UniCredit Bank

2008 Annual Report

UniCredit Bank Hungary Zrt.
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Registration number in the Metropolitan Court: Cg. 01–10–041348
Tax number: 10325737–4–44

UniCredit Bank

Our Commitment is Our Strength

2008 was a year that posed significant challenges to the global economy, to the financial services industry and to our business. To date, our business model remains sound, and our outlook is positive for our future operations.

We remain positive because we know that we can count on our greatest strength. It is our solid and rigorous commitment – to our customers, to our people, to our investors, to the communities we serve, to our core values, to culture, to quality in everything we do, and to the sustainable success of our enterprise.

Every day we renew that commitment through the efforts and expertise of more than 174,000 people in 22 countries.

That is why this year's Annual Report features the photographs and words of UniCredit Group employees. No one could express our commitment more eloquently than the men and women who live it every day.

They speak to you from our branches and offices across Europe. Each message is different. Each expresses what commitment means to them, to their customers, and to their colleagues every single working day.

We feel that their words, their ideas truly capture the spirit of UniCredit Group – the spirit of commitment, our greatest strength.

2008 Annual Report

Content

«After 26 years working for the Group, I thought I had seen everything.
Then came 2008, which was the most professionally challenging year ever.
I have seen the dynamism of the Group and its workforce.
I know we can rise to the challenge.
I know our commitment.
I know our strength.
I know the best is yet to come.»

Tony Hall
United Kingdom

Financial highlights

UniCredit Group Hungary – IFRS consolidated

Profit figures		(HUF million)
	2008	**2007**
Operating result	26,065	24,890
Profit before taxes	35,760	27,480
Profit after taxes	**29,112**	**21,944**

Balance sheet figures		(HUF million)
	2008	**2007**
Balance sheet total	**1,761,789**	**1,554,912**
Loans and advances to customers (net)	1,238,922	1,032,603
Deposits from customers	902,366	745,689
Shareholder funds	156,507	134,450

Indicators		
	2008	**2007**
Return on equity before taxes	26.17%	21.57%
Return on equity after taxes	**21.39%**	**17.16%**
Return on average assets (ROA) before taxes	2.20%	1.98%
Return on average assets (ROA) after taxes	1.79%	1.57%
Cost income ratio	51.43%	50.38%
Net fee income in percentage of total operating Income	34.40%	33.22%

Indicators prescribed by HFSA (PSZÁF)		(HUF million)
	2008	**2007**
Regulatory capital *	153,235	145,072
Adjusted regulatory capital *	141,833	119,864
Risk weigthed assets	1,254,192	1,018,126
Total capital ratios	**11.31%**	**11.77%**

Other figures		
	2008	**2007**
Headcount (FTE)	**1,902**	**1,583**
Number of units in network	117	83
Number of branches	115	81

The regulatory capital contains the retained profit of the year.

The management's report

Economic and financial environment in Hungary

The year 2008 brought about, in addition to economic challenges, a change in the roles of the parliamentary parties as well. The transformation relating to healthcare and education, one of the pillars for the government's planned reforms, failed on social and political non-acceptance. As a consequence, the government was forced to reconsider its economic policy. The government measures that followed broke the governing coalition, and so the Socialist party was forced to govern in minority.

In the autumn of 2008, the effects of the unfolding economic crisis reached our region, including Hungary. As a consequence of the crisis, the interbank market and the market of government securities became disfunctional. The parent banks of some decisive local players were compelled to increase capital, due to the deterioration of their portfolios. In order to restore confidence and to revive the economy, the International Monetary Fund, the European Union and the World Bank granted a loan facility of 25 billion dollars to Hungary. The international media raised the issue of a speculative attack against the forint in October, and in response, the National Bank of Hungary applied a radical rate hike of 300 basis points from 8.50 percent to 11.50 percent. From that, the central bank could cut back 1.5 percent until the end of December.

The economic crisis brought about changes in the political scene as well. Earlier, it was questionable whether or not the minority government would manage to get sufficient support for the approval of the budget for 2009. Finally, both the new budget and the amendments of the tax laws were approved by the Parliament on the basis of a consensus of the government and the smaller opposition parties. As a consequence of the crisis, there were several changes in the draft budget, with the deficit target modified by the cabinet from -2.9 to 2.6 percent, and economic growth from +1.2 to -1 percent. Still, the first weeks of 2009 highlighted the risks relating to the macropaths, modified earlier several times already, and to the main figures of the budget, which is the reason why the government had to modify, repeatedly, the budget and had to present new measures to the Parliament regarding taxation and social systems.

In early 2008, the priority task of economic policy was to put the economy, having reached a situation close to stagnation as a result of the stabilisation programme of 2006, back onto the path of growth in an increasingly uncertain international environment and in the midst of growing inflationary pressure. In the first half of the year, it still seemed that this objective shall be met and, after a slowdown persisting since five quarters, a boost might come, free from any extreme financial unbalances: economic activity accelerated to a growth rate of 1.7 percent in the first quarter of the year and 2 percent in the second.

Even though the climate of the world economy has shown, ever since mid-2007, signs of a slowdown, in the first six months of the year, exports of the manufacturing industries, decisive for the development of the local macropath, produced dynamic growth. Trade balance surplus rose from HUF 174 billion in the previous year to HUF 301 billion; therefore, due to the weak internal demand, net exports clearly became the engine of growth. During that period, industrial value-added rose significantly, but in the indexes of industrial output, the order portfolios and investments, signs of a slowdown began to appear. In addition, sectors more closely linked to the local cyclical processes, a clear drop occurred. The decline in construction output, which started in early 2007, went on, and the value added of market services stagnated. In the second half of the year, due to some further, gradual deterioration in the situation of external markets, a pronounced bust unfolded. And the performance of propulsive industries like machinery and vehicle manufacturing, producing two-digit growth earlier, suddenly started to fall.

Recession processes sped up dramatically as the crisis became global in banking and on the money markets in September, and as the world recession spilled into the real economy. Industrial output continued to shrink from month to month, faster and faster, and in the first half of the year, the 12-month expansion turned into in a drop of 1.1 percent by the end of the year. In euro terms, manufacturing exports were 22 percent less than one year earlier. At an annual level, the decrease was 0.8 percent. As imports dropped less than exports, there was some deterioration in the balance of goods, with the HUF 83 billion forint surplus for the first half of the year changing into a deficit of HUF 23.8 billion by the end of the year. The internal market, already ailing earlier, also started to shrink: household consumption dropped by 0.1 percent, public consumption by 2.1 percent, and capital formation lagged 2.6 percent behind the level of 2007. Parallel to the deepening of the crisis, unemployment (having reached the level of 8 percent by December after a consistent rise) also weakened the appetite to consume, and after a drop of 5.6 percent

The management's report (Continued)

in the year 2007, a 0.7 percent increase in real earnings could not change that. After a boost at the beginning of the year and a nose dive, the Hungarian economy finally closed the year with a GDP growth of 0.5 percent.

The deteriorating performance of the second half of the year and the increasingly expensive financing of the country's external debt actually annulated the results achieved in the field of creating equilibrium in the country's external finance in the first half of the year. Therefore, the expected turn in the balance of payments situation did not occur in 2008 either, rather the deficit of EUR 8.9 billion finally was EUR 2.3 billion higher than the level in 2007. Inflows of foreign direct investments, having a significant effect on the country's external financing ability, were strongly hindered by the deepening crisis in the world economy. In the third quarter of the year, even net capital outflow experienced. Therefore, in euro terms, only slightly more than half of the previous year's FDI volume arrived to the country.

The first quarter of the year was still characterised by an increasing inflationary pressure, so the National Bank of Hungary responded with rate hikes, in three steps in April and May, by 100 basis points. Due to the more expensive financing of government debt, surplus revenues failed to show themselves in the form of significant tax cuts. An important step towards the fulfilment of the Maastricht criteria and the introduction of the euro in Hungary is that with effect from 26 February 2008, the Monetary Council abolished the fluctuation band of the forint exchange rate and decided to implement a floating exchange rate regime.

Regarding improvement of the internal financial situation, however, the government could bring to book some spectacular results. The fact that the immense budget deficit of 2006 could be cut down during 2007 to 5.5 percent proved that the stabilisation programme of Hungary achieved the goals set in connection with the general government balance for the year 2007. In 2008, a further lowering of the GDP-proportionate budget deficit could take place, in spite of the fact that the financing of government debt became much more expensive during the year. In 2008, the general government closed the year with a 3.3 percent deficit (in terms of GDP).

Because of the global economic recession, the expected fall in exports, the narrowing of loan opportunities, higher costs of sourcing, the deteriorating corporate profitability and the cutback of capacities at the enterprises, substantial layoffs are in progress, and it is expected that the unemployment rate may increase, potentially reading two digit numbers during the year 2009.

A decrease can be forecasted in real terms both in revenues from investments and in wages and salaries. In the first case, this comes from the decline in economic activity, and in the second case, from the restricting effect of a relative oversupply on the labour market owing to attempts to increase wages. As a consequence of the corporate sector's deteriorating profitability, investments in the private sector are also expected to fall. In public sector investments, the 20-25 percent decrease in investments experienced in previous quarters is expected to change into a modest increase.

Parallel to the decrease in revenues from the private sector, the outlook for demand is further worsened by the government's narrow budget for the year 2009, where the different chapters, amended several times to take into account projections of an economic recession of 2.5-3 percent in January and more than 6 percent in early April, still maintain their endeavour to keep the general government deficit below 3 per cent in terms of the GDP. Due to obligations regarding compliance with budgetary limits adopted in the convergence programme and the agreements with the International Monetary Fund, the Hungarian government has very limited room for fiscal stimulus.

Due to the lower sales opportunities on external markets, it is not reasonable to anticipate such supporting effect from external demand, until the summer of 2009, either. Additional demand may be generated by EU fund transfers, with a volume expected to increase to EUR 2.5 billion in 2009, or 2.5 percent of the domestic GDP according to the consensus. In practical terms, this means the 2009 portion of EU funds intended to cover 50-70 percent of the HUF 1400 billion, meant for enterprises participating in the "New Hungary Development Plan", in the years 2009–2010.

According to our expectations, the inflationary pressure shall lessen in the first half of the year, but after that, the chronically weak forint and the increase of the value added tax by 5 percentage points to 25 percent shall speed up the decay of money. For the whole of 2009, we project an average inflation of 4.2 percent. At the same time, due to the conservative international assessment on country risk, the National Bank of Hungary ease thight monetary policy only very cautiously, to ensure that the expected weakening of the forint exchange rate will not stress the stability of the local financial system. By the end of 2009, the central

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bank's base rate can be lowered from the present level of 9.5 percent to only 8.5-8.0 percent in a best-case scenario.

Performance of the Hungarian banking sector in 2008

The year 2008 brought unprecedented challenges for the Hungarian banking sector and on the whole, it adapted to these appropriately. All of the difficulties forecasted at the beginning of the year became typical for the sector, albeit their impacts and durability represented a far heavier burden for the local banking system than could be predicted even by the middle of the year.

With regard to profitability, an analysis of the time series has already shown a slow erosion of profits, as after a 10 percent reduction in profits for the sector in 2007, profit after taxes in the third quarter, adjusted for one-off items, such as the sale of investments, interests, other asset elements, was about 15 percent below the level in the same period of previous year. In 2008, the after-tax profit of the sector fell by 6.6 percent – including extraordinary items. Studying the components of profit and loss, we can see that the banks' results were impacted by competition in pricing and risk-taking – typically in the first half of the year – and, at the same time, they suffered losses on investments. In the revenue lines, a 1 percent increase in net interest income – lagging far behind the increase in volumes – shows that the banks tried to transfer their increased funding costs to a limited extent. The 1.3 percent drop in net commission and fee income came from the strengthening of the so-called non-price competition on the one hand, and a decline in commissions from lower investment turnover due to uncertainties experienced on the capital markets on the other. Dividend income, having reached 154 billion forints, including one-off items, was beneficial for the results of the market, but a one-third fall of the net result of financial operations, including losses in returns on investments, was highly detrimental.

On the side of expenses, the more than 8 percent increase in operational costs matched the additional costs of network expansion, unbroken in 2008. But the increase in marketing costs, so typical for growing competition, seems to come to halt, as the more than 23 percent increase in such costs in 2007 was followed by a less than 7 percent increase of these one year later. Cost cuts decided in order to maintain profitability have already shown themselves in the fourth quarter of the year, as in September total costs were still 12.4 percent higher than in the same period one year earlier.

But profits were set back not only by the increase of funding costs. Provisions created for higher lending and investment risks also increased to historical highs, cancelling therefore all revenues from one-off and extraordinary items.

But the main concern for the sector, spilling over together with the credit crisis was not the expected drop in profits and profitability. It was rather the narrowing of sources for funds, the increase in their costs and the shortening of their maturities, implying restrictions in allocation, and so for growth. Lending policy and the growth model built basically on foreign financing, in the absence of domestic savings, have profoundly changed.

Subsequent to the default of the Lehman Brothers investment bank in October, the accelerating and deepening crisis of confidence and liquidity shook the positions of otherwise capital-rich and stable international bank houses, making necessary the application of efficient measures by central banks, international financial institutions and governments, in an effort to help frozen interbank markets to melt.

The extraordinary rate hike of 300 basis points by the National Bank in October made forint-based lending uncompetitive, and brought bank deposits into a favourable position. The last two months of 2008 brought an increase in deposit volumes, not seen for a long time, but the main losers of that were investment funds, which are characterised by weak performance, anyway. The volume of retail deposits increased last year by 13.5 percent, to HUF 7,190 billion.

The net asset value of investment funds decreased in 2008, with a fall of 22.6 percent, to HUF 2,500 billion, corresponding roughly to the level observed by the end of the year 2006. Studying the expansion of institutional investments, all of this clearly shows that a break has occurred in the trend that started in recent years. Because of the sudden and large-scale capital withdrawal, the trading of real estate funds was even temporarily suspended by the Hungarian Financial Supervisory Authority.

The nominal growth in banking volumes increased in 2008 by far more than previously expected. The sector's balance sheet total increased a bit more than in 2007, by about 20 percent. Still, it is

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important to note that the forint closed last year at a much weaker exchange rate than a year earlier – after weakening 4.5 percent to the euro and 16.6 percent to the Swiss franc – and through the revaluation of FX assets, this implied a major distortion in actual growth.

