

Inside real life. A 360° view.

2015 Consolidated Reports and Accounts



Imagine you're hungry.

You need food, of course. But you also need a plate and a fork. Maybe even a knife. After that, you'll need water to wash the dishes and before that, the right tools to cook your meal. And don't forget the table, or the chair, or the roof over your head.

In the end, food is just a small part of our far more complicated system of needs – a system that is contained by its own set of values. Consider, for example, the entire production chain behind the food on your table. Food comes from a farm. It has to be tended by people, and inspected by others to ensure it is safely made, processed and transported to market. Every link in this chain is crucial for today's consumers, who are increasingly sensitive to the quality of their food, as well as the environmental and working conditions that produce it.

UniCredit firmly believes that to truly understand real life, we must directly experience it. That way we are more prepared to find sustainable solutions while the world's needs and values constantly change.

For us, helping customers fulfil the basic necessities of modern life is just as important as offering the very best financial and banking products.

This means providing a complete range of services to support families and businesses, fully aware that responding to their needs builds a sustainable future for everyone.

Our products begin with real human insights that help us accompany customers throughout their lives. Because life is full of ups and downs, but it is also full of many other things, like buying a home, getting married, having children and sending them to university, etc.

It's a 360-degree approach that we call Real Life Banking.

Over the following pages, our aim is not just to present data and numbers about our Group's performance. We also want to share stories that show how we have helped people realize their dreams and supported the communities that host our branches.

Because the drive to build a better future is what keeps people going.

And supporting people keeps us going too.

Life is full of ups and downs.
We're there for both.



Chairman's message

“Because innovation requires speed, we are accelerating our work towards a fully digitized service, in the belief that “digitize or die” represents the future of banking.”

Giuseppe Vita
CHAIRMAN



Dear Shareholders,

The past year was marked by two major challenges that had great consequences for Europe. On one side, geopolitical tensions threatened stability in key regions, and on the other, the recovery of the global economy remained at the midway point.

At the time of this writing, geopolitical tensions continue to dangerously grow. This was made especially clear by events in the latter part of 2015. Flashpoints in the Middle East are exerting influence well beyond that region, while the ongoing situation in Ukraine has made relations between Europe and Russia increasingly delicate. Macroeconomic indicators have recently provided us positive signs, however there remain serious concerns related to the slowdown now taking place in many emerging countries.

The European Union will soon be called upon to make crucial decisions to address these challenges. These decisions must accelerate

the twin processes of integration and economic recovery if the EU is to deliver the stability needed to support further unification and growth. With the creation of the banking union, major progress in this direction has already been made. Yet more can and must be done to support Europe's incipient recovery. In 2015, the European Central Bank was the only institution to firmly respond to the risk of stagnation; in 2016, it must take decisive action to facilitate the implementation of the European investment plan, which to date has been too slow to materialize.

Given its strong European identity, UniCredit believes in Europe and in its potential. That is why our Group has not wavered in its support of households and businesses, and has continued to help the real economy, even while persistently low interest rates, weak economic growth and increased regulation have constrained banking activities across Europe.

Moreover, 2015 was not wholly defined by geopolitical and economic concerns. In the past year, encouraging data and a strong desire to restart the engines of growth were clearly evident in Italy and across Europe. We saw greater opportunities thanks to digital innovation and new ways to meet environmental challenges. These are the kinds of opportunities that a large group such as UniCredit must seize.

Our Strategic Plan, presented in November, fully embraces new digital technologies, positioning the bank to capitalize on rapidly evolving trends in the markets we serve. Because innovation requires speed, we are accelerating the implementation timetable for our plan. This includes taking decisive action regarding our business operations to create greater organizational efficiency. Such efficiency will enable us to reap the rewards of being a fully digitized provider of banking services. Indeed, we truly believe that "digitize or die" represents the future of banking.

In 2015, we successfully made significant advances in UniCredit's corporate governance system. The board of directors that was appointed in May has been streamlined, in keeping with the objectives of the overhaul we began three years ago. Its composition has been changed, with a larger number of female directors, a strengthened role for independent directors in board committees and an increased range of skills among its membership. These changes are some of the prerequisites to improving the board's work and to increasing its freedom to devote more time to the strategic debates that are critical to our success. I would also like to emphasize the resilience of UniCredit's overall governance system, which has demonstrated a remarkable ability to uphold the Group's strong reputation, even in extraordinary situations.

Change is constant and affects us all. For this reason, I believe that making quick decisions and taking rapid action is necessary to achieve optimal results. The superb quality of our staff and their high level of accountability make me optimistic about UniCredit's ability to correctly perceive the direction of future events and meet objectives.

We move into 2016 as a certifiably sound institution with a strong market reputation. For these considerable achievements, I would like to thank all of our outgoing directors. I am also grateful to their successors, who are carrying on the vital process of transforming UniCredit that began three years ago. And finally, I would like to express my gratitude to UniCredit's management team and to all colleagues for their tireless and invaluable contributions to the Group's present and its increasingly bright future.

Sincerely,

Giuseppe Vita

Chairman
UniCredit S.p.A.



Chief Executive Officer's message

“We will invest €1.2 billion to increase the quality and speed of our digital services while more than doubling the number of customers in our online and mobile channels.”

Federico Ghizzoni
CHIEF EXECUTIVE OFFICER



Dear Shareholders,

In 2015, we met with continued success in improving our asset quality and strengthening our capital position despite extraordinary charges in the final quarter. Moreover, UniCredit provided critical support to the socioeconomic progress of Europe. In all of our markets, we promoted the development of key business sectors by supporting entrepreneurship and fostering financial inclusion.

Across Europe, UniCredit expanded its credit offerings and facilitated access to capital markets. In doing so, we stimulated growth and enabled our corporate clients to expand internationally. In the course of the year, our Group also allocated all of its TLTRO funding and worked hard to provide tailored consultancy services that have helped individual customers better protect their savings.

We accomplished all of this at a time characterized by historically low interest rates,

a weaker-than-expected economic recovery, considerable regulatory pressure, and a turbulent international political landscape. On top of these challenges, we faced major changes in the banking industry brought on by advances in digital technology. This environment will continue to evolve for the foreseeable future, and will require us to be increasingly proactive on all fronts.

Wherever I travel in Europe, I hear discussion about how the banking business is being reshaped. All of our peers are dealing with the same issues, but not all are properly equipped to address them. After careful consideration and planning, UniCredit has opted to confront the transformation of the banking industry by taking full advantage of our unique pan-European franchise, expanding rather than downsizing our business. To succeed, our Group must accelerate its efforts to become more efficient, integrated and digitally oriented.

These goals lie at the heart of the new Strategic Plan that we introduced in November. The plan will strengthen our business and generate sustainable returns for all of our stakeholders. Over the coming years, we intend to increase loans, attract more customers and implement more effective processes Groupwide. The first concrete signs of success are already visible, and, to reach our targets, we are investing €4 billion in improving the experience of our customers.

To finance this investment, we have been freeing up resources by reducing our operating costs, deploying new technologies and integrating our operations. In undertaking these changes, we remain attuned to UniCredit's role in the interlinked value chain of financial, human, social and natural capital.

The stronger cooperation that we have implemented between mid-corporate banking and investment banking is a prime example of how we intend to increase our efficiency and accelerate progress. I have no doubt it will continue to generate excellent results – both for our Group and the economy at large. By reducing complexity across our organization, we can make faster decisions that will improve our cost-to-service and time-to-market ratios.

In terms of new investment opportunities, we are focused on our digital agenda and on growing businesses, exploring promising solutions. These include new ventures, such as the agreement we signed with Santander to create one of the world's largest asset managers.

As banking continues its radical transformation, we will invest €1.2 billion to increase the quality and speed of our digital services while more than doubling the number of customers who use our online and mobile channels. In these changing times, we will proactively modify our service


models in ways that contribute to the customer experience, even as we develop innovative solutions that penetrate new markets, such as the upcoming launch of buddybank.

This entails a regular updating of our Group's skills and mindset in ways that generate greater sustainable value for our stakeholders. So despite the challenging environment, we remain committed to investing in the development of our employees and to promoting the advancement of the next generation in order to foster new ideas.

Thanks to the actions we have taken and the strategies we are implementing, we are well prepared to turn challenges into new opportunities, with full awareness of the complexities in which we operate. UniCredit is and will remain a leader in European banking.

Sincerely,

Federico Ghizzoni
Chief Executive Officer
UniCredit S.p.A.



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I know it's not
the best time,
but I need
to check
my finances.

Let's talk about financial advice anywhere, anytime.

Imagine you are in the middle of a ski holiday. Everything is beautiful and the conditions are just right. You feel like you don't have a single worry in the world. But suddenly a thought comes along to disturb your peace: Did you forget to settle your financial business last week?

That's exactly what happened to Nico. During his first romantic holiday with Emma, he realized that this little banking detail was driving him crazy, and spoiling the fun. And he thought to himself: "You know what would be really useful right now? A bank manager I can call or, even better, text."

No sooner said than done.

Thanks to SmartBanking in Austria, it's possible to bring the branch to you. Whether at home with your laptop or on the go with your mobile phone, SmartBanking enables you to manage your finances in the most convenient way for you.

Relationship managers will give advice quickly and conveniently, by any possible method you want, from SMS to video chat. So now answers that you need on every possible financial topic, from taking out a loan to explaining your banking transactions, are at your fingertips.

That means we can help you save for your holiday, and save your holiday.

Financial highlights

UniCredit Group Hungary – IFRS consolidated

Profit figures

(HUF million)

	2015	2014
Operating result	47,019	17,615
Profit before taxes (HUF million)	49,786	19,727
Profit after taxes (HUF million)	38,701	16,030

Balance Sheet figures

(HUF million)

	2015	2014
Balance Sheet Total	2,709,503	2,235,745
Loans and Advances to customers (net)	1,057,014	982,769
Deposits from customers	1,504,825	1,208,235
Shareholder Funds	249,349	222,127

Indicators

	2015	2014
Return on Equity before taxes	21.12%	9.18%
Return on Equity after taxes	16.42%	7.46%
Return on Average Assets (ROA) before taxes	2.01%	0.99%
Return on Average Assets (ROA) after taxes	1.57%	0.80%
Cost Income Ratio*	50.57%	49.30%
Net fee income in percentage of Total Operating Income	33.85%	30.21%

Indicators prescribed by NBH

(HUF million)

	2015	2014
Regulatory Capital	223,990	204,216
Risk Weighted Assets	1,232,008	1,261,746
Total Capital Ratios	18.18%	16.19%

Other figures

	2015	2014
Headcount (FTE)	1,700	1,733
Number of locations	58	87
Number of branches	56	85

* based on standard of Consolidated Financial Statement

Management report

The economic and financial environment¹

The overall performance of the world economy remained subdued in 2015, with the 3.1% growth in output falling short of both the level seen in 2014 and previous expectations. Additionally, global activity continues to be imbalanced as regions show differences in performance. Among developed countries, growth is driven primarily by the US, the economy of which grew by 2.4% in 2015 due to improved labour market developments and the recovery of domestic demand. As a result, at the end of the year the Fed started its tightening cycle long awaited by the market. Given the strong dollar and uncertainties over the global outlook, however, pace at which the Fed is to continue its tightening remains questionable. Last year the EU and the euro area were generally characterised by more moderate growth. Despite the growth incentives provided by eased monetary conditions, a weaker euro and low commodity prices, the GDP growth rate of the currency union was a mere 1.6%. Although household consumption is gradually recovering, investment activity is still not satisfying, while export developments are negatively affected by weaker external environment. Additionally, the structural problems prominent in a number of member states such as high unemployment and indebtedness, and escalating geopolitical tensions weigh on economic developments. Developing and emerging economies showed even greater differences. Due partly to low commodity prices, Russia and Brazil sank into recession last year, while China's GDP growth rate fell short of expectations on the back of economic restructuring. The outlook is dominated by the same risk factors, i.e. uncertainty over the performance of the Chinese economy, the monetary policy of the Fed and the European Central Bank (ECB), developments in commodity prices, as well as political and geopolitical tensions.

In 2015 commodity and fuel prices continued to decline. While crude oil was traded at around 110 a barrel in summer 2014, the price dipped below 40 dollars at the end of 2015. The price fall was attributable to growing supply resulting from the exploitation of shale oil fields in the US, the OPEC's resistance to cut production and weaker global demand. The effect of the sharp price fall also had an impact on the development of the real economy and inflation. Net commodity and fuel importers, including a majority of European countries, derived significant benefits from savings due to low prices, while large net exporters incurred major growth and fiscal losses.

Hungary's GDP growth rate was down to 2.9% in 2015 from 3.7% in 2014. Slower growth is largely attributable to a strong decline (13%) in agricultural performance, due to the poor crops resulting from last summer's extremely dry and hot weather. It is to be noted that the previous year's base effect was also high. At the same time, with the exception of the agricultural sector, a wide range of sectors performed better, resulting in balanced GDP

growth. Industrial GDP growth in 2015 was similar to the previous year at 6%, with a major contribution from the double-digit growth of car manufacturing and the related subsectors due to the extra capacities built in recent years, and sustained high external demand for automotive products. In the construction industry, last year's overall growth rate was about 3%, with the dynamics seen in the first half of the year disappearing in the second half, as could be anticipated throughout the year from the falling volume of orders. As a favourable development, services increasingly caught up with the manufacturing sectors, growing at rates approximating the GDP dynamics in 2015.

On the demand side, the structure of growth was also balanced. Due to the dynamic development of the labour market and wages, the easing of prudential features, improving confidence, and an environment of low inflation, household consumption has been making an increasingly strong contribution to GDP growth. In 2015, consumer prices remained virtually unchanged relative to 2014, mostly explained by low commodity and fuel prices, and a weak external upward price pressure. Following the record growth in 2014, investments closed last year at a moderate growth rate. More specifically, in the public sector, investments grew by 70% in the last quarter. This outstanding result was attributable to the fact that 2015 was the last year in which funds allocated to Hungary under the EU's 2017–2013 programming period were still available. By contrast, investments slightly decelerated in the private sector, partly due to the completion of large corporates' development projects in the manufacturing industry that had been launched in the previous years. On the other hand, in the SME segment investments were concentrated by virtue of the Funding for Growth Scheme (FGS). Simultaneously with industrial output, the volume of foreign trade developed favourably despite the risks and negative factors of the external environment, such as the embargo against Russia, the scandal over diesel engines at Volkswagen and uncertainties over the Chinese economy. Consequently, the overall exports of goods and service was up 8.4% last year. Although as a combined result of the high import content of exports and strong domestic demand, imports grew at a similar rate, in 2015 net exports made a positive contribution to economic growth.

