with the Accounting Act, and the utilisation of the after-tax profit – all of which fall exclusively within the scope of authority of the Sole Shareholder – are among the most important duties of the Board of Directors. The Board of Directors' other responsibilities include determining the company's operating and business policy guidelines, accepting the annual business plan, approving the Bank's corporate structure and the job descriptions of individual members of the management, establishing and winding-up subsidiaries and project companies in the Bank Group, authorising the establishment of joint ventures and the acquisition of business interests, appointing and dismissing the Bank's CEO and deputy CEO(s) and approving the selection of members of the management and supervisory boards of the Bank's subsidiaries.

Determining the remuneration of the members of the Board of Directors is the prerogative of the Bank's Sole Shareholder, within the constraints of the Remuneration Policy. The Sole Shareholder, at the time of approving the annual report, evaluates the work of the members of the Board of Directors and makes a decision regarding the extent of their remuneration.

Management

The day-to-day running of the Bank is performed by the Management. The Management is entitled to proceed and make decisions autonomously in respect of all matters that do not fall within the scope of authority of the Sole Shareholder or the Board of Directors. The individual members of the Management perform their duties as assigned to them by the Board of Directors. However, any decisions that have a significant impact on business operations are made by the Management as a single body. The work of the Management is coordinated by the CEO.

Members of the Management:

- Mag. Heinz Wiedner
- Krisztina Horváth, deputy CEO
- Ferenc Kementzey, deputy CEO
- Martin Melkowitsch, deputy CEO
- Dr. Martin Pytlik, Deputy CEO
- Ferenc Szabó, deputy CEO

II. Secondary decision-making bodies

The secondary decision-making powers are exercised within the Bank by committees set up in accordance with the Organisational and Operational Regulations. The committees have authority over the operative organisational units of the Bank, and are established in accordance with external and internal regulations for the purpose of making the hands-on decisions necessary for achieving the Bank's business objectives. The resolutions passed by the committees are binding on all departments involved in the given matter.

Secondary decision-making bodies:

- Management Meeting
  The regular forum at which the members of the Management consult and make decisions
- Credit Committee
  The Bank's decision-making body in matters related to the setting of risk limits. Risk limits may apply to banks, as well as to corporate, SME and municipality customers, and, in certain cases, to private customers.
- Problem Loan Committee
  The Problem Loan Committee decides on the management and approval of limits granted to customers with poor ratings or where a certain level of collateral coverage is not achieved.
- Project Committee
  The Project Committee is the Management-level body that has primary responsibility for the project-based coordination of the Bank's developments, and that exercises full control over the Bank's project management (MPIR) practices.
- Asset-Liability Committee (ALCO)
  The task of the Asset-Liability Committee (ALCO) is to ensure that the Bank's asset-liability structure is in line with its stated profitability and market-share objectives, and at the same time to ensure compliance with RBI's and the Bank's internal liquidity, financing and interest rate limits.

III. Supervisory Board

The Supervisory Board, elected by the Bank's Sole Shareholder, oversees the Bank's Management and business operations, and also performs the duties of the Audit Committee. The Supervisory Board meets, in accordance with a predetermined schedule, to discuss reports on the company's position, and may include on its agenda any plan or report of the company that is judged to be important, and – according to its schedule – may request information and conduct audits in respect of the company's key processes and systems. The Sole Shareholder may make its decisions in respect of the individual and consolidated annual financial statements prepared in accordance with Hungarian Accounting Standards and in respect of the utilisation of the after-tax profit only after it has received the Supervisory Board's written report. The Supervisory Board consists of three members, each with a five-year mandate. The regulations pertaining to the nomination and recall of the employees' representative on the Supervisory Board are determined by the Workplace Council that operates within the Bank.

Members of the Supervisory Board:

- Georg Feldscher (chairman)
- Ursula Wirsching (member)
- Dr. Mercedes Szabó Tóth (member)

IV. Auditor

The auditor, selected by the Sole Shareholder and appointed by the Board of Directors, checks the veracity and legal compliance of the company's financial statements prepared in accordance with the Accounting Act. The Sole Shareholder may not make any decision with respect to the financial statements prepared in accordance with the Accounting Act without having received the opinion of the auditor. The auditor is obliged to audit every material business report submitted to the Sole Shareholder in order to ascertain whether it contains accurate data and complies with the statutory regulations.

The Bank's audit is performed by KPMG Hungária Kft. The Board of Directors is obliged to inform the Bank's Sole Shareholder and Supervisory Board of any other significant mandates given to the auditor.

V. The Bank's basic operating principle and corporate governance structure

The Bank's operating principle amounts to a coordinated operating model that embraces, in an integrated fashion, the divisions and organisational units belonging to the divisions, the support functions, the branch network and the alternative sales channels. The Bank's governance is supported by a process-based regulatory system. The process regulations define responsibilities within the organisation, document the relationships between supporting IT systems and the individual steps in the processes, and contain additional information related to the appropriate means of their execution.

The Bank's organisational structure consists of departments and divisions that answer to the CEO and the deputy CEOs. The departments are the highest-level units in the working organisation, which are established along professional lines and overseen by a head of department. The divisions are organisational units that correspond to the various market segments, each overseen by a head of division.

Within the departments and divisions the organisation is further subdivided into groups, or – if necessary due to the size of the organisation or complexity of the given activity – into sub-departments. The branch network is subdivided into branches, which are grouped into Regions. The branches are headed by Branch Managers, and the Regions by Regional Managers.

Departments collaborate with each other professionally based on a matrix structure. The matrix of relationships between the various organisational units and the tasks associated with matrix-based operation are specified in the descriptions of the organisational units.

The Bank applies standardised organisational solutions to ensure the coordination of its decision-making forums and of its relationships with the authorities and the regulators. In addition, an independent organisational unit at the Bank is responsible for maintaining contact with the Sole Shareholder, so as to ensure uninterrupted communication and render operations transparent for the Sole Shareholder.

VI. Internal control system

It is the Management's duty and responsibility to develop and maintain a system of internal controls. To ensure the organisation's prudent, reliable and efficient operation, protection of the customers' and owner's interests and compliance with the statutory requirements, the Bank's Management operates an independent internal control system. The internal control system ensures that the owners receive impartial and objective feedback through the Supervisory Board, while the audit reports also assist the Management in adequately supporting the effective and satisfactory operation of the internal control environment. The Bank's internal control system is made up of the following components: Internal Audit Department, Compliance Officer, Risk Management departments, process-integrated controls, and the Management Information System.

VI. 1. Internal Audit Department

The monitoring of the regular and effective operation of the internal control system is performed by the Internal Audit Department, by means of audits determined in its annual plan, and if necessary, in the framework of extraordinary audits. The annual internal auditing plan is based on risk analyses performed using a predetermined methodology that aims to take into account – and to rank, according to severity – the likelihood of various individual threats and circumstances occurring, and the possible negative impacts of such events. The independent Internal Audit Department analyses the full range of risks inherent in the various business processes, and examines whether the system of internal controls that has been implemented, together with the applied procedures, are appropriate for effectively managing such risks. As a part of this, the Bank's Management provides the department with unrestricted access to all necessary information, documents and data, and to the persons involved in the activities and processes being audited. The Bank's Internal Audit Department is under the professional (methodological) supervision and control of the Sole Shareholder's Internal Audit unit. The independent Internal Audit Department regularly prepares objective and impartial reports for the Supervisory Board and the Management regarding the satisfactory operation of risk management, internal control mechanisms and corporate governance functions.

Corporate Governance Statement

The Supervisory Board exercises a preliminary right of consent in respect of decisions related to the establishment and termination of employment relationships with managers and employees of the Internal Audit Department, and to the determination of their remuneration.

VI.2. Compliance

In keeping with the regulations of the European Union and the applicable Hungarian laws, the Bank has established an independent organisational unit whose task is to identify and manage compliance risks. The Compliance Department fulfils the following functions:

- Drafting and maintaining, and monitoring compliance with, the Bank Group's Ethics and Compliance Regulations, issuing guidelines in respect of related issues, keeping a record of related reports, maintaining watch lists, evaluating approval requests and conducting investigations
- Organising, directing and coordinating efforts within the Bank to combat money laundering and the financing of international terrorism: operating a reporting and monitoring system, drafting and maintaining internal procedures, and providing the appropriate training
- Drafting and maintaining the data protection regulations, replying to questions regarding data protection and liaising with the data protection ombudsman
- Ensuring compliance, within the Bank, with "Chinese Wall" and insider trading statutory regulations, through its own internal regulations and – where necessary – training
- Monitoring compliance with the MiFID regulations

VI.3. Risk management system

The Bank has an independent risk management unit that is entirely separate from the business divisions and that operates under the management of the deputy CEO responsible for risk management. The individual credit-risk analysis, rating, scoring and monitoring of customers in the corporate, municipal and financial sectors is the task of the Credit Risk Department; the portfolio-based credit-risk analysis and management of retail, private banking and SME customers is the responsibility of the Retail and SME Risk Management Department; and the analysis of market (interest, FX and liquidity) and operational risk, as well as Basel II modelling, capital calculation, and the development of portfolio-based risk models is the job of the Integrated Risk Analysis Department.

Management of credit risk

The risk assessment and credit appraisal of corporate customers, project companies, commodity and trade-financing, and municipality customers, is based on case-by-case analysis and rating, and is accompanied by regular financial monitoring and annual limit reviews. Financing is granted on the basis of credit limits, with the individual transactions only subject to a short, simplified approval process. In the retail and private banking business, as well as in SME lending, in the case of an increasing number of products, an automated, scorecard-based appraisal takes place.

Lending limits represent a balance between business and risk considerations, as defined, and as deemed desirable, by the bank's owners and management, within the framework of the Credit Institutions Act and other statutory regulations, as well as the Bank's Credit Policy. The Bank lends primarily on a cash-flow basis, when the customer's income or the certified, predictable cash flow from its core activity assures the funds required for repayment. Occasionally more weight is given to the value of the collateral, or to the expected revenue stream from a project (assuming it is successfully implemented), or to the rate of return on the loan package (consisting of several facilities), or to a combination of these factors. The development and selection of loan products as well as the individual credit decision are, accordingly, based on the amount requested, the term of the loan, the type of product requested, the customer's income and financial position, his quality characteristics, his prospects, and on the collaterals offered.

In 2009 the Bank Group successfully completed the part of the Basel II project scheduled for that year. The Bank Group's risk management processes (debtor rating, asset segmentation, collateral management, and default-data gathering) fulfil the Basel II requirements, and the core data needed for the sophisticated measurement of risks is recorded, in a structured form, in a state-of-the-art data warehouse.

Management of operational risk

The management of operational risk, and where necessary, the mitigation of such risk, is the responsibility of all organisational units (departments, regions, subsidiaries), and therefore operational risk managers have been appointed in all departments. This network of operational risk managers consists of more than 80 employees, and extends to the subsidiaries of both Raiffeisen Bank and Raiffeisen Leasing. The Bank expends considerable effort in the interests of developing its OpRisk procedures and structures, and of raising operational-risk awareness, which includes identifying, gathering, evaluating, reporting, monitoring and managing the risks.

The aim of risk-identification is to ensure the detection of any operational risks that could jeopardise fulfilment of the Bank's business objectives, or that might even threaten the continuity of its operations. A prerequisite for this activity is quality risk management, for which a number of tools are available: the gathering of internal and external loss data, detailed self-assessment of risks and controls, scenario analysis, and the monitoring and reporting of key risk indicators.

In the course of risk management the Bank places great emphasis on the "use test" (for achieving a reduction in the level of operational risk), since the Bank has initiated a number of measures to reduce risks based on self-assessment and data gathering. Decisions relating to risk-reduction measures are made by the Operational Risk Sub-Committee, the members of which are department heads and the Chief Risk Officer (CRO).

Management of market risk

The management of market risk at the Bank is performed at several levels, with the use of advanced methods and infrastructure. In all cases, the monitoring of risks is performed by an organisational unit that is independent of the given business department. The measurement and reporting of the market risks related to business operations is performed on a daily basis. The classification, measurement and management of risks, and the generation of economic capital, takes place within the context of the Bank's ICAAP processes.

The measurement and controlling of risks is performed through the use of complex position, risk, stop-loss and VAR limit systems. The management of market risks related to banking operations extends to the following areas of operation:

- Trading book and banking book interest risk
- Share trading risk
- Currency risk
- Option trading risk
- Exposures to large deposits
- Short-term, structural and market liquidity risk

VII. Disclosure, publication

The Bank fulfils its disclosure and publication obligations – in strict compliance with Act CXII of 1996 on Credit Institutions and Financial Enterprises (Hpt.), Act CXX of 2001 on the Capital Market (Tpt.) and Act CXXXVIII of 2007 on investment enterprises and commodity exchange service providers and the rules governing the activities they may perform – via its own website and the capital market disclosures website operated by the Hungarian Financial Supervisory Authority.

Raiffeisen Bank's customers

General Remarks On The Bank's Operations In The 2011 Business Year

1.1. Large corporations

Raiffeisen Bank's Corporate Division maintained its leading market position despite the negative impacts of the economic crisis and the fierce competition that typified the segment. On the lending side we increased our market share in comparison to the end of 2010, while on the liabilities side our market share remained essentially unchanged. In 2011 a new member of management, Ferenc Kementzey, arrived to oversee the Corporate and Municipality segment. In the course of the year we carried out significant restructuring in the interests of providing our customers with a better service and improving our efficiency. As a part of this, we set up an independent business unit to serve the large and medium-sized companies segment.

Through a new, differentiated service model, a more customised pricing structure, and a team of dedicated specialists, we can now fulfil our customers' requirements by providing them with services that are even better tailored to their individual needs. In 2011 we continued to give priority to managing the existing loan portfolios, successfully restructuring numerous transactions that represented a significant exposure. Through the sale of refinanced facilities in partnership with Eximbank – among other products – we succeeded in meeting the growing demand for credit among companies with export potential. In 2011 the Bank's portfolio of project financing and syndicated loans grew by more than 14%, to HUF 250 billion. A significant part of this growth was due to corporate syndicated loans, but we also concluded several new transactions – bucking the unfavourable trend in the market – in the conventional project financing area (in the M&A, real estate, healthcare and energy sectors, among others). In trade finance – as the market-leading bank – we again managed to significantly increase the volume of the agricultural portfolio in 2011.

Demand for cash management products strengthened further last year, as this range of products continued to grow in importance. In 2011, besides serving these customer requirements, we also created the conditions for managing accounts in Chinese yuan. Last year again, Treasury played a market-leading role in Hungary's money, currency and capital markets. According to National Bank of Hungary statistics, our Treasury department executed the highest volume of foreign exchange transactions in the country and also purchased the most Hungarian government bonds at the auctions held by the State Debt Management Centre (ÁKK). The department works to comprehensively fulfil corporate requirements by offering a wide selection of products available in the market, and a range of customised services.

1.2. Small and medium-sized enterprises

2011 was a year full of changes for small and medium-sized companies. Although in the first nine months deposits increased and lending activity picked up due to a slight improvement in outlook compared to the previous year, at the end of the year – in stark contrast – the significant changes in exchange rates and the slowing of economic growth presented the SME sector with some unexpected difficulties. The considerable exchange-rate fluctuations observed in the last few months of the year, and the weakening of the forint, represented a particularly serious challenge for companies that do not generate the foreign-currency income needed to service their debts.

For customers that report any expected payment problems in good time the Bank offers a number of restructuring options. These include, for example, an extension of the term of the loan, to bring the amount of the monthly instalment into line with the customer's new financial load-bearing capacity. On the other hand, the year also brought numerous positive changes for the Bank's SME customers. One of these is our new, improved service network. The basic range of small-business services is now available in every Raiffeisen branch, while our team of specially trained mobile bankers assist in the fulfilment of more complex customer needs, at the customer's premises if required. The restructuring of our network and the countrywide availability of dedicated relationship managers for each segment helps us to provide a high standard of business advice, so that our customers receive professional assistance in choosing the solution that is most suitable for them.

Concurrently with the review and enhancement of our range of credit products, the terms and conditions were also simplified. A restructuring of the entire lending process has cut down significantly on the time needed for the approval and disbursement of loans, making it simpler and quicker than ever before for our customers to secure financing. At the same time, the quality of the new loan portfolio is considerably better, so we can confidently say that the changes have been favourable for both our customers and the Bank. A prime example of this is our new overdraft facility, available since the autumn, which enables creditworthy customers to overdraw their account by up to the equivalent of their sales revenue for two months, and which guarantees stable and predictable liquidity from day to day, even in the event of a temporary deterioration in the customer's credit rating at the Bank.

Using the instant currency conversion service, available since the spring, our customers can carry out an unlimited number of transactions a day via the DirektNet internet bank, at the market rate prevailing at the given time, with the immediate booking of transactions. This flexible currency conversion option is now also available to SME customers. As in previous years, we continued to run our program of Business Partner Club events in 2011, as a part of which we organised a series of conferences for our SME customers in 19 towns around the country. In the course of this, the Bank's specialists gave talks on the expected economic developments and on market trends, and helped to answer questions on the financial issues with the most relevance for small and medium-sized businesses.

1.3. Retail customers

In contrast to the approximately 5% growth observed in the market for retail savings, the volume of savings invested at our Bank increased by 15%, which resulted in a significant growth in our market share. The portfolio growth was primarily due to the 25% increase in the volume of time deposits, but owing to the Bank's shift in focus towards primary banking relationships, the volume of funds kept in current accounts also rose by 13% in 2011.

In 2011 we issued 22 of our own bonds, and also arranged a HUF 10 billion placement for MOL Nyrt. In the course of the year, 12 bonds matured, in a value of HUF 53 billion, which led to a 5% decrease in the portfolio of corporate bonds held by our retail customers. With regard to investment funds we can look back on 2011 as another successful year, as our customers' portfolio of investment fund shares grew by almost 15%, from HUF 89.7 billion to HUF 103.1 billion. The bulk of the portfolio growth continued to derive from the sale of funds managed by the Bank's own fund manager, Raiffeisen Investment Fund Management, but the products of third-party fund managers also took on an increasingly prominent role in sales. The launch of three guaranteed funds in the course of the year also contributed to the excellent results.

The Raiffeisen Long-term Investment Securities Account, launched in 2010, is enjoying growing popularity. While at the end of 2010 only 10% of the securities portfolio was kept in accounts of this type, which offer a tax benefit, by the end of 2011 this proportion had risen to 23%. Overall, retail liabilities – together with bonds and investment funds – grew by over 14% in 2011, with aggregate managed assets amounting to HUF 615 billion at the close of the year.

Raiffeisen Bank's customers

Among our product innovations, we came first in the MasterCard "Savings Product of the Year" competition with the launch of the Raiffeisen Flexible Time Deposit Duo, and we were among the first in the market to roll out a contact-free payment instrument that uses PayPass™ technology: the MasterCard PayPass™ Minicard. By prioritising efforts to secure primary banking relationships, we increased the proportion of customers who use us as their primary bank, from 27% to 29.6%.

In the retail lending segment in 2011 the Bank continued with the active lending operations that had restarted in 2010, engaging in strong sales activity that focused mainly on unsecured new retail credit products, and almost doubling the volume achieved in the previous year. An important contribution to this result was made by the range of loan products offered to existing customers under a simplified credit appraisal process.

The most significant change affected the retail mortgage loan portfolio. The dynamic growth experienced in the first quarter stalled as a result of government measures. Due to the possibility of a lifting of the freeze on evictions, potential property buyers bided their time, which in turn had a significant impact on the demand for loans. At the end of September 2011 the law enabling customers to redeem their foreign currency-based mortgage loans at a discounted exchange rate came into effect. During this period the Bank offered favourable refinancing opportunities both for its own customers with good payment discipline, and for those at other banks. Overall the Bank retained its market share with regard to total retail loans, which at the end of 2011 was close to 7%.

1.4. Municipalities

The Bank's Municipality Division managed to remain successful in spite of the political upheavals that had a profound impact on the sector. The division's total assets did not change significantly, and at the end of 2011 amounted to more than HUF 290 billion. As of the end of the year the Bank was managing the accounts of 156 municipalities. Last year the division held successful negotiations with the European Investment Bank, culminating in the conclusion of another EUR 50 million refinancing framework agreement for the purpose of supporting energy-sector investments (EIB SME Green Energy).

To alleviate the impact of the financial crisis on municipalities, since 2011 our Bank's municipality division has placed particular emphasis on financing the sector's investments aimed at generating income or reducing operating costs. As well as energy-efficiency projects, we provided financing for the implementation of other projects involving the municipalities, thereby helping to improve the financial situation of our clientele (tax revenues, dividend), while also significantly raising the standard of living for people in the region (extra services, job creation). In 2011 the division took part in the preparations for financing major environmental projects subject to derogation (sewer and waste management utility investments). Several hundred municipalities are involved in the investments, and the total cost of these large projects exceeds HUF 70 billion.

The division actively assisted in developing the new statutory framework for municipality financing, and ensuring the more efficient operation of the European Union assistance programs. Alongside these operations, the unit that deals with apartment blocks remains active in the financing of this segment. The portfolio of assets in the apartment-block customer segment averaged HUF 19.5 million 2011, while the number of account-keeping customers was 2,394.

1.5. Private Banking customers

For Friedrich Wilhelm Raiffeisen Private Banking the year 2011 was successful in every respect. Our costs remained below budget, while our revenues came in at almost the pre-crisis level. But what is more important, we witnessed a further strengthening of the productive, cooperative partnership that we foster with our customers. As a result of our deliberately conservative investment policy we conserved and indeed, grew, the assets of our customers, even in the turbulent capital market environment that typified 2011. Consequently, by the end of the year the assets entrusted to our care by customers amounted to HUF 250 billion, or an average of HUF 75 million per family.

The growing importance of a personalised, individual and proactive customer service, at the same time, also gives scope for the fulfilment of our natural professional objectives. Our parent company in Vienna has prioritised the strategic development of Private Banking operations, and accordingly we are supported in our everyday work by the very latest computer systems and training. An advancement in terms of the overall concept is that through an incremental increase in the minimum amount required for opening an account, not only does our three-level private-customer service morph into a naturally modular system, with each level building on the other, but ensures that all our existing and future customers can find the level of service that is best suited to their needs and means. In the course of the year we reviewed our customer portfolio and, together with our customers, sought to identify the service model that is best suited to them. In this way we not only raised customer satisfaction, but were also able to focus our professional resources on providing the wealthiest members of society with a high-quality, exclusive service.

All these achievements and efforts strengthen our resolve to be, for our customers, one of the main custodians of financial self-reliance and wealth conservation, which are increasingly coming into the focus of attention these days, through our policy of forging customer relationships based on mutual satisfaction, and our dependable portfolio management practices.

1.6. Financial institutions

We are proud of the fact that Raiffeisen Bank Zrt.'s division that deals with financial-institution customers maintained its profitability despite an economic environment that was fraught with challenges. Our ability to draw on the strength and infrastructure of a universal large bank while at the same time focusing exclusively on players in the financial institution sector as an independent division within the Bank, provided us with the opportunity in 2011 to continue serving our customers from a single location, independently, and with the highest possible degree of flexibility.

During the year we cooperated closely with our customers to fulfil their needs relating to special banking products, thereby supporting them in the fulfilment of their product-development, market-acquisition and growth objectives. In 2011, besides the traditional custody, account management and investment services that we offer, our broadening product range included a growing number of products that represent added value for our customers and commission and cross-selling opportunities for us, with a low capital requirement. Accordingly, we witnessed strong growth with regard to our payment services designed to support liquidity management, as well as in products related to investment-banking and stock-exchange settlements, and in the area of investment fund distribution, where today, for example, we offer some 1000 funds of almost 40 fund managers.

Although in 2011 the performance of the custody products under the supervision of the division was negatively impacted by the changes affecting the Hungarian pension fund sector, we nevertheless experienced growth and a return of investor interest in the international custody client segment. In this area, in partnership with the other banks in the Raiffeisen Group, throughout the Central and Eastern European region we offer our clients solutions for the high-quality custody, and for the stock-exchange and OTC settlement, of their securities portfolios, and for the comprehensive management of the rights and corporate events associated with the securities. Overall, therefore, we are able to confirm, with satisfaction, the maintenance of our stable levels of profitability in 2011, while, in our view, also laying new foundations for the expansion of business going forward. The proactive approach and innovative attitude of our staff, and the improvement in the standards of customer service described above, have all contributed to this performance.

Raiffeisen Bank International at a glance

A leading bank in Central and Eastern Europe, including Austria

Raiffeisen Bank Zrt. is a subsidiary of Raiffeisen Bank International AG (RBI), which regards Central and Eastern Europe (including Austria), as its home market. For nearly 25 years, RBI has been operating in the Central and Eastern Europe (CEE) region, where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. As a universal bank, RBI ranks among the leading banks in the region. The powerful role played by the bank is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. Following its strategic realignment in 2010, RBI has positioned itself as a fully integrated corporate and retail banking group in CEE. The bank not only has good access to retail and corporate customers, but also a comprehensive product offering. At the end of 2011 around 56,000 staff served approximately 13.8 million customers in around 2,915 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers but also international as well as major multinational clients operating in CEE. Moreover, RBI is represented in the world's financial centers and operates branches and representative offices in Asia. All in all, RBI employs about 59,000 staff and has total assets of approximately € 147 billion.

RBI operates subsidiary banks in the following CEE markets:

• Albania	Raiffeisen Bank Sh.a.
• Belarus	Priorbank, OAO
• Bosnia and Herzegovina	Raiffeisen Bank d.d. Bosna i Hercegovina
• Bulgaria	Raiffeisenbank (Bulgaria) EAD
• Croatia	Raiffeisenbank Austria d.d.
• Czech Republic	Raiffeisenbank a.s.
• Hungary	Raiffeisen Bank Zrt.
• Kosovo	Raiffeisen Bank Kosovo J.S.C.
• Poland	Raiffeisen Bank Polska S.A.
• Romania	Raiffeisen Bank S.A.
• Russia	ZAO Raiffeisenbank
• Serbia	Raiffeisen banka a.d.
• Slovakia	Tatra banka, a.s.
• Slovenia	Raiffeisen Banka d.d.
• Ukraine	VAT Raiffeisen Bank Aval

As the parent company of these banks, RBI's shareholding in them is at or near to 100 per cent in most cases.

RBI's development

RBI was established in October 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB). RBI's position as one of the leading banks in CEE (including Austria) was further reinforced by the merger. RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI's shares are in free float.

RZB was formed in 1927 as "Genossenschaftliche Zentralbank" (GZB). Raiffeisen gained its first foothold in Central and Eastern Europe back in 1987, when it established its first subsidiary bank in Hungary. Other own subsidiaries have since been established; from 2000 onwards, Raiffeisen's expansion in the CEE countries has mainly been achieved by acquiring existing banks, which were combined into a holding company that from 2003 until October 2010 operated under the name Raiffeisen International. Raiffeisen International was listed on the stock exchange in April 2005 in order to finance its future growth as efficiently as possible. RBI was subsequently established in 2010 through the merger of Raiffeisen International with the principal business areas of RZB.

