



CIB BANK

CIB BANK Ltd. and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2015
prepared in accordance with
International Financial Reporting Standards
as adopted by EU

with the report of the Independent Auditor

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for the year ended 31 December 2015**

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Independent Auditors' Report

To the shareholders of CIB Bank Zrt.

Report on the Consolidated Financial Statements

We have audited the accompanying 2015 consolidated financial statements of CIB Bank Zrt. (hereinafter referred to as "the Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, which shows total assets of MHUF 1,675,707, the consolidated statement of comprehensive income, which shows loss for the year of MHUF 40,224, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of CIB Bank Zrt. and its subsidiaries as at 31 December 2015, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

This is an English translation of the Independent Auditors' Report on the 2015 consolidated financial statements of the CIB Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete consolidated financial statements it refers to.





Report on the Consolidated Business Report

We have audited the accompanying 2015 consolidated business report of CIB Bank Zrt. and its subsidiaries.

Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Hungarian Act on Accounting. Our responsibility is to assess whether this consolidated business report is consistent with the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Bank and its subsidiaries.

In our opinion, the 2015 consolidated business report of CIB Bank Zrt. and its subsidiaries is consistent with the data included in the 2015 consolidated financial statements of CIB Bank Zrt. and its subsidiaries.

Budapest, 17 February 2016

KPMG Hungária Kft.

Registration number: 000202

István Henye
István Henye
Partner

Zoltán Mádi-Szabó
Zoltán Mádi-Szabó
Professional Accountant
Registration number: 003247

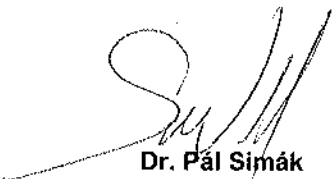
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**Consolidated Statements of Comprehensive Income
for the year ended 31 December 2015
(million HUF)**

	Note	2015	2014
Interest income	7	47,007	67,397
Interest expense	7	(17,488)	(27,366)
Net interest income		29,519	40,031
Fee and commission income	8	32,260	34,243
Fee and commission expense	8	(4,474)	(4,799)
Net fee and commission income		27,786	29,444
Income from trading activities	9	(3,397)	13,899
Other operating income	10	5,854	2,868
Net banking income		59,762	86,242
Impairment losses on loans	11	(35,910)	(41,482)
Net loan losses and provision according to Settlement Law	11	5,231	(70,205)
Other impairment losses and provisions	11	(564)	(6,865)
Operating expenses without bank tax	12	(53,810)	(56,480)
Loss before bank tax and income taxes		(25,291)	(88,790)
Bank tax	13	(11,903)	(11,903)
Loss before income taxes		(37,194)	(100,693)
Income tax expense	14	(3,030)	(3,447)
Net loss for the year		(40,224)	(104,140)

17 February 2016


Dr. Pál Simák
CEO and Chairman of the Board


Andrea De Michelis
Deputy CEO and CFO

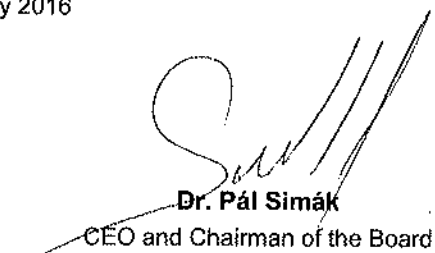
CIB Bank Ltd.

The accompanying notes on pages 12 to 78 form part of these Consolidated Financial Statements.

**Consolidated Statements of Comprehensive Income
for the year ended 31 December 2015
(million HUF)**

	Note	2015	2014
Net loss for the year		(40,224)	(104,140)
Items that may not be reclassified to profit or loss		-	-
Items that may be reclassified to profit or loss		3,284	236
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)		3,284	236
Other comprehensive income for the year (net of taxes)	16	3,284	236
Total comprehensive income for the year		(36,940)	(103,904)
Attributable to Equity holders of the parent		(36,940)	(103,904)

17 February 2016


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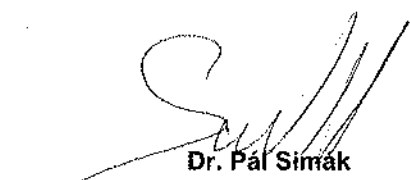
CIB Bank Ltd.