The soaring of retail loans by more than 30 percent (or HUF 1800 billion) represents about 18 percent when adjusted for exchange rate effects, which still has to be considered as a very dynamic growth, and as key for banking expansion. Within total loans, the proportion of FX-based loans continued to increase during the year, from 55 to 67 percent in one year. A significant change occurred in November and December, even though only with a shift of the proportions of currency loans, towards the euro. There is no change in the ratio of foreign currencies within new loans. Within the main types of lending, consumption loans added another 40 percent, whilst the volume of housing-purpose loans increased by about 25 percent. For the following year, the halt experienced in the last two months of 2008, caused by both supply and demand factors, may prove indicative.

On the other side, growth and the revenue generation ability of banks will be restricted because of a permanent deterioration in the situation of corporate borrowers as a result of the crisis, spilling over from financial markets to the commodity markets and the real economy. A large portion of the almost 11 percent increase in loans was posted by the corporate segment in the first three quarters of the year. Later, loans became more expensive and sales prospects deteriorated drastically, leading to stagnation on the market of corporate loans. The cautiousness of banks is supported by the leap in problematic loans in the corporate segment. In the fourth quarter of 2008, the NPL ratio reached 5.2 percent, the worst indicator in the last decade. There are almost no sectors where credit institutions would not consider financing to be risky. Prominent examples include the construction industry, the manufacturing of vehicles and, because of its weak funding and supplier position, a large portion of the small and medium-sized enterprises.

Even though many companies responded to the worldwide drop of demand by reducing their capacities, even such economized operation becomes increasingly difficult with loan sources becoming scarcer and more expensive. As a consequence of changes in the owners' preferences, the dominance of risk avoidance and – in connection with these factors– the poorer availability of sources from parent banks, maturing loans of customers are not necessarily renewed by the banks, and if they are, the conditions are worse: higher collaterals are required, interest rates are higher.

It is anticipated that the year 2009 shall not promise any easing for households, corporations intending to borrow, and not even for banks financing them. On the households side, with a weakening forint exchange rate and higher interest rates, uncertain employment and income prospects might make borrowers cautious and patient, whilst on the supply side, banks try to reduce risks by applying stricter terms and conditions for loans. But funding is expected to remain in the focus, offering a high-yield, safe opportunity for savings on the money and capital markets, expected to remain highly volatile in 2009 as well.

Performance and results of UniCredit Bank Hungary Zrt. in the year 2008

The year 2008 was one of the most successful business years in the history of UniCredit Bank Hungary Zrt. Even though several risk factors, scenarios and trends taken into consideration in the planning process were often overwritten by the market, the bank in Hungary overfulfilled its plans in terms of both balance sheet and profits.

With the performance of its main business lines in view, UniCredit Bank outperformed the market average in almost all segments, and this is clearly presented in the expansion of its market shares. On the basis of the consolidated balance sheet and income statement prepared under the International Financial Reporting Standards (IFRS), its balance sheet total increased by 13.3 percent to HUF 1761.8 billion, and so it managed to maintain its rank as the seventh largest bank on the market, with a share of more than 6 percent. In terms of profit after taxes, it could post its historically most outstanding results in 2008. Its profit after taxes of HUF 29.1 billion exceeds by one-third the level of the previous year, but this is mostly due to the sale of its interest in the Budapest Stock Exchange. At the same time, the Bank fulfilled its business objectives above the plan for 2008, also excluding this exceptional item.

As opposed to market trends, the customer volumes of UniCredit Bank increased in a balanced way, outperforming the

The management's report (Continued)

sector. Loans to customers reached, after an increase of 20 percent, HUF 1239 billion, and on the liability side, the Bank managed to increase its deposit portfolio by 21 percent, to HUF 902 billion. Herewith the Loan/Deposit ratio decreased by 1.2 percentage point to 137.3 percent compared to previous year.

For such prosperous results, it was necessary for UniCredit to successfully implement the most dynamic stage of its strategic expansion in the retail business to date, with the opening of 34 new branch offices and Mortgage Centres ("KölcsönPont") in 2008. Doing so, the Bank was offering its products and services to customers through a network consisting of 115 units already. The acquisition of more than 45,000 new clients underlines the success of opening new branch offices, thanks to which the number of the Bank's customers was above 300,000 by the end of 2008.

In 2008, UniCredit Bank was granted several recognition prizes, from among which the "Superbrands" title stands out. The Superbrands recognition is granted by a Hungarian expert committee to brands with an excellent reputation, and UniCredit Bank merited this title within a record time from its rebranding. The outstanding performance of the Retail and Small Business Division was recognised by the professional audience with the prize of "The retail savings product of the year 2008", won in the competition of "The Bank of the Year". The product represents a unique compound of outstanding interests and flexible access. Winning these two titles further strengthens commitment to providing customers with high-level services and to innovation, and supports the success of UniCredit Bank's strategy.

In addition to profitable operation and increasing customer satisfaction, UniCredit Bank lays emphasis on the satisfaction and training of its staff as well, stressing the essential importance of individual success and performance in the achievement of successes at the Bank level.

UniCredit Bank's corporate social responsibility

Being an organisation responsible for its operation, UniCredit Bank aims to play an active role in the life of the local communities where it is present as an economic player. Within its social commitment, the Bank considers support to paediatrics to be the most important task. It has already become a tradition that the Bank's branches provide grants to local healthcare institutions for the treatment and rehabilitation of children in need.

With the support of UniCredit Bank, Tárki's European Social Report was prepared in the service of science, eliciting significant resonance. The study contributes to a new quality of recognising European and Hungarian societies. One of the novelties in this study is that it presents the population of the European countries as a single society, and this approach represents real innovation. In connection with the survey, a series of jointly organised conferences were also held in the Bank's Head Office, in order to present results and to ensure their utilisation.

Another example for the Bank's social responsibility is in harmony with the National Bank of Hungary's endeavour, to develop the financial culture of secondary school students. Colleagues of the Bank working in the branch network visited secondary schools in several cities, where they discussed, in an interactive session, banking services that may represent an interest for students as well.

For UniCredit Bank and its staff, the protection, improvement and embellishment of the environment is of prime importance. A selective waste collection programme has already been launched in the Bank, and the message at the end of the outgoing e-mails also reminds the necessity of a more conscious, environment-friendly attitude. Colleagues also initiate campaigns themselves for the protection of the environment, e.g. the planting of trees or the cleanup of playgrounds.

Edina Fajkovic
Croatia

«Commitment means giving your heart, time and dedication at work until everyone is satisfied with the result. Extraordinary results are not possible without my colleagues and I appreciate the opportunity to work with talented people. Together we provide creative and effective business solutions for our customers.»

Massimo Negrini
Italy

«The reason for my commitment?
I am a customer, like you.»

Report on the divisions

Corporate Division

The Corporate Division of UniCredit Bank Hungary Zrt. maintained traditionally a strong market position in corporate banking business, especially in the key accounts & multinationals segment but successfully opening towards Mid Market SMEs as well. Although during the last years defending market positions and gaining higher market shares has become a permanently increasing challenge, in 2008, Corporate Division showed again an excellent performance, delivering results even above expectations.

Market share both on corporate loans and deposits closed at 9.1% in December 2008. Number of corporate clients could be increased by 6% in spite of the very tough competitive environment. Accordingly 2008 profit plans have also been fulfilled.

During 2008 even more emphasis was put on professional advisory services, whereas EU funds & subsidies' transfer to the clients were put in highlight, complemented with relative banking services/financing. The EU Competence Centre in Budapest provides sophisticated support to the corporate sales force in this respect.

Within the scope of large and medium-sized companies, in addition to the basic products and banking services, UniCredit Bank continued to attribute significant weight to "tailor-made" individual solutions: mainly in the area of Structured & Project Finance. Within Real Estate Financing, both the commercial property and the residential financing sections' professional knowledge and experience, resulting in competitive solutions still ensured a good market position. Furthermore the product portfolio of our Corporate Treasury Sales includes advanced schemes supporting the management of interest rate and exchange rate risks, while on the other hand, we are in the position to offer and sell the UniCredit Group's reliable investment products as well.

During 2008 a new department Global Transaction Banking was set up with the focus on Trade Finance, Cash Management and eBanking. Trade Finance and documentary business are core strength of our banking group and will keep their important role. Our Cash Management services cover a wide range of products, from the simple account keeping to the most advanced internet-based and cash-pool services, providing these services also on global level. Several innovative cash management schemes have been elaborated to enhance the growth of payment turnover of our clients and to ensure the most convenient administrative ways for their account management.

Based on the UniCredit Group's network extending to 22 countries, the Bank in Hungary provides unique services to its international corporate customers and to their Hungarian subsidiaries. It offers products and services to this range of corporate customers which are exclusively available within UniCredit Group, providing unique advantages, both in lending (such as group-level guarantees or collateralization) and in payments (such as simplified procedure for opening accounts abroad, the introduction of a cross-border payment system – EuropeanGate, SEPA, payments within the group at preferential conditions – FlashPayment, EU-transfer, free-of-charge usage of ATMs in 18 European countries, tailor-made fee and interest optimization, global cash-pooling solutions, etc.).

From 2008 our International Desk's activity turned to expansion phase, aiming of further broadening international relations, with the application of a "single-point-of-entry" model in global customer service. Main objective is to increase the number of customers engaged in active business with the UniCredit Group in several countries. Services provided to international customers are supported by the wide-scale international interbank cooperation of UniCredit Group.

The Corporate Division pays particular attention to the SME (Mid Market) business sphere, in order to exploit the market potential and growth opportunities offered by this segment. Both the service models and the segment-tailored products of the Corporate Division were elaborated to fulfil the special demand of these corporations to achieve the maximum level of customer satisfaction. As a responsible partner, UniCredit Bank endeavours to establish long-term cooperative partnership with its clients providing banking assistance to their growth and development throughout the life cycle of their business.

Our associate companies, UniCredit Leasing and UniCredit Factoring, also contribute to the full range of services. In residential financing, UniCredit Jelzálogbank helps to provide quick and efficient service for the clients.

Report on the divisions (Continued)

Retail and Small Business Division

UniCredit Bank Hungary, with actual customer needs in view, offers a wide range of products and state-of-the-art services on the retail and small business markets as well.

The year 2008 was outstandingly successful for the Retail and Small Business Division of UniCredit Bank. The number of customers increased by 22 percent in 2008, exceeding 280,000 clients by the end of the year, and within that the number of small businesses was 28,000.

In providing services for a constantly increasing customer base, an important role is played by the Bank's dynamically expanding branch network as well. In 2008, UniCredit opened 34 new branch offices – 12 in Budapest and another 22 in the countryside – therefore, at the end of the year, the Bank's customers could manage their finances in 115 units in a fast and comfortable way. With that, UniCredit has the sixth largest branch office network now in the country. UniCredit Bank put special emphasis in 2008 as well on the training of network employees, the development of and active support to sales, in order to provide its customers with services at higher quality levels.

In addition to the expansion of its branch network, UniCredit Bank gave special attention in 2008 as well to the development of external sales channels. The headcount in the countrywide mobile sales network, launched in 2005, exceeded 450 persons by the end of 2008, and the business line sold almost one quarter of all loans granted through this mobile network. On the whole, more than half of the loans disbursed came through external sales partners, thanks to an intermediary channel consisting of already almost 3000 external partners, in addition to mobile sales representatives.

The loan stock of this business line expanded dynamically, by 53 percent, first of all thanks to the expansion of the business volumes, but also because of the revaluation of existing foreign currency-denominated loans. As a consequence of the money market crisis, spilled over to the local market in the last quarter of the year, the dominance of loans based on Swiss francs was terminated and within the Bank's product range – like in the case of the other market players – the euro-based loans came to the foreground for both the retail and the small business side. In granting bank loans, more rigour is applied, interest rate levels increased considerably. In addition to all that, the Bank's share in the loan market increased consistently and reached 3.5 percent by the end of the year.

The Division's deposit volume increased impressively, by 49 percent during the year, and with the successful handling of the money market crisis, it has shown rising levels in the last quarter of the year. There was a further increase in the Bank's market share in terms of bank deposits made by the retail and non-profit institutional customers, representing a total increase of 1.4 percentage points, to 5 percent at the end of the year. In the summer of 2008, the flexible forint deposit schemes of the Bank proved especially successful. In the autumn, after the 300 bp rate hike by the National Bank of Hungary, many customers made use of the opportunity of forint deposit promotions, and so, the Bank managed to attract new sources for the term deposits with promotional interest rates, favourable for both existing and new customers.

The difficult economic situation that emerged by the end of the year did not leave the stock of securities unchanged, where in 2008, a reduction of 25 percent occurred, partially because of the redemptions and partly as a consequence of lower asset prices.

The net stock of customer savings in this business line increased by 17 percent in 2008, due to the fact that the Bank's customers could select the investment form that suits best their own situation from a wide range of saving products.

In the Retail and Small Business Division, there was a dynamic increase in the number of customers using electronic channels for their banking operations. About four-fifth of the customers have signed contracts on the use of one or more electronic channels. The number of Telebank customers of UniCredit increased by 30 percent in 2008, and by the end of the year, almost 200,000 customers held contracts for telephone banking services. The SpectraNet Internet Banking service, available night and day, allowing comfortable home banking, was accessible for 110,000 customers, representing an outstanding increase of almost 60 percent in the year 2008.

The number of bank cards issued by UniCredit Bank increased by 52,000, representing an expansion of 29 percent. The number of retail and corporate debit cards reached 232,000 by the end of the year, the number of credit cards was close to 47,000.

Report on the divisions (CONTINUED)

Markets Division

In spite of the global financial crisis that had a significant impact on each business line in the emerging markets, the Markets Division contributed to the excellent annual earnings of the Bank with adequate results. The areas where revenues were the largest are custodianship, based on stable fee income, treasury sales, in permanent increase and last, but not least, foreign exchange trading. The Markets Division maintained its prestigious position among the leading players of the Hungarian money and capital markets. Close cooperation within the banking group and with other divisions of the Bank also helped to achieve good results, in the same way as the local implementation of the new group-level structure of this business line.

In accordance with that, the specialist area of fixed income trading was merged during the year with the foreign exchange and money market trading area, performing always well and successful, to create the fixed income, currency and interest rate management area (FIC). The positive synergies of the new structure appeared first of all in the stabilisation of revenues, in more efficient risk management and substantial cost cuts. Therefore, the FIC area will be in charge of the complete interbank trading, where special attention will be paid to the most important flow products and support to the sales areas. In addition to all that, especially in the last quarter of the year, particular attention was given to prudent refinancing and liquidity management as well.