In addition to the real economy, balance indicators also developed favourably in 2015. Then general government deficit amounted to 2% of GDP, this was lower than the 2.4% forecast in the Budget Act. This is largely attributable to favourable developments in revenues relative to expectations. Namely, the rate of increase outperformed the plans in respect of income and contribution-type fiscal revenues as the labour market improved, and in respect of revenues from turnover taxes as consumption recovered. In the latter case, the whitening effect of the online cash registers is certain to have been perceived. External balance also improved further. The record-high EUR 8.1 billion surplus of foreign trade

¹ Source of data: National Bank of Hungary, Hungarian Central Statistical Office, International Monetary Fund, Government Debt Management Agency

Management report (CONTINUED)

in goods, the hike in EU transfers, and the decrease in interest liabilities due to the reduction of external debt contributed to a major improvement in Hungary's external financing capacity. External financing capacity exceeded 9% of GDP in 2015.

At the end of 2015, the government debt of HUF 25,393 billion according to the Maastricht criteria amounted to 75.3% of GDP, 0.9 percentage points lower than in the previous year. As a further positive development, the debt financing strategy of the Government Debt Management Agency (ÁKK) and the central bank reduced the ratio of foreign exchange in total debt to 35.3%, corresponding to a decrease of 4.5 percentage points relative to 2014 and over 16 percentage points relative to the record level at the end of 2011. Partly attributable to the central bank's self-financing scheme, the reduction of financing government debt from foreign funds continued at an accelerating rate. At the end of 2015, 44% of government securities were held by foreign investors, in contrast to the 52% figure registered in the previous year and 58% in September 2011. Simultaneously, there was a substantial increase in investments in government securities by the domestic bank sector and households, the former mainly in the context of major changes implemented by the central bank in the instruments of monetary regulation in a series of measures.

The favourable trends having tendencies emerging in the Hungarian labour market in 2014 continued into last year. In 2015, the average number of employees rose to 4.2 million, corresponding to an increase of 114,000 employees in a year, while the unemployment rate fell to 6.2% by the last quarter of the year, an outstandingly good figure even in international comparison. Although the public work scheme remains central to positive changes, the primary market absorbs workforce at an increasing rate, which is not without relevance to stronger economic performance. The tightening labour market is also reflected in wage developments, with gross wages increasing at an average rate of 4.2% last year despite a low inflation environment.

Favourable developments in the money markets, the central bank's successful self-financing scheme, and an environment of lower-than-expected inflation helped to maintain the elbow room of the National Bank of Hungary in 2015. The cut of the reference rate to 2.10% in July 2014 thus proved to be temporary, and in a further round of easing, from March 2015 the Monetary Council reduced its reference rate to 1.35% in a series of measures by 22 July 2015 and maintained that rate until the end of 2015. As an additional measure, the start of monetary easing was accompanied by the central bank's adjustment to the inflation targeting system in place since 2001, whereby it maintained the 3% target and introduced a ± 1 percentage point range of tolerance. As a result of the interest rate cut, the yields of short-term government securities decreased further, with the 3-month yield falling to 0.8% by the end of 2015.

Performance of the Hungarian banking sector in 2015

Over the past 5 years, the performance of the financial sector has been greatly influenced by the combined effects of the financial crisis and the accompanying deterioration in portfolio quality and deleveraging as well as government measures. At the same time, as a result of the HUF conversion of foreign exchange based retail loans, the agreement with the EBRD, the consolidation of market rearrangements, and increased economic activity, a gradual recovery started in 2015. This is also reflected in the facts: in contrast with the loss of HUF 541 billion recorded in 2014, the Hungarian banking system closed a much more profitable year in 2015. With a pre-tax profit of HUF 38.9 billion and a net loss of HUF 3 billion, the sector's performance of last year was close to break-even. Within revenues, interest income fell by 16% as a combined result of narrower interest rate margins and a reduction in portfolios partly attributable to the settlement and the HUF conversion of foreign exchange based loans. Operating costs increased at a rate above inflation by 3.1%. In 2015, market players released HUF 504 billion worth of provisions, following the significant amount of provisioning in 2014, of close to HUF 870 billion in connection with the Settlement Act.

The loan portfolio continued to contract last year, with a nominal 11% decrease in customer loans. More specifically, the corporate loans decreased by 12%, partly due to a major portfolio sale by a large bank. It should also be noted that on the one hand, in the recent period EU transfers have made a certain crowding out effect in the market of corporate loans. On the other hand, with foreign corporates, loans from parent companies and from foreign banks gained prominence at the expense of domestic loans. In the first quarter of 2015, the Settlement Act was implemented, which is largely responsible for the annual 12% reduction in the household loan portfolio. Conversion virtually eliminated foreign exchange based loans from the segment of household loans, reducing their weight below 1% from 53% at the end of 2014.

2015 saw continued recovery in the housing market, although marked regional differences remained. Falling interest rates, a low price level, improvements in the labour market and incomes, and the housing subsidies for families (CSOK) introduced as of July 2015 generated an increasing number of sales. Simultaneously, new housing loans increased by over 40% within one year. This was supported by the fact that banks eased their lending conditions to the retail segment in response to favourable trends in the housing market as well as in order to gain market shares. Easing was also perceived last year in the segment of non-financial enterprises, despite which, in general, the terms of lending have remained strict. The improvement is attributable to a more

Management report (CONTINUED)

favourable economic environment, a better liquidity and capital situation, and stronger competition.

On the liability side, customer deposits were up 5% in 2015, reducing the loan-to-deposit ratio to 82% as a combined result of an increased volume of deposits and a reduced loan portfolio. 2015 followed the trend of retail investors abandoning bank deposits that are less attractive in a declining interest rate environment to government securities and investment funds that offer higher returns. There was an increasing demand by households in both categories, as a result of which the net asset value of investment funds was up 5% year-on-year, while households' share of government securities holdings rose from 9.8% to 12.7% in the course of one year.

Despite the improvement in 2015, the high ratio of non-performing loans remains a severe problem. The ratio of 90 DPD (Days Past Due) loans showed volatile movements last year. In the first quarter of 2015, a temporary improvement was seen as a technical effect of settlements, followed by a deterioration of the rate for two quarters, recovering by the end of the year. Overall the ratio of non-performing loans was down from 19% in 2014 to 17.6% in 2015. In the corporate sector, the ratio of 90 DPD loans decreased significantly by the end of the year. The figure was down from 13% to 14% in the first three quarters to 9.8% in the last quarter. However, the significant improvement is attributable to portfolio cleaning by a large bank. It should be noted, however, that non-performance is associated with project loans to a larger degree. Namely, the ratio of 90 DPD loans is 19.6% in this segment, while only 6.3% with other loans. The cleaning of commercial property loans is supported by the asset manager MARK Zrt. set up in 2015, and that of troubled mortgage loans by the National Asset Management Company.

Performance and results of UniCredit Bank Hungary Zrt. in the year 2015

In the year of its 25th anniversary UniCredit Bank Hungary posted best-ever results and confirmed its position on the podium of top performers. Both the bottom line and size of the balance sheet reached historically high levels amounting to HUF 39 billion and HUF 2,709 billion, respectively. The more than doubling profit and the 21% increase in total assets are even more eye-catching with the consideration of the very heterogeneous and still deleveraging performance of the sector challenged by the macroeconomic and the regulatory environment. Due to this robust growth of total assets according to the Hungarian Financial Standards, UniCredit Bank Hungary reached 9% market share at the end of 2015.

The balance sheet underwent significant changes in terms of both size and structure. After the settlement and the conversion of FX retail loans into Hungarian forint, the loan-book shrank by 3.6%, which however, is less than half of the sector average, clearly driven by the topping performance of corporate, resulting in market shares at record level. UniCredit Bank Hungary gained 1.2pps market share in customer loans and closed 2015 at 8.5%, where corporate loans represent 12.3% of the market. This way UniCredit Bank outperformed its competitors.

During this expansion the bank did not require additional capital, the capital situation remained stable and the total capital ratio was 18.2% at the end of 2015. Furthermore risk weighted assets (RWA) totaled HUF 1,232 million Hungarian forints representing a 2.4% decline in risk exposure compared to the previous year.

On the liability side, deposits increased by 25% thanks to large tickets and successful retail campaigns. Herewith, the loan/deposit ratio fell to record low of 70%. By managing the shift in saving preferences, total wealth on- and off-balance advanced. By reshaping the service model, the Bank merged 29 branches into other ones and kept investing in digitalization.

Revenue generation remained robust, it was clearly different from the sector. Despite historically low interest rates and retail margins limited by law, the net interest income was close to the value of the previous year. The 6% increase in net fees and commissions backed by trading profits resulted in revenues only 3% lower than in the previous year. Cost efficiency remained a touchstone also with the consideration of HUF 0.9 billion integration costs and higher contributions to deposit and investment guarantee schemes. With constantly improving portfolio quality, loan loss provisions eased by 9.6%.

The quick and appropriate adaption skills resulted in a powerful 240% rise in profits compared to the preceding year corresponding to HUF 39 billion profit after taxes. The improving bottom-line posted a 16.4% return on equity (RoE) to shareholders in 2015.

The excellent results of 2015 and the good prospects for 2016 allow the payment of dividends to the shareholders from the profit of 2015.

At the end of 2015 UniCredit Bank Hungary Zrt. served nearly 400,000 customers in its country-wide branch network comprising 56 branches.

UniCredit Bank's corporate social responsibility

In 2015, in alignment with its long-term CSR strategy, UniCredit Bank provided support for addressing key social issues, focusing its activity on the same priorities as in previous years. In addition to the familiar programs recurring each year, the Bank also welcomed new initiatives, mindful of the principle of sustainability and the innovative solutions required for its application.

One of the key pillars of the Bank's CSR activity is support for child health and children's healthy living. In that spirit, we continued the "Pass it on!" awareness raising program, which has been popular for the seventh year now. As in previous years, in the close to 80 participating schools, tens of thousands of schoolchildren experienced the joy of moving in exciting sports events. The amount provided by UniCredit Hungary Zrt. enabled participating schools to purchase new sports equipment and organise additional sports activities.

As part of its Christmas donation program, the Bank provided immediate financial assistance for 19 organisations that deal with diseased and undernourished children and their relatives. Among others, the Bank donated Szent Márton Paediatric Emergency Medical Service an amount to cover the purchase of an entire year's worth of special surgical dressing for children who suffered burns, and also assisted the ADRA-Vitium Equal Opportunities Foundation with the purchase of modern equipment for the treatment of premature infants for two hospitals.

In 2015, UniCredit Bank and the UniCredit Foundation announced their second social responsibility call for non-profit organisations.

Under the social innovation program "Take a step with us!", applications for funds were invited from non-profit organisations which support disadvantaged local communities in a sustainable manner. Under the program seeking innovative solutions, the grants remained primarily targeted at NGOs that support specific disadvantaged groups in improving the circumstances of their living by their own work and activities. The award method remained the same: out of the EUR 60,000 total, EUR 55,000 worth of grants were awarded by the panel, with EUR 5,000 awarded to the best project selected in a vote by UniCredit Bank's employees.

The Bank's employees also participated in a number of social responsibility activities individually. Several employees volunteered to join the events of the Pénz7 ('Money Week') series, aimed at the improvement of Hungarian financial literacy. Some carried out volunteer work in public institutions providing child care, while others raised funds as part of the employee donation program for foundations focusing on child health issues.

Apart from programmes to assist the non-governmental sector, for years the Bank has undertaken the core social responsibility of using its own means to preserve the natural environment. That is why it joined the "Earth Hour" initiative in 2015, while it also continued its "Green Office" programme for separate waste collection, aimed primarily at the preservation of natural resources and the gradual decrease of paper use. As part of its furniture donation program, now also a tradition, in 2015 the Bank donated nearly 1,100 items of furniture to 20 distressed organisations, where the donated items remain in the service of the community.



My ideas
are so big,
they make me
feel small.

Let's talk about realizing your projects.

Stefan runs his family's company in Bucharest. He has designed and built kitchens since he was a boy, and still loves it. But since he also loves to cook, he thinks it would be perfect to combine his passions by opening a special show room that hosts cooking classes and workshops with famous chefs.

A place like that would have some cultural value and give his whole neighborhood a boost, so he thinks he could apply to receive public funds. But he doesn't know where to start. He needs a partner, someone who helps prove the feasibility of the project to the government.

Hey Stefan, why not ask us? We often give advice to customers who want to get grants and other funding. In Romania, for instance, we provide 360° support, from the stage when a client gets an investment idea, to when the client secures funding, until even after that, while the client's use of funding is monitored.

Thanks to our preliminary advice, including guidance on where to apply for funds, and our full range of banking products and attentive monitoring service, Stefan can make his idea a reality. And, who knows, maybe it will also help him become the world's next great artisan-cook.

Report on the divisions

Corporate, Investment Banking and Private Banking Division

2015 was one of the most successful years of the Corporate and Investment Banking and Private Banking Division in spite of the challenging market environment. The Division remained the dominant segment of the bank in terms of both income and profit and proved to remain resilient to a significantly changed external environment (of which the low interest rate environment is the most evident aspect) and volatility of business volumes in selected clusters of the corporate client base. The strong revenue flow accompanied by unchanged stringent cost management and exceptionally low level of risk costs generated outstanding profits before taxation.

As a pivotal achievement of 2015, both loan and deposit market shares grew significantly reaching all time high results: 12.8% in the deposit market and 12.3% in the loan market. The key driver of the favourable trend in loan volume is our Division's robust capability of financing mid-sized domestic and foreign owned companies (acting as one of top lenders to this segment), our active role and presence at all major structured finance deals and our resilience to intra-year volatility of larger financing tickets of large multinationals and state-owned partners. This development can be well marked as "profitable quality growth" as the significant market share increase came along with maintained high quality of the loan portfolio and a very strong positive performance at the Division's bottom-line.

In 2015, we further strengthened our activity in transferring the Funding for Growth Program of the National Bank of Hungary, as well as the new export and trade financing schemes refinanced by Hungarian Eximbank to targeted companies.

The Corporate and Investment Banking and Private Banking Division continued to strengthen its market position in 2015, and remained one of the most successful corporate banks in the Hungarian market. In addition to profitability and efficiency indicators this is also manifested in recognitions received from prestigious forums and – as a most important measure – in the feedback received from our corporate customers. Based on the objective satisfaction survey conducted among our customers, as a recognition of its high service level, the bank remained one of the most acknowledged Corporate and Investment Bank in the Hungarian Market in 2015.

Last year – similar to the previous years – we have highly focused on the quality of our service delivery to our clients and within this scope we have made several system enhancements to meet our clients' unique requests. Our success comes, on the one hand, from the expertise and experience of our colleagues and, on the other one, from our up-to-date and full range of service proposition.

At Structured Finance 2015 was a very busy year full of challenge and success, which set grounds for a similarly successful 2016. The area confirmed leading position in arranging and providing structured finance transactions, maintained excellent portfolio quality,

furthermore achieved significant growth both in revenues (+13%) and volumes (+9%).

The Real Estate Finance team continued to offer full-scale service to real estate developers and investors. In 2015 this primarily meant the financing of office and logistics projects in long-term, investment phase structures. In line with the needs of the market we also disbursed several project loans in the hotel and residential segment. Besides providing new loans we also played an active role in refinancing the real estate project loans of other banks.