125 years of Raiffeisen in Austria

Raiffeisen's strong roots in Austria date back more than 125 years. Raiffeisen's first Austrian credit cooperative was founded in Mühldorf, a village in Lower Austria, in 1886. Local cooperatives soon started working together and, in turn, founded regional cooperatives marking the beginning of the multi-tiered structure of the Raiffeisen organization. This not only helped to strengthen their position in the market, but also enabled better management and risk control. Numerous product and service cooperatives were founded on the back of increasing specialization and market integration. In mid-2011, the Raiffeisen Banking Group Austria (RBG), the country's largest banking group, managed € 83.8 billion in Austrian customer deposits (excluding building society savings), of which around € 50.3 billion was held in savings deposits; with a market share of 32.2 per cent, RBG has continued to expand its role as market leader among Austria's banks. RBG has achieved its strong market position through healthy organic growth.

For more information please refer to www.rbinternational.com and www.rzb.at.

Raiffeisen Bank International and the RZB Group at a glance

Vision

Raiffeisen Bank is the leading Hungarian bank by customer experience and service quality. As a universal bank in Hungary, Raiffeisen Bank shows above average profitability, generating sustainable value to its customers, employees and shareholders.

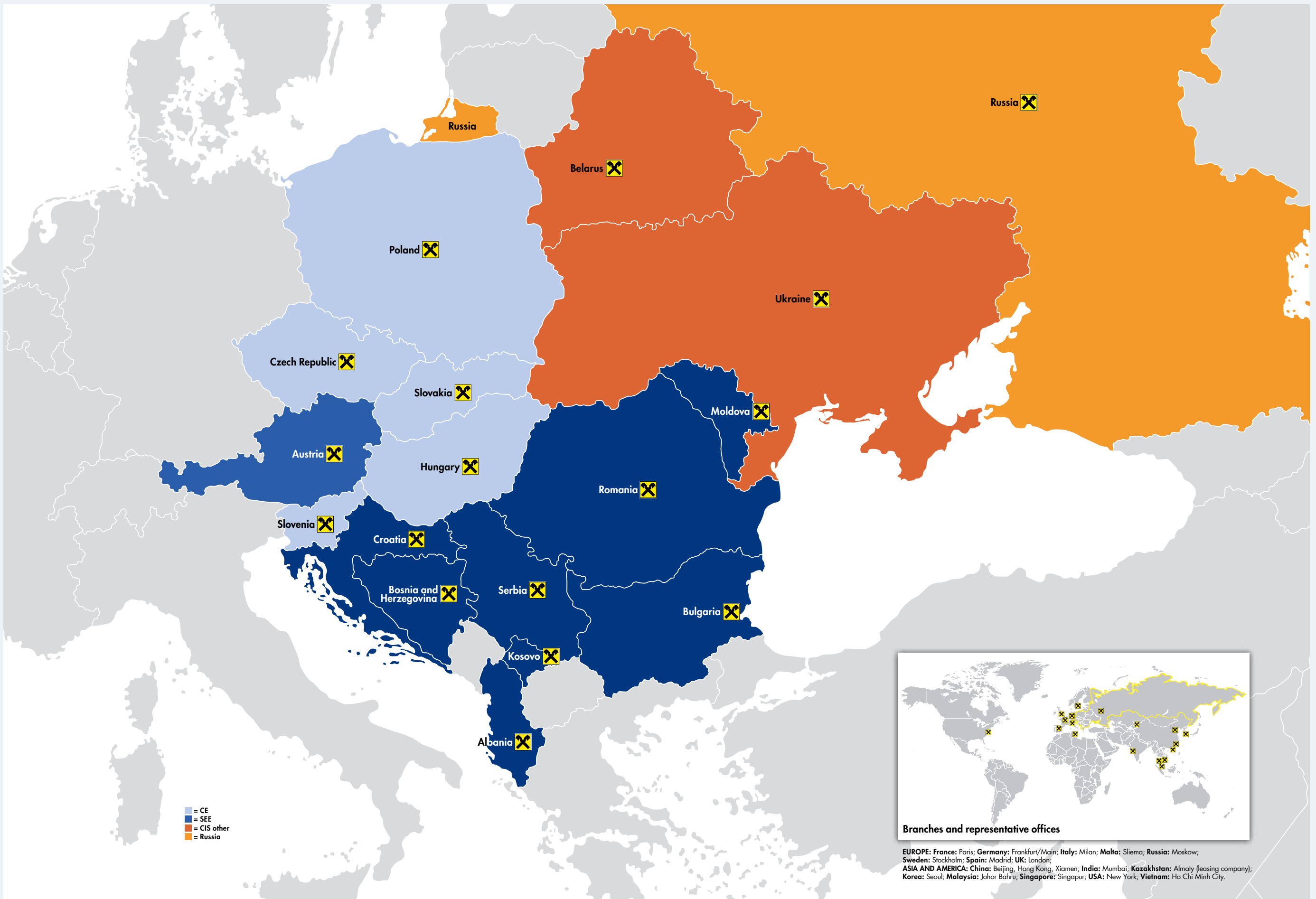
Mission

To provide the highest quality services to our customers.

To achieve a consistently outstanding return on equity.

To formulate ethical guidelines for our employees and offer them opportunities for professional development, and to preserve our excellent corporate culture and atmosphere.

As a member of Raiffeisen Bank International, to contribute to achieving the objectives of the Group.



Raiffeisen Bank International and the RZB Group at a glance

Raiffeisen-Glossary

Gable Cross

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well recognized brand in CEE.

Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria's largest banking group by total assets. As per year-end 2010, RBG's consolidated balance-sheet total amounted to more than € 255 billion. It represents about a quarter of all banking business in Austria and comprises the country's largest banking network with more than 2,200 business outlets and 24,000 employees. RBG consists of Raiffeisen Banks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. RZB also acts as the link between the international operations of its group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as general service retail banks. Each province's Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 89 per cent of RZB's ordinary shares.

The Raiffeisen Banks go back to an initiative of the German social reformer Friedrich Wilhelm Raiffeisen (1818 – 1888), who, by founding the first cooperative banking association in 1862, has laid the cornerstone of the global organization of Raiffeisen cooperative societies. Only 10 years after the foundation of the first Austrian Raiffeisen banking cooperative in 1886, already 600 savings and loan banks were operating according to the Raiffeisen system throughout the country. According to Raiffeisen's fundamental principle of self-help, the promotion of their members' interests is a key objective of their business policies.

Raiffeisen Bank International

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (CEE), including Austria, as its home market. In CEE, RBI operates as a universal bank through a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. At the end of 2011 around 56,000 staff served approximately 13.8 million customers in around 2,915 business outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. Moreover, RBI is represented in the world's financial centers and operates branches and representative offices in Asia. All in all, RBI employs about 59,000 staff and has total assets of approximately € 147 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB is the majority shareholder holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI's shares are in free float. With its long-term "A" (S&P, Fitch) and "A1" (Moody's) ratings, RBI is also a regular issuer of debt securities.

RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group centre for the entire RZB Group, including RBI. RZB functions as the key link between the Austrian Raiffeisen Banking Group and RBI, with its banking network in Central and Eastern Europe (CEE) and numerous other international operations.

RZB Group

The Group owned and steered by RZB. Raiffeisen Bank International is the Group's largest unit.

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Internet: kpmg.hu

Independent Auditors' Report

To the shareholder of Raiffeisen Bank Zrt.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Raiffeisen Bank Zrt. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of comprehensive income, changes in 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, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 (or 'present fairly, in all material respects,') the consolidated financial position of Raiffeisen Bank Zrt. as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Budapest, 27 April 2012

KPMG Hungária Kft.

Robert Stöllinger
Partner

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 Bíróság, no: 01 09 063183

Consolidated income statement

(HUF million)	Note	2011	2010
Interest and similar income	(5)	**148,168**	**152,590**
- on cash and cash equivalents		3,664	2,583
- on placements with banks		940	703
- on loans to non-banks		116,742	124,692
- on securities		24,419	21,597
- from leases		2,403	3,015
Interest expenses and similar charges	(6)	**89,688**	**82,110**
- on borrowings from banks		18,716	17,678
- on deposits from non-banks		59,671	53,864
- on debt securities issued		9,531	9,080
- on subordinated liabilities		1,770	1,488
Net interest income		**58,480**	**70,480**
Fee and commission income		29,232	29,702
Fee and commission expense		8,183	8,823
Net fee and commission income	(7)	**21,049**	**20,879**
Dividend income		29	27
Net trading income	(8)	5,429	11,314
Net income from derivatives held for risk management		37,030	25,007
Other operating income	(9)	4,354	8,258
Operating income		**46,842**	**44,606**
Impairment losses	(10)	**105,862**	**57,618**
Salaries and staff benefits	(11)	28,322	31,595
Rental expenses		7,801	7,792
Equipment expenses		6,320	6,335
Other operating expenses	(9)	69,852	39,717
Operating expenses		**112,295**	**85,439**
Share of profits of associates		**(9)**	**0**
Profit/(loss) before tax		**(91,795)**	**(7,092)**
Income tax expense	(12)	185	146
Deferred tax	(12)	(3,098)	(1,637)
Profit/(loss) for the period		**(88,882)**	**(5,601)**
Attributable to:			
Equity holders of the parent		(84,955)	(1,487)
Non controlling interest		(3,927)	(4,114)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Financial Statements

Consolidated statement of comprehensive income

(HUF million)	2011	2010
Profit / (loss) for the period	**(88,882)**	**(5,601)**
Other comprehensive income/(loss)		
Net change in fair value of available-for-sale financial assets	(13,851)	(3,591)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	656	0
Income tax on other comprehensive income/(loss)	**2,548**	**642**
Other comprehensive income/(loss) for the period, net of income tax	**(10,647)**	**(2,949)**
Total comprehensive income/(loss) for the period	**(99,529)**	**(8,550)**
Total comprehensive income/(loss) attributable to:		
Equity holders of the Bank	(95,602)	(4,436)
Non-controlling interest	(3,927)	(4,114)
Total comprehensive income/(loss) for the period	**(99,529)**	**(8,550)**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position

(HUF million)	Note	2011	2010
Assets			
Cash and cash equivalents	(14)	98,285	59,149
Placements with banks	(15)	99,777	82,575
Net loans	(16)	1,526,238	1,614,820
Financial assets at fair value through profit or loss	(17)	70,168	65,397
Available for sale securities	(18)	253,408	296,953
Held to maturity securities	(18)	143,186	143,989
Investments in associated undertakings		142	48
Investments in unlisted securities		120	108
Property, plant and equipment	(20)	21,021	19,555
Investment property	(20)	147	1,252
Intangible assets	(21)	15,332	14,332
Goodwill	(22)	1,672	1,672
Current tax assets		539	1,827
Deferred tax assets	(36)	8,639	3,069
Other assets	(24)	47,478	48,211
Assets classified as held for sale	(32)	14,119	14,951
Total assets		**2,300,271**	**2,367,908**
Liabilities and equity			
Deposits from banks	(26)	318,070	530,406
Deposits from non-banks	(27)	1,434,538	1,323,697
Debt securities issued	(28)	126,322	146,307
Subordinated liabilities	(29)	59,480	53,617
Financial liabilities at fair value through profit or loss	(25)	122,888	84,308
Current tax liabilities		116	0
Deferred tax liabilities	(36)	120	181
Provisions	(31)	20,909	8,878
Other liabilities	(30)	56,768	68,828
Liabilities classified as held for sale	(32)	156	170
Total liabilities		**2,139,367**	**2,216,392**
Equity attributable to equity holders of the parent		**162,400**	**151,264**
Ordinary shares		165,023	59,099
Preference shares		0	0
Share capital	**(33)**	**165,023**	**59,099**
Retained earnings		12,864	77,964
Statutory reserves	(34)	0	18,864
Non-distributable reserve		323	500
Fair value reserve		(15,810)	(5,163)
Non controlling interest		**(1,496)**	**252**
Total equity		**160,904**	**151,516**
Total liabilities, non controlling interest and shareholder's equity		**2,300,271**	**2,367,908**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(HUF million) Note	Ordinary shares (33)	Share capital	General risk reserve (34)	General / Capital reserve (34)	Non-distributable reserve	Fair value reserve	Total other reserves	Retained earnings	Total equity	Non controlling interest	Total equity
Balance 1 January 2011	**59,099**	**59,099**	**13,173**	**5,691**	**500**	**(5,163)**	**14,201**	**77,964**	**151,264**	**252**	**151,516**
Total comprehensive income/(loss) for the period											
Profit or loss	0	**0**	0	0	0	0	**0**	(84,955)	**(84,955)**	(3,927)	**(88,882)**
Other comprehensive income/(loss)											
Net change in fair value of available-for-sale financial assets, net of tax	0	**0**	0	0	0	(10,647)	**(10,647)**	0	**(10,647)**	0	**(10,647)**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Total other comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**0**	**(10,647)**	**(10,647)**	**0**	**(10,647)**	**0**	**(10,647)**
Total comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**0**	**(10,647)**	**(10,647)**	**(84,955)**	**(95,602)**	**(3,927)**	**(99,529)**
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Issue of share capital and share premium	105,924	**105,924**	0	0	0	0	**0**	0	**105,924**	0	**105,924**
Conversion of preference shares	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Dividends paid	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Transfer to reserves, net of tax	0	**0**	(13,173)	(5,691)	(177)	0	**(19,041)**	19,041	**0**	0	**0**
Non-distributable reserve	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Total contributions by and distributions to owners	**105,924**	**105,924**	**(13,173)**	**(5,691)**	**(177)**	**0**	**(19,041)**	**19,041**	**105,924**	**0**	**105,924**
Changes in ownership interests	0	**0**	0	0	0	0	**0**	814	**814**	(793)	**21**
Change in non-controlling interest during the period	0	**0**	0	0	0	0	**0**	0	**0**	2,972	**2,972**
Non controlling interest arising on acquisition	0	**0**	0	0	0	0	**0**	0	**0**	2,972	**2,972**
Decrease in non controlling interest during the period	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Total changes in ownership interests	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**814**	**814**	**2,179**	**2,993**
Total transactions with owners, recorded directly in equity	**105,924**	**105,924**	**(13,173)**	**(5,691)**	**(177)**	**0**	**(19,041)**	**19,855**	**106,738**	**2,179**	**108,917**
Balance 31 December 2011	**165,023**	**165,023**	**0**	**0**	**323**	**(15,810)**	**(15,487)**	**12,864**	**162,400**	**(1,496)**	**160,904**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(HUF million) Note	Ordinary shares (33)	Share capital	General risk reserve (34)	General / Capital reserve (34)	Non-distributable reserve	Fair value reserve	Total other reserves	Retained earnings	Total equity	Non controlling interest	Total equity
Balance 1 January 2010	**45,129**	**45,129**	**11,928**	**16,491**	**500**	**(2,214)**	**26,705**	**44,398**	**116,232**	**29,071**	**145,303**
Total comprehensive income/(loss) for the period											
Profit or loss	0	**0**	0	0	0	0	**0**	(1,487)	**(1,487)**	(4,114)	**(5,601)**
Other comprehensive income/(loss)											
Net change in fair value of available-for-sale financial assets, net of tax	0	**0**	0	0	0	(2,949)	**(2,949)**	0	**(2,949)**	0	**(2,949)**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Total other comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**0**	**(2,949)**	**(2,949)**	**0**	**(2,949)**	**0**	**(2,949)**
Total comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**0**	**(2,949)**	**(2,949)**	**(1,487)**	**(4,436)**	**(4,114)**	**(8,550)**
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Issue of share capital and share premium	13,970	**13,970**	0	0	0	0	**0**	0	**13,970**	0	**13,970**
Conversion of preference shares	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Dividends paid	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Transfer to reserves, net of tax	0	**0**	1,245	(10,800)	0	0	**(9,555)**	9,555	**0**	0	**0**
Non-distributable reserve	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Total contributions by and distributions to owners	**13,970**	**13,970**	**1,245**	**(10,800)**	**0**	**0**	**(9,555)**	**9,555**	**13,970**	**0**	**13,970**
Changes in ownership interests	0	**0**	0	0	0	0	**0**	25,498	**25,498**	(30,085)	**(4,587)**
Change in non-controlling interest during the period	0	**0**	0	0	0	0	**0**	0	**0**	**5,380**	**5,380**
Non controlling interest arising on acquisition	0	**0**	0	0	0	0	**0**	0	**0**	5,380	**5,380**
Decrease in non controlling interest during the period	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Total changes in ownership interests	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**25,498**	**25,498**	**(24,705)**	**793**
Total transactions with owners, recorded directly in equity	**13,970**	**13,970**	**1,245**	**(10,800)**	**0**	**0**	**(9,555)**	**35,053**	**39,468**	**(24,705)**	**14,763**
Restated balance 31 December 2010	**59,099**	**59,099**	**13,173**	**5,691**	**500**	**(5,163)**	**14,201**	**77,964**	**151,264**	**252**	**151,516**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(HUF million)	Note	2011	2010
Profit/(loss) for the period		**(88,882)**	**(5,601)**
Cash flows from operating activites			
Adjustments for:			
Depreciation and amortisation	(20,21)	10,545	7,917
Net impairment loss on non-financial assets	(16)	2,713	357
Net impairment losses and write-offs on financial assets	(16)	98,887	37,202
Net interest income	(5)	(58,480)	(70,481)
Disposal of assets		197	54
Other		(113)	(465)
Income tax expense	(12)	(2,913)	(1,491)
		50,836	**(26,907)**
Change in placements with banks	(15)	(17,203)	(46,858)
Change in loans and advances to customers	(16)	(10,305)	(68,014)
Change in derivative financial instruments	(17)	26,225	38,998
Change in AFS securities (without revaluation)	(18)	32,871	(60,365)
Change in other assets and asset held for sale	(24,32)	1,543	(12,497)
Change in deposits from banks	(26)	(212,336)	(132,337)
Change in deposits from non-banks	(27)	110,841	15,419
Change in other liabilities, provisions and liabilities held for sale	(30,31,32)	(41)	25,683
		(68,405)	**(239,971)**
Interest and dividends received		148,196	152,618
Interest paid		(89,687)	(82,109)
Income tax paid		(1,315)	(517)
Net cash from / (used in) operating activities		**(49,257)**	**(202,487)**
Cash flows from investing activities			
Purchase of securities	(18)	(34,219)	(39,751)
Disposals of securities	(18)	42,607	51,193
Purchase of investment in associates		(2,767)	0
Disposal of investment in associates		0	585
Purchase of equity investments		(12)	(69)
Disposal of equity investments		0	0
Purchase of property, plant and equipment	(20)	(7,132)	(2,016)
Disposals of property, plant and equipment	(20)	1,341	56,736
Purchase of intangible assets	(21,22)	(6,323)	(4,311)
Disposals of intangible assets	(21,22)	18	244
Net cash used in investing activities		**(6,487)**	**62,611**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(HUF million)	Note	2011	2010
Cash flows from financing activities			
Increase in issued debt securities	(28)	53,907	95,637
Repayment of debt securities	(28)	(73,891)	(33,991)
Increase in subordinated liabilities	(29)	5,863	1,511
Issuance of new shares and proceeds from share premium	(33)	106,616	11,644
Dividend paid		0	0
Net cash from financing activites		**92,495**	**74,801**
Net increase/decrease of cash and cash equivalents		**36,751**	**(65,075)**
Cash and cash equivalents at 1 January		**59,149**	**120,668**
Net effect of exhange rate		2,385	3,556
Cash and cash equivalents at December 31		**98,285**	**59,149**

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Notes to the consolidated financial statements

(1) General information

Raiffeisen Bank Zrt. („the Bank") commenced its operations in 1987 as a commercial bank domiciled in Hungary. The Bank's registered office is 1054 Budapest, Akadémia Street 6.

The Bank holds a full commercial banking license issued by the Hungarian Financial Supervisory Authority and carries on a wide range of financial activities. The consolidated financial statements of the Bank as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as the "Group"). For further information on consolidated subsidiaries please see Note 41).

The Bank is controlled by Raiffeisen-RBHU Holding GmbH. The ultimate parent of the Group is Raiffeisen-Landesbanken-Holding GmbH.

(2) Basis of presentation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs').

IFRSs comprise accounting standards issued by the IASB and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

These financial statements were authorized for issue by the Board of Directors on 27 April 2012.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale assets are measured at fair value;
- assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged;
- other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of 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 accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 38.

c) Functional and presentation currency

These consolidated financial statements are presented in Hungarian Forints, which is the Bank's functional currency. Except as indicated, financial information is presented in Hungarian Forints rounded to the nearest million.

d) Changes in accounting policies

Starting as of 1 January 2011, the Group has changed its accounting policies in the following areas:
Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011): The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with

- a government that has control, joint control or significant influence over the reporting entity;
- and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

Revised IAS 24 is not relevant to the Group's financial statements as the Group is not a government-related entity and the revised definition of a related party did not result in new relations requiring disclosure in the financial statements.

(3) Significant accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by the Group in preparing and presenting financial statements. The accounting policies set out below have been consistently applied to all the periods presented, and by Group entities.

a) Financial statement presentation

These consolidated financial statements include the accounts of the Bank and its subsidiaries and associates ("the Group"). The income, expenses, assets and liabilities of the subsidiaries are included in the respective line items in the consolidated financial statements, after eliminating inter-company balances and transactions.

b) Basis of consolidation

I. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls the entity. The financial statements of subsidiaries are consolidated from the date that control commences until the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured at the fair value of the consideration given at the date of exchange, together with costs directly attributable to that acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value

Notes to the consolidated financial statements

of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the income statement, after reassessing the identification and measurement of the assets acquired.

II. Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the execution of a specific borrowing or lending transaction. The financial statements of special purpose entities are included in the Group's consolidated financial statements if, based on an evaluation of the substance of their relationship with the Group and the entity's risks and rewards, the Group concludes that it controls the entity.

III. Funds management

The Group manages and administers assets held in investment funds on behalf of investors. The financial statements of these investment funds are not included in these consolidated financial statements, except when the Group controls the investment funds. Information about the Group's funds management activities is set out in Note 42.

IV. Transactions eliminated on consolidation

Intra-group balances, and any realized and unrealized income and expenses arising from intra-group transactions, are eliminated in preparing consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

V. Loss of control

The Group applies consistently the book value accounting method to all similar common control transactions when recognising the assets aquired and liabilities assumed in the consolidated financial statements. In applying book value accounting method, the result of the common control transactions is recognised in equity.

c) Investments in associates

Associates are entities over which the Group has significant influence, but which it does not control, generally evidenced by a shareholding of between 20% and 50% of the voting rights.

Associates are accounted for under the equity method of accounting except when the investment is acquired and held exclusively with a view to its disposal in the near future, in which case it is measured at the lower of its carrying amount and fair value less costs to sell.

Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognize the Group's share of the profits or losses of the investee after the date of acquisition.

The consolidated statement of comprehensive income reflects these changes in the results but the post-acquisition changes in the associate's reserves are recognized directly in the Group's consolidated statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Profits on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the respective associates. Losses are also eliminated to the extent of the Bank's interest in the associates unless the transaction provides evidence of an impairment of the asset transferred.
A list of the Group's significant associated companies is set out in Note 41.

d) Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

e) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for the supply of services or for administration purposes.

I. Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries, and on the acquisition of interests in associates, when the cost of acquisition exceeds the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. If the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost of acquisition, the excess is recognised immediately in the income statement.

Goodwill is measured at cost less accumulated impairment losses. The carrying amount of goodwill is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the goodwill's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of goodwill exceeds its recoverable amount. Impairment losses recognized for goodwill are charged to profit or loss and are not reversed in a subsequent period.

Goodwill on acquisitions of interests in associates is included in 'Investments in associates'.

II. Intangible assets other than goodwill

Intangible assets that have a finite useful life are measured initially at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

Other intangible assets are amortised using the straight-line method over their estimated useful life not exceeding 5 years from the date when the asset is available for use. The amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5, and the date that the asset is derecognized. Amortisation methods and useful lives are reviewed at each financial yearend and adjusted if appropriate.

Personnel expenses incurred during establishing intellectual property are capitalized and amortised. Subsequent other expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognised in profit or loss as incurred.

Notes to the consolidated financial statements

f) Property, plant and equipment

I. Owner occupied property

Items of property, plant and equipment, including leasehold improvements, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Cost of maintenance and repairs are recognised in profit or loss as incurred. Major improvements of an item of property, plant and equipment are recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

Depreciation is allocated over the estimated useful life of the asset using the straight-line method and is included in "Other operating expenses" line in the consolidated income statement.

The estimated useful lives of individual categories of assets are as follows:

Properties (Freehold)	50 years
Properties (Leasehold)	17 years
Equipment	3 to 7 years

Freehold land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Items of property, plant and equipment are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "Other operating income" in profit or loss.

II. Investment property

Investment property is property held (by the owner or by a lessee under financial lease) to earn rentals or for capital appreciation or both. The Group applies cost model as valuation method for investment property. The Group uses straight line depreciation, and the useful lives of the properties are 20 years. Fair value of investment properties is disclosed according to IAS 40. It is determined by independent experts and is reviewed quarterly. The fair value is supported by market evidence. (See Note 20).

g) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their 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 balance sheet.

h) Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair value is determined for measurement and / or disclosure purposes based on the following methods.

All financial instruments are recognised initially at fair value plus any directly attributable transaction costs (except for financial instruments at fair value through profit or loss where transaction costs are taken directly to profit or loss). In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are measured at fair value based on bid prices for assets held and ask prices for liabilities issued. When independent prices are not available, fair value is determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For financial instruments, fair value may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. Determination of fair value is more detailed in Note 39.

i) Recognition of financial instruments

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

j) Placements with banks and Loans and advances to customers

Placements with banks and Loans and advances to customers include loans and advances with fixed or determinable payments which were originated by the Group, or result for providing money or services to a debtor other than those created with the intention of short-term profit making and which are not classified either as held for trading or designated at fair value through profit or loss.

Loans and advances are recognised when cash is advanced to borrowers (settlement date). They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. Loans and advances are initially measured at fair value plus any incremental direct transaction costs, and are subsequently measured at their amortized cost using effective interest method, less impairment losses.

k) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are those that the Group principally holds for the purpose of short-term profit making (held for trading). These include securities and derivative contracts.

These assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of "Net trading income" in profit or loss.

l) Investments in securities

Investments in securities include held-to-maturity and available-for-sale securities.

Notes to the consolidated financial statements

I. Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. This category mainly include government bonds.

Held-to-maturity securities are initially recognised at fair value plus any directly attributable transaction costs and subsequently carried at amortised cost on the statement of financial position, less any impairment losses. Premiums are amortised and discounts are accumulated against net profit using the effective interest method.

II. Available-for-sale securities

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These financial assets are mainly corporate and municipal bonds, units in investment funds, government bonds and treasury bills.

Available-for-sale securities are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

Available-for-sale securities are initially measured at fair value plus direct transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented within equity in the fair value reserve until the securities are either sold or impaired. When available-for-sale securities are sold, cumulative gains or losses in other comprehensive income are transferred to profit or loss.

m) Derivatives

Derivative financial instruments include forward foreign exchange contracts, interest rate swaps, forward rate agreements, futures and options (both written and purchased). Derivatives are recognised initially, and are subsequently measured at fair value.

Derivative contracts are entered into with the purpose of trading, or held for risk management purposes in order to hedge interest rate and foreign exchange risk. In addition the Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and equity market risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, and options.

