Annual Report 2012

Raiffeisen BANK

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Raiffeisen
BANK
Hungary

Consolidated key data of Raiffeisen Bank Zrt.

Monetary values in euro mn	2012	Change	2011
Income statement			
Net interest income	152	(18.72%)	187
Net fee and commission income	62	(8.82%)	68
Trading profit (loss)	51	(62.50%)	136
Operating expenses	138	1.47%	136
Profit before tax	(195)	(34.12%)	(296)
Profit after tax	(198)	(31.01%)	(287)
Balance sheet			
Loans and advances to banks	113	(64.80%)	321
Loans and advances to customers	4,413	(10.03%)	4,905
Deposits from banks	835	(18.30%)	1,022
Deposits from customers	4,932	6.96%	4,611
Equity (incl. minorities and profit)	398	(22.87%)	516
Balance sheet total	7,213	(2.43%)	7,393
Resources			
Average statistical number of staff	2,940	(5.19%)	3,101
Banking outlets on balance-sheet day	123	(6.82%)	132

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2012 was 288,05 HUF/EUR in 2011 was 311,13 HUF/EUR.

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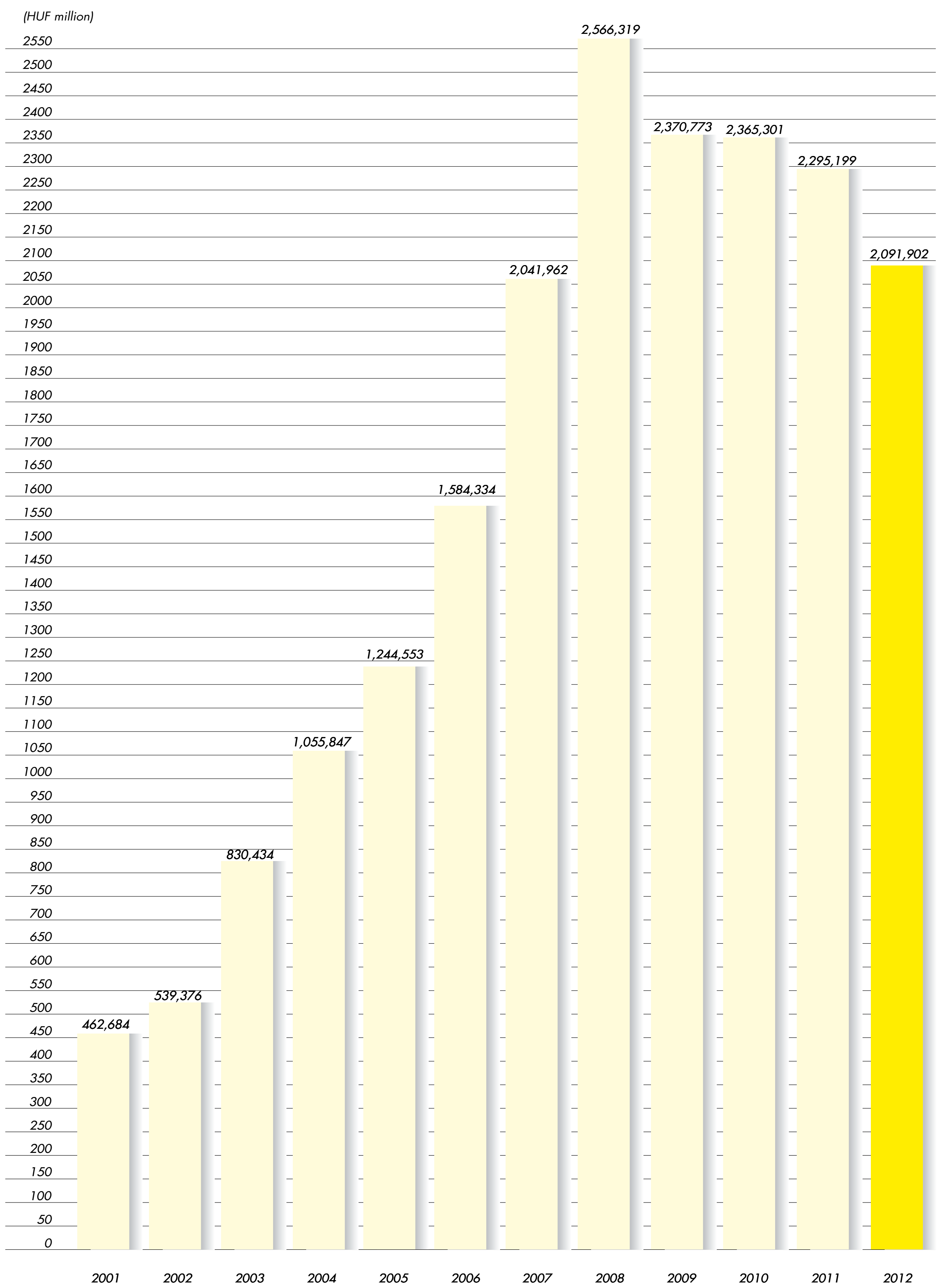
Non-consolidated total assets, 2001–2012



Foreword by the Chairman of the Board of Directors

Ladies and Gentlemen,

from an overall economic perspective, 2012 was a challenging year in both the Eurozone and Central and Eastern Europe (CEE), but for completely different reasons. After the ongoing sovereign debt crisis, the Eurozone slid into a deep systemic crisis. This crisis extends from political disagreements over the means to overcome debt burden to the growing social unrest in the European peripheral countries. The political elite's inability at both the national and European level to communicate their decisions to the public in a transparent and comprehensible manner also contributes to the crisis.

CEE, in part, also suffers from the consequences of the euro crisis, reflected for example in declining exports due to lower demand in the West. While countries in CEE also faced declines in real GDP growth, they were still significantly over the average of the ones recorded in the Eurozone. However, with only few exceptions the countries in the CEE region have done their homework: they are less dependent on external financing due to relatively low balance of payments deficits, their productivity has improved thanks to moderate wage increases, and, with the exception of Hungary, the region has considerably less debt than Western Europe. Moreover, the region continues to benefit from the catching-up process, which remains the engine for economic development and thus the development for entire Europe.

Despite a year dominated by renewed economic decline and tighter capital regulations, the RBI Group can be proud of posting a profit before tax of €1.032 billion. However, I have to mention the significant one-off effects that were recorded in the first quarter: Among other things, we sold high-quality securities to achieve the capital ratio required by the European Banking Authority (EBA). While the sale cost us a portion of our net interest income in subsequent quarters, it also resulted in significant net proceeds. I am very pleased that we succeeded in fulfilling the higher capital ratio requirements with a core tier 1 ratio of well over 10 per cent, which makes us even more resilient to adverse economic conditions.

On behalf of the Board of Directors, I thank all employees and the Management Board for the significant improvements achieved in 2012. 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

Hungary's GDP declined by 1.7 per cent in 2012, more than expected at the beginning of the year, fairing worse than most of the peer countries. The agriculture was hit by unfavourable weather and apart from certain export sectors, the economy kept shrinking. In addition, the economy was affected by problems in the Eurozone, which created uncertainty across Europe and reduced overall growth in many countries.

The deleveraging of bank loans in Hungary since 2009 continued, total loans shrinking by 12 per cent. The banking sector showed one of the worst results and produced an overall loss for the year.

At Raiffeisen Bank Hungary, we could not escape this negative trend, but compared to 2011, the losses could be reduced considerably to HUF 56.9 billion. Income kept shrinking due to lower new business volume and the effect of the early repayment of FX mortgages, which had a significant impact.

However there were also several bright spots which could be noticed. The corporate business managed to slightly increase the loan volume in a declining overall market, thus increasing market share. Especially the efforts with international and export oriented companies contributed to this result.

On the Retail side, the branch network was slightly reduced by 10 branches to 123 to adjust for smaller sales volumes and less traffic in the branches. Several new products were introduced, among them the "One Card", which offers substantial benefits to cardholders when shopping with the card at several well known shops.

The main driver for improving the results were the risk provisions which declined by more than 40 per cent compared to 2011. Unfortunately the non-performing loans were still rising, however at a much smaller extent. Starting mid year we could experience a flattening of the total NPL amount.

At the same time we continued our strong efforts to become more efficient. The implementation of the Lean concept was rigorously followed across many departments and processes and personnel and material expenses declined by 6 per cent compared to 2011. Staff was further reduced to 2,940.

Further improving our customer orientation and service quality was again on top of our agenda, already showing promising results.

The Board of Directors' report on 2012

For 2013, we expect a further improvement of the bank results, primarily driven by lower risk cost and keeping a very tight grip on our operational expenses. However, we do not expect a turnaround of the economy, nor of bank lending, given the weak consumption, low investments and the general economic outlook for Europe and the main export markets for Hungary. We expect the "Funding for growth"-programme initiated by the Hungarian National Bank to take effect only in 2014.

Kind regards,

Heinz Wiedner

Overview of the 2012 business year

Macroeconomic Environment in 2012

1. Global Economic Environment

The year 2012 was a mixed one for the world economy. There is no doubt that a global recovery from the great recession is under way, but last year this process lost one of its main pillars as the European economy sank into recession. This – beyond the local impacts – also lowered output in the Asian countries, as the commercial ties are strongest between these two economic hubs. Owing to this stalling of the recovery, the expansive, extraordinary economic policy stimuli that remain in effect four years after the crisis erupted were only lifted in one or two places, and even there only partially, while elsewhere a growing number of new measures are being introduced. Admittedly this has made it possible to avoid a double-dip recession in most regions of the world, although in light of the scale of the measures the rate of growth still leaves much to be desired.

Six years after the bursting of the real estate bubble and four years following the financial crisis, the United States economy was one of the main drivers of the global upturn. On the far side of the Atlantic, last year was given over to the presidential elections, which did not turn out to be nearly as close as many expected. Obama successfully secured his re-election, having been helped in this by the economic recovery. America's GDP grew by 2.2 percent in 2012 (a faster rate than in 2011), stoked primarily by the upturn in investments, and secondarily by the consumption of the American population. The labour market is improving dynamically: employment rose by 1.7 percent, which is the highest rate of increase since 2006, while unemployment dropped to 8.1 percent from the 2011 figure of 8.9 percent.

Naturally there is a flipside to all this, in the form of the high rate of long-term unemployment, the burgeoning debt and an unsustainable budgetary policy. It is no coincidence that the American central bank, the Federal Reserve, is pursuing a policy of quantitative easing, since it has no more leeway to reduce the base interest rate from its current level of close to zero. The central bankers last year set explicit real-economic targets, and until these are reached they will not tighten up monetary policy: one such target is to push unemployment below 6.5 percent without medium-term inflation going over 2 percent. We do not expect that this will be achieved this year.

The year 2012 was also the third to be overshadowed by the debt crisis in Europe. The first Greek bailout package was launched in May 2010. Back then European leaders opted for a form of crisis management, which remains the subject of heated debate and entailed some major sacrifices in terms of the real economy. Last year the eurozone sank into a 0.5 percent recession and it split into several distinct groups of countries in terms of their outlook, while within its borders unemployment rose to heights that had never before been measured by the staff of Eurostat. To make things worse, the recession continued to deepen. The year did not get off to a strong start, but then the second half brought even weaker activity. Industrial companies cut their output by more than two percent overall in response to the decline in orders, while the construction industry shrank by more than five percent. Last year will not go down in history as an auspicious time for the retail sector either: the general slump was accompanied by reports of negative records, such as the fact that new car sales had reached their lowest point since 1991.

The Board of Directors' report on 2012

As we have already mentioned, the European debt crisis has lasted a good three years. During this time we have seen a reshaping of the eurozone and the European Union in many respects. 1) These reforms are at their most advanced in relation to the vulnerability of the financial system. The safety nets are now adequate to cope even with extreme shocks. Although the lifelines created by the member states (EFSF, ESM) are not in themselves sufficient, the European Central Bank is providing massive support. During the summer the institution's president Mario Draghi, in what was perhaps his speech with the greatest market impact in 2012, said that they are ready to do anything to save the eurozone, and then in autumn a (conditional) bond buying program was announced. 2) Much progress was also made in terms of the real economy, as the balance of payments and public finances of peripheral countries improved markedly. This process of adaptation has not yet run its course, however, and will continue for years. Naturally, this will also have an impact on growth prospects. 3) Institutional reforms only really got under way last year, and as such they are still in the teething stage. This process is the most complicated, and raises some serious sovereignty issues, so by necessity it will also take the longest.

For the **money and capital markets**, 2012 was one of the least turbulent since the Lehman collapse. We saw a massive rise in the US stock markets, while the yields in the government securities market were consistently very low. In Europe the situation was not so clear-cut: the markets of the core countries were stable and strong last year with respect to both government securities and more risky investments. The southern nations, however, suffered considerable erosion. Besides these factors, although the ECB helped so successfully prevent a further increase in yields, the refinancing of governments' debts still cannot be regarded as cheap in the latter region.

2. The Hungarian economy

The performance of the Hungarian economy was weak in 2012. Of course, the same can be said of any year between 2007 and 2011, and indeed, it is highly likely that this year will also be able to take the place of the year in the above sentence. But before despairing we should quickly add that the poor economic performance is by no means unique to Hungary, and while we are not dealing with a general European phenomenon, several other countries are in the same woeful situation. Unfortunately, however, it can be said that the crisis in Hungary's economy is deeper and longer-lasting than the European average. Allowing for the difference resulting from the number of working days, in 2012 gross domestic product (GDP) was 1.8 percent lower in real terms than in 2011. Although almost half of this decline could be attributed to the poor results achieved by the drought-stricken agricultural sector, with the exception of information technology and communication services there were no sectors in the Hungarian economy that managed to grow last year. Viewed from the perspective of GDP consumption, the picture is even more disheartening: it was only exports that prevented a massive collapse of GDP – without exports the Hungarian economy would have been in negative growth to the tune of 3.5 percent. So the internal motors did not just grind to a halt, they were in reverse gear.

The situation is especially sad in light of the fact that the slump only became deeper as the year progressed. A comparison of the successive quarters shows a continuous decline, and by the last quarter a 2.7 percent shrinkage had been accumulated in comparison to one year previously. In a departure from the trend of previous years, industry – specifically the manufacturing sector – also sustained a massive fall. This is because the growth in the vehicle industry was insufficient to offset the continuous decline in the production of electronic goods. What's more, the vehicle industry also reined in its production in the last months of the year, so despite new capacities coming on line, the sector was no longer expanding then. The production of electronic goods was set back by several factory closures last year, owing to which the sector's output was almost 18 percent lower than in the previous year. The construction industry is now in its seventh year of recession, or, looking at it another way: it has only seen growth in one of the past ten years. Consequently, its weight in the economy has decreased by one third in ten years. The slight shrinkage in services almost pales into insignificance alongside such facts.

As mentioned earlier, among the users of services it was those in the domestic market that really held back the economy. The volume of investments has also been shrinking for many years, and fell by a further 3.8 percent in 2012. A greater weight, however, is represented by the actual consumption of households, which fell by two percent in 2011 due to the decline in real incomes. Although pensions (and other household transfers) rose in line with inflation – holding their purchasing power – real wages dropped by more than three percent even after the figures were adjusted for tax allowances. In addition, both private sector employment and normal state sector employment (not including employment under the public work scheme) decreased. Besides these factors, consumption is also being suppressed by the continuing tendency of the population to repay their loans. During last year, according to data released by the National Bank of Hungary (MNB), households repaid almost a thousand billion forints in loans.

3. Interest rates and money markets

Last year got off to a chaotic start. In the first few days a number of alarming capital market trends set in, which sent the forint plummeting to a new all-time low of 324 against the euro. Luckily, however, economic policy-makers turned the situation around in time, and by managing expectations related to the international credit line negotiations, effectively regained the confidence of the market. The credit line agreement eventually failed to materialise, but this was successfully packaged for investors in such a way that they accepted it without demur. Normality gradually returned to the Hungarian markets, and by summer the euro/forint exchange rate had dropped below 280. The initial fears of a massive, market-shattering event proved to be completely unfounded. The key moments of last year need to be sought elsewhere: for example, in the change to the MNB's Monetary Council's assessment of what policy can best support the Hungarian economy. The hardline battle against inflation, which had kept interest rates at 7 percent until August, gave way to a policy that also pays heed to aspects of the real economy. Starting from the end of the summer, the four external members used their majority to set in motion a consistent series of interest rate cuts, despite the fact that the team of specialists and the internal members saw serious inflationary risks in the Hungarian economy. At first the monthly 25-basis-point interest rate reductions were greeted with hostility by players in the economy, as the polarised council found it difficult to underpin the monetary loosening with arguments based on a consensus. The initial confusion eventually died down, however, and the interest rates have displayed a downward trend ever since. In this we are not alone in the Central European region, as other countries are also loosening their monetary conditions, with the effect that in the second half of the year currencies across the region weakened consistently. The forint was no exception, closing 2012 at 292 to the euro. Globally, 2012 was an extremely successful year for the stock markets. Unfortunately, however, the underperforming Hungarian market missed out on the high yields again, as in many cases domestic companies, burdened with special taxes, failed to produce the expected figures. Meanwhile turnover in the equity markets continued to decline, albeit at a more moderate rate.

Expert staff

The **employee headcount** at Raiffeisen Bank decreased in 2012 to 2,715 (not group-level data, valid only for Raiffeisen Bank Zrt.) as at 31 December. Accordingly, the rationalisation of personnel costs continued to be an important focus of attention, but during this process the Bank did all it could to take the interests of employees into account as well.

Every employee takes part in the annual **performance management** process, which provides a framework for the setting of clear objectives and for giving constructive feedback and a well-founded assessment, while performance-based solutions for granting financial and other incentives motivate our employees to deliver outstanding performance. These methods also serve to continuously strengthen a performance-based culture within the Bank.

The Bank places particular emphasis on ensuring that its employees receive a fair and **competitive income** by the standards of the Hungarian labour market. The **Cafeteria system** gives employees the opportunity to choose the non-wage benefits that are best suited to their own personal requirements.

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 2012 employees spent a total of **13.5 thousand** working days attending various professional training and skills development courses, team-building events and conferences.

Changes in the bank's organisation

The position of deputy CEO responsible for the Bank's retail business has been filled by Ralf Cyamanek since 1 August 2012. Furthermore, the mandate of deputy CEO Ferenc Szabó terminated on 1 October 2012, and since then the Bank's investment service provision activity has been overseen by deputy CEO Ferenc Kementzey.

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 2012 – in June and November. The program provides needy nursery and primary school children with regular meals at weekends and during school holidays. At the beginning of summer we supported the provision of meals for children with a HUF 11.3 million donation, and in August with another of more than HUF 17 million, from funds set aside on the basis of customers' card use. Including its donations in 2012, Raiffeisen Bank has provided a total of HUF 127 million in support for children's meals over the past four years, ensuring regular quality meals for more than 7,585 children nationwide for a period of several months.

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 2012 our colleagues lent a hand at nursery schools in various locations around the country. They repaired fences, repainted wooden toys and walls, rejuvenated playgrounds, planted lawns and planted flowers in nursery schools such as the "CsicsergÐ" Nursery School, the Anikó Nursery School in Pécs, the Zsuzsa Children's Home in Bicske, and the "Tóvárosi" Nursery School in Székesfehérvár.

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. Six of our colleagues received such support in 2012.