In 2015 the Hungarian authorities started to launch the long awaited first tender calls in relation to the new programming period 2014-2020. Calls were regularly monitored by the European Competence Centre of the Bank in order to facilitate access to EU funds through professional financial advisory services. Our corporate customers may be potential beneficiaries of the competitiveness and rural development programs, we always strived to find the most suitable financing structure of the development concepts in order to provide our customers specialized funding solutions.

We would like to highlight that based on the agreement concluded by UniCredit Bank Hungary Zrt. and the European Investment Fund (EIF), innovation-oriented projects of our SME customers were partially secured by the 50% guarantee of EIF, with no extra charges for borrowers – a solution provided by us as only commercial bank in Hungary.

In 2015 our bank defined agribusiness as one of its strategic focus areas with the aim to optimize its services to agribusiness customers. The sector shows a substantial growth potential, our partners are stable, well capitalised SME companies. Agribusiness financing is dominated by special, tailor-made solutions offered to customers also taking into consideration sectoral specialties.

According to the measurements of the Factoring Association, in 2015 it was UniCredit Bank that achieved the highest export-import factoring turnover on the market, while being one of the most dynamically growing players of the factoring market, as well.

The year 2015 was about the changing market and legal environment, requiring adaptability from the GTB (Global Transaction Banking) Cash Management Department. Despite the low market interest rate environment, the Bank continued to successfully increase its customer base. Clear evidence for this is the significant increase of payments and sight deposits. Our high level of service is also demonstrated by the "Best Cash Management Provider" award by Euromoney.

Card acquiring services were also growing dynamically, and our market share increased significantly; the number of terminals

Report on the divisions (CONTINUED)

exceeded 6,000 by the end of the year. During 2015, the number of clients requiring Virtual POS terminal has grown steadily, which is reflected in the growth of the vPOS market as well. We were the first to give the opportunity to Erzsébet card acceptance on our terminals in the domestic market. Based on the feedback from costumers, we continuously improve the quality of our services and expand our product range. As a result, we can provide (for cash deposit) debit cards, savings accounts and sales incentive (discount based on turnover) account for our corporate customers.

The Trade Finance team of UniCredit Hungary Zrt. had an outstanding performance in 2015 based on both profitability figures and the great volumes of trade related deals. Growth in the loan volume exceeded 70% compared to the previous year. The extensive growth in volume is the result of the Bank's great activity in connection with the refinanced products of Eximbank on the one hand, and on the other hand is the result of the structured and tailor-made trade financing deals. It is also a significant achievement that despite changes in the regulatory background that resulted in the cancellation of a huge quantity of bank guarantees in connection with projects funded by the EU, the documentary business volume grew 5% compared to the previous year. As a market recognition UniCredit Bank Hungary's was rewarded by Euromoney as the "Best Trade Finance Provider in Hungary".

The Global Securities Services (GSS) business of UniCredit Bank Hungary Zrt. closed a very successful year again in 2015. The business maintained its market leading position, it was successful not just in retaining, but extending its clientele, in both the domestic and international client segments. Thanks to the stable client base, the assets under custody managed by GSS increased compared to previous year, which resulted in higher revenues earned by the business. The good results achieved by GSS make it possible for the business to provide high quality custody services to its clients that can be maintained in the long run, further develop these services, fully meet client expectations and continue to keep its market leader position.

For GTB Transactional Sales the biggest task and challenge in 2015 was the adoption of HUF in the CLS (Continuous Linked Settlement) system. While we successfully accomplished the task we also managed to acquire new foreign banks as customers, so the number of clients served by the GTB Transactional Sales further increased during the year. In the field of CLS HUF nostro agent services the bank's market share is 50%. The bank continues to invest in enhancing and fine-tuning services in order to ensure continuous customer satisfaction.

Corporate Treasury Sales had a very successful 2015. The turnover and profitability of our foreign exchange, interest rate and commodity risk management solutions offered to corporate and institutional clients have exceeded our annual plans despite an ever stronger price competition from other banks and low market volatility throughout most of the year. Our corporate clients continue to regard foreign exchange as their primary market risk factor, and therefore most corporates' market activity tend to focus on mitigating foreign exchange risks. In addition to foreign exchange, however, an increased attention started to develop on interest rate risks, especially in the current extremely low rate environment: many of our corporate clients decided to take advantage of current low rates to lock in long-term financing costs. Although from a low base, we experienced a rapidly developing interest in the third big risk category: commodities. Thanks to this phenomenon we increased our footprint in the energy complex, precious and industrial metals, and closed our first ever agricultural commodity transaction with a corporate client. Throughout the year from bilateral client meetings through product-workshops to regional client conferences we tried to convey our key message that conscious financial planning cannot exist without a thoroughly built and strictly executed hedging policy, which through sustainable risk reduction will contribute to increasing shareholders value.

Treasury Trading closed a successful year in 2015. Despite of the low interest rate environment FIC (Fixed Income) delivered its 2015 budget. Markets division preserved its position on the interbank market.

UniCredit Private Banking closed a successful business year in 2015. We manage more than HUF 135 billion savings of more than 1,060 Private Banking clients. In 2015 both the domestic and the global environment featured low yields, while riskier markets provided overall good investment opportunities and profits, with increased volatility characteristics. UniCredit Private Banking's asset allocation model, the Global Investment Strategy kept its leading role of responding to long term asset allocation needs of our clientele. In 2015 as a great external appreciation of our commitment to our clients, UniCredit Private Banking was named as Best Private Banking in Hungary by Euromoney Private Banking Survey and Global Finance magazine 2015.

In 2015 a new service model was designed and implemented for the Leasing companies of the UniCredit group in order to provide tailor made complex financing services to our corporate customers.

Report on the divisions (CONTINUED)

Retail Customers and Small Businesses Division

In 2015, UniCredit Bank Hungary's Retail Customers and Small Businesses Division continued to pay particular attention to flexibly adapting to market changes and to increasing the satisfaction of its customers in an economic environment of constant challenges.

Our business policy is centred on the establishment of long-term cooperation with customers, and on offering products and services built on customer needs. Apart from customer acquisition, our Bank pays particular attention to customer retention. By continuously updating our product range, we strive to satisfy customer needs as fully as possible in the fields of daily banking transactions, savings, investments and mortgage lending. The success of our efforts is confirmed by a steady annual increase in the number of retail customers who regularly have their income transferred to their bank accounts with us, while an increasing number of small business customers are also considering UniCredit Bank as their main bank.

In accordance with its internal guidelines, the Division paid particular attention on an ongoing basis to the improvement of service quality, the training and professional support of branch network staff, and the development of sales, in order to attain a high degree of customer satisfaction. Customer satisfaction with UniCredit Bank has been high for years, allowing the Bank to remain a market leader.

As a result of the foregoing, the Division currently has over 368,000 customers, 51,000 of which are small businesses.

The share of the retail segment in the lending market rose from 4.47% to 4.59%, with a loan portfolio of HUF 256.6 billion as at the end of 2015. Activity was outstanding primarily in retail mortgage loans, and based on disbursements in 2015, the Bank achieved a 7.21% share in this product market.

Representing a new approach and designed with the principles of responsible lending in mind, our mortgage product "Stable Interest Rate" made a major contribution to our mortgage sales in 2015. Every second new mortgage loan applicant opted for this product, the popularity of which lies in its predictability: it is repaid in fixed instalments throughout its term.

We are proud that in the MasterCard "Bank of the Year" contest, the UniCredit Stable Interest Rate Loan product took first place in the "Retail Loan of the Year" category.

In compliance with its statutory obligation, our Bank settled nearly 78,000 transactions as part of loan settlement scheme, and implemented the rules of fair banking in respect of the retail portfolio specified by law.

Following the success of stage one, in 2015 UniCredit Bank also provided access to the extended second phase of the Funding for Growth Scheme launched by the National Bank of Hungary. The scheme created a major recovery in the willingness to borrow and in the credit demand among small and medium-sized enterprises, with an increasing number of businesses trying to benefit from the favourable funding opportunity. In the first and second phases of the Scheme, focusing on customer needs and responsible lending, UniCredit disbursed loans to small businesses in the amount of HUF 7.3 billion, 73% of which was in new placements, typically for investment purposes.

In 2015, the Retail Customers and Small Businesses Division added approximately HUF 49 billion to the savings stock, closing the year at HUF 817.6 billion. The growing number of individuals having their incomes transferred and of active small business customers made a major contribution to the 25% increase in sight deposit stock. Additionally, 2015 followed up on the tendency emerging in previous years that in an environment of decreasing deposit rates, customers seek alternative investment opportunities, which they found primarily in securities. Within securities, in the retail segment government securities were the most popular. Since in the second half of 2015, the performance of investment funds declined due to negative capital market effects, many of our customers reallocated their savings from investment funds to government securities. As a result, the government securities holdings of retail customers increased by a significant HUF 30 billion over the last year. Another major contribution to the increase in savings was the deposits campaign launched on 1 October 2015, generating an inflow exceeding HUF 41 billion by the end of the year. As a result of the outstanding performance in deposit taking, the Bank increased its share in the market of term deposits held by individuals from 4.88% to 5.27%.

We are proud that in the MasterCard "Bank of the Year" contest, the UniCredit Regular Savings Program took first place in the "Retail Savings Product of the Year" category.

Mindful of customer needs and habits, we pay particular attention to the development of customer-focused technological solutions, whereby we create value for our customers. As a result of developments implemented last year, our Bank's website was renewed and collected two awards within six months: it was named "Website of the Year" in the commercial category in the contest of the Hungarian Marketing Association and the Internet Marketing Section, and also won the special prize for quality in the "Business and Commerce" category of eFestival, organised by the Information Technology for Society Association.

Report on the divisions (CONTINUED)

87,5% of customers of the Retail Customers and Small Businesses Division have TeleBank contracts, allowing, as at the end of 2015, some 322,000 customers to manage their banking on the phone. Easy banking from home is made possible by SpectraNet Internet Banking, available day and night; by the end of the year, 290,000 customers opted for this service, covering about 79 percent of all customers. In July 2015, we launched a new service for customers for whom mobility is a priority: the UniCredit Mobile application is available for smart phones running Android and iOS, maximising the easy handling and customer experience provided by the touchscreen. By the end of the year, 152,000 of our customers had taken the opportunity of convenient online banking using a mobile device, representing a 25% increase since the previous year.

The number of debit and credit cards issued by UniCredit Bank Hungary Zrt. exceeded 308,000 at the end of 2015, and in the Retail Customers and Small Businesses Division over 78% of customers had debit cards. Since July 2015, the Bank has been

issuing its debit cards with a new visual design and the contactless function, and has also started the scheduled replacement of existing cards for contactless cards.

In the course of optimising its branch office network, the Bank has retained the number of ATMs suitable for real-time cash deposits in order to allow customers to deposit cash at any time of the day independently of the opening hours of our branch offices. This convenience function was available at 78 ATMs at the end of 2015. The Bank pays particular attention to environmental protection, and an increasing number of our customers have been opting for e-statements instead of paper-based bank account ones. At the end of 2015, the vast majority, 212,000 of our customers were using this service.

Adapting to the economic environment, with a view to profitable operations sustainable in the long term, in 2015 the bank continued to rationalise its branch office network, merging branch offices into other ones.

Report on the divisions (CONTINUED)

Human Resources

Strategy and participation

As in previous years, in 2015 Human Resources (HR) gave priority to the task of providing UniCredit Bank Hungary Zrt. with qualified human resources in a constantly changing economic environment.

HR supports the Group through solutions that are innovative, sustainable over the long term and always focused on human capital as value, through the maintenance and increase of employee commitment and motivation, outstanding talent management and succession schemes combined with strict cost and headcount management.

Support for business processes

A thorough understanding and customer-centred servicing of specific areas and activities within the Bank are provided by the HR Business Partner Model, which facilitates and accelerates labour, compensation, training and development and selection processes.

In 2015, changes in banking habits due to the requirement of the long-term sustainability of profitable operations and to technical developments called for the remodelling of the service network. In order to fulfill that, the Board decided to optimise the number of branch offices, as a result of which the customers of 29 branch offices were transferred to other existing ones. Relationship managers and branch managers working at the branches involved in the mergers were assisted by HR with tailored solutions.

As existing customers were transferred, some of the employees were invited to continue their work at other branches.

In 2015, the reorganisation of Leasing companies within the Group was also completed, with HR providing tailored solutions to support the process.

As part of remodelling operations, new positions were also created across the organisation. As UniCredit Bank Hungary Zrt. continues to pay particular attention to employees' mobility within the organisation and the utilisation of their expertise both nationally and internationally, for any vacancies or newly opened positions, the Bank first reviewed internal applications by colleagues, and external applications were evaluated only subsequently.

The selection of our employees is assisted by a wide range of in-depth tools. They include competence and behaviour based interviews, professional assignments and tests as well as motivation and work attitude tests. In 2015 our career site was upgraded and became even more user friendly.

In 2015, the Bank hired 238 new employees. Through internal transfers and promotions, more than 225 colleagues got new career opportunities. 16 colleagues worked in international positions within UniCredit Group. 62 colleagues returned to the Bank from maternity leave. For the entire Bank, annual fluctuation was 12.4 percent.

Employee satisfaction surveys and the implementation of the subsequent action plans are of key importance for the Group as well as for UniCredit Bank Hungary Zrt. The 2015 survey was conducted with an outstanding level of participation, with 88% of employees expressing their opinion, and an engagement index of 87%. In 2015, employees participating in the talent program continued their project work, as part of which, under the sponsorship of senior management, they elaborated and implemented action plans for the areas to be developed.

HR also endeavours to increase employee satisfaction through the improvement of its own processes.

Training and development, succession management

HR remains supportive of the continuous training of employees, keeping their knowledge up to date, knowledge sharing, and employees' career management within the Bank. This latter is implemented by the annual appraisal system, a talent management program and training programs for senior and middle management.

Talent management is one of the most important elements of UniCredit Group's human resources strategy. The talent management program is a group-level initiative, which was also adopted by UniCredit Bank Hungary Zrt. nine years ago. Its goal is to identify people within the organisation with outstanding potential, skills and professional knowledge and to ensure that their career plans are implemented at both the national and international levels. In 2015, six employees were selected for the international program, joined by ten local talents. UniCredit Bank Hungary Zrt. pays particular attention to their development and training (skills, team and project work), thereby providing succession pipeline within the organisation. The international and local talent programs run simultaneously in the organisation, both teams are treated equally. In 2015 work continued in the direction set previously, the focus remaining on innovative training methods. In the spirit of digitalisation, in 2015 the organisation adopted the method of Reverse Mentoring, in which participants in the talent program mentor managers in areas such as social media and their functions, and the use of digital devices.

Management training is equally important as the retention and training of employees showing regular high performance. Managers at UniCredit Bank Hungary Zrt. and their successors receive targeted

Report on the divisions (CONTINUED)

training as part of the senior management training program that facilitate their success at work.