Treasury sales had a year of records: far above the planned figures, it managed to make one and a half times more than in the previous year. This area went on in 2008 as well with its popular advisory activity in risk management, in line with the successfully introduced rules and principles of MiFID, for corporate customers, which was reasonable with regard to the higher market volatility both in terms of interest rates and exchange rates. As a result, 80 percent of the revenues were generated by hedging transactions in 2008. Simultaneously with that, there was an increase in the number of customers who are consciously using treasury products, especially in the sector of small and medium-sized enterprises, supported also by the regional network of treasury sales, by the continuously widening product range, as well as process automation (for instance, the introduction of an Internet-based trading system).

In 2008, there was a dramatic decrease in the index of the Budapest Stock Exchange. The BUX index closed the year at 12,241.69 points, meaning a fall of 53.34 percent to the closing price for the previous year. Parallel to that, the turnover also fell, down on previous year's level by 39.2 percent. The value of the index was on the decrease continuously, with smaller or larger fluctuations, the nose dive started in early October, from the level of 19,000 points and the bottom, with 10,751.23 points was reached on 27 October. The slowdown in the world economy, and within that, the beginning of a recession in the economies of the European Union and the United States, furthermore, the increasingly deepening banking crisis and the defaults of investment banks made investors escape from the equity markets. By December, the market calmed down, the index moved in the range between 12,000 and 13,000 points. The equity trading section of the Markets Division managed even in such circumstances to maintain its position on the domestic market. With a 10.6 percent market share, UniCredit Bank ranked third in terms of turnover in the equity section of the exchange.

Like in previous years, the custodianship area managed to maintain its stable position as a market leader. The success of the work done in custodian services is evidenced by the fact that Global Custodian, a recognised magazine in the professional community, gave to UniCredit in 2008, based on feedback obtained from domestic and premium foreign customers, the qualification "Top Rated", a title granted to the best performers.

Report on the divisions (Continued)

Human Resources

The year 2008 was a year of growth for UniCredit Bank Hungary Zrt. The prime task of the Human Resources Department was to give support to this growth, in a cooperation, as a strategic partner, offering creative, new solutions and development projects. In the human resources strategy, a decisive element remained the integration of colleagues, selected on the basis of their skills and professional experience, into the organisation, ensuring their permanent development and long-term cooperation.

UniCredit Bank's HR continues to stress the importance of permanent professional training for the staff, to ensure to keep their knowledge up-to-date. This was well reflected by the number of trainee days per person: 9 days in 2008. More than half of the staff active in the sales of the retail and corporate areas attended trainings on customer management: in the Retail and Small Business Division, 63 percent of the staff, in Corporate Division, 60 percent of the employees.

The Department considers that job and career support for employees is a priority task, implemented through the following programmes: Integrated Grading and Career Planning System, Annual Appraisal System, Talent Management Programme and Executive Development Plan.

In 2008, the system of annual appraisals has been updated. The new, intranet-based system allows, to perform the annual appraisals of staff in line with competences determined by the UniCredit Group.

The new system promotes the mapping of the staff's career plans and readiness for mobility, contributing this way to an enlivening of internal mobility, with vacant positions filled from internal resources.

One of the most important elements of the human resources strategy at the UniCredit Group is to take care of talents. The Talent Management Programme is a group-level initiative, introduced by UniCredit Bank Hungary Zrt. in 2007. Its goal is to identify within the organisation people with outstanding skills and professional knowledge and take charge of the implementation of their career plans. The Talent Management Programme has been extended in 2008 to cover the Retail and Small Business and the Corporate Divisions as well, therefore, the Bank now takes steps to promote the development of 150 talented colleagues, on the whole.

The Leadership Succession Programme was launched with the objective of selecting and attracting colleagues with managerial ambitions and skills, and to prepare the staff for management tasks of the future, using a comprehensive management training package.

The Bank particularly stresses the importance of mobility of its employees within the organisation, both on the local and international levels. For any vacancies or newly opened positions, the Bank first reviews internal applications from colleagues, and the evaluation of external applications follows only after that. In 2008, 39.5 percent of internal positions announced by UniCredit Bank were already won by colleagues working in the Bank. The number of internal promotions was doubled in 2008, which means a significant increase in a comparison with previous years. In addition, UniCredit also announced almost 80 international jobs for its employees. During the year, the cooperation agreements with suppliers were optimised and a new hiring-selection system was introduced, to make the processes of manpower hiring even more efficient. Moreover, several opportunities were provided to let the Bank present itself as an employer on job fairs and professional expositions, at different locations in the country.

In 2008, UniCredit Bank launched several trainee programmes, popular among fresh graduates. Within that framework, almost 80 new colleagues joined the financial instution. Young entrants have a possibility to acquire the basics of banking through a special training programme and get an insight into the operation of a European financial group.

Staff of the Human Resources Department will continue in 2009, with the same commitment, their support work for the business and other areas, and the endeavours formulated by UniCredit Group will be realised at the highest possible levels. An important portion thereof is the already regular survey on employee satisfaction, too. On the basis of its results for 2008, an action plan was prepared and the tasks determined therein were fulfilled on an ongoing basis, during the year.

Report of UniCredit Jelzálogbank Zrt.

UniCredit Jelzálogbank, a fully owned subsidiary of UniCredit Bank Hungary Zrt., actively cooperates with UniCredit Bank Hungary Zrt., in particular with the latter's division that specialises in real estate financing, as well as its division dealing with retail customers and small businesses, in order to jointly better satisfy the needs of their customers.

UniCredit Jelzálogbank deals principally with long-term loans where the primary collateral for the transaction represents first-ranking mortgage liens or stand-alone liens on properties financed on the territory of Hungary. Funding is provided by the issue of mortgage bonds (jelzáloglevél).

The commercial real estate financing business line of UniCredit Jelzálogbank carries out lending for business properties, in close cooperation with the commercial real estate financing division of UniCredit Bank Hungary Zrt. The purpose of financing can be the maintenance of the ownership of properties for renting, construction, or property development for the purpose of sale. On 31 December 2008, such financing represented 16 percent of the total loan portfolio of the mortgage bank.

UniCredit Jelzálogbank also offers a financing solution for private individuals who wish to buy new homes built for sale, from construction entrepreneurs that signed a cooperative agreement with the mortgage bank. With regard to the growth rate of the loan portfolio, the division providing financing for private individuals buying homes proved to be the most successful in 2008 as well: a 46 percent increase took place, year-on-year, in the loan portfolio, amounting to 32 percent overall of the total mortgage lending portfolio.

Estate development loans are provided to agricultural producers (prime producers, private entrepreneurs, young farmers) who intend to take a long-term loan to buy agricultural land. This financing solution is offered by the mortgage bank for potential borrowers in cooperation with the branch network of UniCredit Bank. In 2008, this loan stock amounted to 4.2 billion forints, representing a 64 percent increase over the previous year.

The refinancing business line of UniCredit Jelzálogbank provided funding for its partners in foreign currency and in forint refinancing with government interest subsidies in 2008 as well. Such cooperation is based on the purchase of stand-alone liens, with residential or commercial properties as collateral. A traditionally successful business line of the mortgage bank from the point of view of business results is the area of refinancing partner banks. The business line managed to turn the negative trend of the previous year and achieve an increase, even though there was no increase in the demand for refinancing in forints. Growth in foreign currency refinancing is based on cooperation, prepared and successfully implemented, jointly with the parent bank. The reduction of forint refinancing stocks reflects the decisive trend of the business year 2008 on the mortgage markets, therefore, retail customers of partner banks made use of early redemption and took currency-denominated loans. The refinancing business represents 48.4 percent of the total loan portfolio of the mortgage bank. The business initiative of this specialist area, implemented in 2008 and successfully adapted to changes on the market of mortgage loans, is applicable also in a mid-term and shall lead to success.

Funding for the four main business lines of UniCredit Jelzálogbank are ensured mostly by mortgage bond issues. The offering of mortgage bonds is realised within the framework of a so-called issue programme. This means that the mortgage bank acquires forint and foreign exchange sources from the capital market, partially in order to offer its customers long-term housing loans and provide refinancing for partner banks, and partially to allow customers to make full use of the interest subsidies provided by the government.

Normally, the mortgage bank issues mortgage bonds with a monthly regularity. Several forms of such issues exist. In a private placement, mortgage bonds are sold to a particular circle of investors. Public offerings are typically carried out within the framework of an issue programme, where the basic terms of the mortgage bond issue are fixed in the prospectus of the issue programme. The launch of a new Mortgage Bond Issue Programme for the year 2009, to the value of HUF 50 billion was approved by the Hungarian Financial Supervisory Authority on 19 December 2008.

In accordance with its strategic objectives, UniCredit Jelzálogbank prepared and signed on 21 November 2008, an EUR Mortgage Securities Programme, to the value of EUR 2 billion, approved by the financial supervisory authority in Luxembourg (CSSF). In the framework of this programme, the first public offering of mortgage bonds shall take place in the first half of 2009, the mortgage bond to be issued shall be listed on the Luxembourg stock exchange.

Parallel to the organisation of the international mortgage bond programme, UniCredit Jelzálogbank assigned credit

Report of UniCredit Jelzálogbank Zrt.

(Continued)

rating agency Moody's to prepare a rating of the covered bond portfolio.

The total value of the mortgage bonds denominated in forints and foreign currencies, not yet redeemed and outstanding on 31 December 2008, was 60.9 billion forints at nominal. The balance sheet total of the mortgage bank amounted to 143.9 billion forints on 31 December 2008. The profit before taxes, calculated under the International Accounting Standards was 2397 million forints, as at 31 December 2008 and the profit after taxes was 1854 million forints.

Urska Kolar Stuklek
Slovenia

«Any offering or proposal I prepare for customers or colleagues is always checked by my conscience.
I ask myself, “Have I considered all options? Is this the best solution?”
I can only commit to my customers and colleagues if the proposal would satisfy me were I standing in their shoes.»

Independent Auditor's report

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AUDITOR'S REPORT ON THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

To the shareholder of UniCredit Bank Hungary Zrt.

We have audited the consolidated financial statements of UniCredit Bank Hungary Zrt. ("the Bank"), for the year ended 31 December 2008, from which the attached summarised consolidated financial statements set out on pages 19 to 50 were derived, in accordance with International Standards on Auditing. In our report dated 25 February 2009, we expressed an unqualified opinion on the consolidated financial statements from which the summarised consolidated financial statements were derived.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

Without qualifying our opinion on the summarised consolidated financial statements, we draw attention to the fact that we have not audited the Euro amounts in the accompanying summarised consolidated financial statements, which are presented solely for the convenience of users.

For a better understanding of the Bank's financial position and the results of its operations for the year and the scope of our audit, the summarised consolidated financial statements should be read in conjunction with the consolidated financial statements from which the summarised consolidated financial statements were derived and our audit report thereon.

25 February 2009

KPMG Hungária Kft.

John Varsanyi
Partner

Financial statements

Consolidated balance sheet (31 December 2008)

Assets		2008		2007	
	NOTE	HUF MILLION	EUR MILLION	HUF MILLION	EUR MILLION
Cash and unrestricted nostros with Central Bank	14	9,729	36.7	5,107	20.2
Financial assets held for trading	15	169,923	641.8	95,383	376.5
Available-for-sale financial assets	16	153,480	579.7	174,439	688.5
Held-to-maturity investments	17	22,600	85.4	20,674	81.6
Placements with, and loans and advances to banks	18	109,675	414.2	174,349	688.2
Loans and advances to customers	19	1,238,922	4,679.0	1,032,603	4,075.8
Hedging derivative assets	20	1,822	6.9	869	3.4
Equity investments	21	1,184	4.5	3,052	12.0
Property, plant and equipment	22	28,978	109.4	26,921	106.3
Intangible assets	23	3,524	13.3	3,966	15.7
Tax assets	13	3,781	14.3	775	3.1
Other assets	24	18,171	68.6	16,774	66.2
Total assets		**1,761,789**	**6,653.8**	**1,554,912**	**6,137.5**

Liabilities		2008		2007	
	NOTE	HUF MILLION	EUR MILLION	mHUF	EUR MILLION
Deposits and loans from banks	25	553,343	2,089.8	547,886	2,162.6
Deposits from customers	26	902,366	3,408.0	745,689	2,943.3
Subordinated loans	27	18,063	68.2	17,284	68.2
Issued bonds	28	47,464	179.3	51,312	202.5
Financial liabilities held for trading	15	44,841	169.4	25,020	98.8
Hedging derivative liabilites	20	5,123	19.3	554	2.2
Tax liabilities	13	757	2.9	322	1.3
Other liabilities	29	31,858	120.3	31,260	123.4
Other provisions		1,467	5.5	1,135	4.5
Total liabilities		**1,605,282**	**6,062.7**	**1,420,462**	**5,606.8**

Shareholder’s funds		2008		2007	
	NOTE	HUF MILLION	EUR MILLION	mHUF	EUR MILLION
Share capital	30	24,118	91.1	24,118	95.2
Capital reserve		3,900	14.7	3,900	15.4
Retained earnings		75,907	286.7	57,915	228.6
Other reserves		30,298	114.4	26,346	104.0
Valuation reserves		(6,828)	(25.8)	227	0.9
Net profit for the year		29,112	110.0	21,944	86.6
Total Shareholder's funds		**156,507**	**591.1**	**134,450**	**530.7**

Total liabilities and Shareholder’s funds		**1,761,789**	**6,653.8**	**1,554,912**	**6,137.5**

The accompanying notes (1-32) form an integral part of these financial statements.

These figures have been recalculated to EUR using the closing HUF/EUR rate, published by the Hungarian National Bank on the last business day of the respective year.