Our awards

Based on the votes of a professional jury in the "Bank of the Year 2012" competition announced by MasterCard, Raiffeisen Bank won a bronze medal in the category of "Retail Account Package of the Year 2012" with its "Activity" Account, while the Raiffeisen Mobile Application won a silver medal in the category of "Retail Mobile Application of the Year 2012". Raiffeisen Bank also won a silver medal for its CSR activity, in the "Socially Responsible Bank of the Year 2012" category.

Shareholder

Raiffeisen-RBHU Holding GmbH 100%

Board of Directors

Chairman

Herbert Stepic
Raiffeisen Bank International AG

Other Board members

Ferenc Berszán
Raiffeisen Bank International AG

Nicolaus Hagleitner
(from 24 January 2013)
Raiffeisen Bank International AG

Krisztina Horváth
Raiffeisen Bank Zrt.

Mag. Reinhard Karl
(until 7 January 2013)
Raiffeisenlandesbank NÖ-Wien AG

Julius Marhold
(until 7 January 2013)
Raiffeisenlandesbank Burgenland

Martin Melkowitsch
Raiffeisen Bank Zrt.

Peter Novak
(from 24 January 2013)
Raiffeisen Bank International AG

Dr. Karl Sevelda
Raiffeisen Bank International AG

Dr. Martin Sotter
(until 7 January 2013)
Raiffeisenlandesbank Steiermark AG

Dr. Johann Strobl
Raiffeisen Bank International AG

Mag. Heinz Wiedner
Raiffeisen Bank Zrt.

Supervisory Board

Chairman

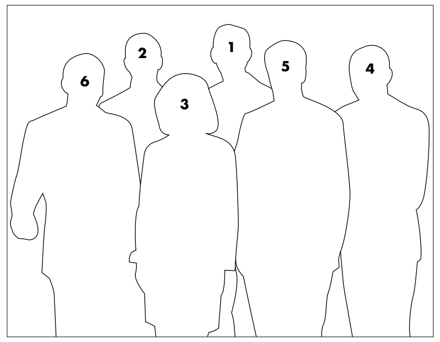
Georg Feldscher
Raiffeisen Bank International AG

Other Board members

Ursula Wirsching
Raiffeisen Bank International AG

Dr. Mercedes Szabó Tóth
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 Ralf Cymanek
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 ensures 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 eight 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.

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 2012 the Board of Directors held four meetings and passed resolutions by means of a written ballot on ten 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.

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 with primary responsibility for the project-based coordination of the Bank's developments, and exercises full control over the Bank's project management practices.
- Asset-Liability Committee (ALCO)
  The purpose 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.

Corporate Governance Statement

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.

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 support units, and the sales network. 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.

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 Office

In keeping with the statutory requirements and the expectations of the Regulatory Authority, the Bank has established an independent organisational unit – as part of the internal lines of defense – which performs the following functions:

- Monitoring compliance with the Bank Group's Ethics and Compliance Regulations, issuing guidelines in respect of related issues, investigating reported incidents
- Organising, directing and coordinating efforts within the Bank to combat money laundering and the financing of international terrorism: operating a reporting and monitoring system, and liaising with the competent authorities
- Ensuring and controlling compliance with the data protection regulations, and liaising with the competent authorities
- Ensuring and controlling compliance with the statutory provisions on the segregation of financial and investment services, on the restriction of information flow, on the prohibition on insider trading and market manipulation, and on the conclusion of transactions by employees, liaison with the competent authorities
- Ensuring and controlling compliance with the statutory provisions on conflicts of interests

Corporate Governance Statement

- Ensuring and controlling compliance with the statutory provisions relating to investment service provision (e.g. the Investment Services Act)
- Organising and putting into practice measures to combat corruption

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 2012 business year

1.1. Corporate and Municipalities Division

Raiffeisen Bank's Corporate and Municipalities Division – despite the unfavourable market environment – achieved considerable successes in 2012. We increased our market share in respect of both corporate loans and deposits in comparison to the previous year.

At the start of 2012 the restructuring of the division was successfully completed. The new structure and efficient service model played an important part in ensuring that our customers' satisfaction with the Bank – in every corporate segment – improved decisively in comparison to the previous year.

On the lending side, in the medium-sized and large corporate segment, we retained our prominent position in a shrinking market in 2012. We devoted particular attention to expanding the refinanced credit programs launched by the various partner institutions (Hungarian Development Bank, Hungarian Export-Import Bank). We broadened our offering of these types of products, and doubled our loan portfolio by the end of the year. We were the only bank in Hungary to join the Green Energy lending program launched by the European Investment Bank, which provides a low-interest source of financing for investments that promote energy-efficiency and the use of renewable energy, in conjunction with EU subsidies.

In 2012 the Bank succeeded in maintaining its portfolio of project financing and syndicated loans at the existing level, with newly contracted loans exceeding EUR 120 million. Much of this growth was due to corporate syndicated loans, but we also concluded several new transactions in the conventional project finance segment (in the M&A, real estate and energy sectors, among others).

In the agricultural financing sector we retained our position as market leader, and – mainly due to our lending to multinational corporations – saw a 30% increase in business volume.

In the factoring business we managed to achieve a 13% increase in turnover in a declining market. In the area of trade and export financing we far exceeded our targets, while the documentary transactions division also contributed substantially to the successes achieved.

We opened up our cash management operations to international customers, and were able to serve this new customer base to a high standard too. The volume of corporate deposits held at the Bank rose by 30% during the year.

In the Municipalities Division the financing of apartment buildings got under way as a result of the cooperation agreement concluded with the European Investment Bank (as a part of the green energy lending program), which makes substantial sums in non-repayable subsidies available to our customers in this segment too. The Municipalities Division plans to take on an active role in the consolidation of municipalities with populations of less than 5000, as a part of which the state has assumed the total loan debts of 101 local authorities.

Since December 2012 the Bank's former Treasury Department has operated under the name "Currency and Capital Markets Department", or "Markets" for short, while the Bank's former Asset-Liability Management Department – taking the name of "Treasury" – has become a division in its own right. The Markets Department – based on statistics published by the National Bank of Hungary – executed the highest volume of foreign exchange transactions in the country in 2012, and was also the largest operator in the derivatives section of the Budapest Stock Exchange. In order to provide companies with a full service, the commodities market product range was made available both via the stock exchange and in OTC form in 2012, for those of our customers who want to hedge their risks of this type.

1.2. Small and medium-sized enterprises

2012 was a year full of challenges for small and medium-sized enterprises. The economic recession led to a further deterioration in the prospects of businesses that primarily operate in the domestic market, and they became even less willing to invest. This was reflected in the falling volume of new long-term loans, and not even existing financing arrangements were renewed at maturity in every case. The shrinking credit market was dominated by short-term liquidity loans, but the number and volume of these were not sufficient to maintain the size of the market.

Businesses with foreign currency loans were helped by the fact that the forint, after hitting a record low against the euro at the start of the year, regained some strength after a few weeks and stabilised at around HUF 290 to the euro for most of the year. At the same time, for customers that report any expected payment problems in good time the Bank offers a number of restructuring options. For example, by extending the term of the loan, instalments can be brought into line with customers' changed financial capacity, preventing them from falling behind with their payments and ensuring the long-term sustainability of the financing.

A key priority under the Bank's customer strategy is to forge and maintain genuine partnerships with our customers, in which they regard us as their primary bank. As a result of this, the number of our active customers increased last year, which brought an expansion in savings portfolios (demand and fixed-term deposits), as well as a positive change in the number of transactions.

During the crisis, cost-effectiveness became a priority for small businesses, which was also reflected in their efforts to reduce banking costs. In response to customer demand, in spring we launched the new Active Business Account Package range, which offers free account management for small businesses in every sales revenue category, subject to the fulfilment of a specified account turnover and number of transactions. The product soon became popular among existing customers as well as new clients: the majority of new account packages sold were Active Account Packages.

But innovation in the year 2012 was not limited to the product range: the new sales and customer service model introduced at the end of the previous year helped us to significantly boost our efficiency, while maintaining our nationwide coverage and building up the network of mobile premium advisers.

Through the continuous training of our small business relationship managers we now provide our premium business customers with banking advice that represents genuine added value.

In the spring we continued our highly successful program of Business Partner Club events, as a part of which we organised a series of conferences for our SME customers in 16 towns around the country.

At these events, the Bank's specialists gave talks on expected economic developments and market trends, and helped answer questions relating to the financial issues with the most relevance for business owners. The invited speakers help our customers to expand not only their understanding of banking-related issues, but also their knowledge of other aspects of company management, besides which the events also represent an opportunity to meet potential future suppliers and partners.

As a result of the above, our customer customer satisfaction indicators improved continuously throughout the year, confirming the success of our efforts.

1.3. Retail customers

By the end of 2012, owing to a combination of factors, the market for retail savings products underwent a major transformation. The volume of fixed deposits remained essentially unchanged, while in the second half of the year the falling interest rates triggered an upturn in the market for investment funds. The development of the Bank's liability portfolio reflected the trend discernible on the market as a whole. The volume of our fixed deposits decreased, but at the same time, our bond and investment fund portfolio grew.

In 2012 we issued 28 of our own bonds, and also commenced the distribution of the highly successful Premium Euro Hungarian Government Bond in our branch network. In the course of the year 12 bonds matured in a value of HUF 32 billion, and the net result of these changes was an 11% growth in the corporate bonds held by our retail customers.

With regard to investment funds we can look back on 2012 as another successful year, as the volume of investment fund shares held by our customers grew by almost 10%, from HUF 102.8 billion to HUF 112.7 billion. The portfolio growth was attributable mainly to the products of external fund managers, and to a lesser extent to the products of Raiffeisen Fund Management. In the premium segment we achieved significant growth in the volume and turnover of exchange-traded certificates (ETCs).

The Raiffeisen Long-term Investment Securities Account, launched in 2010, remains highly popular. At the end of 2012 our customers held 16% of their investments in accounts of this type, which offer a tax benefit.

Overall, retail liabilities – together with bonds and investment funds – amounted to HUF 606 billion in managed assets at the close of the year.

The Bank continued to add innovative retail products to its offering in 2012. Both our new Activity account package and OneCard bank card are products that support one of the Bank's main strategic objectives, namely to encourage customers to use us as their primary bank and to use their accounts more actively, by offering them tangible benefits.

We have now equipped all the types of bank card available at the Bank with PayPass™ technology, which makes it possible to use a contactless means of payment. As a new addition to the range of available electronic payment solutions, we introduced the Raiffeisen Mobile App, which our customers can use to access the most common internet banking functions through their mobile phones.

By prioritising efforts to secure primary banking relationships, and through products and activities that support this goal, we increased the proportion of customers who use us as their primary bank from 29.6% to 32.85%.

In the retail lending segment, 2012 was an eventful year to say the least, with the main focus being on the implementation of government measures. Thus in the first quarter the most important activities were related to the residual impact of the foreign-currency loan redemptions, and from April onwards to the introduction of the new exchange rate cap scheme. The success of the scheme is shown by the fact that by the end of 2012 almost 60% of eligible customers had opted to make use of the benefits it offered, which in future could significantly reduce the Bank's lending risk, and thus also its risk costs.

With regard to new loans, the focus remains on the sale of unsecured lending products, through the deployment of competitive facilities and processes. The constant shrinking of the market, however, is reflected in the fact that the volume of new placements was lower than in the previous year, the main reason for this being the significant decline in mortgage lending.
Overall the Bank retained its market share with regard to retail loans, which at the end of 2012 was 6.4%.

1.4. Private Banking Customers

Friedrich Wilhelm Raiffeisen Private Banking closed one of the most successful years in its history in 2012. Despite the unfavourable economic environment, the division was profitable last year and the assets entrusted to our management by our customers reached HUF 268 billion in December 2012, which represents almost a 7% growth in comparison to the previous period.

One of the most important events of 2012 took place in January, when we raised the lower limit for eligibility for our Private Banking services from HUF 50 million to HUF 70 million. Following this, we reviewed our customer base and, together with those customers who were below the entry limit, identified the service level that was best suited to them within the Bank's three-level system for serving Private Banking customers. In this way we not only improved customer satisfaction, but were also able to focus our professional resources on providing the wealthiest members of society with a high-quality, exclusive service. The outstanding results of our customer satisfaction survey conducted in December 2012 have confirmed the success of our efforts.

As well as ensuring the availability of highly trained and experienced investment advisers, we also ensure a high quality of service through continuous product development. In 2012 we launched our new Target Return wealth management service, which offers bespoke solutions to those of our clients who are looking to invest their assets for the long term. The Target Return wealth management service is available to customers with at least HUF 100 million to invest.

Friedrich Wilhelm Raiffeisen Private Banking played an active role in the implementation of the tax amnesty scheme that was concluded in December 2012. Thanks to the trust placed in us by our customers, as a part of the tax amnesty scheme the assets managed by the division grew by approximately HUF 10 billion.

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.

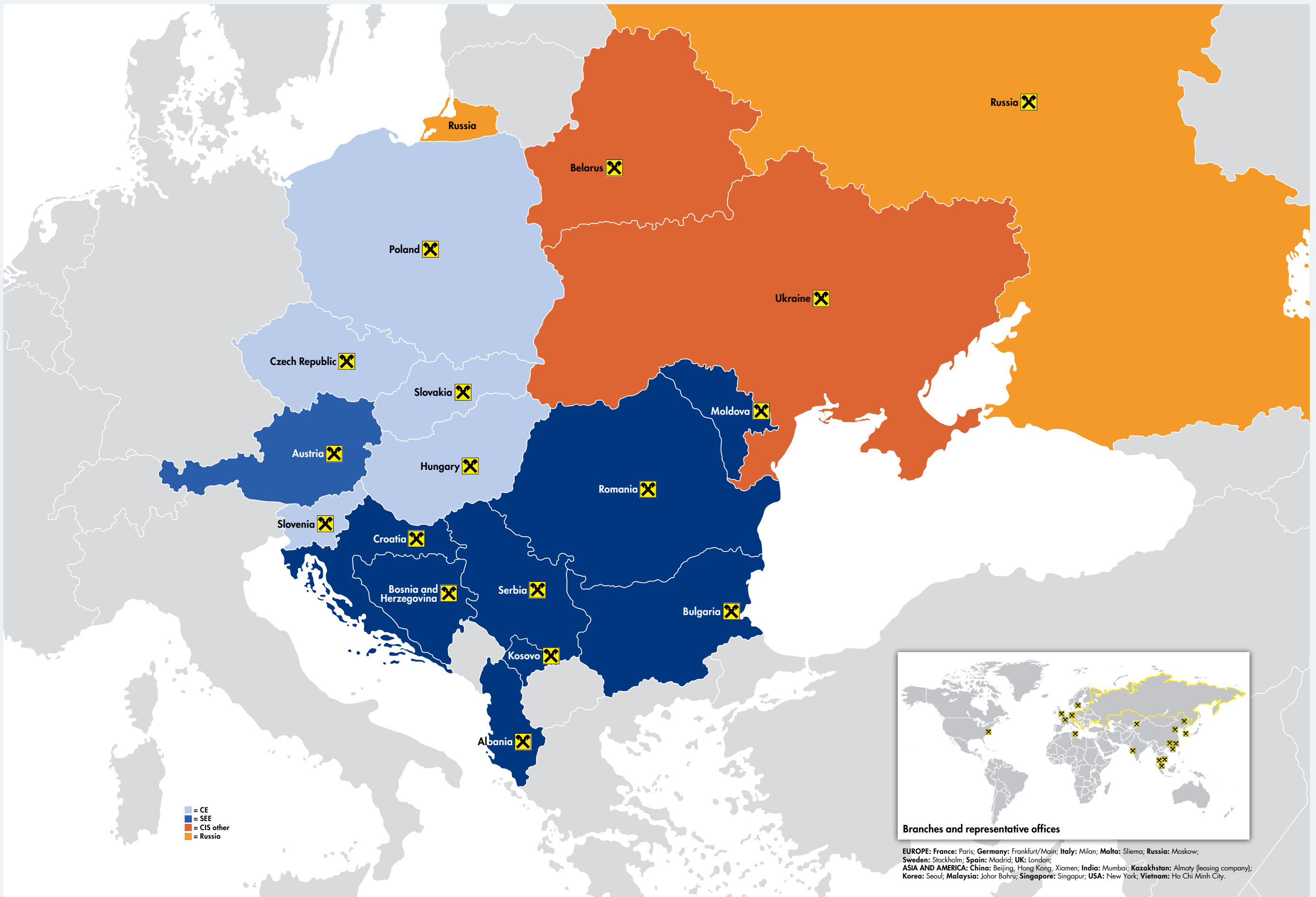
125 years of Raiffeisen in Austria

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.

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.



Raiffeisen Glossary

To be consistent in the wording we use please find below definitions of some terms related to RBG, RZB, the RZB Group and Raiffeisen Bank International. You may use them for more detailed information about the company or in the appendix/glossary in your annual report. If there are any questions, please contact RBI-PR in Vienna.

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 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 2012 around 57,000 staff served approximately 14.1 million customers in around 3,100 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 centres and operates branches and representative offices in Asia. All in all, RBI employs about 60,000 staff and has total assets of approximately € 136 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 "A2" (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.

Raiffeisen Bank International and the RZB Group at a glance

Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria's largest banking group by total assets. As per year-end 2011, RBG's consolidated balance-sheet total amounted to more than € 269.6 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 25,000 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 90 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.

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Independent Auditors' Report

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 2012, the consolidated statement 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 the consolidated financial position of the Group as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Budapest, 19 April 2013

KPMG Hungária Kft.