In 2015, succession planning received increased and particular attention. The development of a succession program for medium level management started with managers' participation in the development centre based on the UniCredit competency model. The program was launched for employees in 2015. Similarly to the talent program, the development program employs innovative methods. In that spirit, the program included components such as interactive storytelling and communication training that involved work with trained dogs.

In addition to the colleagues involved in management and talent programs, all employees were provided opportunities to participate in the training courses developed by the Bank's internal team of trainers. These training courses are focused on skills development, in response primarily to the development needs of the organisation, and are very popular among employees. In 2015, nearly 700 employees participated in the training courses.

Launched in 2012, the highly successful series of talks on mental hygiene continued in 2015 covering topics related to self-knowledge, partner relations and healthy diet.

In addition to talent management and succession planning, knowledge sharing is one of the key values of UniCredit Bank Hungary Zrt. An increasing number of employees are given the opportunity to participate in international and national development programs starting from project work of a few months to assignments spanning several years. Not only does this result in the development of the personal careers and competencies through encounters with new tasks and information, but it adds to the intellectual values of UniCredit Bank Hungary Zrt. on an ongoing basis as well.

Equal opportunities

Hungary had joined the international Gender Balance Program, as part of which a Gender Balance Policy was adopted in 2013. This aims to enforce the principle of equal treatment from employee selection through promotion to work-life balance. Changes on a local level under the policy are monitored internationally. The report based on group-level indicators is regularly submitted to the Management Board.

In the second half of 2015, we conducted a comprehensive survey on the distribution of base salaries and bonuses according to gender in the organisation. The survey results were presented to the Board and the middle management. Action plans were presented to eliminate any deficiencies and differences, and the implementation of the plans are monitored on an ongoing basis.

To increase awareness of the program, we organised a panel discussion in which external experts joined the members of the management to share their experience on issues such as the difference between the self-confidence of men and women, management responsibility and the relevant cultural specificities.

What to expect in 2016

The 2016 HR strategy is shaped by continued strong management support, strategic workforce planning, the development of participants in the management succession program, internal customer satisfaction, reinforced employee engagement, and cost-aware behaviour by the use of additional innovative solutions related to digitalization in order to ensure that operations be even more efficient and sustainable for the long term.

Report on UniCredit Jelzálogbank Zrt.

Report on UniCredit Jelzálogbank Zrt.

A mortgage bank operating as a specialised credit institution, UniCredit Jelzálogbank Zrt. was established on 8th June, 1998 with a registered capital of HUF 3 billion, by Bayerische Vereinsbank AG. Since 22 December 2006, the sole shareholder of UniCredit Jelzálogbank Zrt. has been UniCredit Bank Hungary Zrt.

The main activity of UniCredit Jelzálogbank Zrt. is the issue of mortgage bonds and unsecured bonds that provide typically medium- and long-term funding for its own and refinanced loan portfolios. Mortgage loans are primarily secured by first mortgage, independent lien or seceded lien registered on the property financed, located on the territory of Hungary.

In order to increase efficiency, since 2008 UniCredit Jelzálogbank Zrt. has continuously outsourced some of its supporting activities, such as banking operations, human resources, IT, accounting, etc., to UniCredit Bank Hungary Zrt. Since 1 April 2009, the tasks of specific business areas of UniCredit Jelzálogbank Zrt. have also been performed by UniCredit Bank Hungary Zrt. as outsourced activities, under agency contracts. Accordingly, all administration related to the financing of business properties and home buyers and to estate development and land financing is performed by UniCredit Bank Hungary Zrt. The issue of mortgage bonds and unsecured bonds serving as the basis for the lending activity and refinancing activity continue to be the responsibility of UniCredit Jelzálogbank Zrt.

In line with its practice to date, UniCredit Jelzálogbank Zrt. obtains the typically medium- and long-term funding for its own and

refinanced loan portfolios by issues of mortgage bonds and money-market and long-term borrowing. It may also raise the funds required for general operations by issuing unsecured bonds; however, no such issue took place in 2015. The issue of mortgage bonds and unsecured bonds typically takes place as part of offering programs, in the course of which UniCredit Jelzálogbank Zrt. raises long-term HUF and foreign currency funds from the capital market.

In the present business and market environment, the frequency and volume of mortgage bond issues primarily depends on the structure of the Bank's assets and liabilities, the composition of the collateral book, the maturity structure of mortgage bonds and the development of the market returns environment. Mortgage bonds and unsecured bonds may be issued in a number of forms. The means of executing issues and the instruments that may be issued are specified in the program prospectus as in effect from time to time. In the case of a private placement, mortgage bonds and unsecured bonds are sold to a specific group of investors. In the case of a public offering, the terms of the mortgage bond and unsecured bond issue are laid down in the program prospectus and in the final terms and conditions of each series.

Based on its balance sheet drawn up according to the International Financial Reporting Standards (IFRS), UniCredit Jelzálogbank had HUF 144,823 million in total assets and HUF 1,299 million in profit after taxes as at the end of fiscal 2015.



Ok guys, where's the stage?

Let's talk about getting the goods on time.

Every summer, major music festivals are held in the countryside. The line-ups are announced months in advance, and thousands of people buy tickets to see their favorite bands live. But sometimes ... things can go wrong.

Tens of thousands of goods pass through the customs every day. It's so ordinary that you never even think about it. Until one day, when goods vital to your business operation absolutely must arrive in time.

From concert equipment to spare parts, it can take up to three working days to get your customs payments processed. That is why in Russia we introduced the PayHD card. It speeds up import/export operations and helps our customers avoid bad surprises. With PayHD, goods are always processed quickly, with no extra paper work required.

Now entrepreneurs in Russia can concentrate on their own business and stop worrying about import/export timings.

Independent Auditor's report



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Translation of the Hungarian original

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

To the Shareholder of UniCredit Bank Hungary Zrt.

The accompanying summary consolidated financial statements, included on pages from 24 to 57 to this Annual Report, which comprise the summary consolidated statement of financial position as at December 31, 2015, the summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union of UniCredit Bank Hungary Zrt. for the year ended December 31, 2015. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated March 3, 2015.

The summary financial statements do not contain all the disclosures required by the International Financial Reporting Standards as adopted by the European Union applied in the preparation of the audited consolidated financial statements of UniCredit Bank Hungary Zrt. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of UniCredit Bank Hungary Zrt.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Hungarian National Standard on Auditing 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union of UniCredit Bank Hungary Zrt. for the year ended December 31, 2015 are consistent, in all material respects, with those financial statements.

Emphasis of matter

We draw attention to the fact that the accompanying summary, consolidated financial statements also contains amounts presented in EUR solely for the convenience of users which were not audited. Our opinion is not modified in respect of this matter.

Budapest, February 17, 2016

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Molnár Gábor
registered statutory auditor
007239

Financial statements

Consolidated statement of financial position (Balance Sheet) – 31 December 2015

Assets

	NOTE	2015		2014	
		HUF MILLION	EUR MILLION	HUF MILLION	EUR MILLION
Cash and unrestricted nostros with Central Bank	15	20,027	64.0	14,425	46.6
Financial assets held for trading	16	68,818	219.8	74,149	239.6
Available-for-sale financial assets	17	575,403	1,837.6	262,735	849.0
Held-to-maturity investments	18	438	1.4	2,367	7.6
Placements with, and loans and advances to banks	19	910,386	2,907.5	810,119	2,617.8
Loans and advances to customers	20	1,057,014	3,375.7	982,769	3,175.7
Hedging derivative assets	21	29,444	94.0	34,498	111.5
Equity investments	22	–	–	1	0.0
Investment properties	23	14,083	45.0	14,027	45.3
Property, plant and equipment	24	21,096	67.4	23,687	76.5
Intangible assets	25	2,699	8.6	940	3.0
Current tax assets	14	737	2.4	989	3.2
Deferred tax assets	14	148	0.5	3,413	11.0
Other assets	26	9,210	29.4	11,626	37.6
Total assets		2,709,503	8,653.2	2,235,745	7,224.4

Liabilities

	NOTE	2015		2014	
		HUF MILLION	EUR MILLION	HUF MILLION	EUR MILLION
Deposits and loans from banks	27	829,502	2,649.2	667,823	2,158.0
Deposits from customers	28	1,504,825	4,805.9	1,208,235	3,904.2
Subordinated loans	29	21,361	68.2	21,482	69.4
Issued bonds	30	3,516	11.2	2,768	8.9
Financial liabilities held for trading	16	62,381	199.2	61,233	197.9
Hedging derivative liabilities	21	16,020	51.2	7,612	24.6
Current tax liabilities	14	–	–	–	–
Deferred tax liabilities	14	868	2.8	–	–
Other liabilities	31	16,795	53.6	9,405	30.4
Other provisions		4,666	14.9	34,853	112.6
Total liabilities		2,459,934	7,856.2	2,013,411	6,506.0

Equity

	NOTE	2015		2014	
		HUF MILLION	EUR MILLION	HUF MILLION	EUR MILLION
Share capital	32	24,118	77.0	24,118	77.9
Capital reserve		3,900	12.5	3,900	12.6
Retained earnings		134,518	429.6	136,199	440.1
Statutory reserves	33	29,432	94.0	23,336	75.4
Valuation reserves		18,680	59.7	18,544	59.9
Net profit for the year		38,701	123.6	16,030	51.8
Total Equity attributable to the equity holder of the Bank		249,349	796.3	222,127	717.8
Minority interest		220	0.7	207	0.7
Total Equity		249,569	797.0	222,334	718.4
Total Liabilities and Equity		2,709,503	8,653.2	2,235,745	7,224.4

The accompanying notes (1-35) 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 years.

Financial statements (CONTINUED)

Consolidated Income Statement – 31 December 2015

	NOTE	2015		2014	
		HUF MILLION	EUR MILLION	HUF MILLION	EUR MILLION
Interest and similar income	6	91,592	292.5	99,468	321.4
Interest expense and similar charges	6	(27,656)	(88.3)	(34,178)	(110.4)
Net interest income	6	63,936	204.2	65,290	211.0
Fee and commission income	7	47,961	153.2	48,600	157.0
Fee and commission expense	7	(8,720)	(27.8)	(11,640)	(37.6)
Net fee and commission income	7	39,241	125.3	36,960	119.4
Dividend income	8	208	0.7	148	0.5
Net trading income	9	11,228	35.9	7,551	24.4
Net gain and loss on other financial instruments	10	1,301	4.2	12,400	40.1
Operating income		115,914	370.2	122,349	395.4
Impairment and losses on credit products	34	(9,757)	(31.2)	(10,739)	(34.7)
Impairment losses		–	–	(10,739)	(34.7)
Net financial activity result		106,157	339.0	111,610	360.6
Personnel expenses	11	(17,090)	(54.6)	(16,790)	(54.3)
General operating expenses	12	(43,364)	(138.5)	(41,595)	(134.4)
Provision on the compensation of FX loans	34	–	–	(33,000)	(106.6)
Other provision	34	(523)	(1.7)	(675)	(2.2)
Amortization and impairment on property, plant and equipments	24	(1,708)	(5.5)	(2,368)	(7.7)
Amortization and impairment on intangible assets	25	(421)	(1.3)	(478)	(1.5)
Other income	13	3,968	12.7	911	2.9
Operating costs		(59,138)	(188.9)	(93,995)	(303.7)
Gain / (losses) on investments	22	2,979	9.5	232	0.7
Gain / (losses) on investment properties		(212)	(0.00)	1,880	6.1
Profit before tax		49,786	159.0	19,727	63.7
Income tax expense	14	(11,085)	(35.4)	(3,697)	(11.9)
Net profit for the year		38,701	123.6	16,030	51.8

The accompanying notes (1-35) 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 years.

Financial statements (CONTINUED)

Consolidated statement of comprehensive income – 31 December 2014

(HUF million)

	NOTE	2015	2014
Net profit for the year		38,701	16,030
Movement in fair value reserve (available-for-sale financial assets)		3,331	(7,075)
Income tax on fair value reserve	14	(633)	1,344
Net movement in fair value reserve		2,698	(5,731)
Movement in cash-flow hedge reserve		(3,163)	11,568
Income tax on cash-flow hedge reserve	14	601	(2,198)
Net movement in cash-flow hedge reserve		(2,562)	9,370
Total comprehensive income for the year		38,837	19,669

The accompanying notes (1-35) form an integral part of these financial statements.

Financial statements (CONTINUED)

Consolidated statement of changes in Shareholder's equity – 31 December 2014

(HUF million)

	ORDINARY SHARES	CAPITAL RESERVE	RETAINED EARNINGS	STATUTORY RESERVES	VALUATION Fair value reserve	RESERVES Hedging reserve	NET PROFIT	TOTAL	NON- CONTROLLING INTEREST	TOTAL EQUITY
Balance at 1 January 2013	24,118	3,900	134,088	23,999	6,883	8,022	6,448	207,458	263	207,721
Net profit for the previous year	–	–	6,448	–	–	–	(6,448)	–	–	–
Total comprehensive income for the year	–	–	–	–	(5,731)	9,370	16,030	19,669	–	19,669
Dividend to equity holder	–	–	(5,000)	–	–	–	–	(5,000)	–	(5,000)
Business combination	–	–	–	–	–	–	–	–	(56)	(56)
Appropriations Transfer to retained earnings	–	–	663	(663)	–	–	–	–	–	–
Balance at 31 December 2014	24,118	3,900	136,199	23,336	1,152	17,392	16,030	222,127	207	222,334
Net profit for the previous year	–	–	16,030	–	–	–	(16,030)	–	–	–
Total comprehensive income for the year	–	–	–	–	2,698	(2,562)	38,701	38,837	–	38,837
Dividend to shareholder	–	–	(11,627)	–	–	–	–	(11,627)	–	(11,627)
Business combination	–	–	12	–	–	–	–	12	13	25
Appropriations Transfer to retained earnings	–	–	(6,096)	6,096	–	–	–	–	–	–
Balance at 31 December 2015	24,118	3,900	134,518	29,432	3,850	14,830	38,701	249,349	220	249,569

The accompanying notes (1-35) form an integral part of these financial statements.