Financial statements (Continued)

Consolidated income statement

Consolidated income statement					
		2008		2007	
	NOTE	HUF MILLION	EUR MILLION	HUF MILLION	EUR MILLION
Interest and similar income	5	123,484	466.3	99,426	392.4
Interest expense and similar charges	5	(85,056)	(321.2)	(61,662)	(243.4)
Net interest income	**5**	**38,428**	**145.1**	**37,764**	**149.0**
Fee and commission income	6	32,595	123.1	28,392	112.1
Fee and commission expense	6	(9,458)	(35.7)	(7,528)	(29.7)
Net fee and commission income	**6**	**23,137**	**87.4**	**20,864**	**82.4**
Dividend income	7	758	2.9	852	3.4
Net trading income	8	4,784	18.1	2,670	10.5
Net gain and loss on other financial intruments	9	419	1.6	453	1.8
Operating income		**67,526**	**255.1**	**62,603**	**247.1**
Impairment and losses on credit products	31	(6,647)	(25.1)	(5,686)	(22.4)
Net financial activity result		**60,879**	**230.0**	**56,917**	**224.7**
Personnel expenses	10	(17,475)	(66.0)	(14,905)	(58.8)
General operating expenses	11	(13,557)	(51.2)	(12,991)	(51.3)
Other provision	31	(371)	(1.4)	(306)	(1.2)
Amortization and impairment on property, plant and equipments	22	(1,976)	(7.5)	(1,627)	(6.4)
Amortization and impairment on intangible assets	23	(1,584)	(6.0)	(1,828)	(7.2)
Other income/(expenses)	12	149	0.6	(370)	(1.5)
Operating costs		**(34,814)**	**(131.5)**	**(32,027)**	**(126.4)**
Gain/(losses) on other equity investments	21	9,695	36.6	2,590	10.2
Profit before tax		**35,760**	**135.1**	**27,480**	**108.5**
Income tax expense	13	(6,648)	(25.1)	(5,536)	(21.9)
Net profit for the year		**29,112**	**110.0**	**21,944**	**86.6**

The accompanying notes (1-32) form an integral part of these financial statements.

These figures have been recalculated to EUR using the closing HUF/EUR rate, published by the Hungarian National Bank on the last business day of the respective year.

Financial statements (Continued)

Consolidated statement of changes in Shareholder's equity

Consolidated statement of changes in Shareholder's equity – 31 December 2008 (HUF million)

	ORDINARY SHARES	CAPITAL RESERVE	RETAINED EARNINGS	OTHER RESERVES: GENERAL RESERVE	OTHER RESERVES: GENERAL RISK RESERVE	VALUATION RESERVES	NET PROFIT	TOTAL
Balance 1 January 2007	**24,118**	**3,900**	**57,124**	**11,510**	**11,517**	**580**	**19,110**	**127,859**
Gains and losses recognised directly in equity in accordance with IAS 39						(353)		(353)
Net profit for the previous year			19,110				(19,110)	
Net profit for the current year							21,944	21,944
Dividend to equity holder			(15,000)					(15,000)
Appropriations transfer from retained earnings			(3,319)	1,999	1,320			
Balance 31 December 2007	**24,118**	**3,900**	**57,915**	**13,509**	**12,837**	**227**	**21,944**	**134,450**
Gains and losses recognised directly in equity in accordance with IAS 39						(7,055)		(7,055)
Net profit for the previous year			21,944				(21,944)	
Net profit for the current year							29,112	29,112
Dividend to equity holder								
Appropriations transfer from retained earnings			(3,952)	2,757	1,195			
Balance 31 December 2008	**24,118**	**3,900**	**75,907**	**16,266**	**14,032**	**(6,828)**	**29,112**	**156,507**

The accompanying notes (1-32) form an integral part of these financial statements.

Financial statements (Continued)

Consolidated statement of cash flows

Cash flows from operating activities			(HUF million)
	NOTE	2008	2007
Profit before tax		**35,760**	**27,480**
Items not involving movement of cash			
Depreciation and amortisation	22, 23	3,560	3,455
Scrapped and transferred fixed assets		1	–
Profit on disposal of property, plant and equipment		740	252
Net impairment and losses in credit products		5,357	4,470
Net loss/gain from cash flow hedging assets		(2,345)	(381)
Foreign exchange loss/(gain) on subordinated loans		779	72
Taxation paid	13	(6,648)	(5,536)
Cash flows from operating profits before changes in operating assets and liabilities		**37,204**	**29,812**
Change in financial assets held for trading		(74,540)	(56,499)
Change in tax assets		(1,300)	(511)
Change in other assets		(1,421)	(2,445)
Change in tax liabilities		493	213
Change in other liabilities		2,528	10,745
Change in unrestriced nostros with Central Bank		(31)	(5,226)
Change in loans and advances to customers		(213,250)	(242,805)
Change in deposits with other banks		64,674	91,940
Change in deposits from customers		156,677	(5,390)
Change in deposits from other banks		5,457	202,699
Change in financial liabilities held for trading		19,821	5,066
Net cash from operating activities		**(40,892)**	**(2,213)**

Cash flows from investing activities			(HUF million)
	NOTE	2008	2007
Proceeds on sale of property, plant and equipment		199	227
Proceeds on sale of intangible assets		74	10
Addition of property, plant and equipment		(4,104)	(1,232)
Addition of intangible assets		(2,085)	(1,463)
Change in equity investments		1,750	238
Change in held-to-maturity investments		(1,926)	10,888
Change in available-for-sale financial assets		18,219	(20,457)
Change in issued bonds		(3,848)	(586)
Net cash used in investing activities		**8,279**	**(12,375)**

Cash flows from financing activities			(HUF million)
	NOTE	2008	2007
Dividend paid		-	(15,000)
Net cash from financing activities		**4,591**	**(15,000)**

Net increase in cash		4,591	224
Cash at the beginning of the year	14	5,044	4,820
Cash at the end of the year	**14**	**9,635**	**5,044**

The accompanying notes (1-32) form an integral part of these financial statements.

Notes to the financial statements

1. General

UniCredit Bank Hungary Zrt. ("UniCredit" or "the Bank") is registered as a joint-stock company under Hungarian law and is licensed to conduct universal banking activities in Hungary. The Bank's name changed from HVB Bank Hungary Zrt. to UniCredit Bank Hungary Zrt. on 1 February 2007. The address of the Bank's registered head office is H-1054 Budapest, Szabadság tér 5–6. The Bank is a wholly owned subsidiary of UniCredit Bank Austria AG, with the ultimate parent company being UniCredito Italiano S.p.A.

Transactions with members of the UniCredit Group include credit relationships, where the related parties are borrowers or guarantors, and deposit relationships. Such transactions are conducted under substantially the same terms and conditions as are applied to third parties, unless otherwise stated.

The financial statements were authorised by the Supervisory Board on 25th February 2009.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a.) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the EU, and all applicable interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC") as adopted by the EU.

b.) Basis of preparation

The financial statements are presented in millions of Hungarian Forint ("HUF").

These consolidated financial statements consolidate the accounts of the following entities: UniCredit Bank Hungary Zrt. and UniCredit Jelzálogbank Zrt. ("Mortgage bank") (together the "Group").

The consolidated financial statements are prepared on a fair value basis for derivative financial instruments, trading financial assets and liabilities and available-for-sale financial assets, except those for which a reliable measurement of fair value is not available. The latter items are stated at either amortised, or historical cost. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost, net of accumulated impairment losses (if applicable) or historical cost.

c.) Consolidation methodology

All companies that are material and are directly or indirectly controlled by the Bank have been consolidated into these consolidated financial statements. These consolidated financial statements of the Group, that are presented in accordance with IFRS are based on the stand-alone financial statements of all consolidated subsidiaries, which have been prepared in accordance with IFRS.

Investments in associated companies, which are neither indirectly nor directly controlled by the Bank, but over which it can exercise significant influence, are accounted for using the equity method.

Shares in all other companies are classified as available-for-sale investments and recognised at their fair values, when that fair value is reliably measurable. Changes in fair values are thus directly recognised in equity. In cases where the fair value cannot be reliably determined, shares are carried at cost. When there is an objective evidence that a financial asset is impaired, a loss is recorded in the consolidated income statement. As soon as the circumstances which led to the impairment cease to exist, the recovery in the fair value of the impaired available-for-sale equity security is recognised directly in equity.

d.) Consolidation procedures

When a subsidiary or associated company is acquired, the acquirer determines the related goodwill, which is recognised in the

Notes to the financial statements (Continued)

balance sheet. Subsequently, goodwill is measured at cost less accumulated impairment losses.

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

e.) Comparatives

Certain items previously reported in the prior years' financial statements have been restated and reclassified to provide consistency for presentation purposes.

f.) Cash and cash equivalents

Cash and cash equivalents include nostros with the Central Bank and are carried at cost in the balance sheet.

The amount of cash in the cash flow statement is equal to the cash on hand from balance sheet item Cash and unrestricted nostros with Central Bank in Note 14.

g.) Financial instruments

i) Classification

Financial assets and financial liabilities, held for trading are those that the Group principally holds for the purpose of short-term profit taking. These include shares, bonds, certain purchased loans and derivative contracts that are not designated as effective hedging instruments. All non-hedge derivatives in a net receivable position (positive fair value), are classified as financial assets, held for trading. All trading derivatives in a net payable position (negative fair value), are classified as financial liabilities, held for trading.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and which are created by the Group with no intention of short term profit taking. Loans and receivables consists of loans and advances to banks and customers.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. These include certain debt instruments.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or trading financial assets. Available-for-sale instruments include certain debt and equity investments.

Hedging instruments. There are certain derivatives, that are designated as cash-flow hedges. They serve as hedges against the variability of cash flows within the framework of the Group's asset-liability management activities. For the purpose of cash-flow hedge accounting, variable-rate interest receivables and payments on variable-rate assets and liabilities are swapped for fixed-rate interest payments, primarily by means of interest rate swaps. The effective portion of the changes in the fair values of derivatives designated as hedging instruments is recognised as a separate component of shareholder's equity (cash-flow hedge reserve) with no effect on income.

ii) Recognition and de-recognition

The Group recognises financial assets and liabilities on the trade date. A financial asset or financial liability is initially measured at fair value plus (for an item, that is not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. From this date any gains and losses arising from changes in fair value of the assets are recognised either in income statement or in equity. All loans and receivables are recognised when cash is advanced to the counterparty.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

iii) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue.

Subsequent to initial recognition all trading financial assets and liabilities and all available-for-sale financial assets are measured at fair value, except that, where no quoted market price exists in an

Notes to the financial statements (Continued)

active market and fair value cannot be reliably measured, these are carried at cost less impairment.

All non-trading financial assets, loans and receivables and held-to-maturity investments are measured at their amortised cost less accumulated impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and are amortised. Financial assets, with the exception of loans which are reviewed quarterly, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indicator of impairment exists, the asset's recoverable amount is determined and compared with its carrying amount to assess the amount of any impairment.

Fair value measurement principles
The fair value of financial instruments is based on their quoted price in an active market for that instrument at the balance sheet date without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available or the market is not active, the fair value of the instrument is estimated using pricing models or discounted cash-flow techniques.

Where discounted cash-flow techniques are used, the estimated future cash-flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at balance sheet date.

The fair value of derivatives that are not exchange-traded are estimated at the amount that the Group would receive upon normal business conditions to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

The Group makes fair value adjustments which arise from close out costs and less liquidity positions. Trading assets and available-for-sale assets are adjusted by fair value adjustments figures.

Gains and losses on subsequent measurement
Gains and losses arising from a change in the fair value of trading financial assets and financial liabilities are recognised in the income statement. Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised in the available-for-sale reserve, whereas gains and losses arising from a change in the fair value of derivatives, designated as effective hedging instruments are recognised in the Cash flow hedge reserve. Any permanent impairment loss on available-for-sale financial assets and hedging derivatives is recognised in the income statement.

h.) Transactions in foreign currency

These consolidated financial statements are presented in Hungarian Forints, the currency of the primary economic environment in which the Group operates ("functional currency"). The accounting records of the Group are also maintained in this currency. Except as indicated, financial information presented in Hungarian Forints has been rounded to the nearest million.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

i.) Securities

Securities can be held for short-term profit taking, available-for-sale or held-to-maturity purposes. The principles governing the recognition and classification of each category of security are stated in Note 2. g.) above.

j.) Equity investments

Equity investments that the Group holds for the purpose of short-term profit taking are classified as trading financial assets. Other equity investments are classified as available-for-sale financial assets. The measurement of these equity investments is stated in Note 2. g.) except for equity investments in associated companies that are measured based on Note 2. c.).

k.) Property, plant and equipment

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment

Notes to the financial statements (CONTINUED)

losses. Property, plant and equipment are reviewed periodically and items which are considered to have no further value are depreciated in full.

l.) Intangible assets and goodwill

Intangible assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Intangible assets are reviewed periodically and items which are considered to have no further value are depreciated in full. The Group has no intangible assets with an indefinite useful life.

Goodwill arises on the acquisition of subsidiaries. Goodwill is measured at cost less accumulated impairment losses.

m.) Depreciation and amortisation

Depreciation is charged to write off the cost of all such assets which are to be depreciated to the income statement over their anticipated useful lives. All of the above assets, with the exception of land and assets under construction, are depreciated on a straight line basis. The annual rates of depreciation used are as follows:

	Depreciation rate (%)
Buildings	2–6
Property rights	10
Office equipment	14.5–33
Hardware	25
Motor vehicles	20
Rental rights	10
Licenses	10
Software	25

It is the Group's policy to review the book value of the property rights periodically to ensure that such rights are not stated at amounts greater than their realisable value.

n.) Finance lease

Leases in terms of which the Group assumes substantially all the risk and rewards of ownership are classified as finance leases. The Group occasionally enters into finance lease obligations in order to finance certain fixed assets. These leases typically run for a period of 10 to 20 years, with the transfer of ownership of the leased asset occurring at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates.

o.) Loans and advances

Loans and advances originated by the Group are classified as loans and receivables. Purchased loans that the Group has the intent and ability to hold to maturity are also classified as loans and receivables.

Loans and advances are reported net of impairments for credit losses to reflect the estimated recoverable amounts.

Income for the period on loans and advances is determined using the effective interest method. The effective interest rate is established individually for all loans and advances. When calculating the effective interest rate, all contracted cash-flows are taken into account including fees commissions, as well as possible premiums or discounts. Estimated future credit losses are however not included. The result of this calculation is charged to the income statement.

p.) Impairment and losses on credit products

It is the policy of the Group to review periodically its portfolio of loans and advances to make provisions for impairment, where necessary. Impairment is based on an individual assessment of the recoverability of outstanding amounts. Increases and decreases in the provisions for impairments are charged to the income statement. Further details on loan assessment are provided under the Risk Management Policies.

q.) Issued bonds

The subsidiary, UniCredit Jelzálogbank Zrt.'s primary source of funds is generated from the issuance of mortgage bonds. Mortgage bonds are secured bonds. Mortgage bank may issue such a bond only if it has sufficient collateral, which may include independent mortgage rights and other securities such as government bonds and treasury bills.