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**Consolidated Statements of Financial Position
as at 31 December 2015
(million HUF)**

Assets	Note	31 December 2015	31 December 2014
Cash and current accounts with central bank	17	23,259	27,335
Due from banks	18	479,385	302,857
Financial assets at fair value through profit or loss excluded derivatives	19	59,622	12,476
Derivative financial assets		15,371	19,599
<i>Loans and advances to customers</i>	20	1,093,801	1,339,180
<i>Allowance for loan losses</i>	20	(183,597)	(277,758)
Net loans and advances to customers		910,204	1,061,422
Financial investments – Available-for-sale	22	78,899	182,793
Non-current assets held for sale	16	4,024	947
Current tax assets	14	6,160	7,187
Deferred tax assets	14	201	750
Other assets	21	5,256	5,038
Reposessed properties	23	67,750	86,199
Intangible assets	24	8,504	7,306
Property and equipment	25	17,072	19,733
Total assets		1,675,707	1,733,642

17 February 2016


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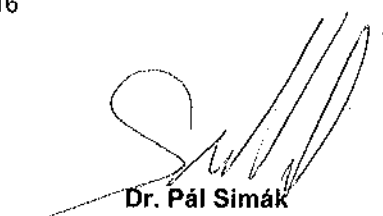
CIB Bank Ltd.

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**Consolidated Statements of Financial Position
as at 31 December 2015
(million HUF)**

Liabilities and Shareholders' Equity	Note	31 December 2015	31 December 2014
Deposits from banks	26	225,029	213,655
Derivative financial liabilities		12,709	18,846
Deposits from customers	27	1,179,706	1,114,740
Liabilities from issued securities	28	28,162	91,140
Current tax liabilities		3,776	4,367
Deferred tax liabilities	14	817	1,549
Other liabilities	29	15,610	10,701
Provisions	30	5,637	37,214
Subordinated debt	31	56,421	56,740
Total liabilities		1,527,867	1,548,862
Shareholders' equity			
Share capital	32	50,000	145,000
Reserves	33	431,276	332,992
Retained earnings		(333,436)	(293,212)
Total shareholders' equity		147,840	184,780
Total liabilities and shareholders' equity		1,675,707	1,733,642

17 February 2016


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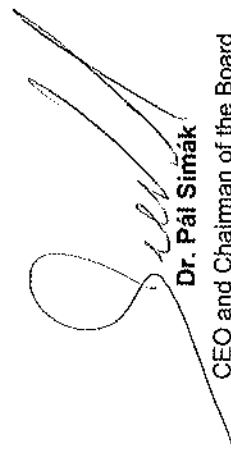
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Consolidated Statement of Changes in Equity
for the year ended 31 December 2015
(million HUF)

	Note	Ordinary shares	Retained earnings	Capital reserve	Revaluation reserve	Other reserve	Total
Balance at 31 December 2013		145,000	(139,072)	176,719	(264)	40,164	172,547
Other comprehensive income	16	-	-	-	236	-	236
Issue of shares	33	-	-	67,000	-	-	67,000
Other equity contribution	33	-	-	-	-	49,137	49,137
Net loss for 2014		-	(104,140)	-	-	-	(104,140)
Balance at 31 December 2014		145,000	(293,212)	243,719	(28)	89,301	184,780
Other comprehensive income	16	-	-	-	3,284	-	3,284
Decrease of share capital	32	(95,000)	-	95,000	-	-	-
Net loss for 2015		-	(40,224)	-	-	-	(40,224)
Balance at 31 December 2015		50,000	(333,436)	338,719	3,256	89,301	147,840

17 February 2016


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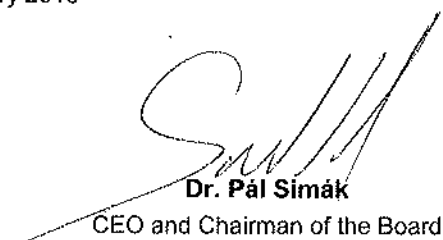
CIB Bank Ltd.