Robert Stöllinger
Partner

Consolidated income statement

(HUF million)	Note	2012	2011
Interest and similar income	(5)	**137,143**	**148,168**
– cash and cash equivalents		3,919	3,664
– on placements with banks		527	940
– on loans to non-banks		101,219	116,742
– on securities		29,646	24,419
– from leases		1,832	2,403
Interest expenses and similar charges	(6)	**93,200**	**89,688**
– on borrowings from banks		12,155	18,716
– on deposits from non-banks		68,865	59,671
– on debt securities issued		10,517	9,531
– on subordinated liabilities		1,663	1,770
Net interest income		**43,943**	**58,480**
Fee and commission income		26,551	29,232
Fee and commission expense		8,781	8,183
Net fee and commission income	(7)	**17,770**	**21,049**
Dividend income		44	29
Net trading income	(8)	5,952	5,429
Net income from derivatives held for risk management	(9)	8,761	37,030
Other operating income	(10)	4,895	4,354
Operating income		**19,652**	**46,842**
Impairment losses	(11)	**61,901**	**105,862**
Personal expenses	(12)	25,285	28,322
Rental expenses		7,668	7,801
Equipment expenses		6,755	6,320
Other operating expenses	(10)	35,832	69,852
Operating expenses		**75,540**	**112,295**
Share of profits/(losses) of associates		**(12)**	**(9)**
Profit/(loss) before tax		**(56,088)**	**(91,795)**
Income tax expense	(13)	123	185
Deferred tax	(13)	738	(3,098)
Profit/(loss) for the period		**(56,949)**	**(88,882)**
Attributable to:			
Equity holders of the parent		(56,831)	(84,955)
Non controlling interest		(118)	(3,927)

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

Consolidated statement of comprehensive income

(HUF million)	2012	2011
Profit/(loss) for the period	**(56,949)**	**(88,882)**
Other comprehensive income/(loss)		
Change of financial assets measured at fair value through other comprehensive income:		
Change in fair value of available-for-sale financial assets	10,315	(13,851)
Amount transferred to profit or loss	3,852	656
Cash flow hedges :		
Effective portion of changes in fair value	(70)	0
Income tax on other comprehensive income/(loss)	**(2,692)**	**2,548**
Other comprehensive income/(loss) for the period, net of income tax	**11,405**	**(10,647)**
Total comprehensive income/(loss) for the period	**(45,544)**	**(99,529)**
Total comprehensive income/(loss) attributable to:		
Equity holders of the Bank	(45,426)	(95,602)
Non-controlling interest	(118)	(3,927)
Total comprehensive income/(loss) for the period	**(45,544)**	**(99,529)**

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

Consolidated statement of financial position

(HUF million)	Note	2012	2011
Assets			
Cash and cash equivalents	(15)	129,153	98,285
Placements with banks	(16)	32,795	99,777
Net loans	(17)	1,285,535	1,526,238
Financial assets at fair value through profit or loss	(18)	54,173	70,168
Available for sale securities	(19)	399,681	253,408
Held to maturity securities	(19)	111,820	143,186
Investments in associated undertakings		9	142
Investments in unlisted securities		45	120
Property, plant and equipment	(21)	17,871	21,021
Investment property	(21)	197	147
Intangible assets	(22)	15,703	15,332
Goodwill	(23)	1,155	1,672
Current tax assets		105	539
Deferred tax assets	(37)	5,199	8,639
Other assets	(25)	36,500	47,478
Assets classified as held for sale	(33)	11,094	14,119
Total assets		**2,101,035**	**2,300,271**
LIABILITIES AND EQUITY			
Deposits from banks	(27)	243,145	318,070
Deposits from non-banks	(28)	1,436,552	1,434,538
Debt securities issued	(29)	142,642	126,322
Subordinated liabilities	(30)	55,518	59,480
Financial liabilities at fair value through profit or loss	(26)	54,724	122,888
Current tax liabilities		109	116
Deferred tax liabilities	(37)	115	120
Provisions	(32)	15,149	20,909
Other liabilities	(31)	37,367	56,768
Liabilities classified as held for sale	(33)	49	156
Total liabilities		**1,985,370**	**2,139,367**
Equity attributable to equity holders of the parent		**115,919**	**162,400**
Ordinary shares		165,023	165,023
Preference shares		0	0
Share capital	**(34)**	**165,023**	**165,023**
Retained earnings		(44,699)	12,864
Statutory reserves	(35)	0	0
Non-distributable reserve		0	323
Fair value reserve		(4,405)	(15,810)
Non controlling interest		**(254)**	**(1,496)**
Total equity		**115,665**	**160,904**
Total liabilities, non controlling interest and shareholder's equity		**2,101,035**	**2,300,271**

The accompanying notes (on pages 11 to 97) form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(HUF million)	Ordinary shares	Share capital	General risk reserve	General / Capital reserve	Non-distributable reserve	Fair value reserve	Total other reserves	Retained earnings	Total equity	Non controlling interest	Total equity
Note	(34)		(35)	(35)							
Balance 1 January 2012	**165,023**	**165,023**	**0**	**0**	**323**	**(15,810)**	**(15,487)**	**12,864**	**162,400**	**(1,496)**	**160,904**
Total comprehensive income/(loss) for the period											
Profit or loss	0	**0**	0	0	0	0	**0**	(56,831)	**(56,831)**	(118)	**(56,949)**
Other comprehensive income/(loss)											
Net change in fair value of available-for-sale financial assets, net of tax	0	**0**	0	0	0	8,355	**8,355**	0	**8,355**	0	**8,355**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	0	**0**	0	0	0	3,120	**3,120**	0	**3,120**	0	**3,120**
Effective portion of changes in fair value of cash flow hedge items, net of tax	0	**0**	0	0	0	(70)	**(70)**	0	**(70)**	0	**(70)**
Net amount transferred to profit or loss (cash flow hedge items), 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**	**11,405**	**11,405**	**0**	**11,405**	**0**	**11,405**
Total comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**0**	**11,405**	**11,405**	**(56,831)**	**(45,426)**	**(118)**	**(45,544)**
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Issue of share capital and share premium	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
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**	0	0	(323)	0	**(323)**	323	**0**	0	**0**
Non-distributable reserve	0	**0**	0	0	0	0	**0**	0	**0**	0	**0**
Total contributions by and distributions to owners	**0**	**0**	**0**	**0**	**(323)**	**0**	**(323)**	**323**	**0**	**0**	**0**
Changes in ownership interests	0	**0**	0	0	0	0	**0**	(1,055)	**(1,055)**	7	**(1,048)**
Change in non-controlling interest during the period	0	**0**	0	0	0	0	**0**	0	**0**	1,353	**1,353**
Non controlling interest arising on acquisition	0	**0**	0	0	0	0	**0**	0	**0**	1,353	**1,353**
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**	**(1,055)**	**(1,055)**	**1,360**	**305**
Total transactions with owners, recorded directly in equity	**0**	**0**	**0**	**0**	**(323)**	**0**	**(323)**	**(732)**	**(1,055)**	**1,360**	**305**
Balance 31 December 2012	**165,023**	**165,023**	**0**	**0**	**0**	**(4,405)**	**(4,405)**	**(44,699)**	**115,919**	**(254)**	**115,665**

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

Consolidated statement of changes in equity

(HUF million)	Ordinary shares	Share capital	General risk reserve	General / Capital reserve	Non-distributable reserve	Fair value reserve	Total other reserves	Retained earnings	Total equity	Non controlling interest	Total equity
Note	(34)		(35)	(35)							
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	(11,178)	**(11,178)**	0	**(11,178)**	0	**(11,178)**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	0	**0**	0	0	0	531	**531**	0	**531**	0	**531**
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 cash flows

(HUF million)	Note	2012	2011
Profit/(loss) for the period		**(56,949)**	**(88,882)**
Cash flows from operating activites			
Adjustments for:			
Depreciation and amortisation	(21,22)	8,166	10,545
Net impairment loss on non-financial assets	(11)	309	2,713
Net impairment losses and write-offs on financial assets	(17)	9,283	98,887
Net interest income	(5)	(43,943)	(58,480)
Disposal of assets		43	197
Other		428	(113)
Income tax expense	(13)	861	(2,913)
		(24,853)	**50,836**
Change in placements with banks	(16)	66,983	(17,203)
Change in loans and advances to customers	(17)	231,420	(10,305)
Change in derivative financial instruments	(18,26)	(50,145)	26,225
Change in AFS securities (without revaluation)	(19)	(134,878)	32,871
Change in other assets and asset held for sale	(25,33)	13,905	1,543
Change in deposits from banks	(27)	(74,925)	(212,336)
Change in deposits from non-banks	(28)	2,014	110,841
Change in other liabilities, provisions and liabilities held for sale	(31,32,33)	(25,267)	(41)
		29,107	**(68,405)**
Interest and dividends received		137,187	148,196
Interest paid		(93,200)	(89,687)
Income tax paid		3,001	(1,315)
Net cash from / (used in) operating activities		**(5,707)**	**(49,257)**
Cash flows from investing activities			
Purchase of securities	(19)	1,106	(34,219)
Disposals of securities	(19)	28,166	42,607
Purchase of investment in associates		(12)	(2,767)
Disposal of investment in associates		0	0
Purchase of equity investments		(5)	(12)
Disposal of equity investments		81	0
Purchase of property, plant and equipment	(21)	(1,041)	(7,132)
Disposals of property, plant and equipment	(21)	66	1,341
Purchase of intangible assets	(22,23)	(4,496)	(6,323)
Disposals of intangible assets	(22,23)	520	18
Net cash used in investing activities		**(24,385)**	**(6,487)**

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

Consolidated Financial Statements

Consolidated statement of cash flows

(HUF million)	Note	2012	2011
Cash flows from financing activities			
Increase in issued debt securities	(29)	67,571	53,907
Repayment of debt securities	(29)	(51,252)	(73,891)
Increase in subordinated liabilities	(30)	(3,962)	5,863
Issuance of new shares and proceeds from share premium	(34)	1,372	106,616
Dividend paid		0	0
Net cash from financing activities		**13,729**	**92,495**
Net increase/decrease of cash and cash equivalents		**32,407**	**36,751**
Cash and cash equivalents at 1 January		**98,285**	**59,149**
Net effect of exchange rate		(1,539)	2,385
Cash and cash equivalents at December 31		**129,153**	**98,285**

The accompanying notes form an integral part of these 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 2012 comprise the Bank and its subsidiaries (together referred to as the "Group"). For further information on consolidated subsidiaries please see Note 42.

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 19 April 2013.

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 39.

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

There were no changes in 2012.

(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 all 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 Bank. Control exists when the Bank 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 Bank 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 of the Bank'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 Bank'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 43.

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 42.

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 6 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.

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.

Notes to the consolidated financial statements

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 21).

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 40.

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.

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 issued 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 hedged 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.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the exposure to variablility in cash flows that is attributable to a particular risk associated with a recognized asset or liability, the protion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss under Net income from derivatives held for risk management.

The Group applies cash-flow hedge accounting using cross currency interest rate swaps for risk management purposes where the hedged portfolio is a group of foreign currency loans and forint deposits and the purpose of the hedge is to eliminate the fluctuation of the interest income and expense that arises from changes in the base rates and the fluctuation of the forint exchange rate.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

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 for 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 differentiated; in case of the internal rating categories there is no smoothing; and the loss given default is determined on RBI group level.

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.

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.
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.

Notes to the consolidated financial statements

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 and measured in the consolidated statement of financial position as part of the securities portfolio. 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.

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 38.

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 in case of floating rate instruments is revised at the repricing date 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 2012, 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 2013, earlier application is permitted.)

The 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 Group's financial statements, since the Group does not have any defined benefit plans.

IAS 27 Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.)

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.

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. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.)

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.

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.

Notes to the consolidated financial statements

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.

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.

Notes to the consolidated financial statements

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).

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 and IAS 27 (2011) Separate Financial Statemets (Effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early. This standard is, to be applied retrospectively when there is a change in the control conclusion.)

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 impact of the initial application of the amendment is under investigation.

IFRS 11 Joint Arrangements (Effective for annual periods beginning on or after 1 January 2013, to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied earlier.)

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

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities (Effective for annual periods beginning on or after 1 January 2014; early adoption is permitted; to be applied retrospectively subject to transitional provisions)

The Amendments provide an exception to the consolidation requirements in IFRS 10 and requires qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them.

The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.

An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity
(1) obtains funds from investors to provide those investors with investment management services;
(2) commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
(3) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

The Group does not expect the amendments 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.

Notes to the consolidated financial statements

(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.

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 Group'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:

2012 (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	0	13	0	0	0	0	0
Excellent credit standing	0	0	0	0	0	0	0	0
Very good credit standing	0	0	0	0	0	0	0	0
Good credit standing	0	2,581	16	4	0	0	0	77
Average credit standing	0	333	44	0	0	0	0	7
Acceptable credit standing	0	5,375	105	11	0	0	0	1
Weak credit standing	0	8,792	279	883	0	0	869	1,174
Very weak credit standing	0	4,021	802	2,241	0	0	850	545
Doubtful / high default risk	0	60,096	3,866	2,939	0	0	447	4,176
Default	0	254,334	139,296	17,958	0	0	2,190	16,786
Unrated	0	850	2,551	374	0	0	0	430
Total gross amount of individually impaired financial assets	**0**	**336,382**	**146,972**	**24,410**	**0**	**0**	**4,356**	**23,196**
Total individually impaired allowance for impairment	0	147,820	88,774	3,263	0	0	2,361	5,779
Total carrying amount of individually impaired financial assets	**0**	**188,562**	**58,198**	**21,147**	**0**	**0**	**1,995**	**17,417**
Collectively impaired								
Minimal risk	0	0	18,797	0	0	0	0	0
Excellent credit standing	0	0	15,044	0	0	0	0	2
Very good credit standing	0	0	33,227	0	0	0	0	0
Good credit standing	0	22,282	43,858	0	0	0	0	29,514
Average credit standing	0	66,108	53,871	0	0	0	0	34,168
Acceptable credit standing	0	125,742	51,016	0	0	0	0	35,157
Weak credit standing	0	160,472	36,337	0	0	0	0	25,480
Very weak credit standing	0	74,269	27,359	0	0	0	0	14,319
Doubtful / high default risk	0	24,188	40,286	0	0	0	0	8,562
Default	0	76	29,487	0	0	0	0	5
Unrated	0	87	20,204	0	0	0	0	58
Total gross amount of collectively impaired financial assets	**0**	**473,224**	**369,486**	**0**	**0**	**0**	**0**	**147,265**
Total collectively impaired allowance for impairment	0	4,430	14,932	0	0	0	0	1,027
Total carrying amount of collectively impaired financial assets	**0**	**468,794**	**354,554**	**0**	**0**	**0**	**0**	**146,238**

2012 (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	591	0	0	0	0	0	0
Good credit standing	0	0	0	0	0	0	0	0
Average credit standing	0	0	6	0	0	0	0	0
Acceptable credit standing	0	0	6	0	0	0	0	0
Weak credit standing	0	2	62	209	1,240	0	0	0
Very weak credit standing	0	0	188	0	0	0	0	0
Doubtful / high default risk	0	26	651	0	0	0	0	0
Default	0	0	427	0	756	0	0	0
Unrated	0	1	203	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**620**	**1,543**	**209**	**1,996**	**0**	**0**	**0**
Past due comprises:								
up to 30 days	0	7	1,339	195	1,240	0	0	0
31 to 90 days	0	22	78	0	0	0	0	0
91 to 180 days	0	0	9	0	0	0	0	0
181 days to 1 year	0	0	79	0	569	0	0	0
more than 1 year	0	591	38	14	187	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**620**	**1,543**	**209**	**1,996**	**0**	**0**	**0**
Neither past due nor impaired								
Minimal risk	0	92	16	0	0	1	0	298
Excellent credit standing	0	8,707	31	0	0	1	507	23,807
Very good credit standing	20,548	9,232	204	0	0	222	18,019	24,057
Good credit standing	219	80	572	0	1,681	2,182	3,887	24,660
Average credit standing	0	20,364	1,519	0	9,159	6	956	44,048
Acceptable credit standing	38	10,035	2,545	0	0	46	341	58,533
Weak credit standing	6,757	14,778	2,417	72,903	501,802	2,825	8,994	66,007
Very weak credit standing	5,213	18,449	2,186	167	2,764	4,536	1,138	31,943
Doubtful / high default risk	20	16,972	2,470	0	0	2,214	2,010	10,830
Default	0	0	1,001	0	4,885	34	186	58
Unrated	0	25	7,143	0	0	970	254	943
Total carrying amount of neither past due nor impaired financial assets	**32,795**	**98,734**	**20,104**	**73,070**	**520,291**	**13,037**	**36,292**	**285,184**
Total gross amount	32,795	908,960	538,105	97,689	522,287	13,037	40,648	455,645
Total allowance for impairment	**0**	**152,250**	**103,706**	**3,263**	**0**	**0**	**2,361**	**6,806**
Total carrying amount	**32,795**	**756,710**	**434,399**	**94,426**	**522,287**	**13,037**	**38,287**	**448,839**

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**

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**
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**

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 0.96 billion in 2012 and HUF 2.4 billion in 2011). Unrated exposure in the retail sector are that loans which are provided by subsidiaries (HUF 23.3 billion in 2012 and HUF 33.3 billion in 2011).

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.

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.

Loans and advances to corporate clients and sovereigns

All type of lending exposures are concernedin restructuring at workout (loans, overdrafts, bonds, guarantees, factoring frames and any other financing facilities)
As non-retail workout restructurings are occurring only in case

- the client faces financial problems
- has or probably will have material overdue
- significant economic loss is expected on its claim

The fact of restructuring does not mean re-aging or healed status of the client, the restructuring in itself does not mean improved risk status neither on client, nor on portfolio level, it only gives a new financing structure, which best fits to the client's feasible operational/other cash-flow projections.
The re-ageing from workout status, thus the improvement of the rating and the risk status can only be made if the following cumulative conditions are met:

- material loss is no longer expected on the Borrower under existing conditions, and no other default triggers are present
- willingness and ability to repay debt has been proved: minimum 3 consecutive repayment periods of material principal installment are made orderly (i.e. grace period and 'symbolic' installment excluded) and the liquidity plan ensures business continuity.

Loans and advances to retail clients

All types of private individual loan products are included in restructuring (personal loans, credit cards, overdrafts, mortgage loans). There are two main types of restructuring: 1) Restructuring tools proven by the bank; 2) Restructuring program launched by the Government.

Tools of banking restructuring:
The restructuring is offered for the delinquent customers during the collection process or they can claim preventive restructuring knowing their own financial situation or in case of change of it (e.g. unemployment, death, long lasting illness etc.). Main tools in the program are the following: term extension; temporary interest only repayment; temporary instalment decrease; revolving loans consolidation; re-packaging of loans or only the past due amounts into a new term loan.

Government packages:
FX -protection programs for foreign currency based mortgage loans. Delinquent (up to 90 days in past due) and non-delinquent customers can apply for the fixed FX rate instalment repayment which eliminated the FX volatility risk during the protection period.

Regarding the provisioning rules the day past due before restructuring is also taken into account for at least three month after restructuring (grace period is excluded). Therefore the customer has to prove the ability and willingness of repayment to cure back. No delinquency is tolerated during the probation period.