Notes to the financial statements (Continued)

Issued bonds are classified as financial liabilities, initially recognised at face value plus directly attributable transaction costs and subsequently measured at amortised cost.

r.) General reserve

In accordance with Section 75 of Hungarian Act No. CXII of 1996, a general reserve equal to 10% of the net post tax income is required to be made in the Hungarian statutory accounts. Increases in the general reserve, as calculated under Hungarian Accounting and Banking Rules are treated as appropriations from retained earnings, and are not charged against income.

s.) General risk reserve

Under Section 87 of Hungarian Act No. CXII of 1996, a General Risk Reserve of 1.25% of the risk weighted assets may be made. Under Hungarian law the amount of the general risk reserve is charged to the income statement and is a tax deductible expense. This amount has been reversed from the Hungarian statement of income in these IFRS financial statements and has been treated as an appropriation of retained earnings.

t.) Valuation reserve

The valuation reserves are part of the Shareholder's equity. Under the IFRS principles the valuation reserves include exclusively the cash-flow hedge reserve and available-for-sale instrument reserve less deferred tax as stated in Note 2. g.) above.

u.) Derivative financial instruments

The Group uses the following derivative financial instruments: futures, interest rate swaps, options, forward rate agreements and spot and forward foreign exchange contracts to manage its exposure to foreign exchange, interest rate and market risks arising from operational, financing and investment activities.

The recognition of income/expenses relating to non-hedge derivative transactions are on a mark-to-market basis, and changes in value are immediately recognised in the income statement.

v.) Income

Net interest income
Interest income and interest expense for the year are recognised on an accruals basis, together with the application of the effective interest rate method on all instruments measured at amortised cost.

For loans and advances, the effective interest rate is established individually. When calculating the effective interest rate, all contracted cash-flows are taken into account including fees commissions, as well as possible premiums or discounts. Estimated future credit losses are however not included.

Dividend income
Dividend income is recognised in the income statement on the date that the Group's right to receive payment has been established.

Net fee and commission income
Net fee and commission income consists of income from services, provided on a fee and commission basis as well as expenses incurred for services provided by third parties and related to the Group's fee-earning business. Commissions and fees are included in the income statement as they are received.

Net trading income
Net trading income includes gains and losses arising from disposals and changes in the fair value of trading financial assets and liabilities.

Net gain and loss on other financial instruments
Net gain and loss on other financial instruments is related to non-trading financial assets and equity investments and includes the realized result at derecognition.

Gain and losses on other equity investments
Gain and losses on other equity investments include the net result arising from capital transactions from equity investments related to associated companies.

w.) Impairment on non-financial assets

The carrying amount of the assets of the Group are reviewed at each balance sheet date to determine whether there is any indication of impairment. Any resulting impairment loss is recognised in the income statement.

Notes to the financial statements (Continued)

An asset's recoverable amount is the higher of its value in use and its fair value less costs to sell. The value in use is the present value of the future cash flows to be generated by an asset from its continuing use in the business. If the asset's carrying amount exceeds its recoverable amount, the asset is impaired. It is written down to its recoverable amount and an impairment loss is recognised.

x.) Income tax

Income tax on the profit or loss for the year consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date. The profit for the year is adjusted according to the relevant tax regulations to calculate the taxable income.

Deferred tax is provided using the balance sheet liability method, in respect of which temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are recognised in full. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the difference between the carrying amounts of assets and liabilities in the IFRS balance sheet and in the balance sheet for local tax 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 unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

y.) Events after the balance sheet date

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. These events fall into two categories: those that provide evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and those that are indicative of conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).

All adjusting events after balance sheet date have been taken into account in the preparation of the consolidated financial statements of the Group. Where there were material non-adjusting events that occurred after the balance sheet date, the appropriate disclosure thereof has been made in the consolidated financial statements.

z.) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's format for segment reporting is based on business segments and the Group's management and internal reporting structure.

The Group separates the following main business segments:

- Corporate
  Includes the loans, deposits and other transactions and balances with corporate customers (excludes small enterprises)
- Retail
  Includes the loans, deposits and other transactions and balances with retail customers (includes small enterprises)
- Markets (Treasury & Custody)
  Includes trading activities and equity sales activities with customers. Includes the custody service transactions and balance.
- Others
  Includes Assets Liabilities Management activities that contain the Group's funding and centralised risk management activities through borrowings, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

The result of each segment also include the head office costs (indirect and overhead) allocated on a reasonable basis.

aa.) 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

Notes to the financial statements (Continued)

December 2008, and have not been applied in preparing these consolidated financial statements:

- IFRIC 13 **Customer Loyalty Programmes** addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Group's 2009 consolidated financial statements and will be applicable retrospectively. The Group is currently in the process of evaluating the potential effect of this interpretation.
- Amendment to IFRS 2 **Share-based Payment – Vesting Conditions and Cancellations** clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group is currently in the process of evaluating the potential effect of this amendment.
- Revised IFRS 3 **Business Combinations** (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

  Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.
- IFRS 8 **Operating Segments** introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's Management Board in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business segments [see Note z.)].
- Revised IAS 1 **Presentation of Financial Statements** (2007) introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements.
- Revised IAS 23 **Borrowing Costs** removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Bank's 2009 unconsolidated financial statements. The Group is currently in the process of evaluating the potential effect of this amendment.
- Amended IAS 27 **Consolidated and Separate Financial Statements** (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements will have no impact on the consolidated financial statements.
- Amendments to IAS 32 and IAS 1 **Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation** require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements with retrospective application required, do not have any significant impact on the consolidated financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these

Notes to the financial statements (Continued)

amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Bank does not expect these amendments to have any significant impact on the consolidated financial statements.

- Amendments to IAS 39 **Financial Instruments: Recognition and Measurement – Eligible Hedged Items** clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required.
- IFRIC 16 **Hedges of a Net Investment in a Foreign Operation** clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
  - the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

  The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Group's 2009 consolidated financial statements, applies prospectively to the Group's existing hedge relationships and net investments. The Group is currently in the process of evaluating the potential effect of this Interpretation.

3. Risk management policies

The most significant business risks to which the Bank is exposed are credit risk, liquidity risk, market risk (includes interest rate and foreign exchange rate risks), and operational risks. The Group takes a group-wide approach to manage risk, tailored for specific Hungarian legal and business requirements. Integrated and on-line systems ensure constant, timely monitoring of risk.

The Group's policies for managing each of the major financial risks are reviewed regularly by the respective business areas, internal audit, senior management and the Management Board.

i) Credit risk

Credit risk is the risk of financial loss occurring as a result of a default by counterparty in their contractual obligation to the Group. Credit risk is primarily managed by the Credit Risk Officer and the Credit Committee. Credit regulations including the approval process, portfolio limit concentration guidelines, approval of discretionary limits, formulation of standards for the measurement of credit exposures and the risk rating of clients based on the assessment of management quality and financial statements are submitted by the Credit Risk Officer and approved in general by the Management Board, in details by the Chief Executive Officer.

All outstanding loans are reviewed at least yearly, and monitored quarterly. Clients are classified based on a point rating system, which incorporates qualitative and quantitative factors, or in case of retail clients the classification is based on scorecards. Loans are classified at least quarterly, individually or (below a certain threshold) collectively.

Individual classification is based on the review of the followings:

a) client rating, the client's financial situation and its stability, income producing capability, and changes in these factors;
b) meeting the repayment schedule, past due items, delays in the repayment;
c) country risk and its changes;
d) the value and marketability of the collateral;
e) marketability of the loan;
f) in case of contingent liabilities the possibility of becoming an asset.

All these factors have to be taken into consideration. First expected loss has to be determined based on a)-c) and e)-f), then the initial loss must (excluding collaterals) be reduced by the expected recovery from collaterals. The impairment is the difference between this result and the asset's book value.

Collective impairment is calculated also at individual level, but with a simplified method: taking into account only the past due days and the product (reflecting the proportion and type of collateralization).

Notes to the financial statements (Continued)

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 loans or securities agreements.

Past due but not impaired loans

Loans and securities where the contractual interests and principal payments are past due but the Group believes that impairment is not necessary on the basis of the level of security/collateral available or the stage of collection of amounts owed to the Group.

Impairment loss

The Group establishes impairment losses that represent its estimate of the incurred losses in its loan portfolio. The main components of this impairment loss are a specific loss component that relates to individually significant exposures, and collective loan impairment losses established for individually non-significant loans based on internal policies.

The Group establishes an impairment for incurred but not reported loss based on the parent Group guidelines. Incurred but not reported impairment is calculated for the performing portfolio, based on the expected loss within one year, taking also into account the loss confirmation period, which ranges from 4 to 6 months according to the type of clients or (in case of the retail segment) products.

Write-off policy

The Group writes-off a loan or security balance (and any related impairment losses balance) when they prove to be uncollectible.

The industrial sector and collateral details of loan portfolios are presented in Note 19. Due to the global financial crisis and economic recession, the Group took several measures for the retail and corporate loan portfolio. As for the existing retail transactions the Group gives free of charge the possibility for extension of the maturity and a grace period to the clients in the frame of the agreement with the Hungarian Ministry of Finance. Additionally the Group took the decision on enhancement of collection activities with new organizational structure.

As for the new retail loans the Group implemented selectivity, meaning more focus on products and segments with lower risk profile. In case of existing corporate portfolio the Group strengthened its monitoring activity concentrating on the liquidity positions of our corporate clients. The Group reviewed our lending policy differentiated by sectors and defined a selective risk approach for new transactions in the most endangered sectors.

ii) Liquidity risk

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

The objective of prudential liquidity management is to ensure that the Group has the ability to generate sufficient funds to meet all cash flow obligations as these fall due. Effective liquidity management is critical to maintain market confidence, and protect the capital base while permitting effective growth. In managing its liquidity the Group takes into account various legal requirements and limitations.

Limits regarding the maximum net outflow of funds in a particular period (typically short-term) are in place and are monitored daily. Long-term fundedness is approved and monitored by the Banks' Asset Liability Committee ('ALCO').

In line with UniCredit Group-wide standards, the Group deals with liquidity risk as a central risk in banking business by introducing and monitoring short-term and medium-term liquidity requirements. In this context the liquidity situation for the next few days and also for longer periods is analysed against a standard scenario and against scenarios of a general and a bank-specific liquidity crisis. The degree of liquidity of customer positions and proprietary positions is analysed on an ongoing basis. Procedures, responsibilities and reporting lines in this area have been laid down in the liquidity policy, which includes a contingency plan in the event of a liquidity crisis.

Short-term and long-term liquidity limits of the Group were observed continuously in 2008. The degree to which accumulated liquidity outflows are covered by accumulated inflows within the following month and year is determined on an ongoing basis. It is used as a key figure in managing the Group's liquidity and funding.

iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments.

Market risk management encompasses all activities in connection with Group's Markets operations and management of the balance

Notes to the financial statements (Continued)

sheet structure. Risk positions are aggregated at least daily, analysed by the independent risk management unit and compared with the risk limits set by the Management Board and the ALCO designated by the Management Board. At the Group market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily presentation of results of Market's operations.

The Group based on Bank Austria Group standard (as a subgroup of UniCredit Group) uses uniform risk management procedures. These procedures provide aggregate data and make available the major risk parameters for the various trading operations at least once a day. Besides Value at Risk ("VaR"), other factors of equal importance are stress-oriented volume and position limits. Additional elements of the limit system are loss-warning level limits and options-related limits applied to trading and positioning in non-linear products.

The risk model ("NoRISK") was developed by Bank Austria and adopted by the Group and has been used for several years. The "NoRISK" internal risk model is used for computing economic capital in Hungary, but the capital requirement is calculated by the regulatory standard method. The computation of economic capital takes into account the statutory parameters (confidence interval of 99%, 10-day holding period) and additionally the multiplier determined as part of the model review is applied. The system comprises all major risk categories: interest rate risk, credit spread risk, equity position risk (both general and specific risk) and exchange rate risk.

Regular and specific stress scenario calculations complement the information provided to ALCO and the Management Board. Stress scenarios are based on assumptions of extreme movements in individual market risk parameters. The Group analyses the effect of such fluctuations and a liquidity disruption in specific products and risk factors on the Group's results.

In addition to the risk model results, income data from market risk activities are also calculated and communicated on a daily basis. Such data are presented over time and compared with current budget figures. Reporting includes marking to market of all investment positions regardless of their treatment/classification in the IFRS-based financial statements ("total return"). The results are reported directly to the Group's trading and risk management units, and also via the access-protected Intranet application "ERCONIS" maintained centrally in Vienna, analysed by portfolio, income statement item and currency.

The Group uses the "MARCONIS" intranet-based system developed by the Bank Austria to comprehensively and systematically review the market conformity of its trading transactions.

The daily reporting also includes details of volume-oriented sensitivities which are compared with the respective limits. The most important detailed presentations include: basis point results (interest rate/spread changes of 0.01%) by maturity band, FX sensitivities and sensitivities in equities and emerging-market/high-yield positions (by issue, issuer and market). Risk management is performed with details varying according to the risk-takers. In the interest rate sector, for example, basis point limits per currency and maturity band, basis point totals per currency and/or per maturity segment (total of absolute Basis Point Values – BPV) are used for risk management. By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by curve and maturity band (the Bank currently uses credit spread curves for its risk calculations).

Management of balance sheet structure

Interest rate risk and liquidity risk from customer transactions is attributed to Group's treasury operations through a matched funds transfer pricing system applied throughout the UniCredit Group. This makes it possible to attribute credit, market and liquidity risk and contribution margins to the bank's business divisions in line with the principle of causation. ALCO ensures that the Group's overall maturity structure is optimised.

Products for which the material interest-rate and capital maturity is not defined, such as variable-rate sight and savings deposits, are modelled in respect of investment period and interest rate sensitivity by means of analyses of historical time series, and taken into account in the bank's Group's overall risk position.

Interest rate sensitivities are determined and taken into account in hedging activities, which results in a positive contribution to profits from customer business.

Foreign exchange rate risk

The Group has assets and liabilities (on and off-balance sheet) denominated in several foreign currencies, and it is therefore exposed to foreign exchange rate risk. Foreign exchange rate risk arises when a mismatch occurs in the spot and forward asset/liability structure within a currency.