Trading derivatives are part of the Group's trading position and the change in their fair value is included in Net trading income.

The Group holds instruments that contain both a liability and equity components and these instruments have multiple embedded derivatives whose values are interdependent. These instruments are the following: structured deposits, structured swaps, structured forwards and structured debt securities. Embedded derivatives are separated when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative meet the definition of a stand-alone derivative, if they were contained in a separate contract; and the combined contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the consolidated income statement.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognising fair value gains and losses does not depend on whether derivatives are held for trading or held for risk management purposes. All gains and losses from changes in the fair value of derivatives are recognised in profit or loss.

Hedge accounting

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationship. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and the hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedging relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability that could affect profit and loss, changes in the fair value of the derivative are recognized immediately in profit and loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of comprehensive income as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedge item for which the effective interest method is used, is amortised to profit and loss as part of the recalculated effective interest rate of the item over its remaining lifetime.

The Group hedges fixed rate loans, fixed rate issued bonds and structured issued bonds in fair value hedges.

n) Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group.

I. Impairment of Placements with banks and Loans and advances to customers

Impairment allowances are calculated on individual loans and assessed collectively on groups of loans. Losses expected from future events are not recognised.

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses, on a case-by-case basis, at each balance sheet date, whether there is any objective evidence that a loan is impaired. Impairment losses on loans carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of discount.

Collectively assessed loans and advances

The Group uses not only individually but also portfolio based loan loss provision for impairment. Impairment that cannot be identified on an individual loan basis may still be identifiable on a portfolio basis. Hence, all accounts without objectively significant evidence of loss are included in a group of similar financial assets for the collective assessment. Loss provisions are based on previous loss experience for assets with similar credit risk characteristics (product, asset type, customer type, collateral type, sales channel type, past-due status, etc.) with consideration of the current portfolio performance. Accounts that are individually assessed for impairment and identified as impaired are excluded from a portfolio assessment of impairment.

Changes in estimates regarding the portfolio-based impairment of loans and advances

The Group has implemented some changes to its portfolio based loan loss provisioning policy as a consequence of the economic slowdown. In the case of non-retail portfolio based loan loss provisioning, the Bank applies a model determined on RBI group level. At the end of 2010 RBI (Raiffeisen Bank International) harmonized the provisioning model to the entire international bank group. The average of the last five years' default rates is used; in parallel, default rates for each sectors are not differenciated; in case of the internal rating categories there is no smoothing; and the loss given default is determined on RBI group level.

The Group has re-estimated the expected recoveries of the retail and SME mortgage portfolios considering the effect of the economic crisis and the unfavorable trends of the real estate market. Therefore, the recovery rates have been reduced in portfolio based provisioning models. Simultaneously, the minimal provision rates used in individual provisioning have increased during the year in the SME segment causing HUF 4.9 billion one-off increase in provision.

In line with the RBI Group Accounting regulations at the end of financial year 2011 the Group has introduced in its financial reporting the application of credit conversion factors concerning the off-balance sheet items' portfolio-based loan loss provisioning. The implementation of these credit conversion factors (based on the corresponding capital regulation rules) triggered cca HUF 1.1 billion provision release in the Corporate segment as a one-off effect.

Write-off of loans and advances

A loan (and the related impairment allowance account) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write back is recognised in the consolidated income statement.

Assets acquired in exchange for loans

The Group has the right to liquidate collateralized real estate where the Group has a registered mortgage, by court enforcement as well as omitting court enforcement, in the scope of sales proceedings carried out under the Group's own right. The real estate may also be subject to constrained sale where the owner of the real estate is a business association under liquidation.

If the Group has a purchase option on real estate, the Group's claim may be enforced. The Group is entitled to buy the real estate at the purchase price determined in the option agreement, and set the purchase price against its claim, or assign a third party to exercise the purchase option, and set the purchase price paid by such third party against its claim.

Assets acquired in exchange for loans and leases at termination of a contract are held at a value established by an external (technical) appraiser. Until the assets acquired from lease contracts are sold, provision is allocated to the

receivables, then the amount of receivables is reduced by the sales revenue of the assets. The provision recognized on loans is affected by the annual loss-rate of the assets sold in current year and on the future prospects of sales.

Provision is disclosed in the balance sheet under inventory, the charge of provisions is accounted for as other expenses, the release of provision is disclosed as other income.

II. Impairment of held-to-maturity securities

Impairment losses on held-to-maturity securities are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

III. Impairment of available-for-sale securities

Investments in available-for-sale securities are considered to be impaired if their carrying amount is greater than the estimated recoverable amount assessed at each balance sheet date on the basis of objective evidence such as significant financial difficulty of the issuer, actual breaches of contracts, high probability of bankruptcy or other financial reorganization of the issuer. Impairment losses on available-for-sale securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognised in other comprehensive income.

o) Derecognition of financial assets and liabilities

The Group derecognizes a financial asset, when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transaction.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of the ownership of a financial asset, it derecognizes the asset, if it does not retain control over the asset. The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Notes to the consolidated financial statements

In certain transactions the Group retains the obligation to service the transferred financial assets for a fee. The transferred asset is derecognized in its entirety if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more adequate (asset) or is less than adequate (liability) for performing the service.

The Group enters into purchases (sales) of securities under agreements to resell (repurchase) substantially identical securities at a certain date in the future at a fixed price. Securities purchased subject to commitments to resell them at future dates are not recognized as securities. The amounts paid are recognized in other assets and shown as collateralized by the underlying security.

Securities sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for assets held for trading. The proceeds from the sale of the securities are reported as other liabilities.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income or expense, respectively.

Repo transactions combine spot purchase or sale of securities with their respective forward sale or purchase, the counterparty being identical. Securities sold under repurchase agreements (spot sale) appear, and are measured, in the consolidated statement of financial position as part of the securities portfolio. The inflow of liquidity from repo transactions is recorded as a liability. The agreed interest payments including payments on purchase are booked as interest paid.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

p) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

q) Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. The Group, as a lessor, recognizes assets held under a finance lease in its consolidated statement of financial position as receivables (under 'Placements with banks' and 'Loans and advances to customers' as appropriate) at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease. Lease payments relating to the accounting period are applied against the gross investment in the lease to reduce both the principal and unearned finance income.

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the equipment is thereby impaired.

r) Deposits, Debt securities issued and Subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

s) Provisions for contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities, which include commitments and certain issued guarantees, and other liabilities, which include pending legal issues and employee benefits, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group.

t) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within liabilities.

Further details are set out in Note 37.

u) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading and kept in a trading book and derivatives designated for risk management purposes are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but not future credit losses. The calculation includes all amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

v) Fee and commission income

Fees and commissions are generally recognized on an accrual basis as end when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction.

w) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

x) Other operating income

Other operating income comprises realised net gains and losses related to available-for-sale securities, gains on disposal of inventory, intangible assets and property, plant and equipment.

y) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

z) Income tax

Income tax for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the calculated tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date as well as any adjustments to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

Deferred tax relating to fair value re-measurement of available-for-sale investments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in profit or loss when the deferred fair value gain or loss is recognised in profit or loss.

aa) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

bb) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements:

Amendments to IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012, to be applied prospectively, early application is permitted.)

The amendments:
- require that an entitiy presents separately the items of other comprehensive income that may be reclassified to profit and loss in the future from those that would never be reclassified to profit and loss. If items of other comprehensive income are presented before related tax then the aggregated tax amount should be allocated between these sections; and
- change the title of the Statement of Comprehensive Income to the Statement of Profit and Loss and Other Comprehensive Income however, an entity is still allowed to use other titles.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.

Amendments to IAS 12 Income taxes - Deferred Tax: Recovery of Underlying Assets (Effective for annual periods beginning on or after 1 January 2012, earlier application is permitted.)

The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that the carrying value of the underlying assets would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

The amendments are not relevant to the Group's financial statements, since the Group does not have any investment properties measured using the fair value model in IAS 40.

IAS 19 (2011) Employee Benefits (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted.)

The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation

The amendments are not relevant to the entity's financial statements, since the entity does not have any defined benefit plans.

IAS 27 Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2013, early application is permitted.)

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.

Notes to the consolidated financial statements

The Group does not expect IFRS 27 to have material impact on the financial statements.

IAS 28 Investments in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2013, early application is permitted.)

There are limited amendments made to IAS 28 (2008):

- Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Group does not expect IFRS 28 to have material impact on the financial statements.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted.)

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting agreements.

Amendments to IFRS 7 Disclosures - Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011, to be applied prospectively, earlier application is permitted.)

The Amendments require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The Group does not expect the amendment to IFRS 7 to have material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively.)

The Amendments contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

The Group does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

Additions to IFRS 9 Financial Instruments (issued in 2010) (Effective for annual periods beginning on or after 1 January 2015, early application is permitted.)

The 2010 additions to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities.

The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities.

The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.

Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

The Group does not expect the amendments to IFRS 9 issued in 2010 to have material impact on the financial statements. The classification and measurement of the Group's financial liabilities are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial assets that it holds.

IFRS 9 Financial Instruments (issued in 2009) (Effective for annual periods beginning on or after 1 January 2015, earlier application is permitted.)

This Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

The Group does not expect IFRS 9 issued in 2009 to have material impact on the financial statements. The classification and measurement of the Group's financial assets are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial assets that it holds.

Amendments to IFRS 9 and IFRS 7 - Mandatory effective date and transitional disclosures

These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 (2010).

Notes to the consolidated financial statements

The amended IFRS 7 require to disclose more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9.

If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application.
If an entity early adopts IFRS 9 in 2012, then it has a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 7.

If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 are required.

It is expected that the Amendments, when initially applied, will not have material impact on the Group's financial statements. The classification and measurement of the Group's financial assets are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial assets that it holds.

IFRS 10 Consolidated Financial Statements - A new single control model
(Effective for annual periods beginning on or after 1 January 2013, to be applied retrospectively when there is a change in the control conclusion, early application is permitted.)

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when (1) it is exposed or has rights to variable returns from its involvements with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns.

The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The Group does not expect IFRS 10 to have material impact on the financial statements.

IFRS 11 Joint Arrangements (Effective for annual periods beginning on or after 1 January 2013, to be applied retrospectively subject to transitional provisions, early application is permitted.)

IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out, from IAS 31 jointly controlled entities, those cases in which, although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements.

The Group does not expect IFRS 11 to have material impact on the financial statements.

IFRS 12 Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2013, to be applied retrospectively, early application is permitted.)

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Bank does not expect IFRS 12 to have material impact on the financial statements.

IFRS 13 Fair Value Measurement (Effective for annual periods beginning on or after 1 January 2013, early application is permitted.)

IFRS 13 Fair Value Measurement replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Group does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

(4) Financial risk management

a) Introduction and overview

The Group's policies for managing interest rate, foreign exchange, credit and liquidity risks are reviewed regularly by senior management and the Board of Directors.

Risk management is independent from the business areas. Credit risk management of customers with non-standard products and services is done by the Credit Risk Management Department, while credit risk management of customers with standard products is done by the Retail Risk Management Department. Individual credit risk analysis, rating, scoring and monitoring are tasks of the Credit Risk Management Department, while the portfolio based credit risk measurement, market (interest rate, foreign exchange and liquidity) and operational risk analysis is the competence of the Integrated Risk Analysis Department.

The Group has exposure to the following risks from financial instruments:

a) Market risk
b) Credit risk
c) Liquidity risk
d) Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing the risks, and the Group's management of capital.

b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from the Group's lending, trade finance and leasing business, but also from certain off-balance sheet products such as guarantees (other than financial guarantees), and from assets held in the form of debt securities.

Notes to the consolidated financial statements

Management of credit risk

Lending activity of the Group is determined by the management considering the balance between business and risk aspects, and in compliance with the Hungarian Banking Act, other statutory regulations, and the Credit Policy of the Group. Primarily, the Group grants credits on a cash-flow base which means that loan repayment is secured by the predictable cash flows of the customer's core activity. Occasionally, the collateral value, or the future revenue of projects financed, or the rate of return on a portfolio, or combination of the above mentioned have superior emphasis. Accordingly, credit decisions are based on the requested amount, maturity, product type, financial standing, non-financial features and perspectives of the customer, and on the collateral.

Credit risk consists mainly of default risk that arises from business within retail and corporate customers, banks and sovereign borrowers. Default risk is defined as the risk that a customer will not be able to fulfil contractually agreed financial obligations. Credit risk, however, also arise from migration risk, concentrations of creditors or in credit risks mitigation techniques and country risk.

Credit risk is the most important risk driver in the Group as also indicated by internal and regulatory capital requirements. Thus credit risk is analyzed and monitored both on an individual and on a portfolio basis. Credit risk management and lending decisions are based on the respective credit risk policies, credit risk manuals and the corresponding tools and processes which have been developed for this purpose.

The internal credit risk controlling system includes different types of monitoring measures which are tightly integrated into the workflow that lead from the customer's initial credit application, to the bank's credit approval, and to the repayment of the loan.

The loss arising from credit risk is accounted for by making individual impairment and portfolio-based impairment. The latter comprise impairment for portfolios of loans with identical risk profiles that may be complied under certain conditions. In the retail division, impairments are built according to product portfolio and past due days.

For credit risk related to loans and advances to customers and banks, impairment is made in the amount of expected loss according to Group-wide standards. Risk of loss is deemed to exist if there is objective evidence that a loan is impaired. Impairment loss should be recognised if the discounted projected repayment amounts and interest payments are below the carrying amount of the loans, taking collaterals into account. Portfolio-based impairments are calculated based on valuation models that estimates expected future cash flows for the loans in the respective loan portfolio based on loss experience history. This is carried out by considering the economic environment.

In 2009 a special portfolio based provisioning method was introduced for the mortgage loan portfolio. Also as an answer for the financial crisis and for the worsening financial situation of the clients, the Group introduced new restructuring solutions, delinquency forecast and early warning system and strengthened the workout and collection processes. Parallel with the changes in the internal credit risk management processes, the organization of the Credit Risk Management Department also changed. Separation of Risk Analyst and Risk Manager roles leads to a more effective workflow.

As a reaction to the current crisis, the Group has carried out integrated provisioning, capital requirement and profit after tax forecasting and stress-testing semi-annually since 2010. Based on our expectations for the macroeconomic environment, we assess future default rates using statistical models, and calculate their effect on the above quantities. The timeline of the forecast has been expanded to 3 years, we examine the regulatory and economic capital requirements both on standalone and consolidated level in the expected as well as in pessimistic scenarios.

The Group has responded to the financial difficulties of the customers caused by the financial and real economic crisis with restructuring, with the introduction of early warning processes and with focusing on the collection and workout activity.

The Group's exposure to credit risk at the reporting date is shown below:

2011 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Individually impaired								
Minimal risk	0	24	2,720	0	0	0	0	0
Excellent credit standing	0	0	19,782	0	0	0	0	0
Very good credit standing	0	0	16,886	0	0	0	0	1
Good credit standing	0	1,317	19,889	0	0	0	0	3
Average credit standing	0	385	13,294	31	0	0	0	1
Acceptable credit standing	0	7,089	19,734	855	0	0	206	22
Weak credit standing	0	8,881	9,868	256	0	0	2,610	523
Very weak credit standing	0	7,239	9,194	279	0	0	120	654
Doubtful / high default risk	0	77,018	18,092	3,219	0	0	5,268	12,374
Default	827	230,395	139,915	5,623	0	0	1,395	30,090
Unrated	0	738	12,685	456	0	0	0	0
Total gross amount of individually impaired financial assets	**827**	**333,086**	**282,059**	**10,719**	**0**	**0**	**9,599**	**43,668**
Total individually impaired allowance for impairment	661	135,648	94,698	1,744	0	0	6,982	4,984
Total carrying amount of individually impaired financial assets	**166**	**197,438**	**187,361**	**8,975**	**0**	**0**	**2,617**	**38,684**
Collectively impaired								
Minimal risk	0	0	3,728	0	0	0	0	0
Excellent credit standing	0	0	33,377	0	0	0	0	1
Very good credit standing	0	0	35,796	0	0	0	0	15
Good credit standing	0	22,510	42,846		0	0	0	37,528
Average credit standing	0	66,499	52,188	0	0	0	0	32,844
Acceptable credit standing	0	169,997	49,927	0	102,788	0	0	42,344
Weak credit standing	0	172,097	37,866	0	0	0	0	56,278
Very weak credit standing	0	87,687	31,946	0	0	0	0	9,127
Doubtful / high default risk	0	52,028	54,966	0	0	0	0	10,315
Default	0	68	21,820	0	0	0	0	5
Unrated	0	0	34,249	0	0	0	0	0
Total gross amount of collectively impaired financial assets	**0**	**570,886**	**398,709**	**0**	**102,788**	**0**	**0**	**188,457**
Total collectively impaired allowance for impairment	0	5,344	12,502	0	150	0	0	1,275
Total carrying amount of collectively impaired financial assets	**0**	**565,542**	**386,207**	**0**	**102,638**	**0**	**0**	**187,182**

Notes to the consolidated financial statements

2011 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Past due but not impaired								
Minimal risk	0	0	0	0	0	0	0	0
Excellent credit standing	0	0	0	0	0	0	0	0
Very good credit standing	0	1,349	0	0	0	0	0	0
Good credit standing	0	0	0	0	0	0	0	0
Average credit standing	0	0	0	0	0	0	0	0
Acceptable credit standing	0	0	10	25	0	0	0	0
Weak credit standing	0	0	102	142	0	0	0	0
Very weak credit standing	0	0	401	0	0	0	0	0
Doubtful / high default risk	0	199	883	0	0	0	0	0
Default	0	0	480	0	12,179	0	0	0
Unrated	0	0	12	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**1,548**	**1,888**	**167**	**12,179**	**0**	**0**	**0**
Past due comprises:								
up to 30 days	0	180	1,649	142	0	0	0	0
31 to 90 days	0	28	51	0	0	0	0	0
91 to 180 days	0	0	97	0	0	0	0	0
181 days to 1 year	0	0	89	0	206	0	0	0
more than 1 year	0	1,340	2	25	11,973	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**1,548**	**1,888**	**167**	**12,179**	**0**	**0**	**0**
Neither past due nor impaired								
Minimal risk	0	0	0	0	0	0	0	122
Excellent credit standing	543	7,735	33	0	0	1	3,871	1,410
Very good credit standing	70,515	4,486	96	0	0	148	21,032	9,688
Good credit standing	2,290	71	177	3	3,741	2,020	4,287	22,028
Average credit standing	9,309	26,139	1,178	0	0	42	1,793	39,282
Acceptable credit standing	15,896	6,610	1,624	60,973	245,632	11,621	7,772	79,590
Weak credit standing	1,058	13,484	2,358	7,087	24,246	431	4,669	43,742
Very weak credit standing	0	3,412	3,733	488	8,773	3,732	2,674	16,662
Doubtful / high default risk	0	30,464	3,338	28	0	2,611	2,472	8,241
Default	0	860	905	0	5,816	52	442	18,691
Unrated	0	1,713	117	0	0	224	126	1
Total carrying amount of neither past due nor impaired financial assets	**99,611**	**94,974**	**13,559**	**68,579**	**288,208**	**20,882**	**49,138**	**239,457**
Includes receivables with renegotiated terms								
Total gross amount	**100,438**	**1,000,494**	**696,215**	**79,465**	**403,175**	**20,882**	**58,737**	**471,582**
Total allowance for impairment	**661**	**140,992**	**107,200**	**1,744**	**150**	**0**	**6,982**	**6,259**
Total carrying amount	**99,777**	**859,502**	**589,015**	**77,721**	**403,025**	**20,882**	**51,755**	**465,323**

2010 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Individually impaired								
Minimal risk	0	1	5	0	0	0	0	0
Excellent credit standing	0	0	20	0	0	0	0	0
Very good credit standing	0	17	32	0	0	0	0	0
Good credit standing	0	1,397	117	0	0	0	0	0
Average credit standing	0	679	123	2	0	0	181	0
Acceptable credit standing	0	8,448	339	38	0	0	0	151
Weak credit standing	0	6,857	325	0	0	0	1,003	174
Very weak credit standing	0	3,657	1,623	19	0	0	247	150
Doubtful / high default risk	0	29,093	8,525	2,839	0	0	4,151	939
Default	767	159,517	86,688	3,838	0	0	358	5,580
Unrated	0	1,358	5,924	443	0	0	0	132
Total gross amount of individually impaired financial assets	**767**	**211,024**	**103,721**	**7,179**	**0**	**0**	**5,940**	**7,126**
Total individually impaired allowance for impairment	614	74,991	50,890	182	0	0	2,500	2,891
Total carrying amount of individually impaired financial assets	**153**	**136,033**	**52,831**	**6,997**	**0**	**0**	**3,440**	**4,235**
Collectively impaired								
Minimal risk	0	0	17,866	0	0	0	0	0
Excellent credit standing	0	0	64,135	0	0	0	0	1
Very good credit standing	0	0	41,182	0	0	0	0	31
Good credit standing	0	12,694	72,343	0	0	0	0	30,626
Average credit standing	0	39,825	76,675	0	0	0	0	52,797
Acceptable credit standing	0	180,116	65,782	0	10,263	0	0	77,003
Weak credit standing	0	193,097	53,770	0	0	0	0	60,631
Very weak credit standing	0	82,914	63,017	0	0	0	0	22,848
Doubtful / high default risk	0	71,252	79,014	0	0	0	0	4,051
Default	0	10	48,659	0	0	0	0	158
Unrated	0	300	18,698	0	0	0	0	589
Total gross amount of collectively impaired financial assets	**0**	**580,208**	**601,141**	**0**	**10,263**	**0**	**0**	**248,735**
Total collectively impaired allowance for impairment	0	4,722	20,264	0	160	0	0	2,201
Total carrying amount of collectively impaired financial assets	**0**	**575,486**	**580,877**	**0**	**10,103**	**0**	**0**	**246,534**

2010 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Past due but not impaired								
Minimal risk	0	0	0	0	0	0	0	0
Excellent credit standing	0	0	0	0	0	0	0	0
Very good credit standing	0	79	0	0	0	0	0	0
Good credit standing	0	0	0	0	0	0	0	0
Average credit standing	0	0	0	0	0	0	0	0
Acceptable credit standing	0	74	0	36	0	0	0	0
Weak credit standing	0	0	12	0	0	0	0	0
Very weak credit standing	0	0	52	0	0	0	0	0
Doubtful / high default risk	0	13	0	0	0	0	0	0
Default	0	0	246	0	11,491	0	0	0
Unrated	0	0	49	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**166**	**359**	**36**	**11,491**	**0**	**0**	**0**
Past due comprises:								
up to 30 days	0	87	234	0	11,491	0	0	0
31 to 90 days	0	0	35	0	0	0	0	0
91 to 180 days	0	79	30	36	0	0	0	0
181 days to 1 year	0	0	51	0	0	0	0	0
more than 1 year	0	0	9	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**166**	**359**	**36**	**11,491**	**0**	**0**	**0**
Neither past due nor impaired								
Minimal risk	0	0	0	0	0	0	0	5
Excellent credit standing	0	7,065	37	0	781	2	5,087	71
Very good credit standing	57,763	5,133	130	0	997	164	15,641	15,418
Good credit standing	274	2,617	434	0	20,480	2,478	2,811	16,885
Average credit standing	7,424	23,353	770	0	27,979	144	984	29,323
Acceptable credit standing	15,953	52,001	590	51,917	372,518	25,719	4,923	60,386
Weak credit standing	1,008	22,746	396	1,222	7,482	353	5,663	27,438
Very weak credit standing	0	13,409	532	308	0	4,236	3,393	17,210
Doubtful / high default risk	0	49,177	95	0	0	860	1,667	6,325
Default	0	317	315	0	1,051	121	18	5,309
Unrated	0	20,133	9,338	0	0	554	255	2,774
Total carrying amount of neither past due nor impaired financial assets	**82,422**	**195,951**	**12,637**	**53,447**	**431,288**	**34,631**	**40,442**	**181,144**
Includes receivables with renegotiated terms								
Total gross amount	**83,189**	**987,349**	**717,858**	**60,662**	**453,042**	**34,631**	**46,382**	**437,005**
Total allowance for impairment	**614**	**79,713**	**71,154**	**182**	**160**	**0**	**2,500**	**5,092**
Total carrying amount	**82,575**	**907,636**	**646,704**	**60,480**	**452,882**	**34,631**	**43,882**	**431,913**

Credit rating systems

The risk assessment and scoring of corporate customers, project companies, commodity and trade finance, and municipal customers are based on individual analysis and rating and are accompanied by regular financial monitoring and annual limit renewal. Financing is based on credit limit with only a simplified approval method on transaction level.

For loan products to private individuals, private banking customers, and for part of the small and medium size enterprises automatic scorecard-based risk assessment processes are in place.

Internal rating categories are the followings:

- **Minimal risk:** This grade is reserved for externally top rated corporates (AAA) and for other special cases which are regarded to incorporate minimal risk (for example: government linked companies, externally AAA-rated OECD countries).
- **Excellent credit standing:** For all other customers, this is the best rating that can be achieved. Based on excellent profitability, financial obligations can be fulfilled at any time. The company has a very strong equity base and a healthy financing structure.
- **Very good credit standing:** Based on very strong profitability, the probability that all payments – capital and interest – can be fulfilled also in the long run is very high. The company has a strong equity base and healthy financing structure.
- **Good credit standing:** Based on strong profitability, all financial obligations can be expected to be fulfilled in the medium term. Good equity base and healthy substance.
- **Average credit standing:** Based on strong profitability, no interruptions of principal and interest payments are expected. Reasonable financing structure with satisfactory equity base.
- **Acceptable credit standing:** Based on satisfactory profitability, no interruption of principal and interest payments are expected, however increased sensitivity towards massive deterioration of the economic environment. Limited financing flexibility.
- **Weak credit standing**: The Company shows marginal profitability and has only limited financial flexibility. Substantial deterioration of the economic parameters could negatively affect timely principal and interest payments.
- **Very weak credit standing:** Company with weak profitability and inadequate financing structure. Already minor deterioration of the economic environment can interfere with full and timely fulfillment of financial obligations.
- **Doubtful/high default risk:** Company with very weak profitability and problematic financing structure. Partial loss of principal or interest is expected in work out case.
- **Default:** Default. Financial obligations could not be completely fulfilled in time.
- **Unrated:** unrated exposures in the corporate sector mostly belong to that subsegment of the corporate portfolio which is under Standard approach (permanent partial use: see 1996. CXII Act of Parliament 76/D§), thus do not have internal rating per definition (e.g. housing cooperatives HUF 2.4 billion in 2011 and HUF 19.4 billion in 2010). Unrated exposure in the retail sector are that loans which are provided by subsidiaries (HUF 33.3 billion in 2011 and HUF 17.3 billion in 2010).

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s).

The Group establishes an allowance for impairment losses on assets carried at amortised cost or classified as available-for-sale that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in

respect of losses that have been incurred but have not been indentified on loans that are considered individually non-significant, as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Notes to the consolidated financial statements

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of the collateral available and the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In such cases the original terms of the contract were changed in order to help the borrower to overcome a financial difficulty.

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is HUF 6.7 billion in 2011 and HUF 2.7 billion in 2010.