Financial statements (CONTINUED)

Consolidated statement of cash-flows – 31 December 2014

Cash-flows from operating activities

(HUF million)

	NOTE	2014	2014
Profit before tax		49,786	19,727
Items not involving movement of cash:			
Depreciation and amortisation	24, 25	2,129	2,846
Scrapped and transferred fixed assets		–	–
Profit on disposal of property, plant and equipment		(12)	(45)
Net impairment and losses in credit products		(31,444)	33,448
Net loss/gain from cash-flow hedging assets		10,299	(936)
Foreign exchange loss on subordinated loans		(121)	1,227
Fair value change of investment properties		212	(1,879)
Foreign exchange loss/ (gain) on investment properties		(77)	(615)
Business combination		(124)	–
Income tax paid	14	(11,085)	(3,697)
Cash-flows from operating profits before changes in operating assets and liabilities		19,563	50,076
Change in financial assets held for trading		5,331	(24,871)
Change in current tax assets		3,210	(4,275)
Change in other assets		2,511	(640)
Change in current tax liabilities		1,143	(3,252)
Change in other liabilities		7,801	193
Change in loans and advances to customers		(73,460)	(73,648)
Change in deposits with other banks		(100,267)	(639,849)
Change in deposits from customers		296,590	141,213
Change in deposits from other banks		161,679	252,104
Change in financial liabilities held for trading		1,148	30,264
Net cash from operating activities		305,686	(322,761)

Cash-flows from investing activities

(HUF million)

	NOTE	2015	2014
Proceeds on sale of property, plant and equipment		25	160
Proceeds on sale of intangible assets		1,522	1,745
Addition of property, plant and equipment		(325)	(1,324)
Addition of intangible assets		(2,392)	(82)
Change in equity investments		1	–
Change in held-to-maturity investments		1,929	834
Change in available-for-sale financial assets		(309,337)	284,776
Change in investment properties		(191)	549
Net cash used in investing activities		(308,768)	286,658

Cash-flows from financing activities

(HUF million)

	NOTE	2015	2014
Change in issued bonds		748	(5,574)
Dividend paid		(11,627)	(5,000)
Net cash from financing activities		(10,879)	(10,574)
Net increase in cash		5,602	3,399
Cash at the beginning of the year	15	14,425	11,026
Cash at the end of the year	15	20,027	14,425

The accompanying notes (1-35) 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 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, Austria, with the ultimate parent company being UniCredito Italiano Spa.

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.

These financial statements were approved by the Supervisory Board on 17 February 2016.

2. Basis of preparation

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"), and all applicable interpretations issued by the International Financial Reporting Interpretations Committee of the IASB ("IFRIC"), as adopted by the EU.

b.) Basis of measurement

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

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.

These consolidated financial statements consolidate the accounts of the following entities: UniCredit Bank Hungary Zrt., UniCredit Jelzálogbank Zrt. ("Mortgage bank"), Arany Pénzügyi Lízing Zrt., Sas-Reál Kft., UniCredit Lízing Hungary Zrt., UniCredit Független Biztosításközvetítő Kft., UniCredit Operatív Lízing Kft. as subsidiaries and Europa Investment Fund as a special purpose vehicle (together the "Group").

These consolidated financial statements have been 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.

3. 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.) Consolidation principles

All entities directly or indirectly controlled by the Bank have been consolidated into these consolidated financial statements. These consolidated financial statements are based on the stand-alone reporting packages of the consolidated subsidiaries, which have also 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.

Notes to the financial statements (CONTINUED)

Investments in shares in companies, which are not consolidated 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 other comprehensive income. In cases where the fair value cannot be reliably determined, shares are carried at cost. When there is objective evidence that a financial asset is impaired, a loss is recorded in the consolidated income statement. As soon as the circumstances that 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.

b.) Consolidation procedures

When a subsidiary or associated company is acquired, the acquirer determines the related goodwill, which is recognised in the statement of financial position. Subsequently, goodwill is measured at cost less accumulated impairment losses.

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

c.) Comparatives

Certain items previously reported in the prior years' financial statements are restated and reclassified to provide consistency for presentation purposes, if applicable.

d.) Cash and cash equivalents

Cash and cash equivalents include nostros with the Central Bank and are carried at cost in the statement of financial position.

The amount of cash in the statement of cash flows is equal to the cash on hand from statement of financial position item Cash and unrestricted nostros with the Central Bank (see Note 15).

e.) 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. The Group does not classify any of its financial instruments as financial instruments at fair value through profit or loss.

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 consist 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 loans and receivables. These include certain debt instruments.

Available-for-sale financial assets are those non-derivative financial assets that are classified 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. Interest rate swaps are also used to hedge the exposure to changes in the fair values of fixed rate available-for-sale debt securities attributable to changes in market interest rates.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Notes to the financial statements (CONTINUED)

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income from the period when the cash flow hedge was effective remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss. In a fair value hedge relationship, any adjustment to a hedged item, for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

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 the 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 when the Group has transferred substantially all risks and rewards of ownership. (If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group shall determine whether it has retained control of the financial asset. In this case, if the Group has not retained control, it shall derecognise the financial asset, and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire.

iii) Measurement

Initial 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 and hedging 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 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 monthly, are reviewed at each reporting 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.

Subsequent measurement

Fair value measurement principles

The fair value measurement principles, applied by the Group, are described in Note 5.

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, except for those designated as hedged items in qualifying fair value hedge relationships, where changes in fair value attributable to the risk being hedged are recognised in the income statement. Gains and losses arising from a change in the fair value of derivatives designated as effective hedging instruments in a cash flow hedge relationship are recognised in the Cash flow hedge reserve. Any impairment loss on available-for-sale financial assets is recognised in the income statement.

Notes to the financial statements (CONTINUED)

f.) Transactions in foreign currency

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.

g.) 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 3.(e.) except for equity investments in associated companies that are measured based on Note 3.(a.).

h.) Property, plant and equipment

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment are reviewed periodically and items which are considered to have no further value are impaired in full.

i.) Intangible assets and goodwill

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

j.) 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	20

k.) Impairment on non-financial assets

If there is objective evidence that a non-financial asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e., the present value of future cash flow expected to originate from the asset. Any value adjustment is recognised in the income statement.

If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no impairment losses recognised in prior years.

l.) 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 by 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,

Notes to the financial statements (CONTINUED)

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.

m.) 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.

n.) Deposits from banks and customers

Deposits are cash amounts, accepted by the Group from other banks and its customers, and they serve as funds to the active side of the business. Deposits are initially measured at fair value, and subsequently at their amortised cost. The Group does not classify any deposits as financial liability at fair value through profit and loss.

o.) Issued bonds

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

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

p.) Equity elements

i) Statutory reserves

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 (based on the Bank's financial statements, prepared in accordance with the local GAAP) is required to be made in the Hungarian statutory accounts. The general reserve is set aside to offset potential future losses according to Hungarian Accounting and Banking Rules. Increases in the general reserve are treated as appropriations from retained earnings, and are not charged against income.

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 is 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. The total General Risk Reserve created until 2012 based on the Bank's risk weighted assets (1.25%) is reclassified to Retained Earnings according to a recent change of the 1996/CXII Act on Banking. This decision was based on the domestic implementation of the regulations of CRD IV / CRR.

Tied-up reserve

This reserve is an appropriation from the retained earnings, for future purchases of tangible or intangible assets, in order to obtain tax benefits. It is released to retained earnings in line with the expenditure for such assets. The amount that is utilised each year is reallocated again, up to the maximum level, based on the law in force.

ii) Valuation reserves

Valuation reserves are part of 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 3.(e.) above.

q.) 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.

Notes to the financial statements (CONTINUED)

The Group holds certain embedded derivative instruments. Their recognition and valuation rules are identical with those of the non-embedded derivatives.

r.) Financial Guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. The Group normally issues either short-term guarantees with an initial payment, or long term guarantees, for which it receives regular fee income. Financial guarantees are reviewed quarterly, and a provision is created in the amount of any expected payment. These provisions are included in other liabilities.

s.) 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 on which the Group's right to receive payment was 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. Net commissions and fees are included in the income statement as they are received and paid.

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 de-recognition.

Gains and losses on other equity investments

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

t.) 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 reporting date. The profit for the year is adjusted according to the relevant tax regulations to calculate the taxable income.

Deferred tax is provided by 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 statement of financial position 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 reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset in the statement of financial position after the analysis, carried out according to IAS 12.

Notes to the financial statements (CONTINUED)

u.) Events after the reporting date

Events after the reporting date are those events, favourable and unfavourable that occur between the reporting 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 reporting date (adjusting events after the reporting date); and those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

All adjusting events after reporting 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 reporting date, the appropriate disclosure thereof has been made in the consolidated financial statements.

v.) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components whose operating results are reviewed regularly by the Group to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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:

- CIB Includes the loans, deposits and other transactions and balances with corporate customers (excludes small enterprises) together with the results of trading activities and equity sales activities with customers. Includes the custody service transactions and balance.
- Retail Includes the loans, deposits and other transactions and balances with retail customers (includes small enterprises)
- Private Banking Includes the loans, deposits and other transactions and balances with private banking customers.
- 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 includes the head office costs (indirect and overhead) allocated on a reasonable basis. The business segment report is presented in Note 44.

w.) New standards and interpretations not yet adopted

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current period:

- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 18th December 2014 (amendments are to be applied for annual periods beginning on or after 1st January 2015),
- IFRIC 21 "Leases" adopted by the EU on 13th June 2014 (effective for annual periods beginning on or after 17th June 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Bank's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these separate financial statements, the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17th December 2014 (amendments are to be applied for annual periods beginning on or after 1st February 2015),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after 1st January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17th December 2014 (effective for annual periods beginning on or after 1st February 2015),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1st January 2016).

Notes to the financial statements (CONTINUED)

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at 03 March 2015 (the effective dates stated below is for IFRS in full):

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank/Group in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the Group's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” would not significantly impact the financial statements if applied as at the end of the reporting period.

4. 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 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 as well as the definition of eligible collaterals and the rules of their valuation are submitted as well as the definition of eligible collaterals and the rules of their valuation by the Credit Risk Officer and approved in general by the Management Board, in details by the Chief Executive Officer.

Client and transaction classification

All outstanding loans are reviewed in general monthly, in-depth at least quarterly on an individual basis or – below a certain threshold – within a collective assessment.

Clients are classified at least yearly based on a rating system, which incorporates qualitative and quantitative factors, or in case of retail clients the classification is based on scorecards.

The Group applies a rating master scale consisting of 26 notches within 10 rating classes. Thereof three notches serve for the defaulted customers, the others for the performing ones. Ratings refer to the probability of default (PD) according to the (group-wide used) master scale. (Certainly, in case of defaulted clients PD is 100%.)

Notes to the financial statements (CONTINUED)

Client classification is not equivalent to 'loans' classification.

Collateral

Principles and methods for the valuation of collateral securing the transactions of the Group involving risk-taking as well as certain legal stipulations affecting the collateral applied by the Group and the principles for the monitoring of collateral are set out in the collateral valuation rules.

General principle is that the collateral:

- shall be legally binding and recoverable;
- shall be directly accessible and
- appropriate to be liquidated in time.

The Group accepts and registers in its system the following types of collateral:

- Financial collateral held at own bank;
- Financial collateral held with other institutions;
- Insurance;
- Personal collateral – direct;
- Personal collateral – indirect;
- Real estate collateral;
- Assignment of receivables, pledge on receivables;
- Movable property collateral;
- Other collateral.

The basis for the valuation of collateral is the market value adjusted by the following factors:

- Collateral haircut: a percentage showing the expected loss (in per cent) of the market value in case of the realisation of the collateral. Haircut is separately defined for every collateral type.
- Currency haircut: in case of mismatch between the currency of the loan and that of the collateral, the Group applies currency haircut to take into account currency risk. The extent of haircut for each currency is specified centrally by the Market Risk department of UniCredit BA, and this is also the department, which carries out the regular review.
- Maturity haircut: maturity mismatch occurs on exceptional basis, if the term of the collateral/collateral agreement is shorter than that of the agreement for the commitment. In such cases a haircut must be applied.

In case of real estate collateral, the value is established by a technical expert who is independent from the credit process. The value of real estate shall be reviewed regularly in compliance with the legal provisions: at least once a year for non-residential real estate and once every 3 years for residential real estate. In case of residential real estate the Group applies statistical revaluation.

The price/value of financial collateral is updated daily in the collateral system.

Eligibility of guarantees and surety is subject to proper evaluation of the guarantor according to the respective internal rules.

Loan classification

The Group assesses whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash-flows of the asset that can be estimated reliably.

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

Assets obtained by the Group during the year by taking possession of collateral held as security against loans and advances have to be evaluated as well, taking into account the possibility of expected loss at the sale of that asset, however. The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operation.

Loans are classified in general monthly and going into details at least quarterly, individually or (below a certain threshold) collectively.

Individual classification is necessary if the total exposure of the client exceeds a certain limit predefined in the relevant internal regulation. In this case the classification has to be based on the expected cash-flows, evaluated and revised according to the following aspects:

- a) the credit rating of the customer or the partner: the financial position, the stability and the income-generating capacity of the customer or partner affected by the financial or investment service and issuer of the security, and any changes thereto;
- b) compliance with the rules of repayment (delay): delays in the repayment of the principal and its interests arising in connection with the repayment of the receivable;

Notes to the financial statements (CONTINUED)

- c) the country risk relating to the customer (in respect of both political and transfer risks) and any changes thereto;
- d) the value of collateral pledged in security, their liquidity and accessibility, and any changes therein;
- e) the re-saleability and liquidity of the item (the market conditions of supply and demand, the available market prices and participation in the issuer's equity capital in proportion to the investment);
- f) the future payment obligation recognized as a loss arising from the item.

For the purpose of evaluation, the criterion set out in point e) applies to the classification of investments, stocks received in payment for claims and off-balance sheet liabilities, and the criterion set out in point f) typically applies to the classification of off-balance sheet liabilities. In the process of classifying items, all of the criteria indicated above have to be taken into consideration in a way where the amount of loss expected in the future in relation to the item shall be assessed on the basis of points a)-c) and points e)-f) as a result of the lack of return, the future payment obligations recorded as a loss, and the expected costs of enforcement of the collateral. Subsequently, the value of collaterals relating to the given item shall be deducted from the probable future loss, following the order of enforcement. Time effect of the future cash-flows has also to be taken into consideration during the evaluation.

Collective impairment can be applied if the total exposure of the client does not reach the predefined limit. Impairment is calculated in this case also at individual level, but with a simplified – standardized – method: taking into account the overdue days and certain – statistically estimated – parameters of both the client and the loan. Any deviation from this result is allowed only by taking over the item into individual classification..

Distressed restructuring

Restructuring is to be considered distressed (and thus resulting in a default event) in case of restructuring of principal and interest, which is necessary because of the client's poor financial situation, and which results in a certain degree of debt forgiveness (that of principal, interests or fees, deferred payments), i.e. if the net present value of the loan is negatively affected by the restructuring, and if without the restructuring the customer would have got defaulted with high probability. Restructuring or re-aging for business considerations (e.g., the adjustment of the repayment schedule to the cash-flow of the client) does not constitute a default signal.

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 collection of outstandings.

Impairment loss

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

The Group allocates impairment for incurred but not reported loss (IBNR) according to IFRS based on the parent Group guidelines.

For predefined sub-portfolios expected loss is calculated based on the following formula:

$$EL = EaD \times PD \times LGD$$

Where

- EL** is expected loss,
- EaD** is exposure at default,
- PD** is probability of default (within one year), and
- LGD** is loss given default.

Also at sub-portfolio level the loss confirmation period (LCP) is defined (ranging 4-12 months), which shows the average time period between the deterioration of the client's financial situation and its detection by the Group.