Notes to the financial statements (CONTINUED)

iv) Compliance with Basel II

The Basel II implementation has been established as a group-wide project overseen by UniCredit Italiano S.p.A. (hereafter: "UniCredit Group") with regard to group-wide topics and decisions. The Group has also joined this Basel II project. Close cooperation ensures consistency within the Group, during the implementation of Basel II. UniCredit Group standards prepared by the UniCredit Group in cooperation with the major legal entities are used as an instrument for common implementation with a view to meet the legal requirements and ensuring group-wide control.

The Group uses the Basel II standardised approach from the beginning of 2008. Efforts will be made to switch to the Advanced Internal Rating-Based Approach ("A-IRB") approach in order to realise the expected cost savings on the cost of capital. A high-level roll-out plan for the gradual switch to the IRB approaches at the subsidiaries was set up and is being refined on an ongoing basis. At the first phase, the Group intends to introduce Foundation IRB (hereafter F-IRB) approach for corporate clients and then A-IRB will be used for retail and corporate segments starting from 2012 and 2013, respectively.

In October 2007, a local Basel II IRB project was set up comprising all three pillars of Basel II. The IRB roll-out is being carried out locally. This decentralized approach means that the requirements of A-IRB approach will be implemented by the UniCredit Group with the support of the Strategic Risk Management department of UniCredit Italiano S.p.A. and Bank Austria AG provides support during the implementation by providing guidelines and standards and in terms of coaching and advice. The Group is responsible for the use and development of methods and the compliance to local regulatory requirements, while the approval of the developed models and methods have to be confirmed (by a non-binding opinion) by the Strategic Risk Management department.

v) Operational risk

Operational risk is the risk of loss due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events.

Operational risk events are those resulting from inadequate or failed internal processes, personnel and systems or from systemic and other external events: internal or external fraud, employment practices and workplace safety, clients claims, products distribution, fines and penalties due to regulation breaches, damage to Group's physical assets, business disruption and system failures, process management.

Strategic risk, business risk and reputational risk are different from operational risk, whereas legal and compliance risk are included in the operational risk definition.

The Group's Management Board is responsible for the effective oversight over operational risk exposure. The operational risk office will notify the Management Board about considerable operational risks, their changes as well as relevant breaches to policies and limits. The Management Board shall have an overall understanding of the operational risk control framework and of how operational risk affects the Group.

The Group's Management Board ensures that:

- the operational risk control process is sound and fully communicated and implemented in specific policies process and procedures within the business units taking into account the appropriateness and effectiveness;
- operational risk managers in the business lines are appointed and given adequate support in order to perform their duties;
- the relevant committees are informed of changes in risk profiles and exposure, supported by the operational risk office;
- major operational risk drivers are identified, also examining reports from the Operational Risk Office, Compliance and Internal Audit.

The Group's Management Board is responsible for approving all the material aspects of the operational risk framework, including the operational risk rulebook, the appointment of the office responsible for its implementation and operational risk control.

In the Group, the Operational Risk Committee is responsible for making decisions on Operational Risk.

Members of the Operational Risk Committee are the Management Board members, representing: CEO's Division, Corporate Division, Retail Division, Markets Division, Global Banking Services Division, Risk Management Division, and Finance Division. Representatives of Internal Audit, Human Resources, Legal Department, and Identity & Communications are also invited.

The Operational Risk Committee holds its meeting at least quarterly or more frequently if necessary.

Notes to the financial statements (Continued)

Besides the responsibilities stated in internal regulation, in reviewing the operational risk framework, the Internal Audit Department is responsible for evaluating its functionality and effectiveness, as well as its compliance with the regulatory requirements. At least annually, it analyses the operational risk data collection, management and storage process to ensure the data quality.

The centralized Operational Risk Controlling has to operate the whole framework and to coordinate the decentralized activity of operational risk management carried out by the nominated divisional and administrative operational risk managers in each business unit.

4. Use of estimates and judgements

These disclosures supplement the commentary on risk management policy.

i) Impairment for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 2. o.), p.) and risk management policy 3. i.).

ii) Determining fair value

As far as valuation prices and techniques are concerned, the Bank follows a hierarchical approach in pricing as using quoted dealer prices or generic market prices where available, product-specific valuation methods based on market observable price, rate and spread inputs otherwise, and finally in the absence of the former, the Bank, in very specific and rare occasions, uses techniques based also on unobservable inputs.

iii) Financial assets and liabilities classification

The Group's accounting policies determine the different accounting categories for the classification of financial assets and liabilities. The criteria for classification is described in accounting policies 2. g.), i.) and j.).

iv) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument. In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

v) Effect of credit crunch in valuations

a) In addition to ii) the Fair Valuation is supplemented by a Fair Valuation Reserve that inter alia covers the effect of widened bid-ask spreads and the deteriorated liquidity of respective securities.

b) As described in iv), the underlying of the hedge relationship is always reported net of impairment (currently the Group does not apply credit impairment on own obligations). Correspondingly, the future cash flows of the hedging derivative have to be highly probable; hence the impairment rule under i) shall apply. For the counterparties of cash flow hedge deals being at the best rating classes and their credit standing did not come into question, no impairment was charged.

c) Cash flow hedge effectiveness is assured through applying rigorous volume limits incorporating past back-testing charges (e.g. in case of a significant prepayments or deposit withdrawals).

d) Debt securities classified as available-for-sale, were not impaired, as the issuers' (Hungarian Government, local mortgage banks) bankruptcy is considered to be unlikely. The price losses observed through market prices, hence, were realised in the AFS Reserves in the Equity statement.

e) The Group was not engaged in securitization, nor does it possess financial instruments particularly hit by the recent market crisis, such as asset-backed securities, credit derivatives and structured OTC products (e.g. CDOs, ABCP, SIV).

f) The major effect of the liquidity crisis was that the country spread of Hungary has widened dramatically. This impacts the Bank through repricing of its funding mix, and incorporated in the net interest income of loans and deposits, in tandem with the corresponding hedging instruments, such as cross-currency swaps (designated as cash flow hedge).

Notes to the financial statements (Continued)

5. Net interest income

Net interest income		(HUF million)
	2008	2007
Interest and similar income		
Interest income from Central Bank	4,436	3,316
Interest income from banks	6,237	9,983
Interest income from customers	80,696	61,418
Interest income on trading financial instruments	7,062	3,576
Interest income on hedge derivatives	11,493	7,819
Interest income on available-for-sale financial assets	11,800	10,949
Interest income on held-to-maturity assets	1,760	2,365
Total	**123,484**	**99,426**
Interest expense and similar charges		
Interest expense to Central Bank	(11,846)	(7,346)
Interest expense to banks	(10,272)	(6,958)
Interest expense related to hedge derivatives	(12,503)	(8,759)
Interest expense to customers	(45,385)	(33,557)
Interest expense on subordinated loans	(904)	(779)
Interest expense on issued bonds	(4,146)	(4,263)
Total	**(85,056)**	**(61,662)**
Net interest income	**38,428**	**37,764**

6. Net fee and commission income

Net fee and commission income		(HUF million)
	2008	2007
Fees and commission income		
Payment transaction fees	23,888	19,044
Custody service fees	2,957	3,167
Brokerage	4,595	5,017
Guarantee fees	895	737
Other financial fees and commissions	260	427
Total	**32,595**	**28,392**
Fees and commission expense		
Payment transaction fees	(6,938)	(5,687)
Custody service fees	(830)	(783)
Brokerage	(695)	(586)
Guarantee fees	(262)	(103)
Other financial fees and commissions	(733)	(369)
Total	**(9,458)**	**(7,528)**
Net fee and commission income	**23,137**	**20,798**

Notes to the financial statements (Continued)

7. Dividend income

Dividend income		(HUF million)
	2008	**2007**
Dividends on trading assets	1	9
Dividends on investments	757	843
Total	**758**	**852**

8. Net trading income

Net trading income		(HUF million)
	2008	**2007**
Profit/(Loss) on foreign exchange	6,780	3,011
Profit/(Loss) on trading interest rate swaps	1,985	415
Profit/(Loss) on debt securities	(4,379)	(754)
Profit/(Loss) on equities	(111)	–
Profit/(Loss) on trading FRAs	128	(6)
Other trading income	381	4
Total	**4,784**	**2,670**

9. Net gain and loss on other financial instruments

Net gain and loss on other financial instruments		(HUF million)
	2008	**2007**
Gain		
Available-for-sale debt securities	952	634
Loss		
Available-for-sale debt securities	(533)	(181)
Total	**419**	**453**

Notes to the financial statements (Continued)

10. Personnel expenses

Personnel expenses		(HUF million)
	2008	**2007**
Wages and salaries	12,157	10,281
Statutory social-security contributions	3,633	3,113
Other employee benefits	1,223	1,066
Employer's contributions	462	445
Total	**17,475**	**14,905**

The number of employees (in full time equivalent) was 1,902 on 31 December 2008 (2007: 1,583).

11. General operating expenses

General operating expenses		(HUF million)
	2008	**2007**
Other indirect tax expense and fees to authorities	3,162	2,824
Renting costs and operating expenses of property	3,121	2,460
Advertising	2,707	3,194
Information technology costs	1,619	1,692
Material and office equipments costs	443	403
Other administrative expenses	2,505	2,418
Total	**13,557**	**12,991**

Notes to the financial statements (Continued)

12. Other income and expenses

Other income and expenses		(HUF million)
	2008	**2007**
Operating income		
Service transfer fees received	391	392
Rental fee received	59	15
Proceeds on sale of tangible and intangible assets	273	237
Other	60	67
Total	**783**	**711**
Operating expenses		
Service transfer fees paid	(358)	(404)
Cost of tangible and intangible assets sold	(144)	(489)
Penalties	–	(4)
Scrapped assets	(1)	–
Other	(131)	(184)
Total	**(634)**	**(1,081)**
Net other operating income/expense	**149**	**(370)**

13. Taxation

The tax charge for the year is based on the profit for the year according to the statutory accounts of the Bank as adjusted for relevant taxation regulations. The corporate income tax rate in Hungary for the years ended 31 December 2008 and 31 December 2007 was 16% and an additional 4% Solidarity tax. The Bank must pay an additional supplementary tax on income earned from loans subsidized by the state.

Income tax expense		(HUF million)
	2008	**2007**
Tax expense for the year		
Current tax expense	6,954	5,823
Adjustments for prior years	143	82
Total	**7,097**	**5,905**
Deferred tax income	(449)	(369)
Total income tax expense in income statement	**6,648**	**5,536**

Notes to the financial statements (Continued)

Reconciliation of effective tax rate	2008		2007	
	(%)	(HUF MILLION)	(%)	(HUF MILLION)
Profit before tax		35,760		27,480
Income tax using the domestic corporate tax rate	20.0	7,152	20.0	5,496
Supplementary corporate tax for banks	1.0	387	1.3	345
Adjustments for prior years	0.4	143	0.3	82
Tax effects of income/expenses exempt from corporate tax	(2.7)	(962)	(0.2)	(61)
Income/expenses giving rise to permanent differences				
Impairment released on equity investments	0.1	34	–	–
General risk reserve	–	–	(1.0)	(263)
Other	(0.3)	(106)	(0.3)	(85)
Changes in the equity of associated companies	–	–	0.1	22
Total	**18.6**	**6,648**	**20.2**	**5,536**

Balances related to taxation	2008			2007		(HUF million)
	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
Current tax assets/(liabilities) at year-end	484	–	484	141	(16)	125
Deferred tax assets/(liabilities)						
Available-for-sale securities	628	(114)	514	48	(106)	(58)
Cash flow hedges	1,193	–	1,193	1	–	1
Allowances for loan losses (IBNR)	285	–	285	201	–	201
General risk reserve	–	(298)	(298)	–	–	–
Property and equipment from tied up capital	–	(186)	(186)	–	(114)	(114)
Effect of items increasing/(decreasing) the local tax base	1,191	(159)	1,032	384	(86)	298
Total deferred tax assets/(liabilities)	**3,297**	**(757)**	**2,540**	**634**	**(306)**	**328**
Total tax assets/(liabilities)	**3,781**	**(757)**	**3,024**	**775**	**(322)**	**453**

Notes to the financial statements (Continued)

Movements in temporary differences during the year – 2008				(HUF million)
	OPENING BALANCE	RECOGNISED IN PROFIT AND LOSS	RECOGNISED IN EQUITY	CLOSING BALANCE
Available-for-sale securities	(58)	–	572	514
Cash flow hedges	1	–	1,192	1,193
Allowances for loans (IBNR)	201	84	–	285
General risk reserve	–	(298)	–	(298)
Property and equipment from tied up capital	(114)	(72)	–	(186)
Other	298	735	–	1,032
Total	**328**	**449**	**1,764**	**2,540**

Movements in temporary differences during the year – 2007				(HUF million)
	OPENING BALANCE	RECOGNISED IN PROFIT AND LOSS	RECOGNISED IN EQUITY	CLOSING BALANCE
Available-for-sale securities	(140)	–	82	(58)
Cash flow hedges	(5)	–	6	1
Allowances for loan losses (IBNR)	–	201	–	201
General risk reserve	–	–	–	–
Property and equipment from tied up capital	–	(114)	–	(114)
Other	16	282	–	298
Total	**(129)**	**369**	**88**	**328**

14. Cash and unrestricted balance with the Central Bank

Cash and unrestricted balance with the Central Bank		(HUF million)
	2008	2007
Cash on hand	9,635	5,044
Unrestricted balance with the Central Bank	94	63
Total	**9,729**	**5,107**

Notes to the financial statements (Continued)

15. Financial instruments held for trading

Financial instruments held for trading		(HUF million)
	2008	**2007**
Financial assets held for trading		
State treasury bills	74,709	1,273
State bonds	45,140	52,108
Other bonds	3,333	18,809
Investment units	3	4
Equity securities	29	43
Positive fair value of derivatives		
FX derivatives	25,119	15,171
Interest rate derivates	21,694	8,182
Total	**170,027**	**95,590**
Fair value adjustment	(104)	(207)
Total	**169,923**	**95,383**
Financial liabilities held for trading		
Negative fair value of derivatives		
FX derivatives	32,132	16,774
Interest rate derivates	12,709	8,246
Total	**44,841**	**25,020**

16. Available-for-sale financial assets

Available-for-sale financial assets		(HUF million)
	2008	**2007**
State treasury bills	19,867	10,651
State bonds	113,156	156,128
Other bonds	20,279	7,539
Equities	362	361
Total	**153,664**	**174,679**
Fair value adjustment	(166)	(170)
Impairment	(18)	(70)
Total	**153,480**	**174,439**

The balance of the AFS reserve in the Shareholder's equity was HUF (2,571) million.