The Group's exposure to restructured loans at the reporting date is shown below:

2012 (HUF million)	Place-ments with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to sovereigns	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Individually impaired								
Gross amount	0	40,164	47,318	19,649	0	0	0	94
Allowance for impairment	0	16,375	26,518	2,996	0	0	0	0
Carrying amount of individually impaired restructured loans	**0**	**23,789**	**20,800**	**16,653**	**0**	**0**	**0**	**94**
Fair value of collaterals	**0**	**12,686**	**24,034**	**11**	**0**	**0**	**0**	**24**
Collectively impaired								
Gross amount	0	4,743	175,326	0	0	0	0	6
Allowance for impairment	0	73	8,946	0	0	0	0	0
Carrying amount of collectively impaired restructured loans	**0**	**4,670**	**166,380**	**0**	**0**	**0**	**0**	**6**
Fair value of collaterals	**0**	**2,621**	**102,202**	**0**	**0**	**0**	**0**	**0**
Past due but not impaired								
Past due comprises :								
up to 30 days	0	0	598	0	0	0	0	0
31 to 90 days	0	0	46	0	0	0	0	0
91 to 180 days	0	0	0	0	0	0	0	0
181 days to 1 year	0	0	56	0	0	0	0	0
more than 1 year	0	0	19	0	0	0	0	0
Carrying amount of past due but not impaired restructured loans	**0**	**0**	**719**	**0**	**0**	**0**	**0**	**0**
Fair value of collaterals	**0**	**0**	**380**	**0**	**0**	**0**	**0**	**0**
Neither past due nor impaired								
Carrying amount of neither past due nor impaired restructured loans	**0**	**3,772**	**7,310**	**0**	**0**	**0**	**0**	**214**
Fair value of collaterals	**0**	**2,745**	**4,018**	**0**	**0**	**0**	**0**	**120**
Total gross amount	0	48,679	230,673	19,649	0	0	0	314
Total allowance for impairment	0	16,448	35,464	2,996	0	0	0	0
Total carrying amount of restructured loans	**0**	**32,231**	**195,209**	**16,653**	**0**	**0**	**0**	**314**
Total fair value of collaterals	**0**	**18,052**	**130,634**	**11**	**0**	**0**	**0**	**144**

Notes to the consolidated financial statements

2011 ((HUF million)	Place-ments with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to sovereigns	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Individually impaired								
Gross amount	0	31,605	54,889	198	0	0	0	358
Allowance for impairment	0	10,725	12,121	0	0	0	0	43
Carrying amount of individually impaired restructured loans	**0**	**20,880**	**42,768**	**198**	**0**	**0**	**0**	**315**
Fair value of collaterals	**0**	**9,317**	**29,988**	**11**	**0**	**0**	**0**	**111**
Collectively impaired								
Gross amount	0	2,455	105,656	0	0	0	0	0
Allowance for impairment	0	30	5,150	0	0	0	0	0
Carrying amount of collectively impaired restructured loans	**0**	**2,425**	**100,506**	**0**	**0**	**0**	**0**	**0**
Fair value of collaterals	**0**	**1,557**	**54,436**	**0**	**0**	**0**	**0**	**0**
Past due but not impaired								
Past due comprises :								
up to 30 days	0	0	9	0	0	0	0	0
31 to 90 days	0	0	1	0	0	0	0	0
91 to 180 days	0	0	76	0	0	0	0	0
181 days to 1 year	0	0	55	0	0	0	0	0
more than 1 year	0	0	0	0	0	0	0	0
Carrying amount of past due but not impaired restructured loans	**0**	**0**	**141**	**0**	**0**	**0**	**0**	**0**
Fair value of collaterals	**0**	**0**	**68**	**0**	**0**	**0**	**0**	**0**
Neither past due nor impaired								
Carrying amount of neither past due nor impaired restructured loans	**0**	**2,587**	**6,556**	**0**	**0**	**0**	**0**	**734**
Fair value of collaterals	**0**	**1,568**	**3,590**	**0**	**0**	**0**	**0**	**66**
Total gross amount	0	36,647	167,242	198	0	0	0	1,092
Total allowance for impairment	0	10,755	17,271	0	0	0	0	43
Total carrying amount of restructured loans	**0**	**25,892**	**149,971**	**198**	**0**	**0**	**0**	**1,049**
Total fair value of collaterals	**0**	**12,442**	**88,082**	**11**	**0**	**0**	**0**	**177**

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:

2012 (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	**6,454**	**25,724**	**4,275**	**12,160**	**15,647**	**64,260**
Debt securities issued by	**3,382**	**25,380**	**1,401**	**0**	**2,512**	**32,675**
Central governments	3,382	587	232	0	1,086	**5,287**
Companies	0	846	909	0	743	**2,498**
Others	0	23,947	260	0	683	**24,890**
Shares	**0**	**285**	**34**	**0**	**414**	**733**
Mortgage on	**0**	**194,439**	**294,514**	**108**	**30,392**	**519,453**
Residential real estate	0	28,873	281,389	0	2,671	**312,933**
Commercial real estate	0	165,310	12,213	108	27,720	**205,351**
Other	0	256	912	0	1	**1,169**
Guarantees from	**0**	**14,467**	**5,100**	**7,439**	**20,043**	**47,049**
Central governments	0	9,795	5,098	7,439	4,971	**27,303**
Other banks	0	4,672	2	0	15,072	**19,746**
Other	**0**	**67,574**	**10,214**	**0**	**23,919**	**101,707**
Total collateral	**9,836**	**327,869**	**315,538**	**19,707**	**92,927**	**765,877**

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**	**18,667**	**15,046**	**95,403**
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**	**231,408**	**364,619**	**50**	**31,176**	**627,253**
Residential real estate	0	35,913	341,648	0	2,578	**380,139**
Commercial real estate	0	194,046	20,991	50	28,592	**243,679**
Other	0	1,449	1,980	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**	**76,245**	**14,936**	**0**	**27,285**	**118,466**
Total collateral	**16,184**	**392,581**	**393,750**	**18,717**	**87,537**	**908,769**

The fair value of collateral held against loans and advances to customers and banks at the reporting date was as follows:

2012 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Investments in securities	Guarantees and undrawn credit facilities	Total Collateral
Individually impaired	0	110,145	73,575	0	5,888	189,608
Collectively impaired	0	188,008	233,431	0	10,865	432,304
Past due but not impaired	0	158	279	717	0	1,154
Neither past due nor impaired	9,836	29,558	8,253	18,990	76,174	142,811
Total collateral	**9,836**	**327,869**	**315,538**	**19,707**	**92,927**	**765,877**

2011 (HUF million)	Placements with banks	Loans and advances to corporate clients	Loans and advances to retail clients	Investments in securities	Guarantees and undrawn credit facilities	Total Collateral
Individually impaired	0	120,382	151,573	0	(5,729)	266,226
Collectively impaired	0	236,350	233,278	0	37,600	507,228
Past due but not impaired	0	333	1,145	0	0	1,478
Neither past due nor impaired	16,184	35,516	7,754	18,717	55,666	133,837
Total collateral	**16,184**	**392,581**	**393,750**	**18,717**	**87,537**	**908,769**

The net carrying amount of assets obtained by the Group by taking possession of collateral held as security, or calling upon other credit enhancements, were as follows:

(HUF million)	2012	2011
Real estate	396	192
Inventories	334	1,033
Total assets obtained	**730**	**1,225**

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:

2012 (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	236,200	0	103	2,115	11,143
Domestic trade	0	151,608	0	280	1,202	90,049
Other, mainly service industries	0	265,207	0	1,477	1,304	66,529
Finance	32,501	92,036	0	10,784	32,739	48,692
Central Bank	294	0	288,942	0	0	0
Public administration	0	3,276	222,505	11	0	0
Chemicals and pharmaceuticals	0	67,734	10,840	0	224	53,305
Food processing	0	54,295	0	1	27	7,575
Agriculture	0	37,558	0	0	118	5,412
Transportation, communication	0	37,104	0	2	1	28,253
Construction	0	49,025	0	118	117	95,441
Heavy industry	0	36,964	0	0	533	15,005
Light industry	0	25,090	0	0	116	11,265
Energy	0	13,282	0	2	0	7,526
Infrastructure	0	2,446	0	22	0	1,225
Private households	0	472,929	0	237	2,152	14,225
Total gross exposure	**32,795**	**1,544,754**	**522,287**	**13,037**	**40,648**	**455,645**

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 gross exposure	**100,438**	**1,776,174**	**403,175**	**20,882**	**58,737**	**471,582**

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.

VaR (Value at Risk) limit system is operated on daily basis where separate VaR limits are 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. Credit spread risk is indicated as an individual risk factor in the reports as well.

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.

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 2012***
Financial assets	*462,474*
Financial liabilities	*678,871*
Total fixed rate instruments	***(216,397)***

	As at 31 December 2012	
Variable rate instruments	***Financial assets***	***Financial liabilities***
HUF	*515,717*	*737,734*
CHF	*465,873*	*33,073*
EUR	*485,645*	*353,781*
USD	*20,732*	*59,170*
Other currencies	*6,580*	*13,349*
Total variable rate financial instruments	***1,494,547***	***1,197,107***

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***

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)	*2012*	*2011*
Valuation gain/(loss) on hedged instruments	*(7,413)*	*6,419*
Valuation gain/(loss) on hedging interest rate swaps	*7,290*	*(6,154)*

The Group applies cash-flow hedge accounting using cross currency interest rate swaps for risk management purposes where the hedged portfolio is a group of foreign currency loans and forint deposits and the purpose of the hedge is to eliminate the fluctuation of the interest income and expense that arises from changes in the base rates and the fluctuation of the forint exchange rate.

The time periods in which the designated nominal and interest cash flows are expected to occur and affect the consolidated statement of comprehensive income:

Cash flow hedges (HUF million)	*Within 1 year*	*1-5 years*	*Over 5 years*
Inflows	*568*	*2,020*	*18,792*
Outflows	*32*	*510*	*18,332*

During 2012 net losses of HUF 70 million relating to the effective portion of cash flow hedges were recognised in other comprehensive income.

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:

2012 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash and cash equivalents	103,498	472	16,871	3,328	4,984	**129,153**
Placements with banks	845	9,993	21,957	0	0	**32,795**
Loans and advances to customers	469,916	363,808	430,704	18,814	2,293	**1,285,535**
Financial assets at fair value through profit or loss - except for derivatives	13,525	0	0	0	0	**13,525**
Available for sale securities	294,207	96,386	9,088	0	0	**399,681**
Held to maturity securities	101,300	0	10,520	0	0	**111,820**
Financial assets except for derivatives	**983,291**	**470,659**	**489,140**	**22,142**	**7,277**	**1,972,509**
Deposits from banks	118,400	29,438	81,763	13,539	5	**243,145**
Deposits from non-banks	1,041,455	8,282	289,864	81,716	15,235	**1,436,552**
Debt securities issued	122,696	0	19,946	0	0	**142,642**
Subordinated liabilities	57	0	55,461	0	0	**55,518**
Financial liabilities except for derivatives	**1,282,608**	**37,720**	**447,034**	**95,255**	**15,240**	**1,877,857**
Net open position on balance sheet	**(299,317)**	**432,939**	**42,106**	**(73,113)**	**(7,963)**	**94,652**
Net derivative and spot instruments (short) / long position	404,921	(436,396)	(64,035)	72,966	6,798	**(15,746)**
Total net currency positions	**105,604**	**(3,457)**	**(21,929)**	**(147)**	**(1,165)**	**78,906**

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)**

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

Risk factors related to the FX options are handled within VaR calculations. For Greek values (gamma and vega) additional limits are defined and monitored on 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:

VaR position

	2012 (HUF million)			
Trading Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	29	85	2	291
Interest Rate Risk	251	105	29	498
Price Risk	0	3	0	18
Total Risk	245	155	27	458
Diversification Effect	34	39	0	0
Banking Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	0	0	0	0
Interest Rate Risk	1,062	1,689	990	2,982
Total Risk	1,062	1,689	990	2,982
Diversification Effect	0	0	0	0

VaR position

	2011 (HUF million)			
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

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 2012 and 2011, respectively:

Gap report

	2012 (HUF million)			
Trading book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	(119,727)	(6,023)	39,343	1,137
3 months to 1 year	139,878	(3,246)	(26,084)	449
1 year to 5 years	(11,677)	0	3,187	(18)
over 5 years	(1,302)	0	0	0
Banking book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	463,429	23,852	67,565	59,558
3 months to 1 year	(184,373)	(20,150)	(66,930)	(6,710)
1 year to 5 years	10,820	(107)	(3,676)	(1)
over 5 years	8,904	0	49	0

Gap report

	2011 (HUF million)			
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)

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	*2012 (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	*243,145*	***255,265***	*75,120*	*33,740*	*80,017*	*66,388*
Deposits from non-banks	*1,436,552*	***1,457,471***	*1,068,844*	*337,473*	*43,110*	*8,044*
Debt securities issued	*142,642*	***153,011***	*22,373*	*24,117*	*100,533*	*5,988*
Subordinated liabilities	*55,518*	***63,569***	*253*	*1,132*	*22,628*	*39,556*
Financial liabilities at fair value through profit or loss - except for derivatives	*0*	***0***	*0*	*0*	*0*	*0*
Other liabilities	*37,367*	***37,367***	*37,367*	*0*	*0*	*0*
Liabilities held for sale	*49*	***49***	*49*	*0*	*0*	*0*
Total liabilities	***1,915,273***	***1,966,732***	***1,204,006***	***396,462***	***246,288***	***119,976***
Derivative instruments						
Interest rate swaps	*0*	***8,082***	*3,303*	*1,271*	*3,424*	*84*
Forward exchange contracts:	***0***	***(19,153)***	***(6,914)***	***(9,281)***	***(3,233)***	***275***
- Outflow	*0*	***1,815,875***	*581,416*	*425,402*	*712,549*	*96,508*
- Inflow	*0*	***1,835,028***	*588,330*	*434,683*	*715,782*	*96,233*
Contingent liabilities	***1,971***	***169,650***	***55,450***	***60,894***	***47,784***	***5,522***
Other commitments and contingencies	*1,971*	***169,650***	*55,450*	*60,894*	*47,784*	*5,522*
Commitments	***285,994***	***285,995***	***38,189***	***139,846***	***78,247***	***29,713***
Unutilised loan facilities	*131,467*	***131,467***	*7,879*	*74,131*	*40,781*	*8,676*
Unutilised overdraft facilities	*102,148*	***102,149***	*27,772*	*57,239*	*5,460*	*11,678*
Unutilised guarentee frames	*52,379*	***52,379***	*2,538*	*8,476*	*32,006*	*9,359*

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	*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*

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 2012	
Date	Million HUF
2012.01.31	121
2012.02.29	95
2012.03.31	59
2012.04.30	72
2012.05.31	74
2012.06.30	57
2012.07.31	62
2012.08.31	61
2012.09.30	46
2012.10.31	78
2012.11.30	54
2012.12.31	74

Economic capital allocated for illiquid positions in 2011	
Date	Million HUF
2011.01.31	72
2011.02.28	134
2011.03.31	113
2011.04.30	127
2011.05.31	156
2011.06.30	155
2011.07.31	376
2011.08.31	59
2011.09.30	452
2011.10.31	68
2011.11.30	73
2011.12.31	50

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 (B-1 managers); the Chief Risk Officer (CRO) receives information about operational risk data on a monthly basis through the Portfolio Committee report, the CRO and Chief Operational Officer (COO) on a quarterly basis by means of the Operational Risk Committee materials, and the CRO of RBI through the CRO meetings. The results of the self assessments are presented to all board members once a year.
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.

Notes to the consolidated financial statements

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
BUTÁR Gazdasági Szolgáltató Kft.
Raiffeisen Befektetési Alapkezelő Zrt.
Raiffeisen Gazdasági Szolgáltató Zrt.
Raiffeisen Lízing Zrt.
Raiffeisen Property Lízing Zrt.
RB Kereskedőház Kereskedelmi Kft.
SCTB Ingatlanfejlesztő és Ingatlanhasznosító Kft.
SCT Kárász utca Ingatlankezelő Kft.
SCT Tündérkert Kft.
T+T 2003 Ingatlanhasznosító 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 and April 2012, capital requirement of exposures to private individuals and Micro-SME customers respectively are measured by advanced IRB method.

Capital requirement calculation

(HUF million)	*2012*	*2011*
Ordinary share capital	*50,000*	*165,023*
Capital reserve	*115,023*	*0*
Retained earnings	*(53,839)*	*6,718*
Non-distributable reserve	*0*	*323*
Non controlling interest	*248*	*385*
Less intangible assets	*(15,735)*	*(15,386)*
Tier 1 capital	***95,697***	***157,063***
Fair value reserve for available-for-sale equity securities	*217*	*376*
Equity consolidation differences according to HAS	*356*	*87*
Collective allowances for impairment	*7,951*	*9,776*
Qualifying subordinated liabilities	*47,848*	*59,131*
Tier 2 capital	***56,372***	***69,370***
Additional own funds specific to cover market risks	*1,529*	*0*
Tier 3 capital	***1,529***	***0***
Total consolidated regulatory capital	***153,598***	***226,433***
Capital requirement	***133,770***	***162,814***
Consolidated solvency ratio (%)	***9.19%***	***11.13%***

Notes to the consolidated financial statements

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 also 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)	2012	2011
Cash and cash equivalents	**3,919**	**3,664**
Placements with banks	**527**	**940**
Loans and advances to customers	**101,219**	**116,742**
Securities at fair value through profit or loss	**505**	**3,559**
Government bonds	95	993
Treasury bills issued by the Government	212	195
Treasury bills issued by the Central Bank	81	2,151
Investment certificate	117	220
Available for sale securities	**20,644**	**11,763**
Government bonds	222	489
Treasury bills issued by the Government	1	2
Treasury bills issued by the Central Bank	17,803	8,372
Other securities issued by the public sector	2,573	2,900
Investment certificates	45	0
Held to maturity securities	**8,497**	**9,097**
Government bonds	7,448	8,614
Corporate bonds	1,049	483
From leases	**1,832**	**2,403**
Interest income	**137,143**	**148,168**

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 136,638 million (2011: HUF 144,609 million).

(6) Interest expense

(HUF million)	2012	2011
Deposits from banks	12,155	18,716
Deposits from non-banks	68,865	59,671
Dept securities issued	10,517	9,531
Subordinated liabilities	1,663	1,770
Interest expense	**93,200**	**89,688**

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 93,200 million (2011: HUF 89,688 million).

(7) Net fee and commission income

Fee and commission income

(HUF million)	2012	2011
Account management, turnover and cash handling fees	14,004	14,766
Guarantees and documentary credits	2,063	2,634
Fees from leases	300	508
Fees from investment services	4,251	4,965
Bankcard fees	3,437	3,300
Other commission and fee income	2,496	3,059
Total fee and commission income	**26,551**	**29,232**

Fee and commission expense

(HUF million)	2012	2011
Payments transfer business	2,832	2,978
Loan administration and guarantee business	1,333	1,141
Securities business	378	624
Agency fees	1,052	907
Bankcard fees	1,477	1,376
Other banking services	1,709	1,157
Total fee and commission expense	**8,781**	**8,183**
Net income from commissions and fees	**17,770**	**21,049**

(8) Net trading income

(HUF million)	2012	2011
Realised net gains/(losses) from securities at fair value through profit or loss	412	1,186
Unrealised net gains/(losses) from securities at fair value through profit or loss	339	(199)
Realised net gains/(losses) on FX positions and derivative instruments	(842)	10,609
Unrealised net gains/(losses) on FX positions and derivative instruments	6,043	(6,167)
Net trading income	**5,952**	**5,429**

(9) Net income from derivatives held for risk management

(HUF million)	2012	2011
Derivatives held for risk management without hedge accounting	**8,057**	**37,218**
Realised and unrealised net gains/(losses) on cross currency interest rate swaps	10,404	33,820
Realised and unrealised net gains/(losses) on other derivatives	(2,347)	3,398
Hedge accounting	**704**	**(215)**
Realised net gains/(losses) on hedging derivatives	827	(480)
Unrealised net gains/(losses) on hedging derivatives	7,290	(6,154)
Unrealised net gains/(losses) on hedged items	(7,413)	6,419
Other	**0**	**27**
Net income from derivatives held for risk management	**8,761**	**37,030**

The unrealised revaluation result of cross currency interest rate swaps (CIRS) was HUF (16,028) million (2011: HUF 9,871 million).

The most significant input variable with profit and loss impact of CIRS portfolio revaluation is the movement of the HUF basis swap spreads. In 2011, a significant spread increase could be observed (average spread increase was around 130 basis points), which caused a significant profit in revaluation. In 2012, an opposite development happened, the spread became lower by approximately 150 basis points, which had a significant negative effect on the profit and loss.

The Group started to apply cash flow hedge accounting in December 2012. During 2012, no gains or losses relating to cash flow hedges were transferred from equity to profit and loss. Net ineffectiveness recognised on cash flow hedges during 2012 was nil.

(10) Other operating income and other operating expenses

(HUF million)	2012	2011
Other operating income		
Realised net gains/(losses) from available-for-sale securities	496	226
Unrealised net gains/(losses) from available-for-sale securities	(81)	(25)
Net gains/(losses) from held-to-maturity securities	269	753
Operational fees	373	350
Gains/(losses) on sale on receivables	(939)	337
Gains/(losses) on disposal of inventory	108	(877)
Gains/(losses) on disposal of investments	212	476
Gains/(losses) on disposal of intangibles, property, plant and equipment	31	188
Energy trading margin	2,023	2,076
Revenues related to damages	15	18
Other	2,388	832
Other operating income	**4,895**	**4,354**

(HUF million)	2012	2011
Other operating expenses		
Other taxes	10,992	7,130
Telecommunication and information systems expenses	1,547	1,720
Business travel cost	602	620
Professional fees	3,879	5,287
Cash processing and delivery	309	538
Manpower services	1,018	1,021
External bankcard services	102	111
Advisory fees	1,697	2,625
Other	753	992
Office supplies	272	343
Depreciation	8,742	11,124
Impairment and write-offs	3,515	37,428
Energy	80	0
Fees to public authorities	1,355	1,477
Other	4,848	4,723
Other operating expenses	**35,832**	**69,852**

Other taxes mainly contains the amount of HUF 7,264 million Special Tax on Financial Institutions (2011: HUF 2,751 million) and the amount of HUF 2,590 million local corporation tax in 2012 (2011: HUF 3,304 million).