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**Consolidated Statements of Cash Flow
for the year ended 31 December 2015
(million HUF)**

	Note	2015	2014
Operating activities			
Profit (loss) before tax		(37,194)	(100,693)
Depreciation	12	4,033	5,834
Net unrealized (gain) / loss on financial instruments		(1,134)	(3,235)
Increase in allowance for loan losses		(94,161)	(71,978)
Increase in allowance for repossessed properties and own properties		(2,894)	(13)
<i>Working capital changes:</i>			
Decrease / (increase) in financial assets at fair value through profit or loss	19	(44,326)	(4,799)
Decrease / (increase) in loans and advances to customers	20	277,826	290,067
Decrease / (increase) in other assets (non-current assets, tax assets, other assets)	21	898	7,479
Increase / (decrease) in deposits from banks	26	11,374	(102,794)
Increase / (decrease) in deposits from customers and liabilities from issued securities	28	1,925	(46,578)
Increase / (decrease) in other liabilities (provisions, tax liabilities, other liabilities)	29 30	(27,273)	28,184
Income tax charged	14	(3,199)	(3,730)
Cash flows used in operating activities		85,875	(2,256)
Investing activities			
Purchase of financial investments		(78,671)	(359,812)
Proceeds from sale of financial investments		144,918	267,390
Acquisitions to intangible and tangible assets		(3,248)	(3,235)
Acquisitions to repossessed properties		(10,775)	(17,105)
Disposals of intangible and tangible assets		177	1,261
Cash flows used in investing activities		52,401	(111,501)
Financing activities			
Subordinated debt	31	(319)	(10,143)
Cash from share capital	32	-	67,000
Other equity contribution		-	49,137
Cash flows from financing activities		(319)	105,994
Net increase / (decrease) in cash and cash equivalents	41	137,957	(7,763)
Cash and cash equivalents at the beginning of year	41	367,981	375,451
Effect of exchange rate fluctuations on cash and equivalents held		(604)	294
Cash and cash equivalents at the end of year	41	505,334	367,981

17 February 2016



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CEO and Chairman of the Board



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Deputy CEO and CFO

CIB Bank Ltd.

The accompanying notes on pages 12 to 78 form part of these Consolidated Financial Statements.

**Consolidated Statements of Cash Flow
for the year ended 31 December 2015
(million HUF)**
Additional information for cash flows from operating activities

	2015	2014
Interest received	50,620	67,573
Interest paid	17,931	26,268
Dividend received	4	3
Income tax paid	3,544	2,614

Cash and cash equivalents presents the following balance sheet categories

	2015	2014
Cash and current accounts with central bank comprises	23,259	27,335
Due from banks	479,385	302,857
Financial assets at fair value through profit or loss	2,690	33
Financial investments	-	37,756
Cash and cash equivalents at the year end	505,334	367,981

The accompanying notes on pages 12 to 78 form part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Part A – Accounting policies

(1) Corporate Information

The majority owner of CIB Bank Ltd. ("the Bank") is Intesa Sanpaolo Holding International S.A. /LU 1724 Luxembourg, Boulevard du Prince Henri 35./ which holds 67.6905% of the total ordinary shares of the Bank outstanding at year end (67.6905% as at 31 December 2014). The ultimate parent company of the Bank is Intesa Sanpaolo S.p.A. /IT Torino, Piazza San Carlo 156/, a bank registered in Italy that holds 32.3095% of the shares of the Bank as at 31 December 2015 (32.3095% as at 31 December 2014).

The Bank is a fully licensed Hungarian bank conducting local and international banking business both within and outside Hungary. The registered address of the Bank is 4-14 Medve utca, Budapest. The average number of active employees of the Bank and its subsidiaries was 2,530 in 2015 and 2,921 in 2014, respectively.