Write-off policy

A loan (and the related impairment allowance account) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the collateral have been received.

Collateral

It is the Group's policy, when lending, to do so within the customer's capacity to repay, rather than to rely primarily on collateral. Depending on the customer's credit standing and the type of product, facilities may be unsecured. Nevertheless, collateral can be an important mitigant of credit risk.

As a general principle, when calculating collateral coverage the Group takes into account collateral which is defined in the Raiffeisen International Group Directive for Collateral Evaluation (Catalogue) that complies with all of the following requirements:

- valid legal title;
- sustainable intrinsic value;
- realizable and willingness to realize;
- little or no correlation between the credit standing of the borrower and the value of the collateral.

The major types of collateral accepted are as follows: mortgages, securities, pledge on machinery, cash, pledge on inventories, commodities, guarantees, and other comfort factors.

Collateral evaluation processes (performed by Credit Risk Management Department Collateral Office Group) are different in several major areas:

- For real estate mortgages, Collateral Office considers the current fair value and the marketability of the real estate.
- Concerning evaluation of pledge on inventories, regular data collection from clients and frequency of physical checks are also taken into consideration when determining the discounts applied.
- Collateral Office also introduced detailed market valuation of pledge on machinery (valuation is prepared by professional in-house leasing experts).
- Commodity collateral financed deals are monitored by experts regularly.

The fair value of collateral held at the reporting date was as follows:

2011 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector	Guarantees and undrawn credit facilities	Total Collateral
Cash deposit	**11,270**	**42,974**	**7,446**	**18,668**	**15,046**	**95,404**
Debt securities issued by	**4,914**	**21,639**	**1,517**	**0**	**1,529**	**29,599**
Central governments	4,914	1,351	459	0	1,074	**7,798**
Companies	0	911	710	0	306	**1,927**
Others	0	19,377	348	0	149	**19,874**
Shares	**0**	**237**	**58**	**0**	**413**	**708**
Mortgage on	**0**	**282,767**	**313,260**	**50**	**31,176**	**627,253**
Residential real estate	0	77,579	299,982	0	2,578	**380,139**
Commercial real estate	0	202,427	12,610	50	28,592	**243,679**
Other	0	2,761	668	0	6	**3,435**
Guarantees from	**0**	**20,078**	**5,174**	**0**	**12,088**	**37,340**
Central governments	0	12,303	5,154	0	3,095	**20,552**
Other banks	0	7,775	20	0	8,993	**16,788**
Other	**0**	**109,000**	**664**	**0**	**27,284**	**136,948**
Total collateral	**16,184**	**476,695**	**328,119**	**18,718**	**87,536**	**927,252**

2010 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector	Guarantees and undrawn credit facilities	Total Collateral
Cash deposit	**9,937**	**33,379**	**10,285**	**24,551**	**16,953**	**95,105**
Debt securities issued by	**7,203**	**40,231**	**1,578**	**0**	**1,305**	**50,317**
Central governments	7,203	1,162	351	0	821	**9,537**
Companies	0	574	517	0	384	**1,475**
Others	0	38,495	710	0	100	**39,305**
Shares	**0**	**21,052**	**43**	**0**	**80**	**21,175**
Mortgage on	**0**	**236,976**	**454,582**	**0**	**31,405**	**722,963**
Residential real estate	0	50,047	429,162	0	3,571	**482,780**
Commercial real estate	0	176,681	21,897	0	27,469	**226,047**
Other	0	10,248	3,523	0	365	**14,136**
Guarantees from	**0**	**14,081**	**2,448**	**0**	**6,484**	**23,013**
Central governments	0	8,268	2,446	0	4,513	**15,227**
Other banks	0	5,813	2	0	1,971	**7,786**
Other	**0**	**138,771**	**1,068**	**0**	**31,436**	**171,275**
Total collateral	**17,140**	**484,490**	**470,004**	**24,551**	**87,663**	**1,083,848**

The fair value of collateral for individually impaired and past due but not impaired assets held by the reporting date is the following:

(HUF million)	2011	2010
Individually impaired	279,547	145,347
Past due but not impaired	1,168	1,899
Total	**280,715**	**147,246**

Assets obtained by the Group by taking possession of collateral held as security, or calling upon other credit enhancements, were as follows:

(HUF million)	2011	2010
Real estate	192	60
Inventories	1,033	1,116
Total assets obtained	**1,225**	**1,176**

Concentrations by sector

The Group monitors concentrations of credit risk by sector. An analysis of credit risk concentration by sector at the reporting dates is shown below:

2011 (HUF million)	Placements with banks	Loans and advances to customers	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Real estate	0	260,274	0	118	3,741	9,229
Domestic trade	0	166,038	0	253	2,523	78,059
Other, mainly service industries	0	269,752	0	1,009	2,464	40,904
Finance	94,997	110,082	0	14,849	38,888	41,216
Central Bank	5,441	0	100,713	0	298	0
Public administration	0	1,829	288,977	4,339	0	32,665
Chemicals and pharmaceuticals	0	77,918	13,485	0	2,819	54,709
Food processing	0	53,906	0	1	829	10,707
Agriculture	0	53,898	0	1	430	5,706
Transportation, communication	0	48,522	0	2	2	29,062
Construction	0	60,092	0	141	873	114,600
Heavy industry	0	40,923	0	0	1,438	15,358
Light industry	0	17,596	0	0	522	12,081
Energy	0	14,236	0	1	4	12,215
Infrastructure	0	3,389	0	1	0	1,089
Private households	0	597,719	0	167	3,906	13,982
Total exposure	**100,438**	**1,776,174**	**403,175**	**20,882**	**58,737**	**471,582**

2010 (HUF million)	Placements with banks	Loans and advances to customers	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Real estate	0	243,324	0	115	3,010	8,857
Domestic trade	0	148,836	0	215	2,739	67,159
Other, mainly service industries	0	200,502	0	590	2,435	33,603
Finance	82,221	102,539	0	33,371	30,847	44,490
Central Bank	968	0	114,869	0	0	0
Public administration	0	56,737	336,946	0	377	20,108
Chemicals and pharmaceuticals	0	71,884	0	1	1,298	32,285
Food processing	0	67,136	0	1	193	8,279
Agriculture	0	41,149	0	0	223	7,661
Transportation, communication	0	53,277	0	6	235	33,979
Construction	0	78,984	0	193	429	122,289
Heavy industry	0	45,025	1,227	1	881	13,170
Light industry	0	21,124	0	0	197	11,746
Energy	0	11,902	0	1	46	16,655
Infrastructure	0	4,253	0	1	0	1,075
Private households	0	619,197	0	136	3,472	15,649
Total exposure	**83,189**	**1,765,869**	**453,042**	**34,631**	**46,382**	**437,005**

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Management of market risk

The objective of market risk management is to control market risk exposures within acceptable parameters, while optimizing the return.

Due to the world-wide economic downturn new market risk management methods were developed by the RBI. A new VaR (Value at Risk) limit system was implemented where separate VaR limits were assigned to the different risk types: interest rate risk of the trading book, interest rate risk of the banking book, equity price risk of the trading book, and Group's FX open position risk. Moreover, during the past two years the audit and control functions became stricter than before. New reports were implemented for market risk related risk types. New Stress Test Analysis assignments were created, that are regularly presented to the Management.

The management of market risk exposure is seperated between trading and non-trading portfolios.

Trading portfolios include positions arising from market-making, proprietary position-taking and other mark-to-market positions designated so. Trading activities include transactions with debt and equity securities, foreign currencies and financial derivative instruments.

Non-trading portfolios (banking book) include positions that arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. The Group's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments.

Notes to the consolidated financial statements

Exposure to interest rate risk – trading and banking book

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is measured by the sensitivity analysis of the bank-book net interest income and of the mark-to-market value of the trading book to the volatility of interest rates.
Interest rate exposure is the most significant risk factor in the banking and trading book portfolios. On Group level, strict Basis Point Value limits and Value-at-risk (VaR) limits are defined, which are monitored on daily basis.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Interest-bearing financial instruments	(HUF million)
Fixed rate instruments	As at 31 December 2011
Financial assets	316,975
Financial liabilities	689,692
Total fixed rate instruments	(372,717)

	As at 31 December 2011	
Variable rate instruments	Financial assets	Financial liabilities
HUF	549,142	810,615
CHF	657,605	86,520
EUR	599,332	350,472
USD	29,359	28,140
Other currencies	7,559	6,485
Total variable rate financial instruments	1,842,997	1,282,232

Interest-bearing financial instruments	(HUF million)
Fixed rate instruments	As at 31 December 2010
Financial assets	386,002
Financial liabilities	583,391
Total fixed rate instruments	(197,389)

	As at 31 December 2010	
Variable rate instruments	Financial assets	Financial liabilities
HUF	506,609	768,215
CHF	830,417	186,638
EUR	564,255	568,508
USD	19,492	52,311
Other currencies	6,456	5,185
Total variable rate financial instruments	1,927,229	1,580,857

In order to ensure interest rate risk exposures are maintained within the approved limits, the Group uses interest rate swaps and other derivative interest rate derivative contracts as primary risk management techniques.

The Group uses derivatives designated in a qualifying hedge relationship to hedge the fair value of certain fixed interest loans, fixed interest and structured issued bonds.. The Group also has contracts not designated in a qualifying hedge relationship to manage its exposure to interest rate risks. The profit and loss of risk management derivatives is shown in the "Net income from derivatives held for risk management".

Fair value hedges (HUF million)	2011	2010
Valuation gain/loss on hedged instruments	6,419	981
Valuation gain/loss on hedging interest rate swaps	(6,154)	(935)

Exposure to currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. When calculating exposures to currency risk, the Group takes into account the entire open position.

The Group's financial position in foreign currencies at the reporting dates was as follows:

2011 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash and cash equivalents	75,262	2,180	8,720	7,532	4,591	98,285
Placements with banks	7,731	17,341	74,518	164	23	99,777
Loans and advances to customers	485,985	517,914	496,116	22,871	3,352	1,526,238
Financial assets at fair value through profit or loss - except for derivatives	11,431	0	0	0	0	11,431
Available for sale securities	115,960	126,143	11,305	0	0	253,408
Held to maturity securities	132,030	0	11,156	0	0	143,186
Financial assets except for derivatives	828,399	663,578	601,815	30,567	7,966	2,132,325
Deposits from banks	98,028	82,477	122,271	14,483	811	318,070
Deposits from non-banks	1,123,522	8,698	260,238	34,820	7,260	1,434,538
Debt securities issued	108,254	0	18,068	0	0	126,322
Subordinated liabilities	183	0	59,297	0	0	59,480
Financial liabilities except for derivatives	1,329,987	91,175	459,874	49,303	8,071	1,938,410
Net open position on balance sheet	(501,588)	572,403	141,941	(18,736)	(105)	193,915
Net derivative and spot instruments (short) / long position	525,812	(581,469)	(184,719)	16,862	(1,206)	(224,720)
Total net currency positions	24,224	(9,066)	(42,778)	(1,874)	(1,311)	(30,805)

2010 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash and cash equivalents	39,252	161	14,852	1,657	3,227	59,149
Placements with banks	1,182	17,769	63,438	154	32	82,575
Loans and advances to customers	484,202	621,161	464,628	41,348	3,481	1,614,820
Financial assets at fair value through profit or loss - except for derivatives	19,015	0	0	0	0	19,015
Available for sale securities	141,504	142,269	13,180	0	0	296,953
Held to maturity securities	142,762	0	1,227	0	0	143,989
Financial assets except for derivatives	827,917	781,360	557,325	43,159	6,740	2,216,501
Deposits from banks	120,342	128,858	278,882	2,239	85	530,406
Deposits from non-banks	1,000,789	7,028	252,968	57,151	5,761	1,323,697
Debt securities issued	122,680	0	23,627	0	0	146,307
Subordinated liabilities	524	0	53,093	0	0	53,617
Financial liabilities except for derivatives	1,244,335	135,886	608,570	59,390	5,846	2,054,027
Net open position on balance sheet	(416,418)	645,474	(51,245)	(16,231)	894	162,474
Net derivative and spot instruments (short) / long position	563,265	(640,939)	22,638	16,894	(2,187)	(40,329)
Total net currency positions	146,847	4,535	(28,607)	663	(1,293)	122,145

The Group defines strict limits for the open positions and uses VaR indicators as well. These limits are monitored on a daily basis.

Exposure to other price risk – trading book

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk only constitutes of open exchange traded equity exposures. The Group defines strict limits for open equity exposures and uses price risk VaR as well. These limits are monitored on a daily basis.

Tools for managing market risk – trading book and banking book

Value at Risk

The principal tool used to measure and control market risk exposure within the Group's trading and banking portfolio is Value at Risk (VaR). A VaR indicator shows the maximum loss of a financial instrument under a given period and confidence level, within normal course of business. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR is a risk indicator which must be assigned to the distribution of possible losses of the financial instrument. The Group applies mostly the parametrical VaR calculation (and in some cases the historical and Monte-Carlo VaR).

A basic assumption of the parametrical VaR method is that market factors follow multidimensional normal distribution. Considering the trading book products they can be divided into three basic factors – foreign currency, interest rate and price – and risks are sorted according to this categorization.

VaR is not the sum of every single component (foreign currency risk, interest rate risk and price risk) as there is a correlation between the components (diversification effect).

Diversification effect results in reduction of the overall risk of a portfolio when its individual component risks do not move together. Foreign currency risk, price risk and interest rate risk do not correlate with each other perfectly, thus diversification effect exists. The VaR figure is calculated daily on fundamentals separately and on their entire group as well.

A summary of the VaR position of the Group's trading portfolios and banking book at 31 December and during the period is as follows:

Market risk: VaR position as at 31 December 2011 in million HUF

Trading Book	VaR at year end	Average VaR	Minimum VaR	Maximum VaR
Foreign Currency Risk	276	124	11	537
Interest Rate Risk	317	320	81	503
Price Risk	6	11	0	27
Total Risk	342	295	94	718
Diversification Effect	257	160	0	0
Banking Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	0	0	0	0
Interest Rate Risk	951	654	360	1,262
Total Risk	951	654	360	1,262
Diversification Effect	0	0	0	0

Market risk: VaR position as at 31 December 2010 in million HUF

Trading Book	VaR at year end	Average VaR	Minimum VaR	Maximum VaR
Foreign Currency Risk	34	75	5	265
Interest Rate Risk	346	278	75	1,410
Price Risk	0	12	0	34
Total Risk	303	293	78	1,411
Diversification Effect	(78)	(71)	0	0
Banking Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	0	0	0	0
Interest Rate Risk	677	558	270	1,458
Total Risk	677	558	270	1,458
Diversification Effect	0	0	0	0

Gap report

Alongside Value-at-Risk measurement, interest rate risk is also estimated using classical means of capital and interest maturity analysis. In the gap report, the assets and liabilities are shown in different repricing categories according to the repricing dates.

Repricing of assets and liabilities occurs when:
- they are due,
- part of the principal is repaid according to the contract,
- the interest is repriced according to the contract based on a reference rate,
- the assets or liabilities are repaid by the customer before maturity.

The interest-bearing off-balance sheet items are managed as nominal deposits and loans. The difference between the assets and liabilities in the same pricing category is called 'gap'. The gap in a particular category is positive when assets exceed liabilities, and negative when the total value of the assets does not reach that of the liabilities. For these kind of gaps the Bank has defined limits.

The following table shows the gap report of the trading book and the banking book as at 31 December 2011 and 2010, respectively:

2011				
Trading book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	(127,771)	12,245	57,407	4,138
3 months to 1 year	(18,870)	(4,641)	30,565	4,205
1 year to 5 years	12,981	0	1,085	(15)
over 5 years	1,342	0	0	0
Banking book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	106,266	20,297	(80,594)	(52,239)
3 months to 1 year	91,606	(7,615)	(64,779)	22,452
1 year to 5 years	67,176	(13)	(3,404)	(101)
over 5 years	11,759	0	114	(140)

2010				
Trading book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	(101,812)	30,285	88,554	4,177
3 months to 1 year	(57,906)	149	(5,062)	170
1 year to 5 years	47,933	263	(1,195)	(18)
over 5 years	(3,981)	0	(1,394)	0
Banking book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	294,378	(17,406)	(83,566)	(5,208)
3 months to 1 year	(22,795)	(896)	29,725	37,342
1 year to 5 years	34,893	0	3,149	23
over 5 years	16,892	0	188	0

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities.

Management of liquidity risk

The objective of liquidity management is to provide the necessary liquidity for the Group to meet its liabilities when due at all times, under both normal and stressed conditions.

Liquidity risk management is key priority in RBI Group as well as in Raiffeisen Bank Hungary, thereby the Group has a comprehensive set of group-standards and local internal rules, regulations and practices besides the legal regulations regarding liquidity requirements. Liquidity management procedures, tasks, responsibilities, reports, instructions for the limit systems are all governed in Management directives.

Liquidity situation is one of the main issue for Asset Liability Commitee (ALCO). ALCO is responsible for balance sheet management, liquidity risk management and setting local limit system according to (or sometimes stricter than) the limits determined by RBI Treasury. The ALCO meets monthly and has extraordinary meetings if necessary.

Besides internal liquidity risk reporting, the RBI prepares liquidity report based on data provided by the Bank on a weekly basis for consolidation purposes in order to monitor group wide liquidity risk.

The Group's liquidity policy which includes the liquidity contingency plan as well is reviewed annually.

In order to strenghten its liquidity position the Group introduced the following measures:

- stopped lending in CHF and foreign currencies other than EUR,
- reduced its short term FX swap positions,
- increased long term cross currency swap positions concluded with RBI,
- reduced its loan to deposit ratio.

The following table shows the undiscounted cash flows on the Group's non-derivative financial liabilities and the issued financial guarantee contracts on the basis of their earliest possible maturity. The table also shows a maturity analysis for derivative financial liabilities including the remaining contractual maturities for those derivatives for which contractual maturities are essential for an understanding of the timing of the cash flows. The gross nominal inflow / (outflow) disclosed in the following table is the remaining contractual, undiscounted cash flow on the non-derivative financial liability and the issued financial guarantees. The disclosure for derivatives shows a gross inflow and outflow amount for derivatives.

Liquidity risk	2011 (HUF million)					
	Carrying amount	Gross nominal inflow/ (outflow)	3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities						
Deposits from banks	318,070	**336,788**	65,829	56,665	143,122	71,172
Deposits from non-banks	1,434,538	**1,459,300**	1,102,224	281,428	63,026	12,622
Debt securities issued	126,322	**155,528**	29,532	14,940	105,482	5,574
Subordinated liabilities	59,480	**73,676**	249	683	5,227	67,517
Financial liabilities at fair value through profit or loss - except for derivatives	0	**0**	0	0	0	0
Other liabilities	56,768	**56,768**	56,768	0	0	0
Liabilities held for sale	156	**156**	156	0	0	0
Total liabilities	**1,995,334**	**2,082,216**	**1,254,758**	**353,716**	**316,857**	**156,885**
Derivative instruments						
Interest rate swaps used for hedging	0	**25,770**	3,687	2,013	19,637	433
Forward exchange contracts:	**0**	**(2,251)**	**(486)**	**30,389**	**(29,498)**	**(2,656)**
- Outflow	0	**2,005,322**	729,063	591,660	659,734	24,865
- Inflow	0	**2,007,573**	729,549	561,271	689,232	27,521
Contingent liabilities	**1,055**	**1,055**	**1,055**	**0**	**0**	**0**
Other commitments and contingencies	1,055	**1,055**	1,055	0	0	0
Commitments	**320,810**	**320,810**	**44,658**	**74,660**	**147,584**	**53,908**
Unutilised loan facilities	139,699	**139,699**	11,316	44,262	53,508	30,613
Unutilised overdraft facilities	105,250	**105,250**	27,098	25,808	41,901	10,443
Unutilised guarentee frames	75,861	**75,861**	6,244	4,590	52,175	12,852

Liquidity risk	2010 (HUF million)					
	Carrying amount	Gross nominal inflow/ (outflow)	3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities						
Deposits from banks	530,406	**550,610**	131,283	163,286	206,031	50,010
Deposits from non-banks	1,323,697	**1,344,780**	1,060,329	224,544	48,675	11,232
Debt securities issued	146,307	**155,149**	9,485	66,196	79,468	0
Subordinated liabilities	53,617	**66,255**	287	1,208	3,763	60,997
Financial liabilities at fair value through profit or loss - except for derivatives	0	**0**	0	0	0	0
Other liabilities	66,257	**66,257**	66,257	0	0	0
Liabilities held for sale	0	**0**	0	0	0	0
Total liabilities	**2,120,284**	**2,183,051**	**1,267,641**	**455,234**	**337,937**	**122,239**
Derivative instruments						
Interest rate swaps used for hedging	0	**22,677**	895	4,943	17,153	(314)
Forward exchange contracts:	**0**	**(4,467)**	**(111)**	**(14,892)**	**10,536**	**0**
- Outflow	0	**1,817,998**	781,203	329,917	706,878	0
- Inflow	0	**1,822,465**	781,314	344,809	696,342	0
Contingent liabilities	**1,310**	**1,310**	**1,310**	**0**	**0**	**0**
Other commitments and contingencies	1,310	**1,310**	1,310	0	0	0
Commitments	**261,915**	**261,915**	**38,015**	**108,222**	**79,737**	**35,941**
Unutilised loan facilities	98,784	**98,784**	16,981	40,027	32,401	9,375
Unutilised overdraft facilities	93,117	**93,117**	17,349	59,926	4,880	10,962
Unutilised guarentee frames	70,014	**70,014**	3,685	8,269	42,456	15,604

Economic capital is allocated monthly to the illiquid positions in the trading book. The development of this economic capital is shown in the below table:

Economic capital allocated for illiquid positions in 2011	
Date	Million HUF
2011.01.31	72
2011.02.28	134
2011.03.31	113
2011.04.29	127
2011.05.31	156
2011.06.30	155
2011.07.29	376
2011.08.31	59
2011.09.30	452
2011.10.28	68
2011.11.30	73
2011.12.31	50

Economic capital allocated for illiquid positions in 2010	
Date	Million HUF
2010.01.31	205
2010.02.28	95
2010.03.31	109
2010.04.30	125
2010.05.31	86
2010.06.30	34
2010.07.31	58
2010.08.31	146
2010.09.30	93
2010.10.31	41
2010.11.30	74
2010.12.31	67

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology, and infrastructure, and from external factors other than pure credit, market and liquidity risks. Operational risk also includes risks arising from non-compliance with legal and regulatory requirements and generally accepted standards of corporate behaviour. These risk types are inherent in each of the Group's business and internal supporting activities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has an Operational Risk Management network consisting of a separate centralized Operational Risk Controlling Group and approximately 80 Departmental Operational Risk Managers located in business units, support departments, regions and at subsidiaries.

Operational Risk Controlling applies different tools for the identification of risks across all departments. It uses the following Operational Risk tools: Key Risk Indicators; Scenarios; Control and Risk Self Assessment; loss data collection and external data pooling.

The Group also uses a database of external public loss events and is an active member of the Hungarian Operational Risk Database (HunOR), which is a consortium of Hungarian banks who share their loss data to use it for risk identification, assessment and benchmark analysis.

The processes above are used to help identify risks (pro-active risk management) and are needed to reduce the incidence of future loss events. The loss events are uploaded by the departmental operational risk managers into a loss database, and based on this and other data such as key risk indicators and risk mitigation plans, quarterly reports are created by Operational Risk Controlling to members of the Middle Management and the Board of Directors. Furthermore, annual reports are created for board members on the Group's risk profile.

The main focus of Operational Risk Controlling is to decrease the risk associated with improper practices; human processing errors; infrastructure and systems; data management; external and internal fraud and theft. To this end, Operational Risk Controlling Group frequently initiates risk mitigation measures.

Operational Risk Controlling gets strong management support, i.e. operational risk issues and possible mitigation measures are discussed quarterly at the Operational Risk Committee where the Chief Risk Officer, the Chief Operations Officer and the Members of the Operational Risk Committee (mainly head of departments) decide on the priority of risk mitigation plans.

f) Capital management

The Group's local regulator (Hungarian Financial Supervisory Authority hereinafter referred to as HFSA) sets and monitors capital requirements for the Group.

With effect from 1 January 2008 the Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital.

The Bank as a member of Raiffeisen Bank International Group has been granted a joint approval in December 2008 by the Austrian Financial Market Authority (home regulator) and the eight member countries' host authorities to adopt the use of Internal Rating Based approach to credit risk management, except in respect of some credit portfolios which remain under standard approach according to the accepted implementation plan.

Principal changes arising from the change to the Basel II advanced approach framework were as follows:

- reduction of the negative difference of loan loss provision and expected loss from the core and supplementary components of own funds;
- addition of the positive difference of loan loss provision and expected loss up to 0.6 % of risk-weighted exposure amount to subsidiary capital;
- own fund should cover the capital requirement of credit, market and operational risk.

The Bank's regulatory capital is analyzed into three tiers:

- **tier 1** (core) capital, which includes subscribed capital, capital reserve, tied-up reserve, retained earnings, general risk provision, core loan capital after deductions for intangible assets, valuation adjustments calculated according to specific other legislation for less liquid positions booked in the trading book and the book value of repurchased own shares;
- **tier 2** (subsidiary) capital, which includes valuation reserve, qualifying subordinated liabilities, surplus of loan loss provision over expected loss for those credit portfolios where IRB method is used under Basel II);
- **tier 3** (supplementary) capital, which can be used only to cover market risk, and includes junior subordinated capital and the part of subsidiary capital that cannot be used due to the restriction between core and subsidiary capital.

The following limits are applied to elements of the capital base:

- the amount of core loan capital cannot exceed 15 percent of total of all core capital components (if core loan capital has contractual maturity);
- the amount of subsidiary capital may not exceed the amount of core capital;
- the ratio of subordinated loan capital with a fixed maturity that may be taken into account as subsidiary capital, may not exceed 50 percent of the core capital.

There are also restrictions on the amount of surplus of loan loss provision over expected loss that may be included as part of tier 2 capital. Other deductions from capital include the book value of qualifying interests in other financial institutions, and exceeding amount of limitation of large exposures and investment restrictions.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As noted above, Basel II capital requirement also introduced a new requirement in respect of operational risk which is discussed in Note 4 (e) above.

Besides the above capital requirements, the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group has complied with all externally imposed capital requirements throughout the period.

The Capital Management on group level defined according to the Banking Act, and the consolidation group is approved by HFSA taking into consideration the dominant influence or participating interest of the bank and the subsidiary business type (financial firm or ancillary services company). Consequently the IFRS and the supervisory consolidation group differ. The following table shows the group of subsidiaries belonging to supervisory consolidation group.

Company
Raiffeisen Befektetési Alapkezelő Zrt.
Raiffeisen Eszköz Lízing Zrt.
Raiffeisen Gazdasági Szolgáltató Zrt.
Raiffeisen Lízing Zrt.
Raiffeisen Property Lízing Zrt.
RB Kereskedőház Kft.
SCT Kárász utca Kft.
SCT Tündérkert Kft.
T+T 2003 Kft.