IBNR is calculated by multiplying EL by LCP, and increase/decrease is booked accordingly.

Write-off policy

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

Notes to the financial statements (CONTINUED)

Current tendencies in lending

The industrial sector analysis and collateral details of loan portfolios are presented in Note 20 and the details of exposure of credit risk are presented in Note 45.

In 2015 settlement (based on Act XL/2014) and FX conversion (based on Act LXXVII/2014)) had a great impact on the PI portfolio. As a result of the conversion our FX/FX based portfolio shrank to a very low level, while the compensation coming from settlement temporarily made a good effect on portfolio quality. In the second half of the year higher activity could be observed in lending. The quality of the newly disbursed portfolio is still very good.

As for new retail loans, the Group applies selectivity with more focus on products and segments with lower risk profile, also in accordance with the legal provisions implemented in 2010 about responsible lending and with Holding Policies and Guidelines.

The Group lays strong emphasis on all elements of collection and – in addition to the programs prescribed by law – it continuously offers the possibility of renegotiation to its private individual clients in payment delay due to financial problems (e. g. termination of employment) or unfavourable economic conditions.

The Group maintained actively its contract signed in 2012 with the National Asset Management Company (Nemzeti Eszközkezelő, NET) and, on the basis of individual assessment and decision, allows debtors fulfilling the criteria set forth in the respective legal regulations to participate in the program whereby the NET purchases the mortgaged real estate, pays the purchase price to the Bank as repayment to the outstanding loan and the Bank releases the rest of the loan, with the debtor continuing to remain in the property as renter.

In the corporate segment in 2014 the Group started new initiatives in order to strengthen our financing activity. Simultaneously, we continued to lay special emphasis on monitoring, restructuring, and collection activity. In case of corporate portfolio, the Group's lending policy is differentiated by sectors and it defines a selective risk approach to new transactions in the most endangered sectors. A significant part of the problem loans belonged to real estate financing in 2014 as well. Thanks to our prudent risk taking policy, however, the portfolio composition in the other sectors is still balanced regarding the problem-free exposures and among the clients handed over to special treatment in 2014.

ii) Liquidity risk

Liquidity risk arises if the bank is unable to meet due obligations associated with its financial liabilities in time in any currency.

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 has been gaining in importance in recent years ensuring market confidence and protecting the capital base while permitting effective growth. UniCredit Group has created its own short-term and structural liquidity models similar to the efforts of the Basel Committee. The Group takes into account also the local legal requirements of asset, deposit coverage ratio and foreign funding adequacy ratio limitations and monitors the Basel III liquidity ratios besides its own internal regulations in managing liquidity.

Limits regarding the maximum net outflow of funds in a particular period (typically short-term) and in a particular currency and all currencies are in place and are monitored daily. Long-term funding plan and structural liquidity are 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 several general and 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 structural liquidity limits of the Group were observed continuously in 2015. 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 was used as a key figure in managing the Group's liquidity and funding. Beyond the limits on ratios, absolute gap limits are in place to decrease central funding and liquidity dependency.

The liquidity structure of statement of financial positions for 2014 and 2015 are represented in Note 37 and the maturity analysis of derivative financial instruments are represented in Notes 39 and 40.

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 default) will affect the Group's income or the fair value of its holdings of financial instruments.

Market risk management encompasses all activities in connection with the Group's International Markets (Treasury) Management ("ALM") operations and the management of the statement of financial position structure. Risk positions are aggregated at least daily, analysed by the

Notes to the financial statements (CONTINUED)

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 Markets' operations.

The Group uses the risk management procedures of Bank Austria Group (as a subgroup of UniCredit Group) that complies with UniCredit standards and implements UniCredit Group's Internal Model (IMOD). These procedures provide aggregate data and make available the major risk parameters for the various trading operations daily. 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.

IMOD, the UniCredit Group-wide pure historic VaR model has been used from 1 January 2011. It is currently implemented in the "UGRM" system of UniCredit Group.

An internal risk model is used for computing economic capital in Hungary, but the Pillar 1 capital requirement is calculated by the regulatory standard method. The computation of economic capital takes into account the following parameters: confidence interval of 99.9%, 90-day holding period. 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. The VaR position of the Group is presented in Note 47.

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 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 web application "ERCONIS" maintained centrally in Vienna, analysed by portfolio, income statement item and currency.

The Group uses the "MARCONIS" web-based system developed by the Bank Austria to comprehensively and systematically review the market conformity of its 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 values (interest rate / spread changes of 0.01 %) by repricing band, FX sensitivities and sensitivities in equities and emerging-market/high-yield positions (by issue, issuer and market) by delta equivalents. 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 repricing band, basis point totals per currency and/or per repricing 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 issue and repricing band. The BPV and credit spread points analysis are presented in Note 48. The interest rate repricing analysis is presented in Note 38.

Management of statement of financial position 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 are 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 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.

The statement of foreign exchange exposures (currency structure of assets and liabilities) is presented in Note 36.

iv) Compliance with CRD IV / CRR (Basel III)

The successful implementation of CRDIV/CRR from 2014 was managed as a group issue, and is covered mainly with group-wide solutions.

Notes to the financial statements (CONTINUED)

The Group started with the standardised approach of Basel II in 2008, and received the licence to apply foundation internal based approach (F-IRB) from 1 July 2011 for the large corporate, mid-corporate, and bank portfolio.

- The IRB roll-out is being carried out locally. Model development is carried out partially centrally and partially locally.
- The decentralized approach means that the development of models complying with the requirements of A-IRB is done locally by the Group with the support of UniCredit Spa. and Bank Austria AG, they give 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 local models and the compliance to local regulatory requirements, while for UniCredit Group wide models it is the task of UniCredit Group.

The approval of the developed models and methods has to be confirmed (by a non-binding opinion), and the processes and data quality have to be validated by a unit independent from the business, and are audited by Internal Audit as well.

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, client 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, conduct and compliance risk are included in the operational risk definition.

UniCredit Bank Hungary is permitted and has used the Advanced Measurement Approach (AMA) since 1 July 2009, complying with all the quantitative and qualitative requirements set by laws and regulations, the supervisor or even by internal Group rules.

The Group's Management Board is responsible for the effective oversight over operational risk exposure. The operational risk office (i.e. Operational and Reputational Risk Controlling) notifies the Management Board (partly via the Internal Control Business Committee, a.k.a. ICBC) 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, coming in for adequate support in order to perform their duties;
- the relevant committees are informed on changes in risk profiles and exposure, supported by the Operational and Reputational Risk Controlling;
- major operational risk drivers are identified, also examining reports from the Operational and Reputational Risk Controlling unit, Compliance and Internal Audit.

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

In the Group, the Operational and Reputational Risk Committee shall act as a decision-making body for issues arising from and connected with operational and reputational risks.

Members of the Committee are

- the Chief Risk Officer
- the Divisional Operational Risk Managers and
- the Head or deputy Head of Identity & Communication.

Permanent invitees are the Head of Organizational Department, representatives of Internal Audit and the internal auditor of UniCredit Jelzálogbank concerning in the related issues of the agenda.¹

¹From Q4/2015 on the leasing companies of the Group are also represented at the meeting.

Notes to the financial statements (CONTINUED)

The Operational and Reputational Risk Committee (OpRRiCo) holds its meeting regularly, once a quarter. The extraordinary meeting of the Committee may be summoned by any of the members as required or initiated by Operational and Reputational Risk Controlling and Internal Audit with the specification of the associated reasons.

Detection, monitoring, and mitigation of operational risk and the setting up of action plans are also supported by the Permanent Workgroup having its sessions quarterly. Topics and proposals discussed in the Workgroup are the base for presentations towards OpRRiCo and ICBC.

Internal Audit is responsible for evaluating periodically (at least annually) the operational risk management system and measurement functionality and effectiveness as well as its compliance with the regulatory requirements. Internal Audit monitors also the process of data collection and data management.

The centralized Operational and Reputational Risk Controlling unit has to operate the 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.

Operational and Reputational Risk Controlling annually prepares a self-assessment on the compliance of the local operational risk management, control and measurement system with UniCredit Group standards and internal rules. UniCredit Group Internal Validation unit gives a non-binding opinion on the self-assessment, and local Internal Audit checks it as well. At last it has to be approved by the Management Board of the Group.

5. 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 3.(m.), (n.) and risk management policy 4.(i.).

ii.) Determining fair value

As far as valuation prices and techniques of financial instruments are concerned, the Group follows a measurement using a three-level fair valuation hierarchy, which reflects the significance of the inputs used in measuring fair values and contains the following three levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e., derived from prices),

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classification of financial instruments is described in Note 39.

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.

The fair value valuation techniques for loans and advances, and deposits are described in Note 43.

In accordance with IFRS requirements the Bank books CVA (Credit Valuation Adjustment) as an adjustment to the fair value of its OTC derivative trades. The CVA calculation is performed centrally by Bank Austria on a quarterly basis.

iii.) 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 reporting 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 by using pricing models or discounted cash-flow techniques.

Notes to the financial statements (CONTINUED)

Where discounted cash-flow techniques are used, the estimated future cash-flows are based on the management's best estimates, and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at reporting 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 reporting 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 liquid positions. Trading assets and available-for-sale assets are adjusted by fair value adjustments figures.

For performing loans the fair value is taken from Bank Austria's model, while for non-performing loans we make the assumption that the book value is the fair value. For the calculation of the performing loans' FV the liquidity profiles of Bank Austria and the Bank are used together with the risk adjusted zero coupon curve. For the discount factors of Assets the sum of the risk free rate, the expected loss and unexpected loss, for the liabilities the sum of the risk free rate and own credit spread (liquidity spread) are used, in line with the Group methodology.

The fair values for loans and deposits are shown at an aggregated product level and are not available on individual item level.

iv.) Effects of sovereign debt crisis and earlier credit crunch in valuations

- Debt securities classified as Available for Sale were not impaired, as the Group doubts neither the issuers' (Hungarian Government, local Mortgage Banks) ability, nor their willingness to fulfil their due payments. The few price losses observed through market prices, hence, were realised in the available-for-sale Reserves in the Statement of Changes in Shareholder's Equity.
- The Group was not engaged in securitization, nor does it possess financial instruments particularly hit by the 2008 market nor the Greek default, such as credit derivatives or structured OTC products (e.g. CDOs, SIV) or assets affected by recent sovereign crises. The mortgage bonds issued by Jelzálogbank are covered bonds, the assets staying in the mortgage bank's portfolio and complying with the standards of the mortgage bank law, thus qualifying for the state subsidy schemes.
- The Group is exposed towards the Hungarian Government, but the vast majority of those exposures are liquidity reserves, mostly short-term government bonds, and bills.
- The major effect of the long lasting crisis and the recent Hungary-specific concerns are that the liquidity charges (CDS of the Group) and the country spread of Hungary have widened, HUF yields have risen. These impact the Bank through the re-pricing of its funding mix incorporated in the net interest income of loans and deposits, in tandem with the corresponding hedging instruments, such as cross-currency basis swaps (designated as cash flow hedge) that do cause swings in the equity but do smooth the yearly income statements.

6. Net interest income

	(HUF million)	
	2015	2014
Interest and similar income		
Interest income from Central Bank	9,403	5,071
Interest income from banks	2,079	2,053
Interest income from customers	41,733	49,174
Interest income on trading financial instruments	249	448
Interest income on hedge derivatives	28,135	27,903
Interest income on available-for-sale financial assets	9,940	14,622
Interest income on held-to-maturity assets	53	197
Total	91,592	99,468
Interest expense and similar charges		
Interest expense to Central Bank	(116)	(20)
Interest expense to banks	(1,264)	(2,576)
Interest expense related to hedge derivatives	(19,003)	(20,324)
Interest expense to customers	(8,474)	(11,711)
Interest expense on subordinated loans	(66)	(111)
Interest expense on issued bonds	1,267	564
Total	(27,656)	(34,178)
Net interest income	63,936	65,290

Notes to the financial statements (CONTINUED)

7. Net fee and commission income

(HUF million)

	2015	2014
Fees and commission income		
Payment transaction fees	37,825	39,156
Custody service fees	3,240	3,056
Brokerage	4,799	4,343
Financial guarantee fees	1,782	1,822
Other financial fees and commissions	315	223
Total	47,961	48,600
Fees and commission expense		
Payment transaction fees	(6,697)	(9,790)
Custody service fees	(709)	(675)
Brokerage	(208)	(206)
Financial guarantee fees	(532)	(318)
Other financial fees and commissions	(574)	(651)
Total	(8,720)	(11,640)
Net fee and commission income	39,241	36,960

8. Dividend income

(HUF million)

	2015	2014
Dividends on investments	208	148
Total	208	148

9. Net trading income

(HUF million)

	2015	2014
Gain/(Loss) on foreign exchange, net	12,549	10,155
Gain/(Loss) on trading interest rate swaps, net	(864)	(3,021)
Gain/(Loss) on debt securities, net	(10)	263
Gain/(Loss) on equities, net	2	—
Gain/(Loss) on trading FRAs, net	(462)	128
Other trading income	13	26
Total	11,228	7,551

Notes to the financial statements (CONTINUED)

10. Net gain and loss on other financial instruments

(HUF million)

	2015	2014
Gain		
Available-for-sale debt securities	2,915	22,253
Total	2,915	22,253
Loss		
Available-for-sale debt securities	(1,614)	(9,853)
Total	(1,614)	(9,853)
Net gain on other financial instruments	1,301	12,400

11. Personnel expenses

(HUF million)

	2015	2014
Wages and salaries	12,470	12,123
Statutory social-security contributions	3,372	3,333
Other employee benefits	986	1,079
Employer's contributions	262	255
Total	17,090	16,790

The number of employees (in full time equivalent) was 1,700.3 on 31st December 2015 (2014: 1,732.9).

HUF 212 million out of the personnel expenses were accounted for as integration cost.

12. General operating expenses

(HUF million)

	2015	2014
Indirect tax expense and fees to authorities	31,969	29,684
Renting costs and operating expenses of property	2,422	2,705
Advertising	553	715
Information technology costs	5,814	5,472
Material and office equipments costs	219	332
Other administrative expenses	2,387	2,687
Total	43,364	41,595

HUF 438 million out of the general operating expenses were accounted for as integration cost.

Notes to the financial statements (CONTINUED)

13. Other income and expenses

(HUF million)

	2015	2014
Operating income		
Income related to foreign currency loans converted to HUF	3,331	–
Renting activity	1,435	1,226
Service transfer fees received	8	53
Indemnity received	8	14
Other	–	171
Total	4,782	1,464
Operating expenses		
Expenses related to rented investment properties	(272)	(308)
Indemnity paid	(132)	–
Cost of workout	(130)	–
Other	(280)	(245)
Total	(814)	(553)
Net other operating income	3,968	911

14. 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 year 2015 for the tax base up to HUF 500 million was 10%; for the tax base exceeding HUF 500 million the rate was 19%. The Bank has to pay the additional supplementary tax to income earned on special loans.