As at 31 December 2015 the Bank had the following subsidiaries ("the Group"):

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

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

The Consolidated Financial Statements for the year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Management Board on 17 February 2016.

The Bank is consolidated by its ultimate parent company. The ultimate parent company's consolidated financial statements are available at www.intesasanpaolo.com web site.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(2) Statement of compliance

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by European Union.

The original Consolidated Financial Statements has been prepared in Hungarian and it is the translation of the Hungarian version. The original consolidated financial statements are available at www.cib.hu web site.

(3) Basis of preparation

The Consolidated Financial Statements of the Group have been prepared on a historical cost basis, except for available-for-sale financial assets, derivative financial instruments, other financial assets and liabilities held for trading, which all have been measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges are adjusted to record changes in fair value of hedged items attributable to the risks that are being hedged.

These Financial Statements are presented in Hungarian Forint (HUF) and all amounts are rounded to the nearest million except when otherwise stated.

The official rate of exchange quoted by the Hungarian Central Bank as at 31 December 2015 the euro was EUR 1 = HUF 313.12 (2014: EUR 1 = HUF 314.89) and Swiss Franc was CHF 1 = HUF 289.38 (2014: CHF 1 = HUF 261.85).

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

(4) Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of CIB Bank Ltd. and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using accounting policies consistent with those of the parent.

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

Subsidiaries are investees controlled by the Bank. According to IFRS 10 the Bank controls an investee if it is exposed to or has the right to, variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control commences until the date when control ceases. The list of consolidated subsidiaries is included in Note (1).

Business combinations and transactions under common control during 2015 are detailed in Note 42.

(5) Significant accounting judgments and estimates

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(5) Significant accounting judgments and estimates (continued)

The most significant cases for which judgments and estimates are required to be made by the management include:

- the use of measurement models for determining the fair value of financial instruments not listed on active markets,
- the measurement of impairment losses on loans and other financial assets,
- recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used,
- the measurement of impairment on non-financial assets,
- the measurement of impairment on available-for-sale investments,
- the measurement of provisions for risk and charges,
- the measurement of impairment on repossessed properties.

(a) Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(b) Impairment losses on loans and advances

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

Objective evidence that financial assets are impaired includes:

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

The Group considers evidence of impairment for loans and advances at both a specific asset and a collective level.

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

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

A collective component of the total allowance is established for:

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

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

Parameters used in the collective assessment are calculated with statistical methodologies and models which are to the largest extent possible aligned or identical to those used in the processes of approval of facilities or calculation of capital adequacy.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(5) Significant accounting judgments and estimates (continued)

The formula of impairment / provision is as follows.

$$\text{Losses} = \text{EAD} * \text{PD} * \text{LGD} * \text{LCP}$$

The details of the parameters used are as follows.

- **Exposure at default (EAD).** The exposure consists of on-balance sheet assets and off-balance sheet liabilities, where off-balance sheet exposure represents the amount of contingent off-balance sheet liabilities of the Bank adjusted by a credit conversion factor (CCF) to convert off-balance sheet exposure into an on-balance sheet equivalent and is added to the actual on-balance sheet exposure. The credit conversion factor is defined at the level of loan facilities and is calculated using the simplified statistical methods adopted for Internal Capital Adequacy Assessment (ICAAP) purposes.
- **Probability of default (PD).** PD component determines probability of default, i.e. the probability of transition from the performing portfolio to the non-performing portfolio on debtor level. The PD component is the result of a combination of objective and subjective information about the debtor's credit-worthiness. The PD component for the retail (private individuals and entrepreneurs), small business, corporate (SME and large corporate) and project segments is calculated with statistically developed models. For each mentioned segment the Bank is using a separate, segment-specific model for the calculation of PDs and internal ratings. The models were developed with the through-the-cycle approach.
- **Loss given at default (LGD).** LGD calculated by portfolio segments is the measure of losses incurred on facilities that have defaulted. Assuming that the process of collection of the existing and future non-performing facilities of the Bank will be equally or similarly efficient as the historical collection, LGD also represents the assessment of future losses on each facility that will default. For the purpose of the assessment of impairment / provision, the Bank uses the results of a simplified statistical method that was approved for Internal Capital Adequacy Assessment (ICAAP) purposes with downturn adjustments. Until the Advanced Internal Rating Based approach (AIRB) compliant LGD models are under development the Bank keeps using the ICAAP LGDs for impairment / provision calculation.
- **Loss identification period.** Internal methodology measures losses in a limited period of time (loss confirmation period - LCP) which is integrated in the calculation of losses and represents a period of time between the occurrence of the event that generates loss (e.g. loss of job) and manifestation of the evidence of loss (e.g. delinquency in settling obligations to the Bank). In the context of the internal methodology, the LCP parameter distinguishes between expected annual losses and the portion of these losses that have already been incurred but have not yet been reported. Considering the technical difficulties in the statistical measurement of the LCP parameter (the period of time between known and unknown events is measured), CIB Group uses LCP=1 for each exposure.