Capital requirement calculation

The Group applies regulatory capital (Basel II Pillar 1) as well as economic capital (Basel II Pillar 2, ICAAP) for calculating capital adequacy, as defined in Basel II Framework. The Group calculates the capital requirement for credit risk via the Foundation Internal Ratings Based (F-IRB) approach for its non-retail portfolio since 1 December 2008. Starting from July 2010, capital requirement of exposures to private individuals are measured by advanced IRB method.

Capital allocation

The allocation of capital between specific operations and activities is driven by, firstly, ensuring enough capital to cover possible risks in order to guarantee continuous safe operation (going concern principle) as well as to cover occasionally high losses in extreme market circumstances, secondly, to optimize return achieved on the capital allocated.

Both regulatory and economic capital requirements are calculated by the Group. Economic capital requirement is used for capital optimization purposes.

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Credit Risk Control Unit, and is subject to review by the Senior Management. An additional tool of optimization is applying Risk and Equity Cost Based Pricing.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

(5) Interest income

(HUF million)	*2011*	*2010*
Cash and cash equivalents	***3,664***	***2,583***
Placements with banks	***940***	***703***
Loans and advances to customers	***116,742***	***124,692***
Securities at fair value through profit or loss	***3,559***	***1,042***
Government bonds	*993*	*677*
Treasury bills issued by the Government	*195*	*237*
Treasury bills issued by the Central Bank	*2,151*	*125*
Investment certificate	*220*	*0*
Other	*0*	*3*
Available for sale securities	***11,763***	***9,741***
Government bonds	*489*	*1,031*
Treasury bills issued by the Government	*2*	*408*
Treasury bills issued by the Central Bank	*8,372*	*5,436*
Other securities issued by the public sector	*2,900*	*2,866*
Held to maturity securities	***9,097***	***10,814***
Government bonds	*8,614*	*10,761*
Corporate bonds	*483*	*53*
From leases	***2,403***	***3,015***
Interest income	***148,168***	***152,590***

Total interest income calculated using the effective interest method reported above that relate to financial assets not carried at fair value through profit or loss is HUF 144,609 million (2010: HUF 151,548 million).

(6) Interest expense

(HUF million)	*2011*	*2010*
Deposits from banks	*18,716*	*17,678*
Deposits from non-banks	*59,671*	*53,864*
Debt securities issued	*9,531*	*9,080*
Subordinated liabilities	*1,770*	*1,488*
Interest expense	***89,688***	***82,110***

Total interest expense calculated using the effective interest method reported above that relate to financial liabilities not carried at fair value through profit or loss is HUF 89,688 million (2010: HUF 82,110 million).

(7) Net fee and commission income

Fee and commission income

(HUF million)	2011	2010
Account management, turnover and cash handling fees	14,766	14,953
Guarantees and documentary credits	2,634	2,400
Fees from leases	508	471
Fees from investment services	4,965	4,964
Bankcard fees	3,300	3,600
Other commission and fee income	3,059	3,314
Total fee and commission income	**29,232**	**29,702**

Fee and commission expense

(HUF million)	2011	2010
Payments transfer business	2,978	3,021
Loan administration and guarantee business	1,141	1,112
Securities business	624	938
Agency fees	907	1,033
Bankcard fees	1,376	1,233
Other banking services	1,157	1,486
Total fee and commission expense	**8,183**	**8,823**
Net income from commissions and fees	**21,049**	**20,879**

(8) Net trading income

(HUF million)	2011	2010
Realised net gains / (losses) from securities at fair value through profit or loss	1,186	1,158
Unrealised net gains / (losses) from securities at fair value through profit or loss	(199)	586
Realised net gains / (losses) on FX positions and derivative instruments	30,250	15,954
Unrealised net gains / (losses) on FX positions and derivative instruments	(25,808)	(6,384)
Net trading income	**5,429**	**11,314**

(9) Other operating income and other operating expenses

(HUF million)	2011	2010
Other operating income		
Realised net gains / (losses) from available-for-sale securities	226	547
Unrealised net gains / (losses) from available-for-sale securities	(25)	(148)
Net gains / (losses) from held-to-maturity securities	753	2,007
Operational fees	350	0
Gains / (losses) on sale on receivables	337	(3)
Gains / (losses) on disposal of inventory	(877)	584
Gains / (losses) on disposal of investments	476	249
Gains / (losses) on disposal of intangibles, property, plant and equipment	188	(54)
Energy trading margin	2,076	2,059
Revenues related to damages	18	10
Other	832	3,007
Other operating income	**4,354**	**8,258**

(HUF million)	2011	2010
Other operating expenses		
Other taxes	7,130	16,408
Telecommunication and information systems expenses	1,720	1,519
Business travel cost	620	563
Professional fees	5,287	5,184
Cash processing and delivery	538	755
Manpower services	1,021	1,368
External bankcard services	111	451
Advisory fees	2,625	1,562
Other	992	1,048
Office supplies	343	360
Depreciation	11,124	7,713
Impairment and write-offs	37,428	1,119
Fees to public authorities	1,477	860
Other	4,723	5,991
Other operating expenses	**69,852**	**39,717**

Other taxes contains the amount of HUF 2,751 million Special Tax on Financial Institutions in 2011 (2010: HUF 11,476 million). Impairment and write-offs in 2011 mainly contain the total loss from early repayment option (HUF 31,284 million).

(10) Impairment and provision for losses

(HUF million)	2011	2010
Impairment loss on	**100,193**	**54,372**
Placements with banks	(29)	(264)
Loans and advances to customers	97,535	54,279
Investments in associates	2,672	0
Other assets	15	357
Provision on	**5,669**	**3,246**
Guarantees and contingencies	5,669	3,246
Impairment and provision for losses	**105,862**	**57,618**

Notes to the consolidated financial statements

(11) Personnel expenses

(HUF million)	2011	2010
Salaries	19,522	22,357
Social security contributions	6,186	7,033
Other personnel benefits	2,614	2,205
	28,322	31,595

(HUF million)	2011		2010	
	Staff (person)	Salary expense	Staff (person)	Salary expense
Full time	3,059	19,302	3,367	22,078
Part time	36	193	58	247
Pensioners	4	23	6	22
Other	2	4	15	10
	3,101	19,522	3,446	22,357

(12) Income tax

Income tax expense recognised in the consolidated income statement

(HUF million)	2011	2010
Current tax expense	**185**	**146**
Deferred tax expense/(income)	**(3,098)**	**(1,637)**
Origination and reversal of temporary differences	(3,123)	(1,627)
Effect of changes in tax rates	0	(10)
Adjustments in respect of prior years	25	0
Income tax	**(2,913)**	**(1,491)**

Reconciliation of effective tax rate

	2011		2010	
	(%)		(%)	
Profit before tax		(91,795)		(7,092)
Applicable tax rate	10.00%	(9,180)	10.00%	(709)
Tax effects of items that modify the profit before tax under the Hungarian tax law:	(11.56%)	10,607	(20.39%)	1,446
Temporary tax effects of IFRS adjustments	3.37%	(3,098)	23.08%	(1,637)
- Provisions, impairment losses for loans and pending interest and commission	1.00%	(914)	(10.41%)	738
- Impairment losses on investments in associates	0.11%	(99)	0.00%	0
- Other provisions	2.70%	(2,480)	(0.85%)	60
- Tangible and intagible assets	0.00%	3	(0.39%)	28
- Fair value of available-for-sale financial assets	(0.27%)	249	(0.01%)	1
- Effect of changes in tax rates	0.00%	0	0.14%	(10)
- Recognition of previously unrecognised tax losses	0.00%	0	35.41%	(2,511)
- Other	(0.16%)	143	(0.80%)	57
Tax effects of consolidation	1.35%	(1,242)	8.33%	(591)
Income tax	**3.17%**	**(2,913)**	**21.03%**	**(1,491)**

Income tax recognised in other comprehensive income

In 2011, the Group accounted HUF 2,548 million deferred tax asset (2010: HUF 642 million deferred tax asset) directly against equity.

(13) Net gains/losses on financial instruments

(HUF million)	2011	2010
Loans and receivables	26,228	76,621
Financial assets and liabilities measured at fair value through profit or loss	46,018	37,363
- Trading securities	4,546	2,786
- Trading derivative instruments	4,442	9,570
- Derivatives held for risk management	37,030	25,007
Held-to-maturity investments	9,850	12,821
Available-for-sale financial assets	(1,231)	6,549
Financial liabilities measured at amortised cost	(89,688)	(82,110)
Net gains/losses on financial instruments	**(8,823)**	**51,244**

(14) Cash and cash equivalents

2011 (HUF million)	HUF	FCY	Total
Cash and cheques	14,086	4,816	**18,902**
Balances with National Bank of Hungary (NBH)	57,167	0	**57,167**
Balances with other banks	4,009	18,207	**22,216**
Cash and cash equivalents	**75,262**	**23,023**	**98,285**

2010 (HUF million)	HUF	FCY	Total
Cash and cheques	10,856	4,670	**15,526**
Balances with National Bank of Hungary (NBH)	22,774	0	**22,774**
Balances with other banks	5,621	15,228	**20,849**
Cash and cash equivalents	**39,251**	**19,898**	**59,149**

The current account with the National Bank of Hungary (NBH) includes the compulsory reserve. The Group is required to maintain reserves with the National Bank of Hungary equivalent to 3% (2010: 3%) of certain deposits. The required average reserve balance amounted to HUF 32,077 million (2010: HUF 30,813 million). The compulsory reserve requirement may also be met by the Group's holding of government securities (see Note 17 and 18).

(15) Placements with banks

2011 (HUF million)	Up to 1 year		Over 1 year		Total
	HUF	FCY	HUF	FCY	
National Bank of Hungary	5,441	0	0	0	5,441
Other Banks	2,290	77,287	0	15,420	94,997
Impairment losses	0	661	0	0	661
Placements with banks	**7,731**	**76,626**	**0**	**15,420**	**99,777**

2010 (HUF million)	Up to 1 year		Over 1 year		Total
	HUF	FCY	HUF	FCY	
National Bank of Hungary	968	0	0	0	968
Other Banks	215	62,612	0	19,394	82,221
Impairment losses	0	614	0	0	614
Placements with banks	**1,183**	**61,998**	**0**	**19,394**	**82,575**

Specific allowances for impairment (HUF Million)

Balance at 1 January 2011	**614**
Impairment loss for the year:	
Charge for the year	0
Recoveries	(29)
Effect of foreign currency movements	76
Unwinding of discount	0
Write-offs	0
Balance at 31 December 2011	**661**

Balance at 1 January 2010	**878**
Impairment loss for the year:	
Charge for the year	0
Recoveries	(354)
Effect of foreign currency movements	90
Unwinding of discount	0
Write-offs	0
Balance at 31 December 2010	**614**

(16) Loans and advances to customers

Loans and advances to customers at amortised cost

2011 (HUF million)	Gross amount	Of which: Non-performing loans	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate					
Trading and industrial	408,749	111,941	64,282	2,329	342,138
Commercial real estate	249,473	48,527	28,817	1,569	219,087
Other	342,272	81,395	42,549	1,446	298,277
Total corporate	**1,000,494**	**241,863**	**135,648**	**5,344**	**859,502**
Retail	696,215	155,411	94,499	12,701	589,015
Government and public sector	79,465	3,584	1,744	0	77,721
Loans and advances to customers	**1,776,174**	**400,858**	**231,981**	**18,045**	**1,526,238**

2010 (HUF million)	Gross amount	Of which: Non-performing loans	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate					
Trading and industrial	418,482	89,874	46,070	2,490	369,922
Commercial real estate	228,333	29,503	13,226	1,173	213,934
Other	340,534	61,854	15,696	1,058	323,780
Total corporate	**987,349**	**181,231**	**74,992**	**4,721**	**907,636**
Retail	717,858	142,715	50,890	20,264	646,704
Government and public sector	60,662	3,311	182	0	60,480
Loans and advances to customers	**1,765,869**	**327,257**	**126,064**	**24,985**	**1,614,820**

Allowances for impairment

The following table shows a reconciliation of movements on the allowance account in 2010 and 2011, respectively:

Specific allowances for impairment on loans and advances to customers	2011	2010
Balance at 1 January	**126,056**	**71,640**
Impairment loss for the year:		
Charge for the year	115,470	75,924
Recoveries	(9,914)	(11,617)
Effect of foreign currency movements	7,475	2,948
Write-offs	(3,168)	(13,744)
Change in consolidation group	(4,028)	905
Balance at 31 December	**231,891**	**126,056**

Notes to the consolidated financial statements

Collective allowances for impairment on loans and advances to customers	2011	2010
Balance at 1 January	**24,993**	**42,207**
Impairment loss for the year:		
Charge for the year	9,765	13,587
Recoveries	(17,786)	(33,712)
Effect of foreign currency movements	1,124	2,384
Write-offs	(51)	0
Change in consolidation group	0	527
Balance at 31 December	**18,045**	**24,993**

In 2011, accumulated impairment losses amounted to HUF 249,936 million (2010: HUF 151,049 million), equal to 14.07 % (2010: 8.55 %) of gross amount of outstanding loans.

Finance lease receivables

As part of its financing activities, the Group enters into finance lease transactions as a lessor. At December 31, 2010 and 2011, the reconciliation of the Group's gross investment in the lease, and the net present value of minimum lease payments receivable by relevant remaining maturity periods is as follows:

2011 (HUF million)	Up to 1 year	1 year to 5 years	Over 5 years	Total
Gross investment leases	11,569	20,254	12,231	**44,054**
Unearned finance income	1,647	3,161	2,432	**7,240**
Net present value of minimum lease payments	**9,922**	**17,093**	**9,799**	**36,814**
Accumulated allowance for uncollectible minimum lease payments	3,928	4,680	504	**9,112**
Finance leases per balance sheet	**5,994**	**12,413**	**9,295**	**27,702**

2010 (HUF million)	Up to 1 year	1 year to 5 years	Over 5 years	Total
Gross investment leases	12,688	21,265	9,256	**43,209**
Unearned finance income	1,473	1,644	94	**3,211**
Net present value of minimum lease payments	**11,215**	**19,621**	**9,162**	**39,998**
Accumulated allowance for uncollectible minimum lease payments	3,481	4,998	474	**8,953**
Finance leases per balance sheet	**7,734**	**14,623**	**8,688**	**31,045**

In 2011, nil contingent rent was recognized in finance income (2010: nil), and unguaranteed residual value amounted to HUF 2,435 million (2010: HUF 2,459 million). At 31 December 2011, the accumulated allowance for uncollectible minimum lease payments amounted HUF 8,868 million (2010: HUF 8,953 million). Contracts original maturity ranges from 1 year to 35 years. The contracts earn interest on variable rates linked to the relating BUBOR, CHFLIBOR, EURIBOR. No guaranteed residual value exists.

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

(HUF million)	2011					2010				
	Cost	Accrued interest	Unrealised gain/loss	Impairment	Book value	Cost	Accrued interest	Unrealised gain/loss	Impairment	Book value
Debt and equity instruments:										
Government bonds	7,991	324	(202)	0	8,113	16,303	698	(81)	0	16,920
Treasury bills	1,707	1	0	0	1,708	131	0	0	0	131
Corporate bonds and other bonds	47	2	2	0	51	0	0	0	0	0
Bank bonds	0	0	0	0	0	0	0	0	0	0
Investment fund units	358	0	88	0	446	473	0	98	0	571
Shares	1,211	0	(98)	0	1,113	1,413	0	(20)	0	1,393
Debt and equity instruments	**11,314**	**327**	**(210)**	**0**	**11,431**	**18,320**	**698**	**(3)**	**0**	**19,015**
Derivative financial instruments:										
Derivatives held for trading										
FX swaps	0	0	0	0	0	0	0	6,678	0	6,678
FX forwards	0	0	12,056	0	12,056	0	0	2,192	0	2,192
Security forwards	0	0	60	0	60	0	0	329	0	329
FX futures	0	0	0	0	0	0	0	0	0	0
FX options	0	0	4,086	0	4,086	0	0	1,502	0	1,502
Interest rate derivatives	0	7,980	24,455	0	32,435	0	7,181	23,460	0	30,641
Derivatives held for trading	**0**	**7,980**	**40,657**	**0**	**48,637**	**0**	**7,181**	**34,161**	**0**	**41,342**
Derivatives held for risk management:										
FX swaps	(680)	807	9,116	0	9,243	726	433	1,841	0	3,000
FX forwards	0	0	0	0	0	0	0	0	0	0
Security forwards	0	0	0	0	0	0	0	0	0	0
FX futures	0	0	0	0	0	0	0	0	0	0
FX options	0	0	0	0	0	0	0	0	0	0
Interest rate derivatives	0	198	659	0	857	0	1,834	206	0	2,040
Derivatives held for risk management	**(680)**	**1,005**	**9,775**	**0**	**10,100**	**726**	**2,267**	**2,047**	**0**	**5,040**
Total derivative financial instruments	**(680)**	**8,985**	**50,432**	**0**	**58,737**	**726**	**9,448**	**36,208**	**0**	**46,382**
Total financial asset at fair value through profit or loss	**10,634**	**9,312**	**50,222**	**0**	**70,168**	**19,046**	**10,146**	**36,205**	**0**	**65,397**

Derivatives held for risk management

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and equity market risks. The instruments used include interest rate swaps, cross-currency interest rate swaps, forward contracts, and options. The fair values of those derivatives are shown in the table above.

(18) Investment in securities

At 31 December 2011, HUF 222,782 million (2010: HUF 249,168 million) from the total amount of Investment in securities were pledged as collateral for liabilities.

During 2011, in connection with available-for-sale investment securities an amount of HUF (3,449) million (2010: HUF (3,591) million) was recognised in other comprehensive income, and an amount of HUF 6,472 million (2010: HUF 0 million) was reclassified from other comprehensive income to profit or loss.

(HUF million)	2011					2010				
Available-for-sale securities	Cost	Accrued interest	Unrealised gain/loss	Impairment	Book value	Cost	Accrued interest	Unrealised gain/loss	Impairment	Book value
Corporate bonds and other	166,067	746	(19,726)	0	147,087	167,769	529	(6,836)	0	161,462
Investment fund units	3,275	0	204	(37)	3,442	4,693	0	418	0	5,111
Government bonds	3,094	6	1	(132)	2,969	15,138	347	40	(160)	15,365
Treasury bills	99,869	58	2	(19)	99,910	114,933	27	55	0	115,015
	272,305	810	(19,519)	(188)	253,408	302,533	903	(6,323)	(160)	296,953

Held-to-maturity securities	Cost	Accrued interest	Discount/Premium	Impairment	Book value	Cost	Accrued interest	Discount/Premium	Impairment	Book value
Corporate bonds and other	10,574	470	112	0	11,156	1,167	13	47	0	1,227
Government bonds	125,831	5,135	1,064	0	132,030	133,668	6,167	2,927	0	142,762
	136,405	5,605	1,176	0	143,186	134,835	6,180	2,974	0	143,989

(19) Investment in associates

General and financial data of the associates for the years ended 31 December 2011 and 2010 is as follows:

2011 (HUF million)	Ownership (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit / (loss)
NOC Kft.	40.67%	628	4,200	4,828	4,924	(96)	4,828	509	1,205	(696)
		628	4,200	4,828	4,924	(96)	4,828	509	1,205	(696)

2010 (HUF million)	Ownership (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit / (loss)
New Outlet Center Kft.	40.67%	613	4,378	4,991	4,407	584	4,991	654	909	(255)
Upper Land Kft.	40.67%	1	17	18	11	7	18	0	4	(4)
Middle Outlet Kft.	40.67%	1	0	1	11	(10)	1	0	4	(4)
		615	4,395	5,010	4,429	581	5,010	654	917	(263)

The operations of entities treated as equity investments are stable and support the carrying values of the Group's equity investment. Therefore, the Group did not account any impairment loss relating to these firms in the consolidated financial statements.

(20) Property, plant and equipment

Owner occupied property

2011 (HUF million)	Gross carrying amount as at 1 January 2011	Additions	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Gross carrying amount as at 31 December 2011
Properties	19,553	270	1,508	6,008	0	24,323
Freehold	1,680	18	563	6,008	0	7,143
Leasehold	17,873	252	945	0	0	17,180
Equipment	20,180	817	1,981	(178)	0	18,838
	39,733	1,087	3,489	5,830	0	43,161

2011 (HUF million)	Accumulated depreciaton as at 1 January 2011	Depreciation for the year	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Accumulated depreciation	Carrying amount as at 1 January 2011	Carrying amount as at 31 December 2011
Properties	5,818	2,111	1,014	619	0	7,534	13,735	16,789
Freehold	210	313	14	619	0	1,128	1,470	6,015
Leasehold	5,608	1,798	1,000	0	0	6,406	12,265	10,774
Equipment	14,360	1,824	1,625	47	0	14,606	5,820	4,232
	20,178	3,935	2,639	666	0	22,140	19,555	21,021

2010 (HUF million)	Gross carrying amount as at 1 January 2010	Additions	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Gross carrying amount as at 31 December 2010
Properties	30,180	450	142	(10,935)	0	19,553
Freehold	12,565	192	142	(10,935)	0	1,680
Leasehold	17,615	258	0	0	0	17,873
Equipment	23,824	1,562	1,726	0	3,480	20,180
	54,004	2,012	1,868	(10,935)	3,480	39,733

2010 (HUF million)	Accumulated depreciaton as at 1 January 2010	Depreciation for the year	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Accumulated depreciation	Carrying amount as at 1 January 2010	Carrying amount as at 31 December 2010
Properties	6,281	1,263	15	(1,711)	0	5,818	23,899	13,735
Freehold	1,877	44	0	(1,711)	0	210	10,688	1,470
Leasehold	4,404	1,219	15	0	0	5,608	13,211	12,265
Equipment	13,671	2,835	1,521	0	625	14,360	10,153	5,820
	19,952	4,098	1,536	(1,711)	625	20,178	34,052	19,555

In 2011 HUF 2,385 million impairment losses were recognised for properties in the consolidated income statement under other operating expenses (2010: HUF 401 million).

Investment property

2011 (HUF million)	Gross carrying amount as at 1 January 2011	Additions	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Gross carrying amount as at 31 December 2011
Properties	1,256	201	0	0	0	1,457

2011 (HUF million)	Accumulated depreciaton as at 1 January 2011	Depre-ciation for the year	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Accumulated depreciation	Carrying amount as at 1 January 2011	Carrying amount as at 31 December 2011
Properties	4	1,306	0	0	0	1,310	1,252	147

2010 (HUF million)	Gross carrying amount as at 1 January 2010	Additions	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Gross carrying amount as at 31 December 2010
Properties	53,434	172	12	(52,338)	0	1,256

2010 (HUF million)	Accumulated depreciaton as at 1 January 2010	Depre-ciation for the year	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Accumulated depreciation	Carrying amount as at 1 January 2010	Carrying amount as at 31 December 2010
Properties	7,806	1	0	(7,803)	0	4	45,628	1,252

The fair value of investment property is HUF 147 million (2010: HUF 1,252 million) based on quarterly valuation made by an independent appraiser.

(21) Intangible assets

2011 (HUF million)	Gross carrying amount as at 1 January 2011	Additions	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Gross carrying amount as at 31 December 2011
Softwares	32,684	6,318	2,004	(26)	0	36,972
Other intangible assets	302	5	0	0	0	307
	32,986	**6,323**	**2,004**	**(26)**	**0**	**37,279**

2011 (HUF million)	Accumulated depreciaton as at 1 January 2011	Depre-ciation for the year	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Accu-mulated depre-ciation	Carrying amount as at 1 January 2011	Carrying amount as at 31 December 2011
Softwares	18,431	5,296	2,004	(7)	0	21,716	14,253	15,256
Other intangible assets	223	8	0	0	0	231	79	76
	18,654	**5,304**	**2,004**	**(7)**	**0**	**21,947**	**14,332**	**15,332**

2010 (HUF million)	Gross carrying amount as at 1 January 2010	Additions	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Gross carrying amount as at 31 December 2010
Softwares	28,390	4,310	16	0	0	32,684
Other intangible assets	347	0	45	0	0	302
	28,737	**4,310**	**61**	**0**	**0**	**32,986**

2010 (HUF million)	Accumulated depreciaton as at 1 January 2010	Depre-ciation for the year	Disposals	Acquired/(sold) through business combinations	Assets classified as held for sale	Accu-mulated depre-ciation	Carrying amount as at 1 January 2010	Carrying amount as at 31 December 2010
Softwares	14,630	3,812	11	0	0	18,431	13,760	14,253
Other intangible assets	241	5	23	0	0	223	106	79
	14,871	**3,817**	**34**	**0**	**0**	**18,654**	**13,866**	**14,332**

In 2011 HUF 988 million impairment losses were recognised for softwares in the consolidated income statement under other operating expenses (2010: HUF 8 million).

(22) Goodwill

(HUF million)	2011	2010
Cost		
Balance at 1 January	**1,672**	**1,889**
Acquisitions through business combinations	0	0
Acquisition of non controlling interest	0	0
Other acquisitions – internally developed	0	0
Effect of movements in exchange rates	0	0
Disposal of subsidiaries	0	(217)
Balance at 31 December	**1,672**	**1,672**
Impairment losses		
Balance at 1 January	**0**	**0**
Impairment loss for the period	0	0
Effect of movements in exchange rates	0	0
Balance at 31 December	**0**	**0**
Carrying amounts as at:		
At 1 January	**1,672**	**1,889**
At 31 December	**1,672**	**1,672**

(23) Operating leases

Leases as a lessee

Non-cancellable operating lease rentals are payable as follows:

(HUF million)	2011	2010
Less than 1 year	7,918	5,625
Between 1 and 5 years	31,672	22,430
More than 5 years	0	0
	39,590	28,055

The Group has entered into rental contracts in the form of operating leases. These rental contracts are classified as operating leases because the risks of the leased assets are not transferred to the Group. The Group has no sublets.

During the year ended 31 December 2011 an amount of HUF 7,918 million was recognised as an expense in profit or loss in respect of operating leases (2010: HUF 5,625 million).

(24) Other assets

(HUF million)	2011	2010
Other tax receivables	12,097	1,469
Cash at money exchange agents	6,857	6,070
Receivables from investment activities	14,026	28,560
Accruals	3,829	3,860
Inventory	3,146	3,076
Other	7,523	5,176
Less: specific impairment	592	664
Other assets	**47,478**	**48,211**
Specific impairment		
Balance at 1 January	**664**	**351**
Impairment loss for the year:		
Charge for the year	69	395
Recoveries	(54)	3
Effect of foreign currency movements	0	53
Write-offs	(87)	0
Change in consolidation group	0	(138)
Balance at 31 December	**592**	**664**

Other tax receivables contain bank tax receivable from early repayment option (HUF 9,385 million).

Inventory contains mainly real estate developments in progress HUF 2,028 million in 2011 (2010: HUF 2,221 million) of Raiffeisen Property Lízing and also project companies' real estate constructions in progress HUF 62 million in 2011 (2010: HUF 312 million).Cars repossessed from customers amount to HUF 443 million in 2011 (2010: HUF 833 million) of Raiffeisen Leasing and Raiffeisen Energiaszolgáltató Kft. Repossessed properties amount to HUF 578 million in Raiffeisen Property Leasing (2010: HUF 101 million).