Notes to the financial statements (Continued)

17. Held-to-maturity investments

Held-to-maturity investments		(HUF million)
	2008	**2007**
State bonds	22,600	15,155
MNB bonds	–	5,519
Total	**22,600**	**20,674**

The net market value of the held-to-maturity securities portfolio as at 31 December 2008 is HUF 23,466 million (2007: HUF 21,978 million).

18. Placements with, and loans and advances to banks

Placements with, and loans and advances to banks		(HUF million)
	2008	**2007**
Placements with Central Bank		
Maturity less than one year	39,590	102,574
Loans and advance to other banks		
Nostros with other banks	18,645	8,375
Maturity less than one year	32,393	43,769
Maturity more than one year	19,047	19,631
Total	**109,675**	**174,349**

19. Loans and advances to customers

Loans and advances to customers		(HUF million)
	2008	**2007**
Private and commercial		
Maturity less than one year	585,997	478,531
Maturity more than one year	673,321	567,071
Total	**1,259,318**	**1,045,602**
Provision for impairment and losses on credit products (Note 31)	(20,396)	(12,999)
Total	**1,238,922**	**1,032,603**

Notes to the financial statements (Continued)

A. Analysis by industrial sector	2008		2007	
	HUF MILLION	%	HUF MILLION	%
Real estate finance	176,845	14.04	178,100	17.03
Private clients	268,120	21.29	178,329	17.06
Financial activities	177,477	14.09	147,814	14.14
Trade	106,139	8.43	84,849	8.11
Community	111,253	8.83	87,094	8.33
Transportation	80,445	6.39	64,458	6.16
Electric energy industry	22,529	1.79	27,802	2.66
Chemicals/Pharmaceutical	97,918	7.78	77,007	7.36
Food processing	33,875	2.69	34,598	3.31
Construction	60,444	4.80	37,277	3.57
Machine industry	37,051	2.94	31,089	2.97
Light industry	28,966	2.30	27,743	2.65
Communication	12,270	0.97	19,077	1.82
Catering trade	11,583	0.92	10,820	1.03
Agriculture	4,453	0.36	7,927	0.76
Metallurgy	7,554	0.60	6,556	0.63
Mining	1,177	0.10	1,316	0.13
Other	21,219	1.68	23,746	2.28
Total	**1,259,318**	**100**	**1,045,602**	**100**

Notes to the financial statements (Continued)

The acceptance value of collateral and other security pledges for loans were as follows (the acceptance value of the collaterals is reviewed periodically):

B. Collateral for the above loans		(HUF million)
	2008	2007
Against individually impaired		
Guarantees	4,459	2,388
Blocked cash deposits	729	81
Property	28,894	18,363
Debt securities	–	–
Equities	–	–
Others	9,521	1,579
Against collectively impaired		
Guarantees	539	287
Blocked cash deposits	171	19
Property	7,235	3,874
Debt securities	–	–
Equities	11	4
Others	305	26
Against past due but not impaired		
Guarantees	1,185	11
Blocked cash deposits	434	794
Property	8,572	504
Debt securities	–	–
Equities	1	–
Others	547	–
Against neither past due nor impaired		
Guarantees	134,780	138,880
Blocked cash deposits	133,885	150,346
Property	376,355	261,694
Debt securities	1,494	1,587
Equities	4,298	10,995
Others	102,916	115,330

The above collaterals also cover the credit facilities, not yet granted. Those are detailed in Note 32.

Notes to the financial statements (Continued)

20. Hedging derivative instruments

Hedging derivative instruments		(HUF million)
	2008	2007
Derivative assets held for risk management purposes		
Interest rate swaps	1,771	869
Forward rate agreements	51	–
Total	**1,822**	**869**
Derivative liabilities held for risk management purposes		
Interest rate swaps	4,797	554
Forward rate agreements	326	–
Total	**5,123**	**554**

The balance of the cash-flow hedge reserve in the Shareholder’s equity was HUF (5,964) million.

21. Equity investments

Equity investments		(HUF million)
	2008	2007
Investments in associated companies	1	1,987
Other investments	1,183	1,183
Total	**1,184**	**3,170**
Impairment losses (Note 31)	–	(118)
Total	**1,184**	**3,052**

Notes to the financial statements (Continued)

As at 31 December 2008 and 2007 the equity investments in associated companies and other investments were as follows:

Name of investment	(HUF million)	
	GROSS BOOK VALUE	
	2008	2007
Associated companies		
UniCredit Független Biztosításközvetítő Kft.	1	1
Budapesti Értéktőzsde Zrt.	–	1,986
Total	**1**	**1,987**
Other investments		
UniCredit Factoring Zrt.	168	168
SAS-Reál Kft.	500	500
Arany Pénzügyi Lízing Zrt.	453	453
CELER Kft.	62	62
Total	**1,183**	**1,183**

The Group sold its investment in Budapesti Értéktőzsde Zrt. during 2008. The net result of transaction is included in gain and losses on other equity investments. All equity investments are in companies incorporated in Hungary.

22. Property, plant and equipment

Movement in property, plant and equipment						(HUF million)
	ACQUISITION COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AND AMORTISATION AT THE BEGINNING OF THE YEAR	ADDITIONS	DISPOSALS NET	DEPRECIATION AND AMORTISATION	CARRYING AMOUNT AT THE END OF THE YEAR
2008						
Land and buildings	25,581	2,172	1,863	49	525	24,698
Office equipment	10,445	7,598	1,494	2	1,297	3,042
Motor vehicles	929	547	173	20	150	385
Capital work in progress	283	–	4,104	3,530	4	853
Total	**37,238**	**10,317**	**7,634**	**3,601**	**1,976**	**28,978**
2007						
Land and buildings	25,807	1,962	417	436	417	23,409
Office equipment	9,935	6,767	781	28	1,074	2,847
Motor vehicles	926	520	124	15	133	382
Capital work in progress	377	–	1,231	1,322	3	283
Total	**37,045**	**9,249**	**2,553**	**1,801**	**1,627**	**26,921**

Notes to the financial statements (Continued)

23. Intangible assets

Movement in intangible assets						(HUF million)
	ACQUISITION COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AND AMORTISATION AT THE BEGINNING OF THE YEAR	ADDITIONS	DISPOSALS NET	DEPRECIATION AND AMORTISATION	CARRYING AMOUNT AT THE END OF THE YEAR
2008						
Rental rights	119	101	7	–	4	21
Licenses	1,644	722	373	63	350	882
Software	7,896	5,739	1,705	11	1,230	2,621
Goodwill	869	–	–	869	–	–
Total	**10,528**	**6,562**	**2,085**	**943**	**1,584**	**3,524**
2007						
Rental rights	112	88	7	–	13	18
Licenses	1,274	417	393	10	318	922
Software	7,272	4,681	1,063	–	1,497	2,157
Goodwill	996	127	–	–	–	869
Total	**9,654**	**5,313**	**1,463**	**10**	**1,828**	**3,966**

24. Other assets

Other assets		(HUF million)
	2008	2007
Trade receivables and advances	867	719
Accrued income and prepaid expenses	16,703	15,970
Other	766	225
Total	**18,336**	**16,914**
Impairment losses	(165)	(140)
Total	**18,171**	**16,774**

25. Deposits and loans from banks

Deposits and loans from banks		(HUF million)
	2008	2007
Maturity less than one year	266,104	425,988
Maturity more than one year	287,239	121,898
Total	**553,343**	**547,886**

Notes to the financial statements (Continued)

26. Deposits from customers

Deposits from customers		(HUF million)
	2008	2007
Maturity less than one year	818,879	708,227
Maturity more than one year	83,487	37,462
Total	**902,366**	**745,689**

The above balances include customer transit accounts. Amounts included in customer transit accounts are held pending clarification and completion of transactions with customers undertaken in the ordinary course of business.

27. Subordinated loans

Subordinated loans		(HUF million)
	2008	2007
UniCredit Bank Austria AG	8,993	8,605
UniCredit Bank Austria AG	9,070	8,679
Total subordinated loans	18,063	17,284

The amount due to the parent company consists of two separate loans, one of ATS 200 million received in July 1994 and another of DEM 38 million received in 1997. On 19 December 2001 the loans were consolidated and converted into EUR. The agreement contains an automatic annual extension clause subject to further written notice by the lender. Interest based on EURIBOR is payable quarterly in arrears.

28. Issued bonds

Issued bonds		(HUF million)
	2008	2007
Maturity less than one year	15,966	4,622
Maturity more than one year	31,498	46,690
Total	**47,464**	**51,312**

Notes to the financial statements (Continued)

29. Other liabilities

Other liabilities		(HUF million)
	2008	**2007**
Accrued expenses and prepaid income	28,159	24,791
Provision on guarantees and unutilised loans	1,758	3,663
Trade payable	384	266
Other taxes payable	1,557	1,230
Other	-	1,310
Total	**31,858**	**31,260**

30. Share capital

Share capital		(HUF million)
	2008	**2007**
Authorised and issued share capital	24,118	24,118

Share capital consists of 4,823,644 ordinary shares with a par value of HUF 5,000 each.
100% of the issued shares are held by UniCredit Bank Austria AG.
The Supervisory Board has declared HUF 15,000 million dividend payable in 2009.

31. Impairments and provisions

Impairments and provisions on credit products			(HUF million)
	LOANS	**GUARANTEES AND UNUTILISED LOANS**	**TOTAL FINANCIAL INSTRUMENTS**
Balance 31 December 2007	**12,999**	**3,663**	**16,662**
Write-offs	(1,777)	–	(1,777)
Amounts released	(5,400)	(3,236)	(8,636)
Additional impairment and provisions	14,108	1,306	15,414
Effect of FX rate fluctuation	466	25	491
As at 31 December 2008	**20,396**	**1,758**	**22,154**
Net movement in impairment and provisions	6,931	(1,930)	5,001
Write-offs	1,777	–	1,777
Net amount charged to the income statement	**8,708**	**(1,930)**	**6,778**
Receivables written-off	(131)	–	(131)
Total charged to the income statement excluding the effect of f/x rate fluctuation	**8,577**	**(1,930)**	**6,647**

Notes to the financial statements (Continued)

Other impairments and provisions		(HUF million)
	PROVISION MOVEMENT ON NON-CREDIT RISK ITEMS	IMPAIRMENT ON AFS AND EQUITY INVESTMENTS
Balance 31 December 2007	**1,275**	**188**
Write-offs	(15)	–
Amounts released	(80)	(170)
Additional impairment provisions	451	–
As at 31 December 2008	**1,631**	**18**
Net movement in impairment provisions	356	(170)
Write-offs	15	–
Net amount charged to the income statement	**371**	**–**
Net amount charged to the AFS reserve	**–**	**(170)**

32. Commitments and contingent liabilities

At 31 December 2008, the Group had the following commitments and contingent liabilities (in nominal values):

Commitments and contingent liabilities		(HUF million)
	2008	**2007**
Loan and overdraft facilities granted not disbursed	359,045	369,062
Guarantees	179,184	168,436
Letters of credit	15,114	28,586
FX spot sales (notional)	136,346	157,543

As at 31 December 2008, the total face value of client assets held in safe custody by the Group was HUF 2,969,980 million (2007: HUF 2,586,214 million).

Rosmarie Reiter
Austria

«I help our customers even if I cannot sell them one of our products. A woman who had to help pay a debt for her son could not qualify for credit from us at the time.
So I helped her through asking her son's creditor for a repayment extension and I was able to make her a very happy and satisfied customer!»

Efren Maldonado
Slovenia

«Our commitment = understanding + innovation = financial solutions = customer satisfaction.»

Supervisory Board and Management Board

UniCredit Bank Hungary Zrt.

Supervisory Board	
Mag. Peter Hofbauer Chairman	(UniCredit Bank Austria AG)
Graziano Cameli Deputy Chairman	(UniCredit Bank Austria AG)
Friederike Kotz	(UniCredit Bank Austria AG)
Mag. Martin Klauzer	(UniCredit Bank Austria AG)
David Joseph O'Mahony	(UniCredit Bank Austria AG)
Carlo Marini	(UniCredit Bank Austria AG)
Dr. Pettkó-Szandtner Judit	(UniCredit Bank Hungary Zrt.)
Bolyán Róbert	(UniCredit Bank Hungary Zrt.)
Horváth Gábor	(UniCredit Bank Hungary Zrt.)
Management Board	
Dr. Patai Mihály	(UniCredit Bank Hungary Zrt., Chairman and CEO)
Tátrai Bernadett	(UniCredit Bank Hungary Zrt., Deputy CEO, Retail and Small Business Division)
Kaliszky András	(UniCredit Bank Hungary Zrt., Chief Operation Officer)
Mag. Franz Wolfger	(UniCredit Bank Hungary Zrt., Chief Financial Officer)
Tóth Balázs	(UniCredit Bank Hungary Zrt., Chief Risk Officer)

UniCredit Jelzálogbank Zrt.

Supervisory Board	
Tátrai Bernadett Chairperson	(UniCredit Bank Hungary Zrt.)
Dr. Pettkó-Szandtner Judit	(UniCredit Bank Hungary Zrt.)
Mag. Karin Schmidt	(UniCredit Bank Austria AG)
Elena Goitini	(UniCredit Consumer Financing Bank S.p.A.)
Markus Winkler	(UniCredit Bank Hungary Zrt.)
Sipos József	(UniCredit Bank Hungary Zrt.)
Mag. Franz Wolfger	(UniCredit Bank Hungary Zrt.)
Mag. Reinhard Madlencnik	(UniCredit Bank Austria AG)
Management Board	
Baranyai Dávid	(UniCredit Jelzálogbank Zrt., Chairman and CEO till 28 February 2009)
Tölli Gabriella	(UniCredit Jelzálogbank Zrt., member till 28 February 2009, Chairperson and CEO from 1 March 2009)
Gianluca Totaro	(UniCredit Bank Hungary Zrt.)
Komócsi Sándor	(UniCredit Bank Hungary Zrt.)
Tóth Balázs	(UniCredit Bank Hungary Zrt.)

Calendar

24 January-11 May 2008

As an Exclusive Banking Partner UniCredit Bank provided support for the organisation of the exhibition "The Splendour of the Medici" in the Budapest Museum of Fine Arts, in the period of 24 January–11 May 2008. The exhibition marked, at the same time, the opening event of the Year of Renaissance, and provided insight, through the display of some two hundred works, into the collector and Maecenas activities of the Medici, the most decisive players in the Renaissance splendour of Florence. Evident is the parallel between the Renaissance bank of the Medici family, on the one hand, and UniCredit Bank and Group, on the other, in their European role and in the patronage of arts.