Impairment and write-offs mainly contains the result of sale of loans as well as the impact of the government program for the 25% waiver of retail FX mortgage loans overdue by more than 90 days. This program was nearly profit neutral as the written-off part was almost fully provisioned loan exposure or suspended interest.

Impairment and write-offs in 2011 mainly contain the total loss from early repayment option of retail clients with FX mortgage loans (HUF 31,284 million).

(11) Impairment and provision for losses

(HUF million)	2012	2011
Impairment loss on	**61,015**	**100,193**
Placements with banks	(467)	(29)
Loans and advances to customers	61,254	97,535
Investments in associates	151	2,672
Other assets	77	15
Provision on	**886**	**5,669**
Guarantees and contingencies	886	5,669
Impairment and provision for losses	**61,901**	**105,862**

(12) Personnel expenses

(HUF million)	2012	2011
Salaries	17,452	19,522
Social security contributions	5,740	6,186
Other personnel benefits	2,093	2,614
	25,285	**28,322**

(HUF million)	2012		2011	
	Staff (person)	**Salary expense**	**Staff (person)**	**Salary expense**
Full time	2,855	16,668	3,059	19,302
Part time	75	741	36	193
Pensioners	5	41	4	23
Other	5	2	2	4
	2,940	**17,452**	**3,101**	**19,522**

(13) Income tax

Income tax expense recognised in the consolidated income statement

(HUF million)	2012	2011
Current tax expense	**123**	**185**
Deferred tax expense/(income)	**738**	**(3,098)**
Origination and reversal of temporary differences	743	(3,123)
Effect of changes in tax rates	0	0
Adjustments in respect of prior years	(5)	25
Income tax	**861**	**(2,913)**

Reconciliation of effective tax rate

	2012		2011	
	(%)		(%)	
Profit before tax		(56,088)		(91,795)
Applicable tax rate	10.00%	(5,609)	10.00%	(9,180)
Tax effects of items that modify the profit before tax under the Hungarian tax law	(10.27%)	5,760	(11.56%)	10,607
Temporary tax effects of IFRS adjustments	(1.32%)	738	3.37%	(3,098)
– Provisions, impairment losses for loans and pending interest and commission	(1.33%)	748	1.00%	(914)
– Impairment losses on investments in associates	(0.11%)	59	0.11%	(99)
– Other provisions	(0.34%)	190	2.70%	(2,480)
– Tangible and intangible assets	0.03%	(18)	0.00%	3
– Fair value of available-for-sale financial assets	0.33%	(185)	(0.27%)	249
– Other	0.10%	(56)	(0.16%)	143
Tax effects of consolidation	0.05%	(28)	1.35%	(1,242)
Income tax	(1.54%)	861	3.17%	(2,913)
Tax effects of consolidation	**1.35%**	**(1,242)**	**8.33%**	**(591)**

Income tax recognised in other comprehensive income

In 2012, the Group accounted HUF 2,692 million deferred tax charge (2011: HUF 2,548 million deferred tax income) directly against equity.

(14) Net gains/(losses) on financial instruments

(HUF million)	2012	2011
Loans and receivables	**46,633**	**26,228**
Net interest income	107,497	123,749
Impairment losses	(60,864)	(97,521)
Financial assets and liabilities measured at fair value through profit or loss	**15,218**	**46,018**
Trading securities	1,256	4,546
Net interest income	505	3,559
Unrealised net gains/(losses)	339	(199)
Realised net gains/(losses)	412	1,186
Trading derivative instruments	5,201	4,442
Derivatives held for risk management	8,761	37,030
Held-to-maturity investments	**8,766**	**9,850**
Net interest income	8,497	9,097
Realised net gains/(losses)	269	753
Available-for-sale financial assets	**35,226**	**(1,231)**
Net interest income	20,644	11,763
Unrealised net gains/(losses)	14,086	(13,220)
Realised net gains/(losses)	496	226
Financial liabilities measured at amortised cost	**(93,200)**	**(89,688)**
Net interest income	(93,200)	(89,688)
Net gains/losses on financial instruments	**12,643**	**(8,823)**

(15) Cash and cash equivalents

2012 (HUF million)	HUF	FCY	Total
Cash and cheques	20,681	8,367	29,048
Balances with National Bank of Hungary (NBH)	82,101	0	82,101
Balances with other banks	716	17,288	18,004
Cash and cash equivalents	**103,498**	**25,655**	**129,153**

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**

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% (2011: 3%) of certain deposits. The required average reserve balance amounted to HUF 41,875 million (2011: HUF 32,077 million). The compulsory reserve requirement may also be met by the Group's holding of government securities (see Note 18 and 19).

(16) Placements with banks

2012 (HUF million)	Up to 1 year		Over 1 year		Total
	HUF	FCY	HUF	FCY	
National Bank of Hungary	294	0	0	0	294
Other Banks	551	23,316	0	8,634	32,501
Impairment losses	0	0	0	0	0
Placements with banks	**845**	**23,316**	**0**	**8,634**	**32,795**

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**

Specific allowances for impairment (HUF Million)

Balance at 1 January 2012	**661**
Impairment loss for the year:	
Charge for the year	0
Recoveries	(467)
Effect of foreign currency movements	(59)
Unwinding of discount	0
Write-offs	(135)
Balance at 31 December 2012	**0**

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**

(17) Loans and advances to customers

Loans and advances to customers at amortised cost

2012 (HUF million)	Gross amount	Of which: Non-performing loans	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate					
Trading and industrial	376,628	99,214	66,513	1,884	308,231
Commercial real estate	230,784	72,584	37,595	935	192,254
Other	301,548	82,682	43,711	1,612	256,225
Total corporate	**908,960**	**254,480**	**147,819**	**4,431**	**756,710**
Retail	538,105	151,988	88,775	14,931	434,399
Government and public sector	97,689	17,957	3,263	0	94,426
Loans and advances to customers	**1,544,754**	**424,425**	**239,857**	**19,362**	**1,285,535**

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**

Allowances for impairment

The following table shows a reconciliation of movements on the allowance account in 2011 and 2012, respectively:

Specific allowances for impairment on loans and advances to customers (HUF million)	*2012*	*2011*
Balance at 1 January	***231,891***	***126,056***
Impairment loss for the year:		
Charge for the year	*83,032*	*115,470*
Recoveries	*(24,527)*	*(9,914)*
Effect of foreign currency movements	*(7,022)*	*7,475*
Write-offs	*(38,728)*	*(3,168)*
Change in consolidation group	*(4,789)*	*(4,028)*
Balance at 31 December	***239,857***	***231,891***

Collective allowances for impairment on loans and advances to customers (HUF million)	*2012*	*2011*
Balance at 1 January	***18,045***	***24,993***
Impairment loss for the year:		
Charge for the year	*10,744*	*9,765*
Recoveries	*(7,995)*	*(17,786)*
Effect of foreign currency movements	*(498)*	*1,124*
Write-offs	*0*	*(51)*
Change in consolidation group	*(934)*	*0*
Balance at 31 December	***19,362***	***18,045***

As at 31 December 2012 accumulated impairment losses amounted to HUF 259,219 million (2011: HUF 249,936 million), equal to 16.78 % (2011: 14.07 %) 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, 2011 and 2012, 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:

2012 (HUF million)	*Up to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
Gross investment leases	*7,674*	*16,329*	*12,359*	***36,362***
Unearned finance income	*1,283*	*2,495*	*2,189*	***5,967***
Net present value of minimum lease payments	***6,391***	***13,834***	***10,170***	***30,395***
Accumulated allowance for uncollectible minimum lease payments	*3,260*	*5,758*	*1,471*	***10,489***
Finance leases per balance sheet	***3,131***	***8,076***	***8,699***	***19,906***

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***

In 2012, nil contingent rent was recognized in finance income (2011: nil), and unguaranteed residual value amounted to HUF 2,773 million (2011: HUF 2,435 million). At 31 December 2012, the accumulated allowance for uncollectible minimum lease payments amounted HUF 10,489 million (2011: HUF 9,112 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.

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

(HUF million)	*2012*				*2011*			
	Cost	*Accrued interest*	*Unre-alised gain/ loss*	*Book value*	*Cost*	*Accrued interest*	*Unre-alised gain/ loss*	*Book value*
Debt and equity instruments:								
Government bonds	*3,919*	*130*	*11*	*4,060*	*7,991*	*324*	*(202)*	*8,113*
Treasury bills	*6,533*	*33*	*0*	*6,566*	*1,707*	*1*	*0*	*1,708*
Corporate bonds and other bonds	*305*	*15*	*0*	*320*	*47*	*2*	*2*	*51*
Investment fund units	*885*	*0*	*70*	*955*	*358*	*0*	*88*	*446*
Shares	*1,600*	*0*	*24*	*1,624*	*1,211*	*0*	*(98)*	*1,113*
Debt and equity instruments	***13,242***	***178***	***105***	***13,525***	***11,314***	***327***	***(210)***	***11,431***
Derivative financial instruments:								
Derivatives held for trading								
FX swaps	*0*	*0*	*3,010*	*3,010*	*0*	*0*	*0*	*0*
FX forwards	*0*	*0*	*2,166*	*2,166*	*0*	*0*	*12,056*	*12,056*
Security forwards	*0*	*0*	*108*	*108*	*0*	*0*	*60*	*60*
FX futures	*0*	*0*	*142*	*142*	*0*	*0*	*0*	*0*
FX options	*0*	*0*	*2,316*	*2,316*	*0*	*0*	*4,086*	*4,086*
Interest rate derivatives	*0*	*5,755*	*20,869*	*26,624*	*0*	*7,980*	*24,455*	*32,435*
Derivatives held for trading	***0***	***5,755***	***28,611***	***34,366***	***0***	***7,980***	***40,657***	***48,637***
Derivatives held for risk management:								
FX swaps	*1,795*	*274*	*1,298*	*3,367*	*(680)*	*807*	*9,116*	*9,243*
Hereof cross currency interest rate swaps in cash flow hedges	*(231)*	*597*	*51*	*417*	*0*	*0*	*0*	*0*
Interest rate derivatives	*0*	*1,875*	*1,040*	*2,915*	*0*	*198*	*659*	*857*
Hereof interest rate swaps in fair value hedges	*0*	*422*	*1,280*	*1,702*	*0*	*13*	*18*	*31*
Derivatives held for risk management	***1,795***	***2,149***	***2,338***	***6,282***	***(680)***	***1,005***	***9,775***	***10,100***
Total derivative financial instruments	***1,795***	***7,904***	***30,949***	***40,648***	***(680)***	***8,985***	***50,432***	***58,737***
Total financial asset at fair value through profit or loss	***15,037***	***8,082***	***31,054***	***54,173***	***10,634***	***9,312***	***50,222***	***70,168***

Notes to the consolidated financial statements

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.

(19) Investment in securities

At 31 December 2012, HUF 155,190 million (2011: HUF 222,782 million) from the total amount of Investment in securities were pledged as collateral for liabilities.

During 2012, in connection with available-for-sale investment securities an amount of HUF 10,315 million (2011: HUF (13,851) million) was recognised in other comprehensive income and an amount of HUF 3,852 million (2011: HUF 656 million) was reclassified from other comprehensive income to profit or loss.

(HUF million)	2012					2011				
Available-for-sale securities	Cost	Accrued interest	Unrealised gain/ loss	Impairment	Book value	Cost	Accrued interest	Unrealised gain/ loss	Impairment	Book value
Corporate and municipal bonds	112,595	307	(5,357)	0	107,545	166,067	746	(19,726)	0	147,087
Investment fund units	229	0	(69)	0	160	3,275	0	204	(37)	3,442
Government bonds	2,997	4	(64)	0	2,937	3,094	6	1	(132)	2,969
Treasury bills	288,798	370	(129)	0	289,039	99,869	58	2	(19)	99,910
	404,619	**681**	**(5,619)**	**0**	**399,681**	**272,305**	**810**	**(19,519)**	**(188)**	**253,408**

Held-to-maturity securites	Cost	Accrued interest	Discount/ Premium	Impairment	Book value	Cost	Accrued interest	Discount/ Premium	Impairment	Book value
Corporate bonds and other	9,900	437	183	0	10,520	10,574	470	112	0	11,156
Government bonds	96,741	4,192	367	0	101,300	125,831	5,135	1,064	0	132,030
	106,641	**4,629**	**550**	**0**	**111,820**	**136,405**	**5,605**	**1,176**	**0**	**143,186**

(20) Investment in associates

General and financial data of the associates for the years ended 31 December 2012 and 2011 is as follows:

2012 (HUF million)	Ownership (%)	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenues	Expenses	Profit / (loss)
NOC Kft.	50.00%	611	4,527	**5,138**	4,585	553	**5,138**	824	635	**189**
		611	**4,527**	**5,138**	**4,585**	**553**	**5,138**	**824**	**635**	**189**

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)**

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.

(21) Property, plant and equipment

Owner occupied property

2012 (HUF million)	Gross carrying amount as at 1 January 2012	Additions	Disposals	Acquired/(sold) through business combinations	Gross carrying amount as at 31 December 2012
Properties	**24,323**	**152**	**1,848**	**0**	**22,627**
Freehold	7,143	20	22	0	7,141
Leasehold	17,180	132	1,826	0	15,486
Equipment	**18,838**	**886**	**1,246**	**0**	**18,478**
	43,161	**1,038**	**3,094**	**0**	**41,105**

2012 (HUF million)	Accumulated depreciaton as at 1 January 2012	Depre-ciation for the year	Disposals	Acquired/ (sold) through business combinations	Accumulated depreciation	Carrying amount as at 1 January 2012	Carrying amount as at 31 December 2012
Properties	**7,534**	**1,168**	**540**	**0**	**8,162**	**16,789**	**14,465**
Freehold	1,128	205	7	0	1,326	6,015	5,815
Leasehold	6,406	963	533	0	6,836	10,774	8,650
Equipment	**14,606**	**1,474**	**1,008**	**0**	**15,072**	**4,232**	**3,406**
	22,140	**2,642**	**1,548**	**0**	**23,234**	**21,021**	**17,871**

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

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

In 2012 HUF 1,350 million impairment losses were recognised for properties in the consolidated income statement under other operating expenses (2011: HUF 2,385 million).

Investment property

2012 (HUF million)	Gross carrying amount as at 1 January 2012	Additions	Disposals	Acquired/(sold) through business combinations	Gross carrying amount as at 31 December 2012
Properties	1,457	4	97	(124)	1,240

2012 (HUF million)	Accumulated depreciaton as at 1 January 2012	Depre-ciation for the year	Disposals	Acquired/ (sold) through business combinations	Accumulated depreciation	Carrying amount as at 1 January 2012	Carrying amount as at 31 December 2012
Properties	1,310	1	268	0	1,043	147	197

2011 (HUF million)	Gross carrying amount as at 1 January 2011	Additions	Disposals	Acquired/(sold) through business combinations	Gross carrying amount as at 31 December 2011
Properties	1,256	201	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	Accumulated depreciation	Carrying amount as at 1 January 2011	Carrying amount as at 31 December 2011
Properties	4	1,306	0	0	1,310	1,252	147

The fair value of investment property is HUF 197 million (2011: HUF 147 million) based on quarterly valuation made by an independent appraiser.

(22) Intangible assets

2012 (HUF million)	Gross carrying amount as at 1 January 2012	Additions	Disposals	Acquired/ (sold) through business combinations	Gross carrying amount as at 31 December 2012
Softwares	36,972	4,495	906	0	40,561
Other intangible assets	307	0	3	0	304
	37,279	**4,495**	**909**	**0**	**40,865**

2012 (HUF million)	Accumulated depreciaton as at 1 January 2012	Depre-cia-tion for the year	Disposals	Acquired/ (sold) through business combinations	Accumulated depreciation	Carrying amount as at 1 January 2012	Carrying amount as at 31 December 2012
Softwares	21,716	3,872	661	0	24,927	15,256	15,634
Other intangible assets	231	4	0	0	235	76	69
	21,947	**3,876**	**661**	**0**	**25,162**	**15,332**	**15,703**

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

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

In 2012 HUF 64 million impairment losses were recognised for softwares in the consolidated income statement under other operating expenses (2011: HUF 988 million).

(23) Goodwill

(HUF million)	2012	2011
Cost		
Balance at 1 January	**1,672**	**1,672**
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	(517)	0
Balance at 31 December	**1,155**	**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**	**1,672**
At 31 December	**1,155**	**1,672**

(24) Operating leases

Leases as a lessee

Non-cancellable operating lease rentals are payable as follows:

(HUF million)	2012	2011
Less than 1 year	6,018	7,918
Between 1 and 5 years	24,071	31,672
More than 5 years	0	0
	30,089	**39,590**

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 2012 an amount of HUF 5,541 million was recognised as an expense in profit or loss in respect of operating leases (2011: HUF 7,918 million).

(25) Other assets

(HUF million)	2012	2011
Other tax receivables	6,436	12,097
Cash at money exchange agents	7,396	6,857
Receivables from investment activities	5,641	14,026
Accruals	4,432	3,829
Inventory	5,574	3,146
Other	7,021	7,523
Other assets	**36,500**	**47,478**
Hereof : specific impairment	338	565
Specific impairment		
Balance at 1 January	**565**	**664**
Impairment loss for the year:		
Charge for the year	78	42
Recoveries	(4)	(54)
Effect of foreign currency movements	0	0
Write-offs	(301)	(87)
Change in consolidation group	0	0
Balance at 31 December	**338**	**565**

Other tax receivables mainly contain bank tax receivable in amount of HUF 4,777 million (2011 : HUF 9,385 million).

Inventory contains mainly real estate developments in progress HUF 3,500 million in 2012 (2011: HUF 2,028 million) of Raiffeisen Property Lízing Zrt. and also project companies' real estate constructions in progress HUF 1,204 million in 2012 (2011: HUF 62 million). Cars repossessed from customers amount to HUF 336 million in 2012 (2011: HUF 443 million) of Raiffeisen Lízing Zrt. and Raiffeisen Energiaszolgáltató Kft. Repossessed properties amount to HUF 680 million in Raiffeisen Property Lízing Zrt. (2011: HUF 578 million).

Receivables from investment activities involve mainly receivables from clearing house and receivables from repo transactions.