Notes to the consolidated financial statements

(25) Financial liabilities at fair value through profit or loss

(HUF million)	2011				2010			
	Cost	Accrued interest	Unrealised gain/loss	Book value	Cost	Accrued interest	Unrealised gain/loss	Book value
Derivative instruments held for trading by type								
FX swaps	0	0	0	0	0	0	1,693	1,693
FX forwards	0	0	29,622	29,622	0	0	1,958	1,958
Security forwards	0	0	119	119	0	0	308	308
Foreign exchange options	0	0	4,702	4,702	0	0	1,459	1,459
Interest rate derivatives	0	7,460	24,262	31,722	0	9,519	23,507	33,026
Total derivative instruments held for trading	**0**	**7,460**	**58,705**	**66,165**	**0**	**9,519**	**28,925**	**38,444**
Derivative instruments held for risk management purposes								
FX swaps	55,974	(2,344)	(4,810)	48,820	46,273	(2,284)	(943)	43,046
Interest rate derivatives	0	(620)	8,523	7,903	0	1,073	1,745	2,818
Total derivative instruments held for risk management purposes	**55,974**	**(2,964)**	**3,713**	**56,723**	**46,273**	**(1,211)**	**802**	**45,864**
Total financial liabilities at fair value through profit or loss	**55,974**	**4,496**	**62,418**	**122,888**	**46,273**	**8,308**	**29,727**	**84,308**

(26) Deposits from banks

2011	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
Resident	47,367	10,947	40,676	6,342	**105,332**
Non resident	8,726	51,128	1,259	151,625	**212,738**
	56,093	**62,075**	**41,935**	**157,967**	**318,070**

2010	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
Resident	57,922	11,256	40,751	7,819	**117,748**
Non resident	20,300	198,634	1,370	192,354	**412,658**
	78,222	**209,890**	**42,121**	**200,173**	**530,406**

(27) Deposits from non-banks

2011	Under 1 year		More than 1 year		Total
	HUF	Deviza	HUF	Deviza	
Resident	1,042,396	258,079	54,927	6,554	**1,361,956**
Non resident	26,105	46,194	66	217	**72,582**
	1,068,501	**304,273**	**54,993**	**6,771**	**1,434,538**

2010	Under 1 year		More than 1 year		Total
	HUF	Deviza	HUF	Deviza	
Resident	930,549	259,854	42,567	6,262	**1,239,232**
Non resident	27,527	56,244	145	549	**84,465**
	958,076	**316,098**	**42,712**	**6,811**	**1,323,697**

Notes to the consolidated financial statements

(28) Debt securities issued

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2011	Carrying amount 2010
RAIFF 2011/A	3m BUBOR + 0.25%	0	2006.10.04	2011.10.04	No	0	6,589
RB KAM KTV	fixed 11.5%	0	2009.02.25	2011.02.25	No	0	4,864
RB KAM KTV2	fixed 12.5%	0	2009.04.16	2011.04.16	No	0	12,060
RB KAM KTV3	fixed 10%	0	2009.05.22	2011.05.22	No	0	5,839
RB KAM KTV4	fixed 8.5%	0	2009.08.28	2011.08.30	No	0	5,158
RB KAM KTV5	fixed 8%	0	2009.09.23	2011.09.23	No	0	10,219
RB KAM KTV6	fixed 7.4%	0	2009.12.11	2011.12.12	No	0	10,036
RB KAM KTV7	fixed 7.25%	10,029	2010.02.19	2012.02.20	No	10,653	10,657
RB KAM KTV8	fixed 6.25%	10,000	2010.03.19	2012.03.19	No	10,488	10,491
RB KAM KTV9	fixed 6%	10,000	2010.05.19	2013.05.20	No	10,372	10,372
RB KAM KTV10	fixed 6.50%	4,000	2010.09.30	2012.10.01	No	4,066	4,066
RB KAM KTV11	fixed 6.50%	5,000	2010.11.17	2013.11.18	No	5,040	5,040
RB KAM KTV12	fixed 7.15%	5,000	2011.01.12	2014.01.13	No	5,346	0
RB KAM KTV13	fixed 7.00%	5,000	2011.03.09	2014.03.10	No	5,285	0
RB PB KTV2	indexed to EUR/HUF exchange rate (max 10%)	0	2009.11.11	2011.11.11	No	0	5,604
RB PB KTV3	indexed to EUR/HUF exchange rate (max 10%)	3,000	2010.02.12	2013.02.12	No	2,973	3,186
RB PB KTV4	indexed to EUR/HUF exchange rate (max 8%)	0	2010.03.25	2013.03.25	No	0	2,960
RB PB KTV5	indexed to EUR/HUF exchange rate (max 5%)	3,734	2010.04.23	2013.04.23	No	3,577	3,158
RB PB KTV6	indexed to EUR/HUF exchange rate (max 8.5%)	3,000	2010.07.30	2012.07.30	No	2,996	2,987
RB PB KTV7	indexed to EUR/HUF exchange rate (max 8,5%)	3,000	2010.08.13	2012.08.13	No	2,949	2,973
RB PB KTV8	indexed to EUR/HUF exchange rate (max 8.5%)	10,000	2010.08.30	2013.02.28	No	9,539	9,842
RB PB KTV9	indexed to EUR/HUF exchange rate (max 10%)	0	2010.12.08	2011.12.08	No	0	1,006
RB PB KTV10	indexed to EUR/HUF exchange rate (max 11%)	3,000	2010.12.15	2015.12.15	No	2,539	2,898
RB PB KTV11	indexed to EUR/HUF exchange rate (max 10%)	2,000	2011.03.02	2016.03.02	No	1,647	0
RB PB KTV12	indexed to EUR/HUF exchange rate (max 10%)	5,000	2011.03.09	2013.03.11	No	4,838	0
RB PB KTV13	indexed to EUR/HUF exchange rate (max 9%)	3,000	2011.03.09	2013.03.11	No	2,638	0
RB PB KTV14	indexed to EUR/HUF exchange rate (max 10%)	2,000	2011.03.28	2016.03.29	No	1,577	0
RB PB KTV15	indexed to EUR/HUF exchange rate (max 9.1%)	3,000	2011.04.28	2017.04.28	No	2,606	0
RB PB KTV16	indexed to EUR/HUF exchange rate (max 10%)	3,000	2011.04.29	2014.04.29	No	2,755	0
RB PB KTV17	indexed to EUR/HUF exchange rate (max 10%)	3,000	2011.05.25	2014.05.26	No	2,659	0
RB TB KTV	fixed 7.55%	5,007	2010.05.26	2015.12.30	No	5,611	5,233
RB TB KTV2	fixed 8.35%	3,000	2011.03.23	2016.12.30	No	3,194	0
RE3.70F1408	fixed 3.70%	3,111	2011.08.30	2014.08.29	No	3,150	0
RE4.00F1310	fixed 4.00%	1,245	2011.10.24	2013.10.24	No	1,254	0
RE4.00F1410	fixed 4.00%	1,245	2011.10.10	2014.10.10	No	1,256	0
RE4.00F1411	fixed 4.00%	1,867	2011.11.11	2014.11.11	No	1,877	0
RH09A1708	indexed to EUR/HUF exchange rate (max 9%)	2,000	2011.08.17	2017.08.17	No	1,497	0
RH10A1711	indexed to EUR/HUF exchange rate (max 10%)	3,000	2011.11.11	2017.11.13	No	2,479	0
RH10R1407	indexed to EUR/HUF exchange rate (max 10%)	5,000	2011.07.01	2014.07.01	No	4,312	0
RH10R1409	indexed to EUR/HUF exchange rate (max 10%)	5,000	2011.09.23	2014.09.23	No	4,270	0
RH8.00F1412	fixed 8.00%	2,000	2011.12.12	2014.12.12	No	2,008	0
RH8.40TB1612	fixed 8.40%	1,000	2011.09.23	2016.12.30	No	1,023	0
RH8F141222	fixed 8.00%	3,000	2011.12.21	2014.12.22	No	3,006	0
RH9.50TB1612	fixed 9.50%	2,500	2011.10.10	2016.12.30	No	2,553	0
RB KAM EUR	fixed 4.75%	0	2009.07.24	2011.01.24	No	0	2,982
RB KAM EUR2	fixed 4.25%	0	2009.08.28	2011.08.30	No	0	5,656
RB KAM EUR3	fixed 3.5%	0	2009.10.09	2011.10.10	No	0	5,619
RB KAM EUR4	fixed 3.25%	6,222	2010.01.27	2012.01.27	No	6,407	5,743
RB KAM EUR5	fixed 2.70%	6,222	2010.04.30	2013.04.30	No	6,319	5,676
Debt securities issued		**147,182**				**144,759**	**160,914**

Repurchased own debt securities

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2011	Carrying amount 2010
RAIFF 2011/A	3m BUBOR + 0.25%	0	2006.10.04	2011.10.04	No	0	4,196
RB KAM KTV	fixed 11.5%	0	2009.02.25	2011.02.25	No	0	2
RB KAM KTV2	fixed 12.5%	0	2009.04.16	2011.04.16	No	0	21
RB KAM KTV3	fixed 10%	0	2009.05.22	2011.05.22	No	0	12
RB KAM KTV4	fixed 8.5%	0	2009.08.28	2011.08.30	No	0	5
RB KAM KTV5	fixed 8%	0	2009.09.23	2011.09.23	No	0	12
RB KAM KTV6	fixed 7.4%	0	2009.12.11	2011.12.12	No	0	5
RB KAM KTV7	fixed 7.25%	57	2010.02.19	2012.02.20	No	59	46
RB KAM KTV8	fixed 6.25%	26	2010.03.19	2012.03.19	No	27	109
RB KAM KTV9	fixed 6%	21	2010.05.19	2013.05.20	No	21	11
RB KAM KTV10	fixed 6.50%	0	2010.09.30	2012.10.01	No	0	0
RB KAM KTV11	fixed 6.50%	1,864	2010.11.17	2013.11.18	No	2,278	3,221
RB KAM KTV12	fixed 7.15%	24	2011.01.12	2014.01.13	No	24	0
RB KAM KTV13	fixed 7.00%	98	2011.03.09	2014.03.10	No	100	0
RB PB KTV3	indexed to EUR/HUF exchange rate (max 10%)	146	2010.02.12	2013.02.12	No	148	10
RB PB KTV4	indexed to EUR/HUF exchange rate (max 8%)	0	2010.03.25	2013.03.25	No	0	6
RB PB KTV5	indexed to EUR/HUF exchange rate (max 5%)	2,242	2010.04.23	2013.04.23	No	2,273	2,527
RB PB KTV6	indexed to EUR/HUF exchange rate (max 8.5%)	45	2010.07.30	2012.07.30	No	45	0
RB PB KTV7	indexed to EUR/HUF exchange rate (max 8.5%)	109	2010.08.13	2012.08.13	No	108	7

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2011	Carrying amount 2010
RB PB KTV8	indexed to EUR/HUF exchange rate (max 8.5%)	252	2010.08.30	2013.02.28	No	245	0
RB PB KTV9	indexed to EUR/HUF exchange rate (max 10%)	0	2010.12.08	2011.12.08	No	0	729
RB PB KTV10	indexed to EUR/HUF exchange rate (max 11%)	20	2010.12.15	2015.12.15	No	18	836
RB PB KTV11	indexed to EUR/HUF exchange rate (max 10%)	21	2011.03.02	2016.03.02	No	19	0
RB PB KTV12	indexed to EUR/HUF exchange rate (max 10%)	344	2011.03.09	2013.03.11	No	341	0
RB PB KTV13	indexed to EUR/HUF exchange rate (max 9%)	219	2011.03.09	2013.03.11	No	218	0
RB PB KTV14	indexed to EUR/HUF exchange rate (max 10%)	11	2011.03.28	2016.03.29	No	10	0
RB PB KTV15	indexed to EUR/HUF exchange rate (max 9.1%)	12	2011.04.28	2017.04.28	No	10	0
RB PB KTV16	indexed to EUR/HUF exchange rate (max 10%)	170	2011.04.29	2014.04.29	No	159	0
RB PB KTV17	indexed to EUR/HUF exchange rate (max 10%)	235	2011.05.25	2014.05.26	No	226	0
RB TB KTV	fixed 7.55%	486	2010.05.26	2015.12.30	No	537	172
RB TB KTV2	fixed 8.35%	9	2011.03.23	2016.12.30	No	8	0
RE3.70F1408	fixed 3.70%	161	2011.08.30	2014.08.29	No	161	0
RE4.00F1310	fixed 4.00%	0	2011.10.24	2013.10.24	No	0	0
RE4.00F1410	fixed 4.00%	41	2011.10.10	2014.10.10	No	41	0
RE4.00F1411	fixed 4.00%	680	2011.11.11	2014.11.11	No	683	0
RH09A1708	indexed to EUR/HUF exchange rate (max 9%)	469	2011.08.17	2017.08.17	No	465	0
RH10A1711	indexed to EUR/HUF exchange rate (max 10%)	2,413	2011.11.11	2017.11.13	No	2,413	0
RH10R1407	indexed to EUR/HUF exchange rate (max 10%)	180	2011.07.01	2014.07.01	No	165	0
RH10R1409	indexed to EUR/HUF exchange rate (max 10%)	3,840	2011.09.23	2014.09.23	No	3,865	0
RH8.00F1412	fixed 8.00%	0	2011.12.12	2014.12.12	No	0	0
RH8.40TB1612	fixed 8.40%	2	2011.09.23	2016.12.30	No	2	0
RH8F141222	fixed 8.00%	1,150	2011.12.21	2014.12.22	No	1,152	0
RH9.50TB1612	fixed 9.50%	1	2011.10.10	2016.12.30	No	1	0
RB KAM EUR	fixed 4.75%	0	2009.07.24	2011.01.24	No	0	4
RB KAM EUR4	fixed 3.25%	271	2010.01.27	2012.01.27	No	277	0
RB KAM EUR5	fixed 2.70%	2,314	2010.04.30	2013.04.30	No	2,338	2,676
Repurchased own debt securities		**17,933**				**18,437**	**14,607**
Net debt securities issued		**129,249**				**126,322**	**146,307**

Notes to the consolidated financial statements

(29) Subordinated liabilities

	2011					
Lender	**Borrowed on**	**Amount in original currency (million)**	**Original currency**	**Interest**	**Due date**	**Carrying amount (million HUF)**
Raiffeisen Bank International AG	2008.03.25	20	EUR	2.43%	2017.09.25	6,263
Raiffeisen Bank International AG	2008.03.31	20	EUR	2.45%	2018.03.30	6,262
Raiffeisen Bank International AG	2008.06.27	30	EUR	4.82%	2020.06.30	9,336
Raiffeisen Bank International AG	2008.06.30	20	EUR	2.34%	2017.09.29	6,223
Raiffeisen Bank International AG	2008.06.30	20	EUR	2.34%	2017.09.29	6,223
Raiffeisen Bank International AG	2008.06.30	10	EUR	2.39%	2018.12.31	3,112
Raiffeisen Bank International AG	2008.06.30	25	EUR	2.34%	2018.06.29	7,779
Raiffeisen Bank International AG	2008.09.30	25	EUR	2.35%	2018.09.28	7,825
Raiffeisen Bank International AG	2009.02.27	20	EUR	8.38%	2019.02.27	6,272
AEGON Mo. Általános Biztosító Zrt.	2002.01.02	14	HUF	7.96%	2012.01.04	14
AEGON Mo. Általános Biztosító Zrt.	2002.01.02	9	HUF	8.46%	2012.04.04	9
AEGON Mo. Általános Biztosító Zrt.	2002.02.01	10	HUF	8.91%	2012.02.01	10
AEGON Mo. Általános Biztosító Zrt.	2002.02.01	9	HUF	8.41%	2012.02.01	9
AEGON Mo. Általános Biztosító Zrt.	2002.03.01	5	HUF	7.98%	2012.03.01	5
AEGON Mo. Általános Biztosító Zrt.	2002.04.02	13	HUF	8.18%	2012.04.02	13
AEGON Mo. Általános Biztosító Zrt.	2002.05.02	10	HUF	7.98%	2012.05.02	10
AEGON Mo. Általános Biztosító Zrt.	2002.05.02	2	HUF	7.48%	2012.05.02	2
AEGON Mo. Általános Biztosító Zrt.	2002.06.03	12	HUF	8.04%	2012.06.04	12
AEGON Mo. Általános Biztosító Zrt.	2002.07.01	17	HUF	8.47%	2012.07.02	17
AEGON Mo. Általános Biztosító Zrt.	2002.08.01	5	HUF	8.92%	2012.08.01	5
AEGON Mo. Általános Biztosító Zrt.	2002.09.02	12	HUF	8.82%	2012.09.03	12
AEGON Mo. Általános Biztosító Zrt.	2002.10.01	3	HUF	8.65%	2012.10.01	3
AEGON Mo. Általános Biztosító Zrt.	2002.12.02	6	HUF	8.38%	2012.12.03	6
AEGON Mo. Általános Biztosító Zrt.	2003.02.03	12	HUF	7.66%	2013.02.04	12
AEGON Mo. Általános Biztosító Zrt.	2003.05.05	3	HUF	7.66%	2013.05.06	3
AEGON Mo. Általános Biztosító Zrt.	2003.07.01	1	HUF	7.18%	2013.07.01	1
AEGON Mo. Általános Biztosító Zrt.	2003.08.01	2	HUF	7.91%	2013.08.01	2
AEGON Mo. Általános Biztosító Zrt.	2003.09.01	3	HUF	8.38%	2013.09.02	3
AEGON Mo. Általános Biztosító Zrt.	2003.10.01	5	HUF	8.33%	2013.10.01	5
AEGON Mo. Általános Biztosító Zrt.	2003.11.03	6	HUF	8.13%	2013.11.04	6
AEGON Mo. Általános Biztosító Zrt.	2004.02.02	8	HUF	9.15%	2014.02.03	8
AEGON Mo. Általános Biztosító Zrt.	2004.03.01	2	HUF	9.69%	2014.03.03	2
AEGON Mo. Általános Biztosító Zrt.	2004.04.01	1	HUF	9.65%	2014.04.01	1
AEGON Mo. Általános Biztosító Zrt.	2004.05.03	6	HUF	8.91%	2014.05.05	6
AEGON Mo. Általános Biztosító Zrt.	2004.07.01	2	HUF	9.53%	2014.07.01	2
AEGON Mo. Általános Biztosító Zrt.	2004.08.02	5	HUF	9.78%	2014.08.04	5
AEGON Mo. Általános Biztosító Zrt.	2004.09.03	2	HUF	9,35%	2014.09.01	2
Subordinated liabilities						**59,480**

Notes to the consolidated financial statements

	2010					
Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (million HUF)
Raiffeisen Bank International AG	2008.03.25	20	EUR	1.84%	2017.09.25	5,602
Raiffeisen Bank International AG	2008.03.31	20	EUR	1.84%	2018.03.30	5,601
Raiffeisen Bank International AG	2008.06.27	30	EUR	4.42%	2020.06.30	8,364
Raiffeisen Bank International AG	2008.06.30	20	EUR	1.94%	2017.09.29	5,576
Raiffeisen Bank International AG	2008.06.30	10	EUR	1.99%	2018.12.31	2,788
Raiffeisen Bank International AG	2008.06.30	20	EUR	1.94%	2017.09.29	5,576
Raiffeisen Bank International AG	2008.06.30	25	EUR	1.94%	2018.06.29	6,969
Raiffeisen Bank International AG	2008.09.30	25	EUR	1.74%	2018.09.28	7,000
Raiffeisen Bank International AG	2009.02.27	20	EUR	7.94%	2019.02.27	5,615
AEGON Mo. Általános Biztosító Zrt.	2001.06.01	8	HUF	9.29%	2011.06.11	8
AEGON Mo. Általános Biztosító Zrt.	2001.07.02	2	HUF	8.96%	2011.07.04	2
AEGON Mo. Általános Biztosító Zrt.	2001.07.02	12	HUF	8.46%	2011.07.04	12
AEGON Mo. Általános Biztosító Zrt.	2001.08.01	13	HUF	8.50%	2011.08.01	13
AEGON Mo. Általános Biztosító Zrt.	2001.08.01	30	HUF	9.00%	2011.08.01	30
AEGON Mo. Általános Biztosító Zrt.	2001.09.03	39	HUF	8.40%	2011.09.05	39
AEGON Mo. Általános Biztosító Zrt.	2001.09.03	65	HUF	8.90%	2011.09.05	65
AEGON Mo. Általános Biztosító Zrt.	2001.10.01	59	HUF	9.00%	2011.10.03	59
AEGON Mo. Általános Biztosító Zrt.	2001.10.01	16	HUF	8.50%	2011.10.03	16
AEGON Mo. Általános Biztosító Zrt.	2001.11.05	43	HUF	9.21%	2011.11.07	43
AEGON Mo. Általános Biztosító Zrt.	2001.11.05	6	HUF	8.71%	2011.11.07	6
AEGON Mo. Általános Biztosító Zrt.	2001.12.03	11	HUF	8.57%	2011.12.05	11
AEGON Mo. Általános Biztosító Zrt.	2001.12.03	38	HUF	9.07%	2011.12.05	38
AEGON Mo. Általános Biztosító Zrt.	2002.01.02	9	HUF	8.46%	2012.04.04	9
AEGON Mo. Általános Biztosító Zrt.	2002.01.02	14	HUF	7.96%	2012.01.04	14
AEGON Mo. Általános Biztosító Zrt.	2002.02.01	9	HUF	8.41%	2012.02.01	9
AEGON Mo. Általános Biztosító Zrt.	2002.02.01	10	HUF	8.91%	2012.02.01	10
AEGON Mo. Általános Biztosító Zrt.	2002.03.01	5	HUF	7.98%	2012.03.01	5
AEGON Mo. Általános Biztosító Zrt.	2002.04.02	13	HUF	8.18%	2012.04.02	13
AEGON Mo. Általános Biztosító Zrt.	2002.05.02	10	HUF	7.98%	2012.05.02	10
AEGON Mo. Általános Biztosító Zrt.	2002.05.02	2	HUF	7.48%	2012.05.02	2
AEGON Mo. Általános Biztosító Zrt.	2002.06.03	12	HUF	8.04%	2012.06.04	12
AEGON Mo. Általános Biztosító Zrt.	2002.07.01	16	HUF	8.47%	2012.07.02	16
AEGON Mo. Általános Biztosító Zrt.	2002.08.01	5	HUF	8.92%	2012.08.01	5
AEGON Mo. Általános Biztosító Zrt.	2002.09.02	12	HUF	8.82%	2012.09.03	12
AEGON Mo. Általános Biztosító Zrt.	2002.10.01	3	HUF	8.65%	2012.10.01	3
AEGON Mo. Általános Biztosító Zrt.	2002.12.02	6	HUF	8.38%	2012.12.03	6
AEGON Mo. Általános Biztosító Zrt.	2003.02.03	12	HUF	7.66%	2013.02.04	12
AEGON Mo. Általános Biztosító Zrt.	2003.05.05	3	HUF	7.66%	2013.05.06	3
AEGON Mo. Általános Biztosító Zrt.	2003.07.01	1	HUF	7.18%	2013.07.01	1
AEGON Mo. Általános Biztosító Zrt.	2003.08.01	2	HUF	7.91%	2013.08.01	2
AEGON Mo. Általános Biztosító Zrt.	2003.09.01	3	HUF	8.38%	2013.09.02	3
AEGON Mo. Általános Biztosító Zrt.	2003.10.01	5	HUF	8.33%	2013.10.01	5
AEGON Mo. Általános Biztosító Zrt.	2003.11.03	6	HUF	8.13%	2013.11.04	6
AEGON Mo. Általános Biztosító Zrt.	2004.02.02	8	HUF	9.15%	2014.02.03	8
AEGON Mo. Általános Biztosító Zrt.	2004.03.01	2	HUF	9.69%	2014.03.03	2
AEGON Mo. Általános Biztosító Zrt.	2004.04.01	1	HUF	9.65%	2014.04.01	1

Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (million HUF)
AEGON Mo. Általános Biztosító Zrt.	2004.05.03	6	HUF	8.91%	2014.05.05	6
AEGON Mo. Általános Biztosító Zrt.	2004.07.01	2	HUF	9.53%	2014.07.01	2
AEGON Mo. Általános Biztosító Zrt.	2004.08.02	5	HUF	9.78%	2014.08.04	5
AEGON Mo. Általános Biztosító Zrt.	2004.09.03	2	HUF	9.35%	2014.09.01	2
Subordinated liabilities						**53,617**

The above debts are direct, unconditional and unsecured obligations of the Group, and are subordinated to the claims of the Group's depositors and other creditors.

(30) Other liabilities

(HUF million)	2011	2010
Other taxes payable	2,586	2,023
Giro, postal clearing accounts, cash in transit	9,783	5,408
Suppliers	3,045	2,698
Payables relating to investment activities	31,072	45,772
Accruals	5,361	8,809
Other	4,921	4,118
Other liabilities	**56,768**	**68,828**

(31) Provisions

The following table shows the changes in the provision for commitments and contingencies as at 31 December 2011 and 2010, respectively:

(HUF million)	2011	2010
At beginning of year	**8,878**	**5,479**
Provisions made during the year	10,365	6,683
Release in provisions	1,210	(3,438)
Provisions used during the year	5,906	0
Provisions reversed during the year	(4,696)	(3,438)
Effect of revaluation	480	107
Unwinding of discount	0	0
Change in consolidation	(24)	47
At end of year	**20,909**	**8,878**

(32) Assets and liabilities classified as held for sale and discontinued operations

At the end of 2009, the Group has decided to sell 100% of Euro Green, but the sale has not been realised till 31 December 2011. In 2010, the Group decided the sell of Clean Energy and WPSS as well. Management expects these entities to be sold in 2012.

The table below shows the assets and liabilities held for sale as at 31 December 2011 and 31 December 2010.

Notes to the consolidated financial statements

(HUF million)	2011	2010
Assets classified as held for sale		
Net loans	38	38
Property, plant and equipment	12,585	13,266
Goodwill	1,258	1,258
Current tax assets	0	2
Other assets	238	387
	14,119	**14,951**
Liabilities classified as held for sale		
Current tax liabilities	0	5
Other liabilities	156	165
	156	**170**

Profit/(loss) of discontinued operation

Discontinued operation is a component of the Group that either been disposed of or is classified as held for sale.

The Group had no material discontinued operations in 2011.

(33) Share capital

As at 31 December 2011 and 2010, the equity structure of the Group consisted of the following classes of shares:

2011 (HUF million)				
Shareholder	Type of share	Number of shares	%	HUF million
Raiffeisen-RBHU Holding GmbH	Ordinary	16,502,300	100.00	165,023
Raiffeisen-RBHU Holding GmbH	Preference	0	0.00	0
Total				**165,023**

2010 (HUF million)				
Shareholder	Type of share	Number of shares	%	HUF million
Raiffeisen-RBHU Holding GmbH	Ordinary	5,909,914	100.00	59,099
Raiffeisen-RBHU Holding GmbH	Preference	0	0.00	0
Total				**59,099**

The Group's authorized, issued, called up and fully paid share capital comprises ordinary shares with a par value of HUF 10,000.

As at 31 December 2011 and 2010, the Group held no treasury shares in its portfolio.

During December 2011 the Bank received HUF 105,924 million capital increase (2010: HUF 13,970 million).