Tax expense for the year

(HUF million)

	2015	2014
Current tax expense	6,869	10,200
Adjustments for prior years	115	211
Total	6,984	10,411
Deferred tax (income)	4,101	(6,714)
Total income tax expense in income statement	11,085	3,697

Notes to the financial statements (CONTINUED)

Reconciliation of effective tax rate

	2015		2014	
	%	HUF MILLION	%	HUF MILLION
Profit before tax		49,786		19,727
Income tax using the domestic corporate tax rate	18.9	9,390	18.5	3,656
Supplementary corporate tax for banks	0.3	173	1.0	196
Adjustments for prior years	(0.1)	(37)	0.3	55
Tax effects of income/expenses exempt from corporate tax	3.2	1,572	(1.1)	(205)
Income/expenses giving rise to permanent differences:				
Other	0.0	(13)	0.0	(5)
Total	22.3	11,085	18.7	3,697

Balances, related to taxation

(HUF million)

	2015			2014		
	ASSETS	LIABILITIES	NET	ASSETS	LIABILITIES	NET
Current tax assets / (liabilities) at year-end	(737)	–	(737)	(989)	–	(989)
Deferred tax assets / (liabilities)						
Available-for-sale securities	271	632	903	(36)	306	270
Cash-flow hedges	–	3,479	3,479	–	4,080	4,080
Tax effect on business combination	–	–	–	–	–	–
Allowances for loan losses (IBNR)	(737)	–	(737)	(992)	–	(992)
Legal reserve (General risk reserve)	–	–	–	–	–	–
Property and equipment from tied up capital	(272)	95	(177)	(3)	20	17
Effect of items, increasing / (decreasing) the local tax base	(12,084)	9,336	(2,748)	(8,812)	2,024	(6,788)
Netting effect	12,674	(12,674)	–	6,430	(6,430)	–
Total deferred tax assets / (liabilities)	(148)	868	720	(3,413)	–	(3,413)
Total tax assets / (liabilities)	(885)	868	(17)	(4,402)	–	(4,402)

Movements in temporary differences during the year – 2015

(HUF million)

	OPENING BALANCE	RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT	RECOGNISED IN OCI	CLOSING BALANCE
Available-for-sale securities	270	–	633	903
Cash-flow hedges	4,080	–	(601)	3,479
Tax effect on business combination	–	–	–	–
Allowances for loans (IBNR)	(992)	255	–	(737)
Legal reserve (General risk reserve)	–	–	–	–
Property and equipment from tied up capital	17	(194)	–	(177)
Effect of items, increasing /(decreasing) the local tax base	(6,788)	4,040	–	(2,748)
Total	(3,413)	4,101	32	720

Movements in temporary differences during the year – 2014

(HUF million)

	OPENING BALANCE	RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT	RECOGNISED IN OCI	CLOSING BALANCE
Available-for-sale securities	1,614	–	(1,344)	270
Cash-flow hedges	1,882	–	2,198	4,080
Tax effect on business combination	–	–	–	–
Allowances for loans (IBNR)	(954)	(38)	–	(992)
Legal reserve (General risk reserve)	–	–	–	–
Property and equipment from tied up capital	262	(245)	–	17
Effect of items, increasing /(decreasing) the local tax base	(357)	(6,431)	–	(6,788)
Total	2,447	(6,714)	854	(3,413)

Notes to the financial statements (CONTINUED)

15. Cash and unrestricted balance with the Central Bank

(HUF million)

	2015	2014
Cash on hand	14 878	14 425
Unrestricted balance with the Central Bank	5 149	–
Total	20 027	14 425

16. Financial instruments held for trading

(HUF million)

	2015	2014
Financial assets held for trading		
State treasury bills	569	847
State bonds	6,105	2,478
Other bonds	1,055	231
Equity securities	5	9
<i>Positive fair value of derivatives</i>		
FX derivatives	5,814	13,701
Interest rate derivatives	54,900	56,883
Commodity derivatives	370	–
Total	68,818	74,149
Financial liabilities held for trading		
<i>Negative fair value of derivatives</i>		
FX derivatives	5,511	6,865
Interest rate derivatives	56,500	54,368
Commodity derivatives	370	–
Total	62,381	61,233

17. Available-for-sale financial assets

(HUF million)

	2015	2014
State treasury bills	–	25,645
State bonds	550,330	223,299
Other bonds	23,601	13,468
Equities	1,472	323
Total	575,403	262,735
Impairment	–	–
Total	575,403	262,735

18. Held-to-maturity investments

(HUF million)

	2015	2014
State bonds	–	1,926
Mortgage bonds	438	441
Total	438	2,367

The market value of the held-to-maturity securities portfolio as of 31st December 2015 is HUF 458 million (2014: HUF 2,456 million).

Notes to the financial statements (CONTINUED)

19. Placements with, and loans and advances to banks

(HUF million)

	2015	2014
Placements with Central Bank		
Maturity less than one year	643,806	725,893
Loans and advance to other banks		
Nostros with other banks	109,824	39,760
Maturity less than one year	133,878	29,652
Maturity more than one year	22,878	14,814
Total	910,386	810,119

20. Loans and advances to customers

(HUF million)

	2015	2014
Private and commercial:		
Maturity less than one year	376,151	460,289
Maturity more than one year	729,051	627,853
Securities, recognised as loans	13,232	1,502
Total	1,118,434	1,089,644
Provision for impairment and losses on credit products (Note 34)	(61,420)	(106,875)
Total	1,057,014	982,769

A. Analysis by industrial sector

	2015		2014	
	HUF MILLION	%	HUF MILLION	%
Private clients	239,584	21.42	304,929	27.98
Real estate finance	199,115	17.80	179,759	16.50
Transportation	121,603	10.87	88,234	8.10
Trade	116,678	10.44	115,309	10.58
Financial activities	79,622	7.12	90,842	8.34
Machine industry	62,736	5.61	34,126	3.13
Food processing	58,956	5.27	35,187	3.23
Construction	47,317	4.23	44,402	4.07
Chemicals / Pharmaceutical	38,073	3.40	37,424	3.44
Community	32,599	2.91	75,475	6.93
Light industry	26,134	2.34	20,788	1.91
Metallurgy	25,570	2.30	20,838	1.91
Agriculture	24,003	2.15	15,724	1.44
Electric energy industry	12,592	1.13	4,611	0.42
Catering trade	7,535	0.67	8,774	0.81
Communication	2,553	0.23	5,390	0.49
Mining	430	0.01	417	0.04
Other	23,334	2.10	7,415	0.68
Total	1,118,434	100.00	1,089,644	100.00

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)

	2015	2014
Against individually impaired		
Warrant and guarantees	658	1,511
Cautions	97	618
Property	17,548	28,275
Debt securities	–	–
Equities	–	–
Others	61	579
Against collectively impaired		
Warrant and guarantees	232	469
Cautions	108	305
Property	16,723	32,029
Debt securities	–	–
Equities	2	–
Others	6	14
Against past due, but not impaired		
Warrant and guarantees	37	80
Cautions	11	19
Property	4,389	3,534
Debt securities	–	–
Equities	–	–
Others	30	246
Against neither past due nor impaired		
Warrant and guarantees	53,597	30,664
Cautions	21,205	19,405
Property	265,210	229,377
Debt securities	1,447	5,851
Equities	2,304	1,072
Others	24,057	38,188

The above collaterals also cover the credit facilities, granted not disbursed. Those are detailed in Note 35.

21. Hedging derivative instruments

(HUF million)

	2015	2014
Derivative assets held for risk management purposes		
Interest rate swaps	29,444	34,498
Total	29,444	34,498
Derivative liabilities held for risk management purposes		
Interest rate swap	16,020	7,612
Total	16,020	7,612

Specific details of the cash-flow hedging principles and effectiveness tests are summarized in a separate document.

Notes to the financial statements (CONTINUED)

22. Equity investments

(HUF million)

	2015	2014
Other investments	–	1

As of 31 December 2015 investments in consolidated subsidiaries were as follows:

(HUF million)

NAME OF INVESTMENT	GROSS BOOK VALUE	SHAREHOLDER'S EQUITY
UniCredit Jelzálogbank Zrt.	3,761	15,790
Arany Pénzügyi Lízing Zrt.	453	3,925
Sas-Reál Kft.	750	799
UniCredit Leasing Hungary Zrt.	–	205
UniCredit Operatív Lízing Kft.	3	6
UniCredit Független Biztosításközvetítő Kft.	5	85

All above investments are in companies incorporated in Hungary. Apart from these investments, the Bank holds majority interest in an SPV, Europa Investment Fund.

The Fund is consolidated in these financial statements, since the Group has the power to govern it, and is exposed to the volatility of its returns.

In October 2015, the Group acquired 100% of the shares in UniCredit Leasing Zrt. and UniCredit Független Biztosításközvetítő Kft. The cash consideration transferred were equal to the fair value of the identifiable net assets acquired at the acquisition date, therefore no goodwill has been recognised from the acquisition.

As of 24th September 2015, the Group established a new company named UniCredit Operatív Lízing Kft., the main activity of the company is providing car rental service.

23. Investment properties

(HUF million)

	2015	2014
Investment property in usage	14,083	14,027
Total	14,083	14,027

The Group's investment properties are held in Europa Investment Fund, of which 98.4% (2014: 98.5%) of the units is owned by the Bank.

The investment properties are regularly valued by an independent real estate appraiser company as required by the respective law. The valuation methods applied by the appraiser company are compliant with the regulations in IFRS 13.

The investment properties in use are valued at fair market value.

These properties earned HUF 1,266 million rental income in 2015 (2014: HUF 1,045 million).

Notes to the financial statements (CONTINUED)

24. Property, plant and equipment

Movement in property, plant and equipment

(HUF million)

	ACQUISITION COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AT THE BEGINNING OF THE YEAR	BUSINESS COMBINATION	ADDITIONS	DISPOSALS NET	OTHER MOVEMENT	DEPRECIATION & SCRAPPING	CARRYING AMOUNT AT THE END OF THE YEAR
2015								
Land and buildings	29,591	(8,246)	–	14	(272)	(32)	(916)	20,139
Office equipment	9,211	(7,126)	52	199	–	(945)	(726)	665
Motor vehicles	524	(304)	2	128	(13)	–	(67)	270
Capital work in progress	37	–	–	325	(341)	–	1	22
Total	39,363	(15,676)	54	666	(626)	(977)	(1,708)	21,096
2014								
Land and buildings	31,564	(6,659)	–	768	–	(2,920)	(1,408)	21,345
Office equipment	8,180	(6,985)	–	561	–	1,175	(846)	2,085
Motor vehicles	953	(588)	–	83	(115)	–	(113)	220
Capital work in progress	143	(17)	–	723	(811)	–	(1)	37
Total	40,840	(14,249)	–	2,135	(926)	(1,745)	(2,368)	23,687

HUF 38 million out of the Depreciation expense on Property, plant and equipment were accounted for as integration cost.

25. Intangible assets

Movement in intangible assets

(HUF million)

	ACQUISITION COST AT THE BEGINNING OF THE YEAR	ACCUMULATED DEPRECIATION AT THE BEGINNING OF THE YEAR	BUSINESS COMBINATION	ADDITIONS	DISPOSALS NET	OTHER MOVEMENT	DEPRECIATION & SCRAPPING	CARRYING AMOUNT AT THE END OF THE YEAR
2015								
Rental rights	274	(252)	–	3	–	(15)	(10)	–
Licenses	346	(228)	–	395	–	(22)	(78)	413
Software	10,904	(10,104)	333	1,994	–	(508)	(333)	2,286
Total	11,524	(10,584)	333	2,392	–	(545)	(421)	2,699
2014								
Rental rights	272	(240)	–	4	–	–	(13)	23
Licenses	277	(202)	–	67	–	–	(25)	117
Software	10,891	(9,662)	–	11	–	–	(440)	800
Total	11,440	(10,104)	–	82	–	–	(478)	940

26. Other assets

(HUF million)

	2015	2014
Real estate	4,577	7,175
Trade receivables, advances and other receivables	2,283	2,471
Accrued income and prepaid expenses	1,816	2,002
Other	614	63
Total	9,290	11,711
Impairment losses	(80)	(85)
Total	9,210	11,626

Notes to the financial statements (CONTINUED)

27. Deposits and loans from banks

(HUF million)

	2015	2014
Loans from Central Bank		
Maturity less than one year	49,965	14,017
Maturity more than one year	90,889	56,024
Total	140,854	70,041
Loans and deposits from other banks		
Maturity less than one year	382,921	462,160
Maturity more than one year	305,727	135,622
Total	688,648	597,782
Total	829,502	667,823

28. Deposits from customers

(HUF million)

	2015	2014
Maturity less than one year	1,487,388	1,180,169
Maturity more than one year	17,437	28,066
Total	1,504,825	1,208,235

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.

29. Subordinated loans

(HUF million)

	2015	2014
Bank Austria AG	10,726	10,787
Bank Austria AG	10,635	10,695
Total subordinated loans	21,361	21,482

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 19th December, 2001 the loans were consolidated and converted into EUR.

The annual extension of the above loans was discontinued in 2013. Their final maturity is the end of 2017.

30. Issued mortgage bonds

(HUF million)

	2015	2014
Maturity less than one year	485	290
Maturity more than one year	3,031	2,478
Total	3,516	2,768

Notes to the financial statements (CONTINUED)

31. Other liabilities

(HUF million)

	2015	2014
Accrued expenses and prepaid income	9,881	4,951
Provision on guarantees and unutilised loans	354	744
Trade payable	2,921	611
Other taxes payable	3,356	2,815
Other	283	284
Total	16,795	9,405

32. Share capital

(HUF million)

	2015	2014
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 Bank Austria AG.

33. Statutory reserves

(HUF million)

	GENERAL RESERVE	TIED-UP RESERVE	TOTAL
Balance at 31 st December 2014	23,232	104	23,336
Appropriations from retained earnings	5,700	396	6,096
Balance at 31 st December 2015	28,932	500	29,432

34. Impairments and provisions

34.1 Impairments and provisions on credit products

(HUF million)

	LOANS	GUARANTEES AND UNUTILISED LOANS	TOTAL FINANCIAL INSTRUMENTS
Balance 31st December 2014	106,875	744	107,619
Write-offs	(6,826)	–	(6,826)
Amounts released	(21,538)	(709)	(22,247)
Additional impairment and provisions	27,505	311	27,816
FX loan conversion	(43,959)	–	(43,959)
Effect of FX rate fluctuation	(885)	–	(885)
Business combination	251	8	259
As on 31st December 2015	61,423	354	61,777
Net movement in impairment and provisions	(859)	(398)	(1,257)
Write-offs	6,826	–	6,826
Net amount charged to the income statement	5,967	(398)	5,569
Receivables written-off	4,188	–	4,188
Total charged to the income statement, excluding the effect of FX rate fluctuation	10,155	(398)	9,757

Notes to the financial statements (CONTINUED)

34.2 Other impairments and provisions

(HUF million)

PROVISION MOVEMENT ON NON-CREDIT RISK ITEMS	
Balance 31st December 2014	34,853
Write-offs	(31,779)
Amounts released	(248)
Additional impairment provisions	1,801
Effect of FX rate	(1)
Business combination	40
As at 31st December 2015	4,666
Net movement in impairment provisions	(30,227)
Write-offs	31,779
Net amount charged to the income statement	1,552

The methods and assumptions applied in the calculation of provisions are described in points 3.m) and 4.