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

(HUF million)	2012				2011			
	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	1,474	1,474	0	0	0	0
FX forwards	0	0	2,203	2,203	0	0	29,622	29,622
Security forwards	0	0	44	44	0	0	119	119
Foreign exchange futures	0	0	285	285	0	0	0	0
Foreign exchange options	0	0	2,037	2,037	0	0	4,702	4,702
Interest rate derivatives	0	6,662	18,627	25,289	0	7,460	24,262	31,722
Total derivative instruments held for trading	**0**	**6,662**	**24,670**	**31,332**	**0**	**7,460**	**58,705**	**66,165**
Derivative instrume nts held for risk management purposes								
FX swaps	19,018	(2,291)	5,175	21,902	55,974	(2,344)	(4,810)	48,820
Hereof cross currency interest rate swaps in cash flow hedges	292	227	(41)	478	0	0	0	0
Interest rate derivatives	0	101	1,389	1,490	0	(620)	8,523	7,903
Hereof interest rate swaps in fair value hedges	0	1,158	(106)	1,052	0	8,083	(439)	7,644
Total derivative instruments held for risk management purposes	**19,018**	**(2,190)**	**6,564**	**23,392**	**55,974**	**(2,964)**	**3,713**	**56,723**
Total financial liabilities at fair value through profit or loss	**19,018**	**4,472**	**31,234**	**54,724**	**55,974**	**4,496**	**62,418**	**122,888**

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.

(27) Deposits from banks

2012	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
Resident	67,855	12,653	38,944	29,254	**148,706**
Non resident	10,504	15,479	1,097	67,359	**94,439**
	78,359	**28,132**	**40,041**	**96,613**	**243,145**

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**

(28) Deposits from non-banks

2012	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
Resident	979,266	331,571	35,695	7,655	**1,354,187**
Non resident	26,383	55,309	112	561	**82,365**
	1,005,649	**386,880**	**35,807**	**8,216**	**1,436,552**

2011	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
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**

(29) Debt securities issued

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2012 (HUF million)	Carrying amount 2011 (HUF million)
RB KAM EUR4	fixed 3.25%	0	27/01/2010	27/01/2012	No	0	6,407
RB PB KTV3	indexed to EUR/HUF exchange rate (max 10%)	3,000	12/02/2010	12/02/2013	No	3,218	2,973
RB KAM KTV7	fixed 7.25%	0	19/02/2010	20/02/2012	No	0	10,653
RB KAM KTV8	fixed 6.25%	0	19/03/2010	19/03/2012	No	0	10,488
RB PB KTV5	indexed to EUR/HUF exchange rate (max 5%)	3,495	23/04/2010	23/04/2013	No	3,485	3,577
RB KAM EUR5	fixed 2.70%	5,826	30/04/2010	30/04/2013	No	5,938	6,319
RB KAM KTV9	fixed 6%	10,000	19/05/2010	20/05/2013	No	10,368	10,372
RB TB KTV	fixed 7.55%	5,007	26/05/2010	30/12/2015	No	5,989	5,611
RB PB KTV6	indexed to EUR/HUF exchange rate (max 8.5%)	0	30/07/2010	30/07/2012	No	0	2,996
RB PB KTV7	indexed to EUR/HUF exchange rate (max 8.5%)	0	13/08/2010	13/08/2012	No	0	2,949
RB PB KTV8	indexed to EUR/HUF exchange rate (max 8.5%)	10,000	30/08/2010	28/02/2013	No	10,150	9,539
RB KAM KTV10	fixed 6.50%	0	30/09/2010	01/10/2012	No	0	4,066
RB KAM KTV11	fixed 6.50%	5,000	17/11/2010	18/11/2013	No	5,038	5,040
RB PB KTV10	indexed to EUR/HUF exchange rate (max 11%)	0	15/12/2010	15/12/2015	No	0	2,539
RB KAM KTV12	fixed 7.15%	5,000	12/01/2011	13/01/2014	No	5,346	5,346
RB PB KTV11	indexed to EUR/HUF exchange rate (max 10%)	0	02/03/2011	02/03/2016	No	0	1,647
RB KAM KTV13	fixed 7.00%	5,000	09/03/2011	10/03/2014	No	5,285	5,285
RB PB KTV12	indexed to EUR/HUF exchange rate (max 10%)	5,000	09/03/2011	11/03/2013	No	5,098	4,838
RB PB KTV13	indexed to EUR/HUF exchange rate (max 9%)	3,000	09/03/2011	11/03/2013	No	3,082	2,638
RB TB KTV2	fixed 8.35%	3,000	23/03/2011	30/12/2016	No	3,445	3,194

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Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2012 (HUF million)	Carrying amount 2011 (HUF million)
RB PB KTV14	indexed to EUR/HUF exchange rate (max 10%)	0	28/03/2011	29/03/2016	No	0	1,577
RB PB KTV15	indexed to EUR/HUF exchange rate (max 9.1%)	0	28/04/2011	28/04/2017	No	0	2,606
RB PB KTV16	indexed to EUR/HUF exchange rate (max 10%)	3,000	29/04/2011	29/04/2014	No	3,093	2,755
RB PB KTV17	indexed to EUR/HUF exchange rate (max 10%)	3,000	25/05/2011	26/05/2014	No	3,078	2,659
RH10R1407	indexed to EUR/HUF exchange rate (max 10%)	5,000	01/07/2011	01/07/2014	No	5,096	4,312
RH09A1708	indexed to EUR/HUF exchange rate (max 9%)	0	17/08/2011	17/08/2017	No	0	1,497
RE3.70F1408	fixed 3.70%	2,913	30/08/2011	29/08/2014	No	2,966	3,150
RH10R1409	indexed to EUR/HUF exchange rate (max 10%)	5,000	23/09/2011	23/09/2014	No	5,027	4,270
RH8.40TB1612	fixed 8.40%	1,000	23/09/2011	30/12/2016	No	1,107	1,023
RE4.00F1410	fixed 4.00%	1,165	10/10/2011	10/10/2014	No	1,202	1,256
RH9.50TB1612	fixed 9.50%	2,500	10/10/2011	30/12/2016	No	2,791	2,553
RE4.00F1310	fixed 4.00%	1,165	24/10/2011	24/10/2013	No	1,174	1,254
RE4.00F1411	fixed 4.00%	1,748	11/11/2011	11/11/2014	No	1,793	1,877
RH10A1711	indexed to EUR/HUF exchange rate (max 10%)	0	11/11/2011	13/11/2017	No	0	2,479
RH8.00F1412	fixed 8.00%	2,000	12/12/2011	12/12/2014	No	2,008	2,008
RH8F141222	fixed 8.00%	3,000	21/12/2011	22/12/2014	No	3,006	3,006
RH9F140117	fixed 9%	1,210	18/01/2012	17/01/2014	No	1,314	0
RE4.5F140127	fixed 4.5%	1,311	27/01/2012	27/01/2014	No	1,376	0
RE5F150127	fixed 5%	1,019	27/01/2012	27/01/2015	No	1,084	0
RH9F140127	fixed 9%	2,651	27/01/2012	27/01/2014	No	2,872	0
RE4.75F1502	fixed 4.75%	2,075	08/02/2012	09/02/2015	No	2,192	0
RH8.75F1402	fixed 8.75%	5,360	08/02/2012	10/02/2014	No	5,779	0
RH10TB171227	fixed 10%	1,010	20/02/2012	27/12/2017	No	1,143	0
RH11R150220	indexed to EUR/HUF exchange rate (max 11%)	2,000	20/02/2012	20/02/2015	No	2,227	0
RH8.50F1402	fixed 8.50%	5,000	20/02/2012	20/02/2014	No	5,366	0
RH8.25F1503	fixed 8.25%	3,035	19/03/2012	19/03/2015	No	3,349	0
RHVALT150319	variable-yield 7.97%	5,000	19/03/2012	19/03/2015	No	5,112	0
RH10A180329	autocollable indexed to EUR/HUF exchange rate (max 10%)	2,000	30/03/2012	29/03/2018	No	2,052	0
RH8.25F1504	fixed 8.25%	2,000	18/04/2012	17/04/2015	No	2,202	0
RH8.00F1505	fixed 8%	1,500	23/05/2012	22/05/2015	No	1,630	0
RH9.50TB1712	fixed 9.5%	1,000	23/05/2012	20/12/2017	No	1,076	0
RH10A1806	autocollable indexed to EUR/HUF exchange rate (max 10%)	2,000	06/06/2012	06/06/2018	No	1,998	0
RH11R1506	indexed to EUR/HUF exchange rate (max 11%)	2,000	25/06/2012	25/06/2015	No	2,159	0
RH7.75F1506	fixed 7.75%	1,000	25/06/2012	25/06/2015	No	1,072	0
RE5TB171220	fixed 5%	583	03/08/2012	20/12/2017	No	595	0
RH7.50F1508	fixed 7.50%	1,000	03/08/2012	03/08/2015	No	1,031	0
RE3.50F1508	fixed 3.50%	583	31/08/2012	31/08/2015	No	591	0

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2012 (HUF million)	Carrying amount 2011 (HUF million)
RE3.50F1509	fixed 3.50%	728	28/09/2012	28/09/2015	No	736	0
RE4.75TB1712	fixed 4.75%	583	28/09/2012	20/12/2017	No	594	0
RH7F140929	fixed 7%	2,000	28/09/2012	29/09/2014	No	2,069	0
RH8.25TB1712	fixed 8.25%	1,000	28/09/2012	20/12/2017	No	1,033	0
RH9A181005	autocollable indexed to EUR/HUF exchange rate (max 9%)	2,000	05/10/2012	05/10/2018	No	1,922	0
RH6.75F1410	fixed 6.75%	1,000	12/10/2012	13/10/2014	No	1,029	0
RHVALT151130	variable-yield 6.95%	3,000	28/11/2012	30/11/2015	No	3,019	0
Debt securities issued		**148,467**				**155,405**	**144,759**

Repurchased own debt securities

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2012	Carrying amount 2011
RB KAM EUR4	fixed 3.25%	0	27/01/2010	27/01/2012	No	0	277
RB PB KTV3	indexed to EUR/HUF exchange rate (max 10%)	286	12/02/2010	12/02/2013	No	291	148
RB KAM KTV7	fixed 7.25%	0	19/02/2010	20/02/2012	No	0	59
RB KAM KTV8	fixed 6.25%	0	19/03/2010	19/03/2012	No	0	27
RB PB KTV5	indexed to EUR/HUF exchange rate (max 5%)	2,363	23/04/2010	23/04/2013	No	2,374	2,273
RB KAM EUR5	fixed 2.70%	1,401	30/04/2010	30/04/2013	No	1,401	2,338
RB KAM KTV9	fixed 6%	23	19/05/2010	20/05/2013	No	23	21
RB TB KTV	fixed 7.55%	559	26/05/2010	30/12/2015	No	649	537
RB PB KTV6	indexed to EUR/HUF exchange rate (max 8.5%)	0	30/07/2010	30/07/2012	No	0	45
RB PB KTV7	indexed to EUR/HUF exchange rate (max 8.5%)	0	13/08/2010	13/08/2012	No	0	108
RB PB KTV8	indexed to EUR/HUF exchange rate (max 8.5%)	674	30/08/2010	28/02/2013	No	658	245
RB KAM KTV11	fixed 6.50%	0	17/11/2010	18/11/2013	No	0	2,278
RB PB KTV10	indexed to EUR/HUF exchange rate (max 11%)	0	15/12/2010	15/12/2015	No	0	18
RB KAM KTV12	fixed 7.15%	3	12/01/2011	13/01/2014	No	4	24
RB PB KTV11	indexed to EUR/HUF exchange rate (max 10%)	0	02/03/2011	02/03/2016	No	0	19
RB KAM KTV13	fixed 7.00%	17	09/03/2011	10/03/2014	No	18	100
RB PB KTV12	indexed to EUR/HUF exchange rate (max 10%)	593	09/03/2011	11/03/2013	No	596	341
RB PB KTV13	indexed to EUR/HUF exchange rate (max 9%)	445	09/03/2011	11/03/2013	No	449	218
RB TB KTV2	fixed 8.35%	78	23/03/2011	30/12/2016	No	83	8
RB PB KTV14	indexed to EUR/HUF exchange rate (max 10%)	0	28/03/2011	29/03/2016	No	0	10
RB PB KTV15	indexed to EUR/HUF exchange rate (max 9.1%)	0	28/04/2011	28/04/2017	No	0	10
RB PB KTV16	indexed to EUR/HUF exchange rate (max 10%)	421	29/04/2011	29/04/2014	No	408	159

Notes to the consolidated financial statements

Reference	Interest	Par value	First issuance	Due date	Listed	Carrying amount 2012 (HUF million)	Carrying amount 2011 (HUF million)
RB PB KTV17	indexed to EUR/HUF exchange rate (max 10%)	485	25/05/2011	26/05/2014	No	474	226
RH10R1407	indexed to EUR/HUF exchange rate (max 10%)	977	01/07/2011	01/07/2014	No	944	165
RH09A1708	indexed to EUR/HUF exchange rate (max 9%)	0	17/08/2011	17/08/2017	No	0	465
RE3.70F1408	fixed 3.70%	4	30/08/2011	29/08/2014	No	4	161
RH10R1409	indexed to EUR/HUF exchange rate (max 10%)	1,666	23/09/2011	23/09/2014	No	1,698	3,865
RH8.40TB1612	fixed 8.40%	0	23/09/2011	30/12/2016	No	0	2
RE4.00F1410	fixed 4.00%	1	10/10/2011	10/10/2014	No	1	41
RH9.50TB1612	fixed 9.50%	12	10/10/2011	30/12/2016	No	14	1
RE4.00F1411	fixed 4.00%	0	11/11/2011	11/11/2014	No	0	683
RH10A1711	indexed to EUR/HUF exchange rate (max 10%)	0	11/11/2011	13/11/2017	No	0	2,413
RH8F141222	fixed 8.00%	4	21/12/2011	22/12/2014	No	4	1,152
RH8.00F1412	fixed 8.00%	4	12/12/2011	12/12/2014	No	4	0
RH8.75F1402	fixed 8.75%	0	08/02/2012	10/02/2014	No	1	0
RH8.25F1503	fixed 8.25%	1	19/03/2012	19/03/2015	No	1	0
RH10A180329	autocollable indexed to EUR/HUF exchange rate (max 10%)	12	30/03/2012	29/03/2018	No	12	0
RH7.75F1506	fixed 7.75%	1	25/06/2012	25/06/2015	No	1	0
RHVALT151130	variable-yield 6.95%	2,635	28/11/2012	30/11/2015	No	2,651	0
Repurchased own debt securities		**12,665**				**12,763**	**18,437**
Net debt securities issued		**135,802**				**142,642**	**126,322**

(30) Subordinated liabilities

	2012					
Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (million HUF)
Raiffeisen Bank International AG	31/03/2008	20	EUR	1.15%	30/03/2018	5,844
Raiffeisen Bank International AG	27/06/2008	30	EUR	3.50%	30/06/2020	8,742
Raiffeisen Bank International AG	30/06/2008	10	EUR	1.07%	31/12/2018	2,913
Raiffeisen Bank International AG	30/06/2008	25	EUR	1.02%	29/06/2018	7,283
Raiffeisen Bank International AG	30/09/2008	25	EUR	1.05%	28/09/2018	7,302
Raiffeisen Bank International AG	27/02/2009	20	EUR	7.10%	27/02/2019	5,866
Raiffeisen Bank International AG	25/09/2012	20	EUR	2.16%	25/09/2017	5,860
Raiffeisen Bank International AG	30/09/2012	20	EUR	2.02%	29/09/2017	5,825
Raiffeisen Bank International AG	30/09/2012	20	EUR	2.02%	29/09/2017	5,825
AEGON Mo. Általános Biztosító Zrt.	03/02/2003	12	HUF	7.66%	04/02/2013	12
AEGON Mo. Általános Biztosító Zrt.	05/05/2003	3	HUF	7.66%	06/05/2013	3
AEGON Mo. Általános Biztosító Zrt.	01/07/2003	1	HUF	7.18%	01/07/2013	1
AEGON Mo. Általános Biztosító Zrt.	01/08/2003	2	HUF	7.91%	01/08/2013	2
AEGON Mo. Általános Biztosító Zrt.	01/09/2003	3	HUF	8.38%	02/09/2013	3
AEGON Mo. Általános Biztosító Zrt.	01/10/2003	5	HUF	8.33%	01/10/2013	5
AEGON Mo. Általános Biztosító Zrt.	03/11/2003	6	HUF	8.13%	04/11/2013	6
AEGON Mo. Általános Biztosító Zrt.	02/02/2004	8	HUF	9.15%	03/02/2014	8
AEGON Mo. Általános Biztosító Zrt.	01/03/2004	2	HUF	9.69%	03/03/2014	2
AEGON Mo. Általános Biztosító Zrt.	01/04/2004	1	HUF	9.65%	01/04/2014	1
AEGON Mo. Általános Biztosító Zrt.	03/05/2004	6	HUF	8.91%	05/05/2014	6
AEGON Mo. Általános Biztosító Zrt.	01/07/2004	2	HUF	9.53%	01/07/2014	2
AEGON Mo. Általános Biztosító Zrt.	02/08/2004	5	HUF	9.78%	04/08/2014	5
AEGON Mo. Általános Biztosító Zrt.	03/09/2004	2	HUF	9.35%	01/09/2014	2
Subordinated liabilities						**55,518**

Lender	Borrowed on	2011 Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (million HUF)
Raiffeisen Bank International AG	25/03/2008	20	EUR	2.43%	25/09/2017	6,263
Raiffeisen Bank International AG	31/03/2008	20	EUR	2.45%	30/03/2018	6,262
Raiffeisen Bank International AG	27/06/2008	30	EUR	4.82%	30/06/2020	9,336
Raiffeisen Bank International AG	30/06/2008	20	EUR	2.34%	29/09/2017	6,223
Raiffeisen Bank International AG	30/06/2008	20	EUR	2.34%	29/09/2017	6,223
Raiffeisen Bank International AG	30/06/2008	10	EUR	2.39%	31/12/2018	3,112
Raiffeisen Bank International AG	30/06/2008	25	EUR	2.34%	29/06/2018	7,779
Raiffeisen Bank International AG	30/09/2008	25	EUR	2.35%	28/09/2018	7,825
Raiffeisen Bank International AG	27/02/2009	20	EUR	8.38%	27/02/2019	6,272
AEGON Mo. Általános Biztosító Zrt.	02/01/2002	14	HUF	7.96%	04/01/2012	14
AEGON Mo. Általános Biztosító Zrt.	02/01/2002	9	HUF	8.46%	04/04/2012	9
AEGON Mo. Általános Biztosító Zrt.	01/02/2002	10	HUF	8.91%	01/02/2012	10
AEGON Mo. Általános Biztosító Zrt.	01/02/2002	9	HUF	8.41%	01/02/2012	9
AEGON Mo. Általános Biztosító Zrt.	01/03/2002	5	HUF	7.98%	01/03/2012	5
AEGON Mo. Általános Biztosító Zrt.	02/04/2002	13	HUF	8.18%	02/04/2012	13
AEGON Mo. Általános Biztosító Zrt.	02/05/2002	10	HUF	7.98%	02/05/2012	10
AEGON Mo. Általános Biztosító Zrt.	02/05/2002	2	HUF	7.48%	02/05/2012	2
AEGON Mo. Általános Biztosító Zrt.	03/06/2002	12	HUF	8.04%	04/06/2012	12
AEGON Mo. Általános Biztosító Zrt.	01/07/2002	17	HUF	8.47%	02/07/2012	17
AEGON Mo. Általános Biztosító Zrt.	01/08/2002	5	HUF	8.92%	01/08/2012	5
AEGON Mo. Általános Biztosító Zrt.	02/09/2002	12	HUF	8.82%	03/09/2012	12
AEGON Mo. Általános Biztosító Zrt.	01/10/2002	3	HUF	8.65%	01/10/2012	3
AEGON Mo. Általános Biztosító Zrt.	02/12/2002	6	HUF	8.38%	03/12/2012	6
AEGON Mo. Általános Biztosító Zrt.	03/02/2003	12	HUF	7.66%	04/02/2013	12
AEGON Mo. Általános Biztosító Zrt.	05/05/2003	3	HUF	7.66%	06/05/2013	3
AEGON Mo. Általános Biztosító Zrt.	01/07/2003	1	HUF	7.18%	01/07/2013	1
AEGON Mo. Általános Biztosító Zrt.	01/08/2003	2	HUF	7.91%	01/08/2013	2
AEGON Mo. Általános Biztosító Zrt.	01/09/2003	3	HUF	8.38%	02/09/2013	3
AEGON Mo. Általános Biztosító Zrt.	01/10/2003	5	HUF	8.33%	01/10/2013	5
AEGON Mo. Általános Biztosító Zrt.	03/11/2003	6	HUF	8.13%	04/11/2013	6
AEGON Mo. Általános Biztosító Zrt.	02/02/2004	8	HUF	9.15%	03/02/2014	8
AEGON Mo. Általános Biztosító Zrt.	01/03/2004	2	HUF	9.69%	03/03/2014	2
AEGON Mo. Általános Biztosító Zrt.	01/04/2004	1	HUF	9.65%	01/04/2014	1
AEGON Mo. Általános Biztosító Zrt.	03/05/2004	6	HUF	8.91%	05/05/2014	6
AEGON Mo. Általános Biztosító Zrt.	01/07/2004	2	HUF	9.53%	01/07/2014	2
AEGON Mo. Általános Biztosító Zrt.	02/08/2004	5	HUF	9.78%	04/08/2014	5
AEGON Mo. Általános Biztosító Zrt.	03/09/2004	2	HUF	9.35%	01/09/2014	2
Subordinated liabilities						**59,480**

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.