During 2011 and 2010 there were no dividend payments.

(34) Other reserves

General risk reserve

Local legislation allows the Group to set aside a general risk reserve up to 1.25% of risk-weighted assets and off-balance sheet exposures against inherent risk exposures in addition to those losses which have been specifically identified and those potential losses which experience indicates are present in the portfolio of loans and advances.

The Group had transferred 1.25% of risk-weighted assets of the Bank into general risk reserve until 2008, in 2009 the percent of general risk reserve was reduced from 1.25% to 0.75% and in 2011 to 0%. Such amounts are treated as an expense for statutory purposes and are tax deductible; for IFRS purposes, they form part of retained earnings, net of related tax effects (see Note 36).

The Group had a reserve of HUF 13,173 million as at 31 December 2010. This reserve was released in 2011 to cover the losses from early repayment option, realized based on the 4th point of the Act CXXI/2011 (about modification of certain laws about home protection).

General reserve

In accordance with section 75 of the No. CXII Hungarian Act of 1996, a general reserve equal to 10% of net income after tax is required to be set aside. Increases in the general reserve are treated as appropriations of retained earnings, as calculated under Hungarian accounting rules and thus are not charged against income.

The balance of the general reserve was nil at 31 December 2011 (2010: HUF 5,691 million). The General Reserve was released for the loss of the Bank in 2011.

Fair value reserve

Fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized or impaired.

(35) Non-controlling interest

In 2011 non controlling interest decreased due to loss for the year, and the consolidation group changed: Global Thermal is now controlled by the Group.

In 2010 non controlling interest decreased due to loss for the year, and as the consolidation group changed, the Group does not control several entities that were controlled in 2009.

(36) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(HUF million)	2011	2010
Deferred tax assets	8,639	3,069
Deferred tax liabilities	120	181
Net deferred taxes	**8,519**	**2,888**

	2011			2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Loans	16	2,619	(2,603)	0	2,374	(2,374)
Impairment losses	4,185	0	4,185	3,042	0	3,042
Financial assets at fair value through profit or loss	0	17	(17)	0	17	(17)
Available for sale securities	3,418	0	3,418	1,161	0	1,161
Investments in associated undertakings	1,032	0	1,032	933	0	933
Investments in unlisted securities	3	0	3	3	0	3
Property, plant and equipment	171	530	(359)	171	531	(360)
Investment property	23	0	23	43	0	43
Intangible assets	0	0	0	0	17	(17)
Goodwill	0	161	(161)	0	161	(161)
Provisions	543	0	543	61	1,998	(1,937)
Other items	0	56	(56)	116	55	61
Probably useable tax loss carry-forwards	2,511	0	2,511	2,511	0	2,511
Net tax assets (liabilities)	**11,902**	**3,383**	**8,519**	**8,041**	**5,153**	**2,888**

(37) Commitments and contingencies

At any time, the Group has outstanding commitments to extend credit. These commitments take the form of approved loan limits and overdraft facilities.

The Group provides guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully committed. The amounts for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if the counterparties failed to perform as contracted.

(HUF million)	2011	2010
	Nominal value	Nominal value
Contingencies		
Import letters of credit	2,840	2,763
Export letters of credit	0	66
Guarantees issued	146,877	170,951
Other contingencies (including litigation)	1,055	1,310
Total contingencies	**150,772**	**175,090**
Commitments		
Unutilized loan facilities	139,699	98,784
Unutilized overdraft facilities	105,250	93,117
Unutilized guarantee frames	75,861	70,014
Total commitments	**320,810**	**261,915**

Notes to the consolidated financial statements

Repurchase agreements (HUF million)	2011	2010
Genuine repurchase agreements as a borrower (repo agreement)		
Liabilities to bank	17,482	22,055
Liabilities to customers	19,630	120
	37,112	**22,175**
Genuine repurchase agreements as a lender (repo agreement)		
Claims on banks	7,142	20,990
Claims on customers	4,335	4,538
	11,477	**25,528**

These commitments and contingent liabilities are exposed to off-balance sheet credit risk because only organization fees and provision for probable losses are recognized in the consolidated statement of financial position until the commitments are fulfilled or expire. Many of these off-balance items will expire without being drawn down in whole or in part. Therefore, the amounts do not represent expected future cash flows.

The Group has a rental commitment for its main offices in Budapest amounting HUF 2,224 million in 2011 for 2012 (in 2010 rental commitment for 2011 amounted to HUF 1,723 million).

(38) Use of estimates and judgements

Management discusses with the Group Supervisory Board the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 4).

Key sources of estimation uncertainty

Allowances for credit losses

Assets measured at amortised cost are tested for impairment on a basis described in the accounting policy (see Note 3).

The specific counterparty component of the total allowances for impairment applies to financial assets tested individually for impairment and is based upon management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances. A monthly recalculation of the portfolio-based loan loss provisions is to be performed to ensure that the model provides the best estimate of provisions.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Valuation of financial instruments, fair value hierarchy

The Group's accounting policy on fair value measurements is discussed in Note 3 h).

The Group measures fair value using the following hierarchy of methods:

Level 1: unadjusted quoted prices in active markets for identical assets and liabilities;
Level 2: Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has no such financial instruments of which fair value is determined using significant unobservable inputs (Level 3).

The table below analyses financial instruments carried at fair value, by valuation method:

2011 (HUF million)	Fair value through equity	Amor-tized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
ASSETS									
Cash and cash equivalents	0	98,285	0	0	**98,285**	**98,285**	0	0	0
Placements with banks	0	99,777	0	0	**99,777**	**99,777**	0	0	0
Net loans	0	1,522,572	3,666	0	**1,526,238**	**1,535,887**	0	3,666	0
Financial assets at fair value through profit or loss	0	0	13,290	56,878	**70,168**	**70,168**	11,043	59,125	0
Available for sale securities	253,408	0	0	0	**253,408**	**253,408**	105,050	148,358	0
Held to maturity securities	0	143,186	0	0	**143,186**	**143,186**	0	0	0
Investments in associated undertakings	0	0	142	0	**142**	**142**	0	0	142
Investments in unlisted securities	120	0	0	0	**120**	**120**	0	0	120
Property, plant and equipment	0	21,021	0	0	**21,021**	**21,021**	0	0	0
Investment property	0	147	0	0	**147**	**147**	0	0	0
Intangible assets	0	15,332	0	0	**15,332**	**15,332**	0	0	0
Goodwill	0	1,672	0	0	**1,672**	**1,672**	0	0	0
Current tax assets	0	539	0	0	**539**	**539**	0	0	0
Deferred tax assets	0	8,639	0	0	**8,639**	**8,639**	0	0	0
Other assets	0	47,478	0	0	**47,478**	**47,478**	0	0	0
Assets classified as held for sale	0	14,119	0	0	**14,119**	**14,119**	0	0	0
Total assets	**253,528**	**1,972,767**	**17,098**	**56,878**	**2,300,271**	**2,309,920**	**116,093**	**211,149**	**262**

2011 (HUF million)	Fair value through equity	Amor-tized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
LIABILITIES AND EQUITY									
Deposits from banks	0	318,070	0	0	**318,070**	**315,056**	0	0	0
Deposits from non-banks	0	1,429,872	4,666	0	**1,434,538**	**1,435,436**	0	4,666	0
Debt securities issued	0	57,744	68,578	0	**126,322**	**125,724**	0	68,578	0
Subordinated liabilities	0	59,480	0	0	**59,480**	**59,481**	0	0	0
Financial liabilities at fair value through profit or loss	0	0	81,366	41,522	**122,888**	**122,888**	119	122,769	0
Current tax liabilities	0	116	0	0	**116**	**116**	0	0	0
Deferred tax liabilities	0	120	0	0	**120**	**120**	0	0	0
Provisions	0	20,909	0	0	**20,909**	**20,909**	0	0	0
Other liabilities	0	56,768	0	0	**56,768**	**56,769**	0	0	0
Liabilities classified as held for sale	0	156	0	0	**156**	**156**	0	0	0
Total liabilities	**0**	**1,943,235**	**154,610**	**41,522**	**2,139,367**	**2,136,655**	**119**	**196,013**	**0**
Equity attributable to equity holders of the parent	**0**	**162,400**	**0**	**0**	**162,400**	**162,400**	**0**	**0**	**0**
Ordinary shares	0	165,023	0	0	**165,023**	**165,023**	0	0	0
Preference shares	0	0	0	0	**0**	**0**	0	0	0
Issued capital	**0**	**165,023**	**0**	**0**	**165,023**	**165,023**	**0**	**0**	**0**
Retained earnings	0	12,864	0	0	**12,864**	**12,864**	0	0	0
Statutory reserves	0	0	0	0	**0**	**0**	0	0	0
Non-distributable reserve	0	323	0	0	**323**	**323**	0	0	0
Fair value reserve	0	(15,810)	0	0	**(15,810)**	**(15,810)**	0	0	0
Non controlling interest	0	(1,496)	0	0	**(1,496)**	**(1,496)**	0	0	0
Total equity	**0**	**160,904**	**0**	**0**	**160,904**	**160,904**	**0**	**0**	**0**
Total liabilities, non controlling interest and shareholder's equity	**0**	**2,104,139**	**154,610**	**41,522**	**2,300,271**	**2,297,559**	**119**	**196,013**	**0**

2010 (HUF million)	Fair value through equity	Amor-tized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
ASSETS									
Cash and cash equivalents	0	59,149	0	0	**59,149**	**59,149**	0	0	0
Placements with banks	0	82,575	0	0	**82,575**	**82,575**	0	0	0
Net loans	0	1,573,457	41,363	0	**1,614,820**	**1,621,569**	0	41,363	0
Financial assets at fair value through profit or loss	0	0	11,451	53,946	**65,397**	**65,397**	18,773	46,624	0
Available for sale securities	296,953	0	0	0	**296,953**	**296,953**	130,380	166,573	0
Held to maturity securities	0	143,989	0	0	**143,989**	**143,989**	0	0	0
Investments in associated undertakings	0	0	48	0	**48**	**48**	0	0	48
Investments in unlisted securities	108	0	0	0	**108**	**108**	0	0	108
Property, plant and equipment	0	19,555	0	0	**19,555**	**19,555**	0	0	0
Investment property	0	1,252	0	0	**1,252**	**1,252**	0	0	0
Intangible assets	0	14,332	0	0	**14,332**	**14,332**	0	0	0
Goodwill	0	1,672	0	0	**1,672**	**1,672**	0	0	0
Current tax assets	0	1,827	0	0	**1,827**	**1,827**	0	0	0
Deferred tax assets	0	3,069	0	0	**3,069**	**3,069**	0	0	0
Other assets	0	48,211	0	0	**48,211**	**48,211**	0	0	0
Assets classified as held for sale	0	14,951	0	0	**14,951**	**14,951**	0	0	0
Total assets	**297,061**	**1,964,039**	**52,862**	**53,946**	**2,367,908**	**2,374,657**	**149,153**	**254,560**	**156**
LIABILITIES AND EQUITY									
Deposits from banks	0	530,406	0	0	**530,406**	**528,275**	0	0	0
Deposits from non-banks	0	1,318,894	4,803	0	**1,323,697**	**1,323,685**	0	4,803	0
Debt securities issued	0	118,303	28,004	0	**146,307**	**146,245**	0	28,004	0
Subordinated liabilities	0	53,617	0	0	**53,617**	**53,623**	0	0	0
Financial liabilities at fair value through profit or loss	0	0	46,839	37,469	**84,308**	**84,308**	308	84,000	0
Current tax liabilities	0	0	0	0	**0**	**0**	0	0	0
Deferred tax liabilities	0	181	0	0	**181**	**181**	0	0	0
Provisions	0	8,878	0	0	**8,878**	**8,878**	0	0	0
Other liabilities	0	68,828	0	0	**68,828**	**68,828**	0	0	0
Liabilities classified as held for sale	0	170	0	0	**170**	**170**	0	0	0
Total liabilities	**0**	**2,099,277**	**79,646**	**37,469**	**2,216,392**	**2,214,193**	**308**	**116,807**	**0**

Notes to the consolidated financial statements

2010 (HUF million)	Fair value through equity	Amor-tized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
Equity attributable to equity holders of the parent	**0**	**151,264**	**0**	**0**	**151,264**	**151,264**	**0**	**0**	**0**
Ordinary shares	0	59,099	0	0	**59,099**	**59,099**	0	0	0
Preference shares	0	0	0	0	**0**	**0**	0	0	0
Issued capital	0	59,099	0	0	**59,099**	**59,099**	0	0	0
Retained earnings	0	77,964	0	0	**77,964**	**77,964**	0	0	0
Statutory reserves	0	18,864	0	0	**18,864**	**18,864**	0	0	0
Non-distributable reserve	0	500	0	0	**500**	**500**	0	0	0
Fair value reserve	0	(5,163)	0	0	**(5,163)**	**(5,163)**	0	0	0
Non controlling interest	0	252	0	0	**252**	**252**	0	0	0
Total equity	**0**	**151,516**	**0**	**0**	**151,516**	**151,516**	**0**	**0**	**0**
Total liabilities, non controlling interest and shareholder's equity	**0**	**2,250,793**	**79,646**	**37,469**	**2,367,908**	**2,365,709**	**308**	**116,807**	**0**

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy.
The valuation methods of financial instruments carried at fair value are also presented in this table, but are commented in Note 39.

(39) Accounting classifications and fair values

The estimated fair values disclosed above are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques (see Note 3 h) and Note 38), which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured.

The methods and, when a valuation technique is used, the assumptions applied in determining fair values of financial instruments were as follows:

I) Cash and cash equivalents, Placements with banks

Due to their short term nature, the carrying amounts of Cash and cash equivalents and Placements with banks are a reasonable approximation of their fair value.

II) Loans and advances to customers

For determining the fair value of these assets, future anticipated cash flows are discounted to their present value using current market interest rates.

III) Investments in securities

Quoted market prices are used for exchange-traded securities and listed debt instruments. The fair value of Hungarian government bonds classified as trading or available-for-sale are measured according to the reference price index announced by the Government Debt Management Agency. The fair value of the securities is the market price quoted on the stock exchange (where such price exists). If no quoted price exists, the fair value is the discounted present value of the contractual cash-flows at the revaluation date.

The fair value of municipal bonds is calculated with discounted cash-flow method. The yield curves used for discounting purposes are shifted using the Basis Swap spreads representing the country risk. The embedded repayment option is valued as well, using the Black-Scholes option pricing formula based approach.

IV) Derivatives

The fair value of exchange-traded derivatives is the quoted price.

The fair value of single currency swaps and interest rate futures are calculated on the basis of discounted, anticipated future cash flows. In doing so, the Group applies the market rates applicable for the remaining maturity of the financial instruments.

Cross currency swaps are valued based on discounted cash-flow method. Revaluation yield curves are shifted using the Basis Swap spreads characteristic for the cross currency swap markets and representing the country risk.

The fair value of forward exchange transactions is computed on the basis of current forward rates. Mark-to-market value of plain vanilla and exotic options is claculated with modified Black-Scholes model. In case of exotic options, which do not have closed-form for revaluation iteration technics are used.

For hedging the exposures to changes in fair value of some loans, the Group has entered into interest rate swap transactions. The fair value of these hedged loans is the discounted present value of the future cash-flows at balance sheet date. These loans are measured at fair value in the statement of financial position.

V) Deposits from banks, Deposits from customers

Fair value of Deposits from banks and Deposits from customers are determined using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

VI) Debt securities issued, Subordinated liabilities

Fair value of debt securities issued is determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments. Fair value of subordinated liabilities is calculated by discounting the future cash flows.

(40) Related parties

The Group's related parties include the parent company, associates, joint ventures, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held by key management personnel or their close family members.

Transactions with related parties

Related parties have transacted with the Group during the period as follows:

	2011 (HUF million)			
Related parties	Parent company and its group	Consolidated subsidiaries	Associates	Key Management Personnel
Assets	**144,338**	**90 665**	**4,492**	**10**
Placements with banks	84,469	0	0	0
Loans and advances to customers	43,959	88,769	4,492	10
Financial assets at fair value through profit or loss	15,881	0	0	0
Available for sale securities	0	0	0	0
Other assets	29	1,896	0	0
Liabilities	**252,096**	**7,499**	**549**	**135**
Financial liabilities at fair value through profit or loss	72,855	0	0	0
Deposits from banks	98,501	0	0	0
Deposits from non-banks	1,603	7,201	549	135
Debt securities issued	0	0	0	0
Subordinated liabilities	59,297	0	0	0
Other liabilities	19,840	298	0	0
Income statement	**(12,202)**	**(6,051)**	**249**	**(782)**
Interest income	36,962	3,851	226	2
Interest expense	(20,896)	(313)	(6)	3
Net fee and commission income	(195)	1,381	29	0
Other operating income	(25,829)	1,264	0	0
Personnel expenses	0	0	0	(787)
Other operating expenses	(2,244)	(12,234)	0	0
Contingencies and commitments	**6,446**	**74,060**	**4,329**	**0**
Undrawn commitments to extend credit	5,179	73,682	4,329	0
Guarantees	1,267	378	0	0

Related parties	2010 Parent company and its group	Consolidated subsidiaries	Associates	Key Management Personnel
Assets	**111,581**	**105,857**	**3,967**	**126**
Placements with banks	65,096	0	0	0
Loans and advances to customers	37,424	103,884	3,967	126
Financial assets at fair value through profit or loss	8,118	0	0	0
Available for sale securities	0	0	0	0
Other assets	943	1,973	0	0
Liabilities	**260,021**	**6,868**	**574**	**88**
Financial liabilities at fair value through profit or loss	55,265	0	0	0
Deposits from banks	146,050	0	0	0
Deposits from non-banks	5,054	6,747	574	88
Debt securities issued	0	0	0	0
Subordinated liabilities	53,093	0	0	0
Other liabilities	559	121	0	0
Income statement	**(365)**	**2,313**	**129**	**(692)**
Interest income	25,872	4,466	88	8
Interest expense	(16,183)	(224)	(6)	(17)
Net fee and commission income	(191)	1,129	47	2
Other operating income	(8,119)	1,627	0	0
Personnel expenses	0	0	0	(685)
Other operating expenses	(1,744)	(4,685)	0	0
Contingencies and commitments	**4,749**	**91,142**	**0**	**0**
Undrawn commitments to extend credit	364	90,764	0	0
Guarantees	4,385	378	0	0

The above transactions were made in the ordinary course of business and on substantially the same terms and conditions, including interest rates and security, as for third parties.

No impairment losses have been recorded against balances outstanding during the period with related parties, and no specific allowance has been made for impairment losses on balances with related parties at the period end.

(41) Group entities

The subsidiaries and associates of the Group and their activities are as follows:

Company	Ownership ratio 2011	Ownership ratio 2010	Residence of the Company	Brief description of activities
Subsidiaries				
AFFOREST Agrárenergetikai Kft.	20.00%	20.00%	4130 Derecske, Dobó I. u. 6.	Sylviculture production
BUTÁR Gazdasági Szolgáltató Kft.	100.00%	100.00%	2030 Érd, Budai út 22.	Activities of collection agencies and credit bureaus
CLEAN ENERGY Szolgáltató és Termelő Kft.	50.00%	50.00%	1087 Bp., Hungária krt. 40-44.	Electricity production
Deko-Plastic Műanyagipari Kft.	a)	100.00%	2030 Érd, Budai út 22.	Manufacture of other plastic products
EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft.	42.50%	42.50%	1087 Bp., Hungária krt. 40-44.	Electricity production
Global Thermal Szolgáltató Kft.	74.67%	0.00%	1054 Bp., Akadémia u. 6.	Buying and selling of own real estate
Győri-Kert Agrárenergetikai Kft.	25.00%	25.00%	8051 Sárkeresztes, József A. u. 24.	Sylviculture production
Kawa Energetika Kft.	30.50%	30.50%	1087 Bp., Hungária krt. 40-44.	Steam and air conditioning supply
Késmárk utca 11. Ingatlanhasznosító Kft.*	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Buying and selling of own real estate
Raiffeisen Autó Lízing Kft.	50.00%	50.00%	1087 Bp., Hungária krt. 40-44.	Sale of cars and light motor vehicles
Raiffeisen Befektetési Alapkezelő Zrt.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Fund management activities
Raiffeisen Biztosításközvetítő Kft.	100.00%	99.00%	1054 Bp., Akadémia u. 6.	Activities of insurance agents and brokers
Raiffeisen Energiaszolgáltató Kft.	50.00%	50.00%	1087 Bp., Hungária krt. 40-44.	Activities of holding companies
Raiffeisen Eszköz Lízing Zrt.	50.00%	50.00%	1087 Bp., Hungária krt. 40-44.	Financial leasing
Raiffeisen Eszközértékesítő Kft.	50.00%	50.00%	1087 Bp., Hungária krt. 40-44.	Sale of cars and light motor vehicles
Raiffeisen Gazdasági Szolgáltató Zrt.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Other professional, scientific and technical activities n.e.c.
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Development of building projects
Raiffeisen Lízing Zrt.	50.00%	50.00%	1087 Bp., Hungária krt. 40-44.	Financial leasing
Raiffeisen Property Lízing Zrt.	100.00%	100.00%	1087 Bp., Hungária krt. 40-44.	Financial leasing
RB Kereskedőház Kereskedelmi Kft.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Wholesale of metals and metal ores
SCT Beruházás Ingatlanfejlesztő és Ingatlanhasznosító Kft.	78.33%	78.33%	1124 Bp., Csörsz utca 49-51.	Development of building projects
SCT Kárász utca Ingatlankezelő Kft.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Management of real estate on a fee or contract basis
SCT Tündérkert Kft.*	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Buying and selling of own real estate
SCTAI Angol iskola Ingatlanfejlesztő és Ingatlanhasznosító Kft.	81.00%	81.00%	1124 Bp., Csörsz utca 49-51.	Development of building projects
SCTB Ingatlanfejlesztő és Ingatlanhasznosító Kft.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Buying and selling of own real estate
SCTJ Ingatlanfejlesztő és Ingatlanhasznosító Kft.	73.87%	73.00%	1124 Bp., Csörsz utca 49-51.	Buying and selling of own real estate
SCTS Ingatlanfejlesztő és Ingatlanhasznosító Kft.	80.65%	80.00%	1124 Bp., Csörsz utca 49-51.	Development of building projects
SPC Vagyonkezelő Kft.*	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Buying and selling of own real estate
SZELET Energiatermelő és Szolgáltató Kft.	50.00%	50.00%	9022 Győr, Lukács S. u. 7.	Electricity production
T+T 2003 Ingatlanhasznosító Kft.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Development of building projects
W.P.S.S. Energetikai Kft.	50.00%	50.00%	1087 Bp., Hungária krt. 40-44.	Electricity production

Notes to the consolidated financial statements

Company	*Ownership ratio 2011*	*Ownership ratio 2010*	*Residence of the Company*	*Brief description of activities*
Associates				
Middle Outlet Ingatlanfejlesztő és Ingatlanhasznosító Kft.	*b)*	*40.67%*	*2030 Érd, Budai út 22.*	*Buying and selling of own real estate*
New Outlet Center Ingatlanfejlesztő és Ingatlanhasznosító Kft.	*b)*	*40.67%*	*2030 Érd, Budai út 22.*	*Buying and selling of own real estate*
Upper Land Ingatlanforgalmazó és Ingatlanhasznosító Kft.	*b)*	*40.67%*	*2030 Érd, Budai út 22.*	*Buying and selling of own real estate*
NOC Kft.	*40.67%*	*b)*	*1124 Bp., Csörsz utca 49-51.*	*Buying and selling of own real estate*

a) Deko-Plastic Kft. has been sold to Advanced Decorative System Ldt on the 5th August 2011.
b) The three companies merged into a new entity (NOC Kft.).
*) On 31 December 2011, Késmárk utca 11. Ingatlanhasznosító Kft. and SPC Vagyonkezelő Kft. merged into SCT Tündérkert Kft.

The management is committed to sell the Group's share in Euro Green Energy Fejlesztő és Szolgáltató Kft, CLEAN ENERGY Szolgáltató és Termelő Kft és W.P.S.S. Energetikai Kft. The sale is expected to be completed within one year.

(42) Funds management

The Group manages 1 close-ended (2010: 1) and 23 open-ended (2010: 24) investment funds via Raiffeisen Befektetési Alapkezelő Zrt., a fully owned and consolidated subsidiary. However, as the funds themselves are not controlled by the Group, they are not consolidated. For funds management services provided by the Group, funds should pay certain fees and commission that is presented as „Net fee and commission income" (see Note 7). In 2011 and 2010, transactions with the funds themselves were as follows:

(HUF million)	*2011*	*2010*
Managed funds	***170,948***	***160,187***
Open-ended funds	*109,391*	*94,678*
Close-ended funds	*61,557*	*65,509*
Net fee and commission income from funds	*2,249*	*2,002*
Deposits from funds	*85,742*	*54,333*
Interest expense on deposits from funds	*4,414*	*1,720*

(43) Segment information

The following segment information has been prepared in accordance with IFRS 8, "Operating Segments," which defines requirements for the disclosure of financial information of an entity's operating segments. It follows the "management approach", which requires presentation of the segments on the basis of the internal reports about components of the entity which are regularly reviewed by the chief operating decision-maker in order to allocate resources to a segment and to assess its performance. The Group's risk and rates of return are affected predominantly by differences in its products and services, so segment information is presented in respect of the Group's business segments.

The following summary describes the operation in each of the Group's reportable segments:

Retail and private segment: the private banking segment provides a wide range of financial services to customers. It mainly comprises lending and deposit taking activities. The Group's retail banking segment also provides credit and bank card facilities and investment services to customers.

Corporate segment: within corporate banking the Group provides corporations and institutions with a wide range of financial products and services. As well as traditional lending and deposit taking activities, the segment provides project and structured finance products and syndicated loans.

Bank and treasury segment: the Group provides banks with a wide range of financial products and services; as well as traditional lending and deposit taking activities. All kinds of investment activities (investment advice, brokerage services, derivative trading and other investment services) are also provided.

Other segment: it contains financial services to governments, local municipalities, social institutions, and residual items which can not be directly allocated to business segments (mainly general administration expenses) are included in this category.