28 January 2008

The UniCredit Group joined the Single European Payment Area – SEPA, immediately at the local start of the system, on 28 January 2008. Participants of SEPA are the Member States of the European Union, Iceland, Liechtenstein, Norway and Switzerland. The launch of SEPA allows the region's banks to handle this union as a single payment area from the point of view of transfers and so, no difference exists in euro payments within Member States and between them. Customers of UniCredit Bank can also initiate transfers in the uniform SEPA system, in order to ensure simple, fast and inexpensive transfers of euro within Europe.

31 January 2008

Hitelgarancia Zrt. concluded its first agreement on the Garantiqa portfolio guarantee services in January 2008, with UniCredit Bank. On this basis, the Bank is in a position to link the payment guarantee of Hitelgarancia Zrt. to almost all of the loan products designed for small and medium businesses. Thereby, the administration process of guaranteed loans becomes more flexible and shorter, and the guarantee applies to almost all banking obligations available for entrepreneurs.

28 March 2008

With the support of UniCredit Bank, Tárki prepared its European Social Report, the novelty of which is that the study presents the population of the European Union countries as a single society. The study presented on 28 March offers professional assistance for the understanding of social processes on the continent and the assessment of Hungary's place within Europe. For the presentation of the study's results, the Bank and Tárki jointly organised a series of conferences in the Bank's Head Office.

June 2008

UniCredit became Superbrands in Hungary. The Superbrands programme was launched in 1995, in Great Britain, to recognise branding. An extraordinary result is that UniCredit became a "top brand", already one year after its rebranding in February 2007, and this is a good evidence for the recognition of the UniCredit brand.

July 2008

UniCredit Bank, as a responsible lender, installed already prior to the crisis, in July 2008, a system where information on the risks of FX-based loans are provided to customers not only at the time of the application and then, at disbursement, but later as well. In a letter sent to customers, the Bank repeatedly explains the potential effects of any changes in foreign exchange rates and the possibility of a switchover to forint-based loans. Furthermore, the Bank calls their attention to the installment calculators, available on its website, to assist the customers in making responsible decisions.

Calendar (Continued)

17 October 2008

UniCredit Bank won the prize of “The retail savings product of the year 2008” in the competition of “MasterCard – Bank of the Year”. The promotional 2-year forint deposit that deserved popularity among customers was found to be the best within the scope of savings products by a jury consisting of one hundred independent professionals. This prize is an obvious professional success, and at the same time the popularity of this flexible deposit is undiminished among the Bank’s customers as well. The product figuring in the offer since May 2008 has been required by the Bank’s customers in the order of hundred billion.

November 2008

On 6 November 2008, UniCredit Bank Hungary Zrt. was among the first financial institutions to sign the agreement initiated by the Ministry of Finance on assistance for customers encountering difficulties in the redemption of their FX-based loans. Since that time, UniCredit Bank even expanded the scope of solutions offered.

4 December 2008

UniCredit Bank was the first to conclude an EU guarantee agreement with the European Investment Fund. According to the agreement, the European Union offers, in the framework of the “Programme for Competitiveness and Innovation” running until 2013, a free and automatic guarantee for development loans of small and medium enterprises. Hence, the Bank can grant loans at simplified terms for enterprises with insufficient collaterals on their own.

Network units

Head Office

H-1054 Budapest, Szabadság tér 5–6.
Telephone: +36-1/269-0812
Fax: +36-1/353-4959
E-mail: info@unicreditgroup.hu
UniCredit Call Centre 0-24: 06-40/50-40-50 (from abroad: +36-1/325-3200)

On 31 March 2009 UniCredit Bank's network consisted of 126 units throughout Hungary, from which 59 branches were located in Budapest, while 67 in the country.

Network units (CONTINUED)

Branches and Mortgage Centres in Budapest

Törökvész úti fiók
1022 Budapest, Törökvész út 30/A

Bécsi úti fiók
1023 Budapest, Bécsi út 3–5.

Mammut II. fiók
1024 Budapest, Margit körút 87–89. (Mammut II.)

Pesthidegkúti fiók
1028 Budapest, Hidegkúti út 167. (Széphalom Üzletközpont)

Stop Shop fiók
1036 Budapest, Bécsi út 136. (Stop.Shop)

Lajos utcai fiók
1036 Budapest, Lajos utca 48–66.

Békásmegyeri fiók
1039 Budapest, Heltai Jenő tér 15. (Heltai Bank Center)

Újpesti fiók
1042 Budapest, István út 10. (Újpest Áruház)

Fehér Hajó utcai fiók
1052 Budapest, Fehér Hajó utca 5.

Szervita téri fiók
1052 Budapest, Szervita tér 8.

Astoria fiók
1052 Budapest, Károly körút 6.

Ferenciek tere fiók
1053 Budapest, Ferenciek tere 2.

Alkotmány utcai fiók
1054 Budapest, Alkotmány utca 4.

Szabadság téri fiók
1054 Budapest, Szabadság tér 5–6. (Head Office)

Deák téri fiók
1061 Budapest, Deák tér 6.

Nagymező utcai fiók
1065 Budapest, Nagymező utca 44.

Nyugati fiók
1066 Budapest, Teréz körút 62.

Erzsébet körúti fiók
1073 Budapest, Erzsébet körút 56.

Baross téri fiók
1076 Budapest, Thököly út 4.

József körúti fiók
1085 Budapest, József körút 46.

Arena Corner fiók
1087 Budapest, Hungária körút 40–44. (Arena Corner)

Arena Plaza fiók
1087 Budapest, Kerepesi út 9.

Blaha Lujza téri fiók
1088 Budapest, József körút 13.

Haller Gardens fiók
1091 Budapest, Soroksári út 32–34.

Ferenc körúti fiók
1092 Budapest, Ferenc körút 24.

Vámház körúti fiók
1093 Budapest, Vámház körút 15.

Boráros téri fiók
1095 Budapest, Boráros tér 7. (Duna ház)

Lurdy Ház fiók
1097 Budapest, Könyves Kálmán körút 12–14. (Lurdy Ház)

Tesco Soroksár fiók
1097 Budapest, Koppány utca 2–4.

Kőbányai fiók
1102 Budapest, Kőrösi Csoma sétány 8.

Network units (Continued)

Gyömrői úti fiók
1103 Budapest, Gyömrői utca 99.

Andor utcai fiók
1119 Budapest, Andor utca 2.

Lágymányosi utcai fiók
1111 Budapest, Lágymányosi utca 1–3.

Bartók Béla úti fiók
1115 Budapest, Bartók Béla út 88.

Fehérvári úti fiók
1117 Budapest, Fehérvári út 23.

Új Buda Center fiók
1117 Budapest, Hengermalom út 19–21.

Alkotás utcai fiók
1123 Budapest, Alkotás utca 50.

Déli pályaudvari fiók
1123 Budapest, Alkotás út 1/A

Váci út 20. fiók
1132 Budapest, Váci út 20.

Lehel úti fiók (Medimpex)
1134 Budapest, Lehel utca 11. (Medimpex)

Central Park fiók
1135 Budapest, Lehel utca 70–76.

Duna Plaza fiók
1138 Budapest, Váci út 178. (Duna Plaza)

Pesti KölcsönPont
1139 Budapest, Váci út 85.

Váci úti fiók
1139 Budapest, Váci út 99.

Nagy Lajos király úti fiók
1141 Budapest, Nagy Lajos király útja 214.

Örs vezér téri fiók
1148 Budapest, Örs vezér tere 24. (Sugár Üzletközpont)

Bosnyák téri fiók
1149 Budapest, Nagy Lajos király útja 135.

Pólus fiók
1152 Budapest, Szentmihályi út 137.

Mátyásföldi fiók
1165 Budapest, Veres Péter út 105–107.

Pestszentlőrinci fiók
1182 Budapest, Üllői út 455.

Üllői úti fiók
1182 Budapest, Üllői út 661.

Pestszentimrei fiók
1188 Budapest, Nagykőrösi út 49.

Europark fiók
1191 Budapest, Üllői út 201. (Europark)

Pesterzsébeti fiók
1201 Budapest, Kossuth Lajos utca 32–36.

Tesco Megapark fiók
1204 Budapest, Mártírok útja 292.

Csepeli fiók
1211 Budapest, Kossuth Lajos út 93.

Csepel Plaza fiók
1211 Budapest, II. Rákóczi Ferenc út 154–170. (Csepel Plaza)

Campona fiók
1222 Budapest, Nagytétényi út 37–43. (Campona)

Soroksári fiók
1239 Budapest, Hősök tere 14.

Network units (Continued)

Branches and Mortgage Centres in the country

Ajkai fiók
8400 Ajka, Szabadság tér 12.

Bajai fiók
6500 Baja, Tóth Kálmán tér 3.

Békéscsabai fiók
5600 Békéscsaba, Andrássy út 37–43. (Csaba Center)

Budaörsi fiók
2040 Budaörs, Szabadság út 49.

Budaörs – Tesco fiók
2040 Budaörs, Kinizsi utca 1–3.

Budakeszi fiók
2092 Budakeszi, Fő út 139.

Ceglédi fiók
2700 Cegléd, Kossuth tér 4.

Debrecen – Kálvin téri fiók
4026 Debrecen, Kálvin tér 2/A

Debreceni fiók
4024 Debrecen, Kossuth Lajos utca 25–27.

Dunakeszi fiók
2120 Dunakeszi, Fő út 70.

Dunaújvárosi fiók
2400 Dunaújváros, Dózsa György út 4/D

Egri fiók
3300 Eger, Bajcsy-Zsilinszky utca 2.

Eger – Agria Park fiók
3300 Eger, Törvényház utca 4. (Agria Park)

Érdi fiók
2030 Érd, Budai út 13. (Stop.Shop)

Esztergomi fiók
2500 Esztergom, Vörösmarty utca 5.

Gödöllői fiók
2100 Gödöllő, Dózsa György út 13.

Gyöngyösi fiók
3200 Gyöngyös, Páter Kis Szaléz utca 22.

Győri fiók
9021 Győr, Árpád út 45.

Győr – Árkád fiók
9027 Győr, Budai út 1. (Árkád Üzletház)

Gyulai fiók
5700 Gyula, Városház utca 12.

Hajdúszoboszlói fiók
4200 Hajdúszoboszló, Szilfákalja utca 4.

Hódmezővásárhelyi fiók
6800 Hódmezővásárhely, Andrássy utca 3.

Jászberényi fiók
5100 Jászberény, Szabadság tér 3.

Kaposvári fiók
7400 Kaposvár, Dózsa György utca 1.

Kaposvár KölcsönPont
7400 Kaposvár, Áchim András utca 4. (Corso Üzletközpont)

Kecskeméti fiók
6000 Kecskemét, Kisfaludy utca 8.

Keszthelyi fiók
8360 Keszthely, Kossuth utca 41.

Miskolci fiók
3530 Miskolc, Hunyadi utca 3.

Miskolc – Széchenyi úti fiók
3500 Miskolc, Széchenyi út 35.

Mosonmagyaróvári fiók
9200 Mosonmagyaróvár, Fő utca 6.

Nagykanizsai fiók
8800 Nagykanizsa, Fő út 8.

Nyíregyházi fiók
4400 Nyíregyháza, Dózsa György út 1–3.

Network units (Continued)

Nyíregyháza 2 fiók
4400 Nyíregyháza, Nagy Imre tér 1. (Korzó Bevásárlóközpont)

Nyíregyháza Kölcsönpont
4400 Nyíregyháza, Szarvas utca 2.

Paksi fiók
7030 Paks, Dózsa György út 30.

Pápai fiók
8500 Pápa, Fő utca 25.

Pécsi fiók
7621 Pécs, Rákóczi út 17. (Fészek Áruház)

Pécs – Árkád Üzletház fiók
7621 Pécs, Rákóczi út 58. (Árkád Üzletház)

Salgótarjáni fiók
3100 Salgótarján, Rákóczi út 13.

Sárvári fiók
9600 Sárvár, Hunyadi utca 1.

Siófoki fiók
8600 Siófok, Fő út 174–176.

Soproni fiók
9400 Sopron, Várkerület 1–3.

Szeged – Kárász utcai fiók
6720 Szeged, Kárász utca 16.

Szeged – Széchenyi téri fiók
6720 Szeged, Széchenyi tér 2/A

Szegedi fiók
6722 Szeged, Kossuth Lajos sugárút 18–20.

Székesfehérvári fiók
8000 Székesfehérvár, Budai út 1.

Székesfehérvár 2 fiók
8000 Székesfehérvár, Palotai utca 4.

Szekszárdi fiók
7100 Szekszárd, Arany János utca 15–17.

Szekszárd KölcsönPont
7100 Szekszárd, Széchenyi utca 43.

Szentendrei fiók
2000 Szentendre, Dobogókői út 1. (Városkapu Üzletház)

Szentesi fiók
6600 Szentes, Kossuth utca 8.

Szigetszentmiklósi fiók
2310 Szigetszentmiklós, Bajcsy-Zsilinszky út 26.

Szolnoki fiók
5000 Szolnok, Baross Gábor út 27.

Szolnok 2 fiók
5000 Szolnok, Kossuth Lajos utca 18.

Szombathelyi fiók
9700 Szombathely, Kőszegi utca 30–32.

Szombathely KölcsönPont
9700 Szombathely, Fő tér 26.

Tatabánya – Vértes Center fiók
2800 Tatabánya, Győri út 7–9. (Vértes Center)

Tatabányai fiók
2800 Tatabánya, Szent Borbála tér 2.

Tiszaújvárosi fiók
3850 Tiszújváros, Mátyás király út 3.

Tököli fiók
2316 Tököl, Tököli Bevásárlóközpont

Törökbálinti fiók
2046 Törökbálint, DEPO – Raktárváros

Váci fiók
2600 Vác, Szent István tér 4.

Vecsési fiók
2220 Vecsés, Fő út 246–248.

Veszprémi fiók
8200 Veszprém, Óváros tér 7.

Network units (Continued)

Veszprém 2 fiók
8200 Veszprém, Kossuth utca 6.

Zalaegerszegi fiók
8900 Zalaegerszeg, Kovács Károly tér 1/A

Zalaegerszegi KölcsönPont
8900 Zalaegerszeg, Kossuth utca 1.

UniCredit Bank