Notes to the consolidated financial statements

(31) Other liabilities

(HUF million)	2012	2011
Other taxes payable	3,434	2,586
Giro, postal clearing accounts, cash in transit	730	9,783
Suppliers	2,127	3,045
Payables relating to investment activities	19,788	31,072
Accruals	6,906	5,361
Other	4,382	4,921
Other liabilities	**37,367**	**56,768**

Payables relating to investment activities involve mainly liabilities from repo transactions and liabilities to customers from investment activities.

(32) Provisions

The following table shows the changes in the provision for commitments and contingencies as at 31 December 2012 and 2011 respectively:

(HUF million)	2012	2011
At beginning of year	**20,909**	**8,878**
Provisions made during the year	9,383	10,365
Release in provisions	(14,498)	1,210
Provisions used during the year	(6,001)	5,906
Provisions reversed during the year	(8,497)	(4,696)
Effect of revaluation	(645)	480
Unwinding of discount	0	0
Change in consolidation group	0	(24)
At end of year	**15,149**	**20,909**

(33) 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 2012. In 2010, the Group decided the sell of Clean Energy and WPSS as well. These entities were sold in 2012. In 2012, the Group decided to sell DAV Holding Kft.

The table below shows the assets and liabilities held for sale as at 31 December 2012 and 31 December 2011.

(HUF million)	2012	2011
Assets classified as held for sale		
Net loans	0	38
Investments in associated undertakings	1	0
Property, plant and equipment	9,867	12,585
Goodwill	1,042	1,258
Current tax assets	4	0
Other assets	180	238
	11,094	**14,119**
Liabilities classified as held for sale		
Other liabilities	49	156
	49	**156**

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 2012.

(34) Share capital

As at 31 December 2012 and 2011, the equity structure of the Group consisted of the following classes of shares:

2012 (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**

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**

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 2012 and 2011, the Group held no treasury shares in its portfolio.

During 2012 and 2011 there were no dividend payments.

(35) 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 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).

In 2012, no general risk reserve was set aside.

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 2012 (2011: nil).

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. The effective portion of the gain or loss on the hedging instrument in cash flow hedges is also shown here.

(36) Non-controlling interest

In 2012 non controlling interest increased mainly due to the capital increases in Raiffeisen Lízing Zrt. and Raiffeisen Energiaszolgáltató Kft.

In 2011 non controlling interest decreased due to loss for the year, and the consolidation group changed: the control of Global Thermal Kft. was aquired by the Group.

(37) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(HUF million)	2012	2011
Deferred tax assets	5,199	8,639
Deferred tax liabilities	115	120
Net deferred taxes	**5,084**	**8,519**

	2012			2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Loans	0	1,464	(1,464)	16	2,619	(2,603)
Impairment losses	2,298	0	2,298	4,185	0	4,185
Financial assets at fair value through profit or loss	0	15	(15)	0	17	(17)
Available for sale securities	909	0	909	3,418	0	3,418
Investments in associated undertakings	973	0	973	1,032	0	1,032
Investments in unlisted securities	3	0	3	3	0	3
Property, plant and equipment	171	527	(356)	171	530	(359)
Investment property	23	0	23	23	0	23
Intangible assets	0	0	0	0	0	0
Goodwill	0	145	(145)	0	161	(161)
Provisions	353	0	353	543	0	543
Other items	0	6	(6)	0	56	(56)
Probably useable tax loss carry-forwards	2,511	0	2,511	2,511	0	2,511
Net tax assets (liabilities)	**7,241**	**2,157**	**5,084**	**11,902**	**3,383**	**8,519**

(38) 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)	2012	2011
	Nominal value	Nominal value
Contingencies		
Import letters of credit	19,060	2,840
Export letters of credit	50	0
Guarantees issued	148,177	146,877
Other contingencies (including litigation)	2,363	1,055
Total contingencies	**169,650**	**150,772**
Commitments		
Unutilized loan facilities	131,467	139,699
Unutilized overdraft facilities	102,149	105,250
Unutilized guarantee frames	52,379	75,861
Total commitments	**285,995**	**320,810**

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 2,521 million in 2012 for 2013 (in 2011 rental commitment for 2012 amounted to HUF 2,244 million).

(39) 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: 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:

2012 (HUF million)	Fair value through equity	Amortized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
FINANCIAL ASSETS									
Cash and cash equivalents	0	129,153	0	0	**129,153**	**129,153**	0	0	0
Placements with banks	0	32,795	0	0	**32,795**	**32,795**	0	0	0
Net loans	0	1,281,869	3,666	0	**1,285,535**	**1,296,496**	0	3,666	0
Financial assets at fair value through profit or loss	0	0	10,177	43,996	**54,173**	**54,173**	12,662	41,511	0
Available for sale securities	399,681	0	0	0	**399,681**	**399,681**	291,976	107,705	0
Held to maturity securities	0	111,820	0	0	**111,820**	**116,041**	0	0	0
Investments in associated undertakings	0	0	9	0	**9**	**9**	0	0	9
Investments in unlisted securities	45	0	0	0	**45**	**45**	0	0	45
Total financial assets	**399,726**	**1,555,637**	**13,852**	**43,996**	**2,013,211**	**2,028,393**	**304,638**	**152,882**	**54**
FINANCIAL LIABILITIES									
Deposits from banks	0	243,145	0	0	**243,145**	**242,426**	0	0	0
Deposits from non-banks	0	1,431,886	4,666	0	**1,436,552**	**1,436,826**	0	4,666	0
Debt securities issued	0	57,881	84,761	0	**142,642**	**142,463**	0	84,761	0
Subordinated liabilities	0	55,518	0	0	**55,518**	**55,519**	0	0	0
Financial liabilities at fair value through profit or loss	0	0	24,140	30,584	**54,724**	**54,724**	44	54,680	0
Total financial liabilities	**0**	**1,788,430**	**113,567**	**30,584**	**1,932,581**	**1,931,958**	**44**	**144,107**	**0**

2011 (HUF million)	Fair value through equity	Amortized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
FINANCIAL 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
Total financial assets	**253,528**	**1,863,820**	**17,098**	**56,878**	**2,191,324**	**2,200,973**	**116,093**	**211,149**	**262**
FINANCIAL LIABILITIES									
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
Total financial liabilities	**0**	**1,865,166**	**154,610**	**41,522**	**2,061,298**	**2,058,585**	**119**	**196,013**	**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 40.

(40) 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 39), 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.

(41) 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:

2012 (HUF million)			
Related parties	Parent company and its group	Associates	Key Management Personnel
Assets	**81,663**	**3,302**	**9**
Placements with banks	33,825	0	0
Loans and advances to customers	34,976	3,302	9
Financial assets at fair value through profit or loss	12,849	0	0
Other assets	13	0	0
Liabilities	**110,090**	**0**	**126**
Financial liabilities at fair value through profit or loss	34,759	0	0
Deposits from banks	12,590	0	0
Deposits from non-banks	7,101	0	126
Subordinated liabilities	55,460	0	0
Other liabilities	180	0	0
Income statement	**33,704**	**167**	**(2)**
Interest income	47,192	171	1
Interest expense	(21,872)	(4)	(4)
Net fee and commission income	(633)	0	0
Net trading income	4,171	0	1
Net income from derivatives held for risk management	7,221	0	0
Other operating income	53	0	0
Impairment losses	(463)	0	0
Other operating expenses	(1,965)	0	0
Contingencies and commitments	**7,820**	**0**	**8**
Undrawn commitments to extend credit	1,915	0	8
Guarantees	5,905	0	0

2011 (HUF million)			
Related parties	Parent company and its group	Associates	Key Management Personnel
Assets	**144,338**	**4,492**	**10**
Placements with banks	84,469	0	0
Loans and advances to customers	43,959	4,492	10
Financial assets at fair value through profit or loss	15,881	0	0
Other assets	29	0	0
Liabilities	**252,096**	**549**	**135**
Financial liabilities at fair value through profit or loss	72,855	0	0
Deposits from banks	98,501	0	0
Deposits from non-banks	1,603	549	135
Subordinated liabilities	59,297	0	0
Other liabilities	19,840	0	0
Income statement	**(7,773)**	**249**	**(782)**
Interest income	36,962	226	2
Interest expense	(20,896)	(6)	3
Net fee and commission income	(195)	29	0
Net trading income	(13,759)	0	0
Net income from derivatives held for risk management	(5,966)	0	0
Other operating income	50	0	0
Impairment losses	(1,725)	0	0
Personnel expenses	0	0	(787)
Other operating expenses	(2,244)	0	0
Contingencies and commitments	**6,446**	**4,329**	**0**
Undrawn commitments to extend credit	5,179	4,329	0
Guarantees	1,267	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.

Notes to the consolidated financial statements

(42) Group entities

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

Company	Ownership ratio 2012	Ownership ratio 2011	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.	a)	50.00%	1087 Bp., Hungária krt. 40-44.	Electricity production
DAV Holding Kft.	100.00%	0.00%	1054 Bp., Akadémia u. 6.	Activities of holding companies
EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft.	42.86%	42.50%	1138 Budapest, Váci út 81-85.	Electricity production
Global Thermal Szolgáltató Kft.	74.67%	74.67%	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%	1139 Budapest, Váci út 81-85.	Steam and air conditioning supply
Késmárk utca 11. Ingatlanhasznosító Kft.	c)	100.00%	1054 Bp., Akadémia u. 6.	Buying and selling of own real estate
Raiffeisen Autó Lízing Kft.	50.00%	50.00%	1054 Budapest, Akadémia u. 6.	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%	100.00%	1054 Bp., Akadémia u. 6.	Activities of insurance agents and brokers
Raiffeisen Energiaszolgáltató Kft.	50.00%	50.00%	1139 Budapest, Váci út 81-85.	Activities of holding companies
Raiffeisen Eszköz Lízing Zrt.	b)	50.00%	1054 Budapest, Akadémia u. 6.	Financial leasing
Raiffeisen Eszközértékesítő Kft.	d)	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%	1054 Budapest, Akadémia u. 6.	Financial leasing
Raiffeisen Property Lízing Zrt.	100.00%	100.00%	1054 Budapest, Akadémia u. 6.	Financial leasing
RB Kereskedőház Kereskedelmi Kft.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Wholesale of metals and metal ores
RB Szolgáltató Központ Kft.	100.00%	0.00%	4400 Nyíregyháza, Sóstói út 31/b	Other financial auxiliary acticities
SCT Beruházás Ingatlanfejlesztő és Ingatlanhasznosító Kft.	78.64%	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.	e)	73.87%	1124 Bp., Csörsz utca 49-51.	Buying and selling of own real estate
SCTS Ingatlanfejlesztő és Ingatlanhasznosító Kft.	100.00%	80.65%	1124 Bp., Csörsz utca 49-51.	Development of building projects
SPC Vagyonkezelő Kft.	c)	100.00%	1054 Bp., Akadémia u. 6.	Buying and selling of own real estate
SZELET Energiatermelő és Szolgáltató Kft.	50.00%	50.00%	1139 Budapest, Váci út 81-85.	Electricity production
T+T 2003 Ingatlanhasznosító Kft.	100.00%	100.00%	1054 Bp., Akadémia u. 6.	Development of building projects
VINAGRIUM Borászati és Kereskedelmi Kft.	100.00%	0.00%	3300 Eger, Verőszala u. 1-3.	Wine production
W.P.S.S. Energetikai Kft.	a)	50.00%	1087 Bp., Hungária krt. 40-44.	Electricity production

Company	Ownership ratio 2012	Ownership ratio 2011	Residence of the Company	Brief description of activities
Associates				
NOC Kft.	50.00%	40.67%	1124 Bp., Csörsz utca 49-51.	Buying and selling of own real estate

a) Clean Energy Szolgáltató és Termelő Kft. and W.P.S.S. Energetikai Kft. were sold.
b) Raiffeisen Eszköz Lízing Zrt. merged into Raiffeisen Lízing Zrt.
c) Késmárk utca 11. Ingatlanhasznosító Kft. and SPC Vagyonkezelő Kft. merged into SCT Tündérkert Kft.
d) Raiffeisen Eszközértékesítő Kft. merged into Raiffeisen Autó Lízing Kft.
e) SCTJ Ingatlanfejlesztő és Ingatlanhasznosító Kft. was sold to Raiffeisen Ingatlan Vagyonkezelő Kft.

The management is committed to sell the Group's share in Euro Green Energy Fejlesztő és Szolgáltató Kft. and DAV Holding Kft. The sale is expected to be completed within one year.

(43) Funds management

The Group manages 1 close-ended (2011: 1) and 23 open-ended (2011: 23) 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 2012 and 2011, transactions with the funds themselves were as follows:

(HUF million)	2012	2011
Managed funds	**156,952**	**170,948**
Open-ended funds	114,272	109,391
Close-ended funds	42,680	61,557
Net fee and commission income from funds	2,016	2,249
Deposits from funds	67,040	85,742
Interest expense on deposits from funds	5,203	4,414

(44) 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.

2012 (HUF million)	Corporate	Retail/ Private	Bank/ treasury	Other	Total
ASSETS					
Cash and cash equivalents	0	0	129,153	0	129,153
Placements with banks	0	0	32,795	0	32,795
Loans	908,960	538,105	0	97,689	1,544,754
Less: loss value on loans	152,250	103,706	0	3,263	259,219
Net loans	756,710	434,399	0	94,426	1,285,535
Financial assets at fair value through profit or loss	10,682	2,014	30,850	10,627	54,173
Available for sale securities	160	0	288,941	110,580	399,681
Held to maturity securities	10,520	0	0	101,300	111,820
Investments in associated undertakings	9	0	0	0	9
Investments in unlisted securities	45	0	0	0	45
Property, plant and equipment	5,999	0	0	11,872	17,871
Investment property	197	0	0	0	197
Intangible assets	209	0	0	15,494	15,703
Goodwill	0	0	0	1,155	1,155
Current tax assets	(4)	0	0	109	105
Deferred tax assets	83	0	0	5,116	5,199
Other assets	8,779	1,718	3,131	22,872	36,500
Assets classified as held for sale	10,053	0	0	1,041	11,094
Total assets	**803,442**	**438,131**	**484,870**	**374,592**	**2,101,035**

2012 (HUF million)	Corporate	Retail/ Private	Bank/ treasury	Other	Total
LIABILITIES AND EQUITY					
Deposits from banks	0	0	183,462	59,683	243,145
Deposits from non-banks	778,094	533,300	581	124,577	1,436,552
Debt securities issued	0	142,642	0	0	142,642
Subordinated liabilities	57	0	55,461	0	55,518
Financial liabilities at fair value through profit or loss	2,043	0	52,681	0	54,724
Current tax liabilities	3	0	0	106	109
Deferred tax liabilities	100	0	0	15	115
Provisions	12,088	2,208	274	579	15,149
Other liabilities	18,449	8,678	3,929	6,311	37,367
Liabilities classified as held for sale	49	0	0	0	49
Total liabilities	**810,883**	**686,828**	**296,388**	**191,271**	**1,985,370**
Equity attributable to equity holders of the parent	**472**	**766**	**2,592**	**112,089**	**115,919**
Ordinary shares	(20)	0	0	165,043	165,023
Issued capital	(20)	0	0	165,043	165,023
Retained earnings	492	766	2,592	(48,549)	(44,699)
Statutory reserves	0	0	0	0	0
Non-distributable reserve	0	0	0	0	0
Fair value reserve	0	0	0	(4,405)	(4,405)
Non controlling interest	0	0	0	(254)	(254)
Total equity	**472**	**766**	**2,592**	**111,835**	**115,665**
Total liabilities, non controlling interest and shareholder's equity	**811,355**	**687,594**	**298,980**	**303,106**	**2,101,035**
INCOME STATEMENT					
Interest income	61,368	38,009	18,367	19,399	137,143
Interest expense	31,909	28,113	23,261	9,917	93,200
Fee and commission income	8,092	14,239	133	4,087	26,551
Fee and commission expenses	4,420	3,304	787	270	8,781
Dividend income	44	0	0	0	44
Net trading income	1,423	0	4,829	(300)	5,952
Net income from derivatives held for risk management	0	0	0	8,761	8,761
Other operating income	4,853	0	0	42	4,895
Impairment losses	40,608	20,454	0	839	61,901
OTHER INFORMATION					
Capital expenditure	883	3,014	228	1,412	5,537
Depreciation and amortization	1,740	3,174	267	3,561	8,742

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	126,322	0	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**	**710,403**	**475,411**	**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**
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**	**710,403**	**475,411**	**375,496**	**2,300,271**

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**

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.

(45) Events after the balance sheet date

According to the Act CXII of 1996 on Credit Institutions and Financial Enterprises the shareholder's equity calculated in accordance with the Hungarian Legislation (own funds) cannot be lower then the subscribed capital. Since the Bank's own funds had fallen below the amount of the subscribed capital, on 14 September 2012 the Bank's management initiated the reduction of the subscribed capital from HUF 165,023 million to HUF 50,000 million and the regrouping between the own funds' components (from subscribed capital to capital reserve) in order to ensure that the amount of own funds reaches the required minimum of the subscribed capital. The Hungarian Financial Supervisory Authority permitted the subscribed capital reduction in 2012. The capital reduction of the Bank was registered by the Registry Court on 1 of February 2013 according to the following: the reduced subscribed capital is HUF 50,000 million, the corresponding number of ordinary shares is 5 million with a face value of 10,000 HUF.

DAV Holding Kft. was sold on 11 March 2013.