Effects of the laws relating to consumers' loans

According to Act XXXVIII of 2014 on Settlement of certain issues of financial institutes' consumer loan contracts of the Curia and Act XL of 2014 on Settlement rules and other regulations in connection with Act XXXVIII of 2014, a refund obligation arises in the Group to its clients if it charged foreign exchange margin to clients or applied unfair interest, commission or fee increases – in connection with contracts bounded between 1st May, 2004 and 26th June, 2014 and not closed until 26th July, 2009.

The settlement obligation concerns the consumer loan contracts closed before 26th June, 2009 if the Bank is aware that the receivable from customer is not statute barred and the consumer can verify that the assigned receivable of the Bank will be enforced by a debt collector, that is not obliged to settle.

78,976 contracts are affected by the above rules, of which 8,111 contracts are assigned contracts. The Group's management has made an estimation of the affected repayment obligation and created HUF 33,004 million provision within other provisions against the profit or loss.

According to the above mentioned Acts, the settlement occurred in 2015 excluding sold receivables, in case of which the consumers could ask for settlement by the debt collector until 31st December, 2015. The debt collector can ask for refund for the payments to consumers, for the purchase price pro rata refund of the decreasing receivable resulted by the settlement. There is no deadline prescribed by the law, therefore HUF 2,126 million provision is considered to be necessary at 31st December 2015 for expected future debt collectors' claims.

Based on the prescriptions of IFRS, the FX loans converted to HUF and FX mortgage loans had been de-recognised and new HUF loans have been recognised. In case of loans in defaulted category, the cost at recognition of these new loans shows the estimated returns before the conversion.

35. Commitments and contingent liabilities

As of 31st December 2015, the Group had the following commitments and contingent liabilities (in nominal values):

(HUF million)

	2015	2014
Loan and overdraft facilities granted not disbursed	733,498	613,288
Financial guarantees	247,620	219,179
Letters of credit	24,179	41,090
FX spot sales (notional)	461,503	170,135

As of 31st December 2015, the total face value of client assets held in safe custody by the Group was HUF 3,390,035 million (2014: HUF 3,471,823 million).



I'd rather play basketball.

Let's talk about making the right investments.

Nina's father thinks she has a future as a dancer, but she has other plans. What exactly? Well, actually, she changes her mind every day ... basketball player, pop singer, pianist, actress. Right now, she's probably just not mature enough to invest seriously in her future. But Nina's father doesn't see that. He could use some wise advice.

Everyone has different goals and needs – and everyone can use a good consultant to help meet them. That's why we take care of each of our customers by tailoring our solutions to their individual needs.

This premium approach is especially popular with our clients in Germany, thanks to the FinanzKonzept project, which provides an interactive consulting platform for integrated advice.

This is financial counseling 2.0: Smart, transparent, available via video and telephone, from advisors with the right skills. We are doing this because, in a world of data and numbers, it makes a difference to have a personal relationship with clients and figure out together what to expect from the future.

Supervisory Board and Management Board

UniCredit Bank Hungary Zrt.

SUPERVISORY BOARD

DR. ERICH HAMPEL **Chairman**

SILVANO SILVESTRI **Deputy Chairman**

CSILLA IHÁSZ **Members**
GERHARD DESCHKAN
ENRICO MINNITI
DR. PETTKÓ-SZANDTNER JUDIT
BOLYÁN RÓBERT
HORVÁTH GÁBOR

MANAGEMENT BOARD

DR. PATAI MIHÁLY **Chairman and CEO**

TÁTRAI BERNADETT **Head of Retail Division**

ROBERTO FIORINI **Head of Corporate, Investment Banking
and Private Banking Division**

LJUBISA TESIC **Chief Financial Officer**

TÓTH BALÁZS **Chief Risk Officer**

SÁNDOR MÁTYÁS **Head of Operation Division**

Supervisory Board and Management Board (CONTINUED)

UniCredit Jelzálogbank Zrt.

SUPERVISORY BOARD

Ljubisa Tesic

Chairman

Tátrai Bernadett

Members

Dr. Pettkő-Szandtner Judit

Sipos József

Mátyás Sándor

Tóth Balázs

MANAGEMENT BOARD

Pórfy György

Chairman

Novákné Bejczy Katalin

Members

Dr. Füredi Júlia

Dr. Simon Zsolt

Calendar

February 2015

Considered to be one of the most authentic assessments in the asset management industry, Euromoney Magazine's 2015 private banking surveys awarded 14 prizes to UniCredit Private Banking's excellent services in a variety of regional and national categories. In the contest, similarly to other markets, UniCredit was named the best private banking service provider in the Hungarian market. Increasing customer satisfaction and growth in assets managed confirmed the efforts of UniCredit Private Banking to optimise its customers' portfolios by addressing the complexity of markets through clear and transparent strategies.

April 2015

The financial magazine EMEA Finance awarded UniCredit in a total of eleven categories for its performance in the previous year. This multiple recognition is a deserved confirmation of the Bank's strategy of aligning its service models to the changes at hand and investing in new technologies. In the contest, the Hungarian subsidiary took first place in the category of "Best foreign bank".

May 2015

UniCredit Bank made available its fixed-rate mortgage loan to borrowers planning to have their loan replaced. The 'Stable Rate' plan, which has since become one of the Bank's most popular products, offers a fixed rate and therefore fixed instalments for the entire term of 10, 15, or, as a currently unique offer in the market, 20 years. Restricted originally to the purchase of residential property, the loan had its application criteria extended in response to customers' needs, and is now also available for the replacement of home mortgages and other home equity loans, for the purchase, construction and refurbishment of property, as well as for general purposes.

May 2015

In the Global Finance Magazine 2015 survey, not only was UniCredit named best subcustodian in Central and Eastern Europe, it also took first place in Hungary as well as in other countries.

June 2015

According to UniCredit Bank's survey of its own customers involving 820 small enterprises, the business awareness of executives in Hungarian small firms has developed in a number of fields. Awareness has increased in business and investment decisions and in the selection of funding sources, with increased reliance on expert assistance. Just over one-third of respondent executives rely on market research results, primarily the executives of younger companies and female executives. Over three-quarters of the executives expressed favourable opinions on the results of their own companies, and approximately two-thirds were confident that their businesses may grow even stronger.

July 2015

UniCredit earned nine excellence awards from the reputed British magazine Euromoney, specialising in money markets. In 2015, UniCredit Group was named best bank both in the region and in Hungary, taking, among other recognitions, the "Best Bank in Central and Eastern Europe" and "Best Bank in Hungary" awards.

July 2015

As part of the Széchenyi Card Programme, UniCredit Bank raised the maximum available amount of the Széchenyi Card Overdraft Facility to HUF 50 million. The loan is offered at a favourable rate with a fixed facility amount for one year to assist with the resolution of the temporary financing difficulties faced by businesses, without the need to present any tangible collateral or business plans. The Széchenyi Subsidy Pre-financing Loan helps Hungarian small businesses with their applications for EU funds, allowing them to start implementing their projects before they receive the subsidies granted. Together with the other components of the programme, the products offered by the Bank completely cover the funding needs of Hungarian small businesses.

September 2015

UniCredit Bank and the UniCredit Foundation announced their second social responsibility call for non-profit organisations. Under the social innovation programme "Take a step with us!", applications for funds

Calendar (CONTINUED)

were invited from non-profit organisations which, rather than offering direct financial assistance, support disadvantaged local communities and families in a sustainable manner. The grants are primarily targeted at NGOs that support specific disadvantaged groups in improving the circumstances of their living by means of their own work and activities. Out of the EUR 60,000 total, EUR 55,000 worth of grants are awarded directly to the best applicants selected by the panel, with EUR 5,000 awarded to the best project selected in a vote by UniCredit Bank's employees.

October 2015

In 2015 "The Banker", the authoritative UK magazine for finance and banking professionals, named UniCredit as the "Most Innovative Investment Bank in Central and Eastern Europe". In the judgement of the panel, UniCredit had demonstrated its capability of innovation both in the bond market and in the fields of real estate and project finance and public-private partnerships.

November 2015

In 2015, UniCredit Bank Hungary Zrt. was also named "Best Private Banking Service Provider in Hungary" by the prominent Global Finance Magazine. Additionally, the Magazine judged the Group's private banking activity to be so excellent across the region that it awarded the Group as "Best Private Bank in Central and Eastern

Europe". The awards of Global Finance are given on the basis of independent analyses covering financial institutions in the private banking business that have the widest experience and serve their customers to the highest standard.

December 2015

The Banker magazine named UniCredit Bank Hungary Zrt. "Bank of the Year in Hungary" for its outstanding performance. In addition to the Bank's stable ownership background and its ability to adapt quickly to market and regulatory conditions, the excellent result in the long-established "Bank of the Year" contest is owed to the Bank's excellent portfolio, stable customer base, capitalisation guaranteeing security, and cost-efficient operations.

December 2015

In the category of commerce, UniCredit Hungary Zrt. won the "Website of the Year" award in the contest of the Hungarian Marketing Association and the Internet Marketing Section. As a key component of its long-term strategy, the Bank has been developing digital channels in line with changing customer needs. As a first and spectacular step in the process, we launched a website in summer 2015 aligned with the latest online trends and upgraded in terms of technology, content and presentation, in recognition of which it was given the award.

Network units

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Telephone: +36-1/301-1271
Fax: +36-1/353-4959
E-mail: info@unicreditgroup.hu
UniCredit Call Centre 0-24: +36-1/325-3200
www.unicreditbank.hu



On 31 December 2015 UniCredit Bank's network consisted of 56 units throughout Hungary, from which 22 branches were located in Budapest, while 34 in the country.

Network units (CONTINUED)

Branches in Budapest

Bécsi úti fiók

1023 Budapest, Bécsi út 3-5.

Mammut II. fiók

1024 Budapest, Margit krt. 87-89. (Mammut II.)

Pesthidegkúti fiók

1028 Budapest, Hidegkúti út 167. (Széphalom Üzletközpont)

Lajos utcai fiók

1036 Budapest, Lajos u. 48-66.

Ferenciek tere fiók

1053 Budapest, Ferenciek tere 2.

Alkotmány utcai fiók

1054 Budapest, Alkotmány u. 4.

Szabadság téri fiók

1054 Budapest, Szabadság tér 5-6. (UniCredit Bank székház)

Nagymező utcai fiók

1065 Budapest, Nagymező u. 44.

Oktogon fiók

1067 Budapest, Teréz krt. 21.

Boráros téri fiók

1095 Budapest, Boráros tér 7.

Lurdy Ház fiók

1097 Budapest, Könyves Kálmán krt. 12-14. (Lurdy Ház)

Lágymányosi úti fiók

1111 Budapest, Lágymányosi u. 1-3.

Fehérvári úti fiók

1117 Budapest, Fehérvári út 23.

Alkotás úti fiók

1123 Budapest, Alkotás u. 50.

Duna Plaza Fiók

1138 Budapest, Váci út 178. (Duna Plaza)

Váci úti fiók

1139 Budapest, Váci út 99.

Örs vezért téri fiók

1148 Budapest, Örs vezért tere 24. (Sugár Üzletközpont)

Mátyásföldi fiók

1165 Budapest, Veres Péter út 105-107.

Nagykőrösi úti fiók

1188 Budapest, Nagykőrösi út 49.

Europark fiók

1191 Budapest, Üllői út 201. (Europark)

KÖKI Terminál fiók

1191 Budapest, Vak Bottyán út 75 a-c

Campona fiók

1222 Budapest, Nagytétényi út 37-43. (Campona)

Network units (CONTINUED)

Branches in the country

Békéscsabai fiók

5600 Békéscsaba, Andrásy út 37-43. (Csaba Center)

Budakeszi fiók

2092 Budakeszi, Fő út 139.

Budaörsi fiók

2040 Budaörs, Szabadság út 49.

Ceglédi fiók

2700 Cegléd, Kossuth tér 4.

Debreceni fiók

4024 Debrecen, Kossuth Lajos u. 25-27.

Dunakeszi fiók

2120 Dunakeszi, Fő út 70.

Dunaújvárosi fiók

2400 Dunaújváros, Dózsa György út 4/D

Egri fiók

3300 Eger, Törvényház u. 4.

Érdi fiók

2030 Érd, Budai út 13. (Stop.Shop)

Esztergomi fiók

2500 Esztergom, Kossuth Lajos u. 14.

Gödöllői fiók

2100 Gödöllő, Dózsa György út 13.

Győr-Árkád fiók

9027 Győr, Budai út 1. (Árkád Üzletház)

Győri fiók

9021 Győr, Árpád út 45.

Kaposvári fiók

7400 Kaposvár, Dózsa György u. 1.

Kecskeméti fiók

6000 Kecskemét, Kisfaludy u. 8.

Miskolci fiók

3530 Miskolc, Hunyadi u. 3.

Mosonmagyaróvári fiók

9200 Mosonmagyaróvár, Fő u. 6.

Nagykanizsai fiók

8800 Nagykanizsa, Fő út 8.

Nyíregyházi fiók

4400 Nyíregyháza, Dózsa György út 1-3.

Pécs – Árkád Üzletház fiók

7621 Pécs, Rákóczi út 58. (Árkád Üzletház)

Salgótarjáni fiók

3100 Salgótarján, Rákóczi út 13.

Siófok

8600 Siófok, Fő u. 174-176.

Soproni fiók

9400 Sopron, Várkerület 1-3.

Szeged – Kárász utcai fiók

6720 Szeged, Kárász u. 16.

Szegedi fiók

6722 Szeged, Kossuth Lajos sugárút 18-20.

Székesfehérvári fiók

8000 Székesfehérvár, Budai út 1.

Szekszárdi fiók

7100 Szekszárd, Arany János u. 15-17.

Szentendrei fiók

2000 Szentendre, Dobogókői út 1. (Városkapu Üzletház)

Szigetszentmiklósi fiók

2310 Szigetszentmiklós, Bajcsy-Zsilinszky u. 26.

Szolnoki fiók

5000 Szolnok, Baross Gábor út 27.

Szombathelyi fiók

9700 Szombathely, Kőszegi út 30-32.

Tatabánya – Vértess Center fiók

2800 Tatabánya, Győri út 7-9. (Vértess Center)

Veszprémi fiók

8200 Veszprém, Ady E. u. 1.

Zalaegerszegi fiók

8900 Zalaegerszeg, Kovács Károly tér 1/a

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Life is full of ups and downs.
We're there for both.