Notes to the consolidated financial statements

2011 (HUF million)	Corporate	Retail/ Private	Bank/ treasury	Other	Total
ASSETS					
Cash and cash equivalents	0	0	98,285	0	**98,285**
Placements with banks	0	0	99,777	0	**99,777**
Loans	1,059,918	633,599	0	82,657	**1,776,174**
Less: loss value on loans	141,191	107,001	0	1,744	**249,936**
Net loans	918,727	526,598	0	80,913	**1,526,238**
Financial assets at fair value through profit or loss	19,300	3,906	38,033	8,929	**70,168**
Available for sale securities	5,720	0	99,767	147,921	**253,408**
Held to maturity securities	11,156	0	0	132,030	**143,186**
Investments in associated undertakings	142	0	0	0	**142**
Investments in unlisted securities	120	0	0	0	**120**
Property, plant and equipment	224	0	0	20,797	**21,021**
Investment property	147	0	0	0	**147**
Intangible assets	0	0	0	15,332	**15,332**
Goodwill	0	0	0	1,672	**1,672**
Current tax assets	23	0	0	516	**539**
Deferred tax assets	83	0	0	8,556	**8,639**
Other assets	11,118	777	8,877	26,706	**47,478**
Assets classified as held for sale	12,860	0	0	1,259	**14,119**
Total assets	**979,620**	**531,281**	**344,739**	**444,631**	**2,300,271**
LIABILITIES AND EQUITY					
Deposits from banks	0	0	269,888	48,182	**318,070**
Deposits from non-banks	718,595	570,188	552	145,203	**1,434,538**
Debt securities issued	0	145,720	(19,398)	0	**126,322**
Subordinated liabilities	183	0	59,297	0	**59,480**
Financial liabilities at fair value through profit or loss	2,860	0	120,220	(192)	**122,888**
Current tax liabilities	44	0	0	72	**116**
Deferred tax liabilities	104	0	0	16	**120**
Provisions	12,150	6,950	6	1,803	**20,909**
Other liabilities	4,869	6,943	25,448	19,508	**56,768**
Liabilities classified as held for sale	156	0	0	0	**156**
Total liabilities	**738,961**	**729,801**	**456,013**	**214,592**	**2,139,367**
Equity attributable to equity holders of the parent	**0**	**0**	**0**	**162,400**	**162,400**
Ordinary shares	0	0	0	165,023	**165,023**
Issued capital	0	0	0	165,023	**165,023**
Retained earnings	0	0	0	12,864	**12,864**
Statutory reserves	0	0	0	0	**0**
Non-distributable reserve	0	0	0	323	**323**
Fair value reserve	0	0	0	(15,810)	**(15,810)**
Non controlling interest	0	0	0	(1,496)	**(1,496)**
Total equity	**0**	**0**	**0**	**160,904**	**160,904**
Total liabilities, non controlling interest and shareholder's equity	**738,961**	**729,801**	**456,013**	**375,496**	**2,300,271**

2011 (HUF million)	Corporate	Retail/ Private	Bank/ treasury	Other	Total
INCOME STATEMENT					
Interest income	67,246	48,408	12,075	20,439	**148,168**
Interest expense	28,017	22,506	26,489	12,676	**89,688**
Fee and commission income	9,176	16,215	0	3,841	**29,232**
Fee and commission expenses	3,110	4,907	13	153	**8,183**
Dividend income	29	0	0	0	**29**
Net trading income	(1,685)	0	7,165	(51)	**5,429**
Net income from derivatives held for risk management	0	0	0	37,030	**37,030**
Other operating income	2,328	3	6,769	(4,746)	**4,354**
Impairment losses	63,773	31,346	520	10,223	**105,862**
OTHER INFORMATION					
Capital expenditure	1,282	3,802	254	2,273	**7,611**
Depreciation and amortization	2,849	3,923	312	4,040	**11,124**

Notes to the consolidated financial statements

2010 (HUF million)	Corporate	Retail/ Private	Bank/ treasury	Other	Total
ASSETS					
Cash and cash equivalents	0	0	43,624	15,525	**59,149**
Placements with banks	0	0	82,575	0	**82,575**
Loans	1,030,982	674,750	0	60,137	**1,765,869**
Less: loss value on loans	91,909	58,614	0	526	**151,049**
Net loans	939,073	616,136	0	59,611	**1,614,820**
Financial assets at fair value through profit or loss	15,322	3,200	11,077	35,798	**65,397**
Available for sale securities	5,111	0	114,870	176,972	**296,953**
Held to maturity securities	1,180	0	0	142,809	**143,989**
Investments in associated undertakings	48	0	0	0	**48**
Investments in unlisted securities	96	0	0	12	**108**
Property, plant and equipment	973	0	12	18,570	**19,555**
Investment property	1,252	0	0	0	**1,252**
Intangible assets	3	0	0	14,329	**14,332**
Goodwill	0	0	0	1,672	**1,672**
Current tax assets	0	0	0	1,827	**1,827**
Deferred tax assets	0	0	0	3,069	**3,069**
Other assets	8,485	2,356	2,638	34,732	**48,211**
Assets classified as held for sale	13,642	0	0	1,309	**14,951**
Total assets	**985,185**	**621,692**	**254,796**	**506,235**	**2,367,908**
LIABILITIES AND EQUITY					
Deposits from banks	0	0	487,393	43,013	**530,406**
Deposits from non-banks	706,249	485,669	799	130,980	**1,323,697**
Debt securities issued	0	153,285	(14,603)	7,625	**146,307**
Subordinated liabilities	524	0	53,093	0	**53,617**
Financial liabilities at fair value through profit or loss	1,443	0	18,958	63,907	**84,308**
Current tax liabilities	0	0	0	0	**0**
Deferred tax liabilities	0	0	0	181	**181**
Provisions	7,124	825	6	923	**8,878**
Other liabilities	5,567	6,324	17,119	39,818	**68,828**
Liabilities classified as held for sale	66	0	0	104	**170**
Total liabilities	**720,973**	**646,103**	**562,765**	**286,551**	**2,216,392**
Equity attributable to equity holders of the parent	0	0	0	151,264	**151,264**
Ordinary shares	0	0	0	59,099	**59,099**
Issued capital	0	0	0	59,099	**59,099**
Retained earnings	0	0	0	77,964	**77,964**
Statutory reserves	0	0	0	18,864	**18,864**
Non-distributable reserve	0	0	0	500	**500**
Fair value reserve	0	0	0	(5,163)	**(5,163)**
Non controlling interest	0	0	0	252	**252**
Total equity	**0**	**0**	**0**	**151,516**	**151,516**
Total liabilities, non controlling interest and shareholder's equity	**720,973**	**646,103**	**562,765**	**438,067**	**2,367,908**

2010 (HUF million)	Corporate	Retail/Private	Bank/trea-sury	Other	Total
INCOME STATEMENT					
Interest income	64,896	56,714	5,459	25,521	**152,590**
Interest expense	22,737	22,979	23,231	13,163	**82,110**
Fee and commission income	11,163	16,769	0	1,770	**29,702**
Fee and commission expenses	3,342	5,266	52	163	**8,823**
Dividend income	27	0	0	0	**27**
Net trading income	(385)	0	12,091	(392)	**11,314**
Net income from derivatives held for risk management	0	0	0	25,007	**25,007**
Other operating income	4,282	3	(3,381)	7,354	**8,258**
Impairment losses	37,980	19,385	0	253	**57,618**
OTHER INFORMATION					
Capital expenditure	2,322	2,390	37	1,745	**6,494**
Depreciation and amortization	1,233	2,921	275	3,284	**7,713**

Measurement of segment profit or loss

Segment reporting under IFRS 8 requires a presentation of the segment results based on management reporting methods with reconciliation between the results of the business segments and the consolidated financial statements. The information provided about each segment is based on the internal reports about segment profit or loss, assets and other information which are regularly reviewed by the chief operating decision maker.

(43) Events after the balance sheet date

The total loss from early repayment option was HUF 31,284 million. Hereof the realised loss at year end amounted to HUF 15,568 million, and an additional HUF 9,811 million individual impairment loss was recognised. When the actually realised total loss was defined on the 29th of February 2012, HUF 5,905 million provision was recognised, in order to show the most accurate picture in the financial statements. These losses are presented under other operating expenses on a cumulative basis.

In 2012, the Bank has sold HUF 30 billion held-to-maturity securities. The sales of Hungarian government bonds were not subject to the tainting provisions because they were justified by the credit rating downgrade of Hungary which meant a significant deterioration in the issuer's creditworthiness. This event does not adjust the financial statements.

End of Cosolidated Financial Statements

Consolidated income statement and financial position in euro

Consolidated income statement in euro

(EUR million)	2011	2010
Interest and similar income	**476**	**547**
- on cash and cash equivalents	12	9
- on placements with banks	3	3
- on loans to non-banks	375	447
- on securities	78	77
- from leases	8	11
Interest expenses and similar charges	**289**	**294**
- on borrowings from banks	60	63
- on deposits from non-banks	192	193
- on debt securities issued	31	33
- on subordinated liabilities	6	5
Net interest income	**187**	**253**
Fee and commission income	94	107
Fee and commission expense	26	32
Net fee and commission income	**68**	**75**
Dividend income	0	0
Net trading income	17	41
Net income from derivatives held for risk management	119	90
Other operating income	14	30
Operating income	**150**	**161**
Impairment losses	**340**	**207**
Salaries and staff benefits	91	113
Rental expenses	25	28
Equipment expenses	20	23
Other operating expenses	225	142
Operating expenses	**361**	**306**
Share of profits of associates	**0**	**0**
Profit/(loss) before tax	**(296)**	**(24)**
Income tax expense	1	1
Deferred tax	(10)	(6)
Profit/(loss) for the period	**(287)**	**(19)**
Attributable to:		
Equity holders of the parent	(274)	(5)
Non controlling interest	(13)	(14)

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2011 was 311,13 HUF/EUR in 2010 was 278,75 HUF/EUR.

Consolidated statement of financial position in euro

(EUR million)	2011	2010
ASSETS		
Cash and cash equivalents	316	212
Placements with banks	321	296
Net loans	4,905	5,793
Financial assets at fair value through profit or loss	226	235
Available for sale securities	814	1,065
Held to maturity securities	460	517
Investments in associated undertakings	0	0
Investments in unlisted securities	0	0
Property, plant and equipment	68	70
Investment property	0	4
Intangible assets	49	51
Goodwill	5	6
Current tax assets	2	7
Deferred tax assets	28	11
Other assets	154	175
Assets classified as held for sale	45	54
Total assets	**7,393**	**8,496**
LIABILITIES AND EQUITY		
Deposits from banks	1,022	1,903
Deposits from non-banks	4,611	4,749
Debt securities issued	406	525
Subordinated liabilities	191	192
Financial liabilities at fair value through profit or loss	395	302
Current tax liabilities	0	0
Deferred tax liabilities	0	1
Provisions	67	32
Other liabilities	184	247
Liabilities classified as held for sale	1	1
Total liabilities	**6,877**	**7,952**
Equity attributable to equity holders of the parent	**521**	**543**
Ordinary shares	530	212
Preference shares	0	0
Share capital	**530**	**212**
Retained earnings	41	280
Statutory reserves	0	68
Non-distributable reserve	1	2
Fair value reserve	(51)	(19)
Non controlling interest	**(5)**	**1**
Total equity	**516**	**544**
Total liabilities, non controlling interest and shareholder's equity	**7,393**	**8,496**

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2011 was 311,13 HUF/EUR in 2010 was 278,75 HUF/EUR.

Raiffeisen Leasing Zrt.

The leasing market in 2011

Statistics released by the Hungarian Leasing Association show that 2011 brought the much-awaited positive change in a domestic leasing sector that had been under pressure for many years. Expressed in figures, following drops of 60% in 2009 and 35% in 2010, the volume of new contracts increased by 22% in 2011 relative to the previous year.

An examination of the distribution of customers shows that the rise in the proportion of corporate customers, a trend that has lasted for many years, continued in 2011. Small and medium-sized businesses accounted for the largest share of the market, at 57%, while large corporate customers made up a tenth of new placements. The share of private individuals now stands at only 30%, and is declining steadily.

Repayment related to existing contracts continues to be impeded by the strong Swiss franc, which in turn has an impact on the entire, still sizeable, foreign-currency portfolio. Nevertheless, neither the growth in new placements nor the weakening of the exchange rate were able to make up for the expiring transactions, so that by the end of the year the value of capital receivables had fallen by almost 8%, to below HUF 2,000 billion.

New placements increased in all segments with the exception of the declining real-estate and the stagnant car segment.

The vehicle segment remains the largest, although its previous 50% share has now eroded to only 40%. The sickly domestic car market had a profound effect on the new placement figures. In tough times, however, fleet financing performs well, and accounts for a third of the total volume of vehicle financing.

Following the slump experienced in 2010, the agricultural machinery segment quickly found its feet again. In 2011 it grew by precisely as much in year-on-year terms (70%) as it had fallen in 2010. This positive development is due to the fact that the agricultural sector closed a very good year in 2011.

Machinery and equipment financing and large commercial vehicle financing also gained new momentum (approx. +60%), with the latter sub-category even bettering its 2009 performance.

The year 2012 appears uncertain, with some trends in sight that are conducive to growth, and others that impede it; however, experts foresee slow growth overall.

Business results of 2011

Raiffeisen Leasing Zrt. is owned by Raiffeisen Bank Zrt. and the Austrian Raiffeisen International Leasing GmbH, with each holding a 50% share in the company, which over the past 19 years since its inception in 1993 has become a major player in the Hungarian leasing market. The Raiffeisen Leasing Group consists of Raiffeisen Leasing Zrt. as the parent company, Raiffeisen Equipment Leasing Zrt., Raiffeisen Auto Leasing Kft. and Raiffeisen Energy Services Kft.

As a consequence of the economic crisis, which had a particularly severe impact on the leasing market, Raiffeisen Leasing Zrt. significantly restricted the volume of its new financing since the end of 2009, and similarly to other market players, has primarily focused on improving the quality of its interest-bearing assets, on the restructuring of transactions with the aim of maintaining the solvency of customers and thereby ensuring the highest possible return on the financing facilities, and on ensuring effective portfolio management.

The restructuring schemes launched in 2009 in line with the new efficiency-improvement expectations were implemented, and a system that resulted in close collaboration and a strengthening of organisational ties with Raiffeisen Bank Zrt. was established, in which leasing, as the optimal form of asset financing, became a complementary element in the financial services offered by the Raiffeisen bank group in Hungary, primarily for the purpose of offering a full and universal service to customers of the Bank.

These steps paved the way for a shift of focus in the course of 2011 towards the launch of lease financing activity and an increase in the volume of new contracts on the basis of new strategic foundations, albeit in a differing manner and extent for each customer segment, primarily targeting the bank group's base of large corporate customers. Owing to the general market and economic situation, however, the number of new investment and financing applications unfortunately remained low, which thus, again, did not generate any significant new leasing-business growth in 2011.

At the same time, significant advances were made in the development of standard lease financing products suitable for provision to the small and medium-sized enterprise segment through the bank's sales network. However, these products will be finalised and fully introduced only gradually, during the course of 2012 to 2013. During the transitional period, new leasing transactions were only concluded on a case-by-case basis in this segment.

In the retail segment, business operations were not restarted in 2011.

In accordance with the strategic directions, in 2011 the foundations of the new business model were successfully laid, focusing on the provision of leasing facilities that combine the benefits of asset-based financing with a direct customer-based approach, taking account of the common interests of the bank group. In this sense, 2011 marked a turning point in the company's history, as a new rational, secure and sufficiently profitable system was put in place for the structuring of portfolios in the corporate segment, which in the long term will be capable of stimulating new sales activity, thereby compensating for the rapid decline in the interest-bearing portfolio.

Business plans for 2012

In 2012 Raiffeisen Leasing Zrt. will continue its efforts, in cooperation with its parent bank, to increase the number of placements in the less-risky segments and build up a secure portfolio, primarily targeting the bank's corporate customers, while giving sufficient priority to protecting the portfolio and improving the efficiency of internal operations, and to reducing costs and maintaining them at the optimal level. The company plans to achieve the desired efficiency gains through projects aimed at reviewing/optimising business processes.

In 2012 the Company will continue providing its customers with a growing range of leasing products, and engaging in proactive portfolio management to identify problem customers as soon as possible, professionally and rapidly restructuring the transactions where necessary, and improving the overall cost-effectiveness of its operation.

Over a two or three-year horizon, in addition to the above, the Company has also set itself the objective of relaunching the sales of vehicle financing products to retail customers. The realisation of this plan is also dependent on trends in the car market and on the development of the sales channels, so a decision regarding the relaunch of operations related to car financing products can only be made some time in the next one or two years.

Raiffeisen Investment Fund Management Zrt.

Market environment

Despite the uncertain international environment and the wary stance of investors, the Hungarian government securities market performed exceptionally well in the first half of the year. Market players initially took a positive view of the Széll Kálmán Plan, and were prepared to regularly subscribe increased quantities of bonds at auction. Consequently the volume of government securities held by foreign investors grew, rising to HUF 3,500 billion by the end of June (thus returning to near the pre-crisis record level). However, the dynamic growth in foreign-owned bonds (which have taken on key importance since the dramatic shrinkage in private pension fund assets) also meant that given any significant yield correction resulting from negative sentiment, market liquidity would represent a bottleneck for the players, which could lead to substantial movements – as has happened on several occasions in the past. For most of the third quarter, international news dominated and was the main driver of the market's performance, but from September onwards the focus shifted back onto domestic economic policy and the rise in sovereign risk. The news of the scheme to permit the redemption of retail foreign currency loans at a discounted exchange rate triggered a significant hike in yields, with long-term bonds weakening to a level of 8.50%. The forint exchange rate against the euro weakened almost continuously, coming close to the psychological barrier of HUF 300. At this time the central bank left the 6.00% base rate unchanged. At the end of December, however, the base interest rate had risen to 7% as the National Bank of Hungary (MNB) was once again compelled to resort to interest-rate hikes. This happened after the constant stream of economic-policy "surprises" prompted two of the credit rating agencies (and, we have since learned, the third one too) to downgrade Hungary's debt to "junk" status, at which point the domestic government securities market displayed similar symptoms to those of autumn 2008. Thus the year ended with bond yields at what was effectively their annual peak, and an exchange rate of well over HUF 300 to the euro.

In 2010 the Hungarian stock market had made a distinctly lacklustre showing, both in regional and global comparison. The first half of 2011 saw a reversal of this trend as the earlier underperformance and the government's show of commitment, coupled with a low budget deficit and shrinking state debt, drew buyers to the market. From the third quarter onwards, the untenability of the Greek debt situation, the fear that the European sovereign debt crisis would spread further, the unresolved issue of the US debt ceiling, and in the Hungarian markets the stream of "unorthodox" (read: not market-friendly and not market-compliant) government announcements, all took their toll on risky assets. The Hungarian market once again significantly underperformed the regional average during this period. A major factor in this was that the price of OTP shares, which are heavily weighted in the index, was floored by the draft act on the redemption of foreign currency loans, and the exceedingly strong Swiss franc.

Until the fourth quarter, investors were chiefly worried about the debt problems of certain developed countries, but in the last few months we moved on to a new level of the crisis as concerns about global economic growth also increased. The Hungarian capital market, which, owing to the non-conformist economic policies, had for a time been immune to the spread of the crisis, became significantly more vulnerable in the last quarter, and this was clearly reflected in the forint exchange rate. Nevertheless, the BUX clearly performed better than its regional peers in the last quarter, and also managed to outdo them in terms of the year as a whole, despite falling more than 20%.

Among the stock markets of the developed countries, only those in the US ended the year in positive territory, while the European and Japanese bourses posted double-digit losses. 2011 was an eventful year for the world's equity markets. While in the first months of the year the "Arab Spring" in the Middle East and various natural disasters gave cause for concern, later on the emphasis shifted to the European debt problems, to the indebtedness issues that came to the fore in the US during the debates on the raising of the debt ceiling, and to the slowing of global economic growth. As a result, a real sense of panic began to take hold in September (in a process that had started in August with the US downgrade), which was then followed by a positive correction at the end of the year.

Owing to the still substantial macroeconomic risks, investor activity in the domestic real estate market only picked up slowly in 2011. The first six months were very quiet, with the volume of investment in the first half amounting to only EUR 300 million. The second half of the year, especially December, turned out to be a decidedly busy period for the investment market, partly due to the fact that price levels favoured investors; in other words, assets that are regarded as safe even in the present situations can be purchased very cheaply in Hungary today. The vacancy rate of office real estate, however, has shown no discernible improvement. This makes it clear that the new contracts concluded on the back of major discounts and due to additional services offered by office facilities to attract new tenants are almost exclusively the result of tenants moving premises within the same category.

The investment funds market, following the 26% growth of 2010, declined by 13% in 2011. Within this figure, the assets of public open-end funds decreased by "just" 9% (around HUF 200 billion). With this, the year-end volume of public open-end funds shrank to below HUF 2000 billion. The rate of increase in the number of managed funds also slowed in comparison to previous years. The almost HUF 300 billion plunge in the asset volume of closed-end funds (with the sector losing half of its managed assets) can be attributed to the dramatic fall in the assets of private pension funds. The rate of decrease in the assets of public open-end funds accelerated, especially at the end of the year due to the redemption of foreign currency loans and the resurgence of competition for deposits. Evaluating the changes in the individual asset categories is difficult because during the year the Association of Hungarian Investment Fund and Asset Management Companies (BAMOSZ) redefined the categories, with the result that a lot of funds moved into a different category. The largest asset category continues to be that of the liquidity funds, but the category displaying the most dynamic growth is that of absolute-return funds.

Business results of the year 2011

In its business plan for 2011, Raiffeisen Investment Fund Management Zrt. forecasted dynamic growth in assets under management. The shortfall relative to the volume targets was essentially due to the unfavourable trends that characterised the investment fund market at the end of the year. At the same time, our share of the public open-end funds market increased by 50 basis points, which we consider to be a significant achievement. The Bank remained committed to the sale of investment products, and Raiffeisen Fund Management used the means at its disposal to further strengthen this commitment. In addition to the steps already taken in the previous year in the interests of maintaining our competitiveness in the market for investment funds, last year we also expanded our sales support team. Despite the cost implications of these steps in the reporting year, and despite the lower-than-planned rate of portfolio growth, our results exceeded the target.

Besides the relatively modest but higher-than-expected revenue growth, our success in cost-cutting also proved to be a key factor contributing to our results.

The profit on financial transactions also exceeded the planned figure. The above-target growth in interest income and exchange rate gains more than made up for the shortfall, relative to the target figure, in dividend paid by Raiffeisen Facility Management Kft., which is owned by Raiffeisen Fund Management. Overall, Raiffeisen Fund Management achieved growth in its profit from ordinary business operations that surpassed the target figure by 70%.

Concurrently with these excellent financial results, the performance of our funds improved in comparison with both the benchmark indexes and the performance of our competitors. We made advances in terms of the development of a flexible information technology environment and with regard to our applied asset management procedures.

Business plans for the year 2012

In 2012 we do not expect the capital market to maintain its momentum; the optimism stemming from the present abundance of liquidity could wane in the second half of the year. We also see risks with regard to market fundamentals, and thus significant corrections could occur. The investment fund market is being negatively affected by the direct impact of the foreign currency loan redemption scheme, and by the possible indirect effect that this has in terms of reducing people's capacity to save. The level of demand for domestic retail funding sources, especially longer-term sources, portends a lower rate of growth. In order to stabilise the position we have achieved, we aim to improve our sales support activity and are placing particular emphasis on improving our cooperation with the Bank. We would like to ensure that regular savings products receive the appropriate level of focus within the retail division. Ensuring compliance with the new Act CXCIII of 2011 on Investment Fund Managers and Collective Investment Forms is generating a plethora of new tasks for Raiffeisen Fund Management. In order to achieve statutory compliance, we are having to revise our regulations, operating procedures and our fund prospectuses. We have to draw up 'key investor information documents', which require constant updating, and to elaborate the procedures for keeping them up-to-date.

Raiffeisen Insurance Mediator Kft.

Market environment

In 2011 the main objective of our operations was to generate commission revenue on the sales of insurance policies within the Raiffeisen Bank Group, with a special focus on retail customers.

The mediated insurance products fall into two categories: those sold directly by the Bank, and those sold independently by us.

The former category typically includes payment protection insurance (PPI), the "Gondoskodás", KMI and asset insurance policies, while the latter comprises the Premium Risk life insurance, "Spektrum" regular-premium unit-linked, "Jövő és Biztonság" guaranteed maturity benefit life insurance, the "Dimenziók" regular-premium unit-linked insurance launched in 2011, and stand-alone asset insurance policies. The tougher market environment of 2011 impacted the sales of the Bank's products, which had a knock-on effect on the sales potential of PPI cover; besides this, the low level of savings activity was detrimental to sales of the "Spektrum", "Dimenziók" and "Jövő és Biztonság" policies, which are typically linked to saving schemes.

The termination of contracts due to the redemption of foreign currency loans naturally also led to a decrease in the portfolio of the PPI and asset insurance policies related to the repaid loans.

Business results of the year 2011

Our sales primarily targeted the retail and SME divisions of Raiffeisen Bank Zrt. Specifically, we focused on the sale of PPI (payment protection insurance) policies related to the Bank's credit products, the "Gondoskodás" policy offered alongside bank accounts, and asset and liability cover either bundled with mortgage loans or offered as a stand-alone product, as well as the unit-linked ("Spektrum", Dimenziók") policies offered in combination with investment products, and the "Jövő és Biztonság" guaranteed maturity benefit policies.

Besides this we had to fulfil the insurance requirements related to the existing portfolio of Raiffeisen Leasing Zrt, as well as the Bank Group's own assets (TSD), and cater to the individual needs of Raiffeisen Investment Fund Management Zrt. and the Bank's Retail (RET/PI) and Corporate (RET/SB) directorates.

The difficulties experienced in the vehicle financing segment led to a drop in market volume in this area.

Sales of the asset and liability insurance policies developed for the Bank SB to be marketed as an accompaniment to SME mortgage loans, due to the simple sales process and the favourable premiums, rose steadily throughout the year despite the hostile economic environment, with the volume achieving penetration of 150-180% by the second half of 2011.

In terms of profit, the company came close to achieving the target figure given in the forecast. This was mainly due to the sales of investment-related insurance policies, the work of the Bank's branch network as a sub-agent, and the favourable agreements concluded with the insurance companies.

Although the volume of sales and the commission earned on this remained unchanged in comparison to 2010, given the unfavourable external factors this can be regarded as a good result. The ambitious target figures set in 2009 were not achieved.

However, this was also partly due to the impact of the detrimental market events that unfolded concurrently.

The main sources of income were the "Spektrum" and "Dimenziók" unit-linked policies and the "Jövő és biztonság" term policies sold through the RET/PI department.

Plans for 2012

In 2012 major product developments are in the pipeline with regard to investment-related insurance policies, which are expected to generate additional revenue.

A single-premium, offline unit-linked product will be introduced, and the company also plans to give priority to raising the volume of distance selling. The aim of this latter endeavour is to target the Bank's existing customer base with insurance products (typically PPI, travel insurance associated with bank cards, and "Gondoskodás").

In the year 2011 the company did not launch any research and development projects.
The Company does not have a branch office.
With regard to the employee headcount, the requirements arising from currently foreseeable potential orders are as follows: in the course of 2012, in all probability, the number of administrative employees will not rise.

In keeping with its commitment to the environment, in the course of its operations RIM only provides insurance support for the implementation of projects which – based on the available information – fully comply with the environmental protection regulations.

Where this is not the case, the company draws the client's attention to this fact.

RIM's main source of revenue is the commission received from the insurance companies on the sale of insurance policies. When determining the rate of such commission, in most cases the Company's professional background, as well as the volume of and quality of business generated by the RBH Group, are taken into consideration.

Raiffeisen Insurance Mediator Kft. does not apply true-value valuations, but values its assets and liabilities in accordance with the general regulations.

Since 2012, due to the change in the market environment, Raiffeisen Bank Zrt. has been particularly reliant on the work of Raiffeisen Insurance Mediator Kft.

The activities of Raiffeisen Insurance Mediator Kft., and its objectives defined at the time of its foundation, remain unchanged.

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