End of Cosolidated Financial Statements

Consolidated income statement and financial position in euro

Consolidated income statement in euro

(EUR million)	2012	2011
Interest and similar income	**476**	**476**
- on cash and cash equivalents	14	12
- on placements with banks	2	3
- on loans to non-banks	351	375
- on securities	103	78
- from leases	6	8
Interest expenses and similar charges	**324**	**289**
- on borrowings from banks	42	60
- on deposits from non-banks	239	192
- on debt securities issued	37	31
- on subordinated liabilities	6	6
Net interest income	**152**	**187**
Fee and commission income	92	94
Fee and commission expense	30	26
Net fee and commission income	**62**	**68**
Dividend income	0	0
Net trading income	21	17
Net income from derivatives held for risk management	30	119
Other operating income	17	14
Operating income	**68**	**150**
Impairment losses	**215**	**340**
Salaries and staff benefits	88	91
Rental expenses	27	25
Equipment expenses	23	20
Other operating expenses	124	225
Operating expenses	**262**	**361**
Share of profits of associates	**0**	**0**
Profit/(loss) before tax	**(195)**	**(296)**
Income tax expense	0	1
Deferred tax	3	(10)
Profit/(loss) for the period	**(198)**	**(287)**
Attributable to:		
Equity holders of the parent	(198)	(274)
Non controlling interest	0	(13)

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2012 was 288,05 HUF/EUR in 2011 was 311,13 HUF/EUR.

Consolidated statement of financial position in euro

(EUR million)	2012	2011
ASSETS		
Cash and cash equivalents	443	316
Placements with banks	113	321
Net loans	4,413	4,905
Financial assets at fair value through profit or loss	186	226
Available for sale securities	1,372	814
Held to maturity securities	384	460
Investments in associated undertakings	0	0
Investments in unlisted securities	0	0
Property, plant and equipment	61	68
Investment property	1	0
Intangible assets	54	49
Goodwill	4	5
Current tax assets	0	2
Deferred tax assets	18	28
Other assets	126	154
Assets classified as held for sale	38	45
Total assets	**7,213**	**7,393**
LIABILITIES AND EQUITY		
Deposits from banks	835	1,022
Deposits from non-banks	4,932	4,611
Debt securities issued	490	406
Subordinated liabilities	191	191
Financial liabilities at fair value through profit or loss	188	395
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	52	67
Other liabilities	127	184
Liabilities classified as held for sale	0	1
Total liabilities	**6,815**	**6,877**
Equity attributable to equity holders of the parent	**399**	**521**
Ordinary shares	567	530
Preference shares	0	0
Share capital	**567**	**530**
Retained earnings	(153)	41
Statutory reserves	0	0
Non-distributable reserve	0	1
Fair value reserve	(15)	(51)
Non controlling interest	**(1)**	**(5)**
Total equity	**398**	**516**
Total liabilities, non controlling interest and shareholder's equity	**7,213**	**7,393**

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2012 was 291,29 HUF/EUR in 2011 was 311,13 HUF/EUR.

Raiffeisen Leasing Zrt.

The leasing market in 2012

According to the statistics of the Hungarian Leasing Association, the significant growth seen in the leasing market in 2011 was unfortunately short-lived. Expressed in figures, new business volume (NBV), following a dramatic fall of 62% in 2009 and 34% in 2010, finally showed some notable growth (+16%) in 2011, in a market environment that was still battling the financial crisis; however, in 2012 – especially as a result of the stagnation and then the fall in placements in the second half of the year – the growth rate slowed to a mere +1% on a year-on-year basis.

Repayments on existing contracts continued to be thwarted mainly by a strong Swiss frank in 2012 in the case of private persons, which had an impact on the still high-value foreign currency portfolio as a whole. However, neither new business volume (9.6% fewer new contracts were concluded compared to the previous year) nor the weakening exchange rate were sufficient to compensate for the expiring portfolio, and consequently the leasing companies' **total financed volume** showed a 20% fall for the year, amounting to just HUF 348 billion at year-end 2012.

An examination of **customer distribution** reveals that the rise in the proportion of corporate customers, a trend that has been in evidence for many years, continued in 2012. The SME sector still makes up the largest share of the market (and represents the greatest potential for growth), while large corporate customers account for one tenth of new business volume. The share of private individuals is steadily declining.

A separate analysis of the sectors reveals that the growth in **real estate financing** over the year (+139%) was essentially thanks only to **agricultural machinery** financing (+17%) and to a few individual large-volume transactions, as well as to the low comparison base. The **vehicle financing segment** continued to stagnate, with a new business volume of HUF 140 billion for the year, but its structure has changed significantly in the sense that **fleet financing** has taken over as the engine of growth (+31% year-on-year) while the **financing of private individuals** continued to decline (-17% year-on-year) and has very much lost its prominence. One of the biggest losers of the year was the **large commercial vehicle financing line,** which generated a total of HUF 74 billion in new business volume in 2012 representing an 18% decrease in 2012 compared to 2011. **General machine** and **construction machine financing** also fell in 2012 compared to the previous year (by 7% and 11% respectively), which indicates that the economy as a whole is still unstable and vulnerable, and investments have not yet picked up.

The year 2013 still appears uncertain, as there are some processes in play that are facilitating growth and others that are hindering it; the experts, however, forecast stagnation rather than growth.

Business results of 2012

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 Auto Leasing Kft. and Raiffeisen Energy Services Kft.

As a consequence of the economic crisis, which has had a particularly severe impact on the leasing market, Raiffeisen Leasing Zrt. significantly restricted the volume of its new financing from 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 effective portfolio management.

In 2011 a decision was made to relaunch operations in line with a strategy developed in response to the impacts of the economic crisis and adapted to each customer segment, in an overall framework that assumes close cooperation with Raiffeisen Bank Zrt. and in which leasing, as an optimal form of asset financing, became a complementary element in the financial services offered by the Raiffeisen banking group in Hungary, chiefly for the purpose of ensuring a comprehensive, universal service to Bank's customers.

As a result, the number of leasing placements has continuously increased since 2011, primarily in the **medium and large-corporate segment;** however, as a result of general market and economic conditions, a significant growth in investment and financing demand is yet to be seen and, consequently, new leasing business volume was still considerably lower in 2012 than it was in the years prior to the crisis.

At the same time, however, a considerable effort was made to create standard leasing products that could sell well in the **micro and small-business segment** and the project was in its final phase by the end of 2012, although the products are not expected to be launched in the market until 2013. In 2012, therefore, the Company concluded new leasing transactions in this segment only on an ad hoc basis.

The Company does not yet plan to relaunch its business activities in the **retail segment;** here, it focused exclusively on portfolio management tasks in 2012.

In 2012 the Company invested considerable energy in **managing the existing portfolio efficiently,** regularly monitoring active transactions, screening out problematic customers in good time, and taking the appropriate measures such as restructuring or termination and repossession, as well as reselling repossessed assets with the highest possible return.

In 2012, similarly to other years, **strict budget management** was an important element of the new strategy, which the Company achieved primarily by means of reorganising business processes, implementing measures to increase efficiency and creating economies of scale.

On 30 November 2012 Raiffeisen Asset Leasing Zrt., which is wholly owned by the Company, was integrated into the Company based on the owner's decision, and thus the Company became the general legal successor of Raiffeisen Asset Leasing Zrt.

Business plans for the year 2013

In 2013 Raiffeisen Leasing Zrt. will continue its efforts, in close cooperation with its parent bank and focusing on corporate clients, to increase its business volume in the less risky segments and to build up a secure portfolio, while giving sufficient priority to protecting the portfolio and improving the efficiency of internal operations, and to reducing costs and maintaining them at an optimal level. The company plans to achieve the desired efficiency gains through projects aimed at reviewing and optimising business processes.

Raiffeisen Investment Fund Management Zrt.

Market environment

Government securities market trends in 2012 were fundamentally determined by the government's decision in January (which may have partly been the result of market pressure) to come to an agreement with the IMF, despite its earlier rhetoric. As a result, the expected yield in the government securities market could decrease significantly (which equates to a significant increase in the price of interest-bearing instruments). Naturally, the gradual improvement in the global investment climate also contributed to this, together with the fact that the available interest rate in countries that are considered less risky dropped to the minimum level. Thanks to the latter, investors' money flowed into areas that offered high yields but low, or at least decreasing, risks. Owing to the effort to come to an agreement with the IMF, the domestic government securities market became one of the preferred targets of foreign investment decision makers. It is no accident, therefore, that investors' holdings of Hungarian government securities had climbed to unprecedented levels by the end of the year despite the fact that the credit agreement with the IMF never materialised. The decision of investors to buy Hungarian government securities at the start of the year was vindicated by an interest rate cut of the National Bank of Hungary (MNB), of a total of 125 basis points, in August, slashing the 7% base rate of the start of the year to 5.75% by the end of 2012.

The MAXC index, which represents the average performance of the Hungarian government securities market, increased by 19.74% in 2012, which, in terms of real yields, was the best one-year performance ever.

Despite an extraordinary start to the year (5% loss in the first week), the **Hungarian equity market** went on to be an outperformer for a long while, in both regional and global comparison. It seemed that the market wanted to make up for the underperformance of previous years in a fundamentally positive domestic market environment (to which the change in the government's approach to the IMF also contributed). The change in the global climate in the second quarter also affected the performance of Hungarian shares and, consequently, the nearly +10% increase in the first quarter fell to +2.16% by the end of the first six months. In the third quarter, when sentiment was generally upbeat, the BUX stagnated for two months and was able to recover, simultaneously with the international markets, only after renewed interventions by the leading central banks. Even though the steps taken by the US Fed and the joint eurozone central bank to boost liquidity were far more significant, the launch of the MNB's interest rate cutting cycle also had a positive impact.

In the last quarter, the performance of the domestic market was clearly weaker than that of other countries in the region, and the relative advantage it had acquired earlier had turned into a significant disadvantage by the end of the year. This was the result of the measures taken by the government, which came as a series of negative surprises – imposing additional tax burdens on several major companies listed on the stock exchange – and that even the newly started interest rate cutting cycle was unable to offset.

The Hungarian equity market got a boost primarily from a considerable increase in the value of OTP's shares (accounting for more than two-thirds of the growth of the BUX index in 2012) in which international trends (an increase in the value of bank shares), the initial belief in an agreement with the IMF and the steps taken by the central bank also played a role.

Eventually the BUX, which represents the average performance of the domestic equity market, closed 7.06% higher than at year-end 2011.

In 2012 the **leading international equity markets** continued on the growth path that began in March 2009, and the S&P 500 fell short of the previous peaks by just 9 percent and the DAX by just 7 percent at the end of December. The equity markets performed well despite the fact that on the macroeconomic front, several factors constantly kept investors on their toes. Market players feared that Greece would go bankrupt as early as in 2012, potentially dismantling the eurozone and causing major turbulence in the capital markets. In addition, investors feared a major slowdown in China, a spike in oil prices and a possible government default by Spain, and towards the end of the year concerns about the US fiscal cliff dominated the news. The stabilisation of the Greek (and subsequently the Spanish) situation, and the measures taken by the ECB and the Fed to support risk-taking, finally reassured the markets and led to a rise in stock prices. **The MSCI World index, which measures the average performance of developed markets, increased by +12.2% in dollar terms.** However, owing to a significant increase in the value of the forint, investors that value their portfolios in the Hungarian currency realised a mere 3% yield in 2012.

The momentum at year-end 2011 was lost completely in the **Hungarian investment property market** in 2012. A few sellers surveyed the market in the hopes of finding potential buyers without officially putting their properties up for sale. The Hungarian market continues to be hampered by the fact that the number of centrally located prime properties on the market and the number of institutional investors who would be most interested in them is still low. Selling and buying prices are still not fully in sync and, consequently, negotiations could only be fruitful if the sellers could give a discount on the original asking price – otherwise potential buyers will look for opportunities in other countries or simply wait things out. The market still has several bargain hunters who are looking to buy properties from bank portfolios or from liquidations, and who can thereby create added value in the medium term with lower risk. Demand for office and retail properties increased last year, and investors specialising in logistics also appeared on the market. Estimates indicate that prime yields in Budapest were unchanged and amounted to 7.25%-7.75% in the retail sector, 7.5%-8.0% for offices and over 9% for industrial/ logistics properties, based on market rental fees in each case.

The **investment funds market,** after a 13% annual fall in 2011, achieved 5% growth in 2012. Within this category, the assets of public open-ended funds, however, increased by 8% (by approx. HUF 240 billion). As a result, the year-end portfolio of public open-ended funds rose again to over HUF 3,200 billion, a level not seen since the last quarter of 2010. However, the assets of closed-end funds continued to decline, since these types of funds are primarily tied to the operation of the declining private pension fund sector. At the same time, the increase in the number of managed funds slowed; there were 27 more funds at the end of the year compared to December 2011 (523 in total). The assets of public open-ended funds fell considerably in the first month of the year owing to the January deadline for paying off loans under the FX-mortgage early repayment scheme. In the months that followed, the volume of managed assets stagnated, while the last third of the year saw an accelerating influx of capital. Favourable retrospective yields and declining deposit interest rates also played a role in this.

Business results of the year 2012

In its 2012 plan, Raiffeisen Investment Fund Management Zrt. predicted a minimal growth in total assets under management. The reason for this was that in the plans we took into account the expected yield payment from the real estate fund. However, the assets managed by the funds decreased by 9%, which was more significant than planned, while the market for publicly traded funds experienced growth of a similar rate (8%). Consequently, our market share fell from 5.8% to 4.9%. The net sales figure, which fell short of the plan, was to a large extent the result of capital withdrawals at the start of the year caused by the early repayment of FX loans, as well as the increasing bond issuance activity of Raiffeisen Bank Zrt. (the "Bank").

In the course of the year, the Fund Manager launched an accounting service for the funds managed by it which, in addition to an increase in personnel costs, also boosted profits. A significant cut in personnel costs in other areas also improved planned profits. A temporary increase in fund management fees, which was a result of the favourable performance of the funds, also contributed to a significant increase in planned operating profits despite a decline in assets under management.

The profit from financial transactions also exceeded the planned figure, owing mainly to the payment of dividends by Raiffeisen Facility Management Kft., owned by the Fund Manager, in an amount that was more than planned, and to the gains on proprietary investment fund units.

While producing excellent financial results, the Fund Manager also complied with the requirements and tasks set out for fund managers in the statutory regulations (Batv.) that went into effect at the start of the year. In the process of ensuring compliance with the law, we revised and supplemented our regulations, reworded our fund prospectuses, and put in place systems that are required for the regular service and maintenance of the Key Investor Information Documents (KIID). We prepared the transformation of the Raiffeisen Real Estate Fund into an open-ended fund. The Bank made the decisions that are required for the transformation, and we received the relevant permissions from the Hungarian Financial Supervisory Authority. The transformation of the Raiffeisen Real Estate Fund will take place on 2 April 2013.

Business plans for the year 2013

We have planned for moderate growth in 2013 on the basis of the Bank's plans for the division. In the course of the planning process, we took into account the fact that the Raiffeisen Real Estate Fund will be transformed from a closed-ended fund to an open-ended fund. In the course of this process, investors may also decide to redeem their investment fund units, which will have a negative impact on the volume of assets under management. In 2013, the term of two of our capital-protected funds will expire, resulting in a further fall in asset volume.

We continue to trust that the Bank's commitment to the sale of investment products will remain strong. The sales incentive system will be further refined and improved. The Bank's demand for deposits appears to be falling, which provides a good basis for meeting or perhaps even exceeding our volume targets. A significant decrease in the fees that the Real Estate Fund is subject to reduced our capacity to generate profit in the last quarter of the previous year. Also pointing in this direction is the fact that total assets held in our funds have not increased significantly in the past two years. A reduction in general fund management fees can also be expected in areas other than the real estate fund. Accordingly, our financial targets are more modest, and our planned profit will fall compared to the previous year. This trend could be slowed or reversed only if the volume of our assets under management increases. In order to improve our profitability, we plan to reorganise our sales support activities by adjusting them to the changes that are expected within the Bank and by realising cost savings by means of the planned measures.

Raiffeisen Insurance Mediator Kft.

Market environment

In 2012 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 indirectly through the Bank, and those sold directly by the insurance mediator. The first of these categories typically includes payment protection insurance (PPI), the "Gondoskodás" product, travel insurance associated with bank cards, the KMI, and asset insurance policies, while the latter comprises Premium Risk Life insurance, the "Dimenziók" regular, "Favorit" premium unit-linked, and the "Jövő és Biztonság" guaranteed maturity benefit life insurance products, as well as asset insurance policies. The tougher market environment of 2012, the FX loan redemption scheme and the exchange rate fixing scheme impacted 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 "Dimenziók", "Favorit" and "Jövő és Biztonság" products, which are typically linked to saving schemes.

Results of the 2012 business year

Our sales activities primarily targeted the retail and Premium divisions of Raiffeisen Bank Zrt. Specifically, we focused on the sale of PPI (payment protection insurance), credit protection, 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 ("Dimenziók" and "Favorit") policies offered in combination with investment products, and the "Jövő és Biztonság" guaranteed maturity benefit policy and the "Prémium" risk life insurance cover.

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 Real Estate Investment Zrt., as well as of the Bank's Retail (RET/PI) and Corporate (RET/SB) directorates

. Unfortunately, owing to the difficulties experienced in car financing, the cooperation was not particularly fruitful in terms of the sale of built-in comprehensive ("casco") insurance in relation to car financing. The revenues of Raiffeisen Insurance Mediator Kft. were negatively impacted by the fact that for business policy reasons, from 1 January 2009, Raiffeisen Leasing Zrt. significantly reduced its business volume, thus effectively eliminating the opportunity to sell built-in insurance. This trend continued in 2012.

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, exceeding 100 policies per month by year-end.

In terms of profit, the Company came close to achieving the target figure given in the forecast, but at the same time it fell short of the original plans owing to the above-mentioned trends. This was mainly due to the sales of investment-related insurance policies and of pure risk life insurance policies, the work of the Bank's branch network as a sub-agent, and the favourable agreements concluded with the insurance companies. Despite the contracting market, the sales volume and the resulting commission revenue remained largely unchanged compared to 2011, which can be regarded as a good result. The target figures set for 2012 were not achieved by RIM. However, this was partly due to the impact of the detrimental market events that occurred during the year. The main sources of income were the

Affiliated companies

PPI, "Gondoskodás", "Dimenziók", "Favorit" unit-linked, and "Jövő és biztonság" term life insurance policies sold through the RET/PI department.

Plans for 2013

In 2013 major product developments are expected in the area of health insurance, which will hopefully result in additional revenue. Defined-benefit and service-based health insurance policies will be introduced, the home insurance and small entrepreneur's asset insurance products will be upgraded, and the company will also focus on stepping up its distance selling activity. The aim of the latter is to target the Bank's existing customer base with insurance products (typically PPI and "Gondoskodás").

RIM did not launch any research and development projects in 2012.
The Company does not have a branch office.

With regard to staff numbers, the requirements arising from currently foreseeable orders are as follows: in the course of 2012, there is unlikely to be any increase in the number of administrative staff.

Based on its commitment to environmental protection, in the course of its operations RIM only provides insurance support for the implementation of projects that, according to the information available to it, 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 that it receives from insurance companies for the sale of insurance policies. When setting the rate of these commissions, the Company's professional expertise, as well as the volume and quality of business generated by the RBH Group, are generally accepted as arguments in favour of such rates.

Raiffeisen Insurance Mediator Kft. does not apply fair-value measurement; it measures its assets and liabilities in accordance with the general rules.
In 2013, due to the constant changing of the market environment, Raiffeisen Bank Zrt. is especially reliant on the work of Raiffeisen Insurance Mediator Kft. The activities of Raiffeisen Insurance Mediator Kft., and its objective defined at the time of its foundation, remain unchanged.

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