For the portfolio segments with insufficient homogeneous set of data for statistical assessment of loss, the Bank uses the experience-based assumptions of the quality and behaviour of the portfolio in the past, risk profile of the portfolio, external ratings, guidelines obtained from the parent bank and other available and relevant information. In this way, the specific, expert judgment based impairment / provision rates have been defined for:

- central governments and central banks;
- public sector entities treated as institutions;
- municipalities;
- institutions.

The parameters used in the impairment / provision calculation is subject to regular internal reviews in order to ensure that those always reflect a best estimate for expected credit risk losses.

Management can apply judgment to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(5) Significant accounting judgments and estimates (continued)
(c) Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Group had unused tax loss carry forwards as of 31 December 2014 and 2015. These losses relate to the Bank and to subsidiaries that have a history of losses. Due to the current market and economic conditions the management considered per individual entities whether the Bank and subsidiaries will have tax planning opportunities available that could support the recognition of these losses as deferred tax assets.

(d) Impairment on non-financial assets

Impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on discounted cash flow model.

(e) Impairment on available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment the Group evaluates among other factors historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

(f) Provisions for risk and charges

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. In assessing and determining the amount of obligation the Group considers whether a reliable estimate can be made of the amount of outflow of economic benefits.

Supreme Court's Law and Settlement Law released in July and October, 2014 covered all HUF and foreign currency retail loan and financial leasing contracts. According to the Supreme Court decision the exchange rate bid-ask spread used by the banks was considered as null and void, and general contract conditions are unfair, which allowed the unilateral changes of prices. Settlement with the customers was conducted through 4 phases during 2015. Provision made for settlement was entirely used during 2015.

(g) Impairment on repossessed properties

Repossessed assets shall be measured at the lower of cost and fair value less cost to sell (FVLCTS).

Subsequent to initial recognition repossessed properties are annually tested for impairment and stated at the lower of cost and FVLCTS. The Group regards the market value determined by external valuations as the FVLCTS for its repossessed real estates.

The basis of the impairment calculation is the market value determined by an external valuation dated less than 90 days from the relevant year end date. External valuation should be prepared for all commercial assets, and for residential assets above or equal net book value of HUF 50 million. For residential assets below net book value of HUF 50 million external valuations should be prepared in every 3 years and during the intervening period statistical revaluation could be applied.

(6) Significant accounting policies

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

6.1 Foreign currency transactions

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined.

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

- available-for-sale equity instruments.

6.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose with management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets and financial liabilities recorded at fair value through profit or loss.

6.3 Date of recognition

All "regular way" purchases and sales of financial assets and liabilities are recognized on the settlement date, i.e. the date that the financial asset is delivered except for derivatives. Regular way purchases or sales are purchases or sales that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Derivatives are recognized on a trade date basis. Trade date is the date that the Group commits itself to purchase or sell an asset.

6.4 Derecognition

A financial asset is derecognised when:

- The contractual rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash-flows from the asset or has assumed an obligation to pay the received cash-flows in full without material delay to a third party and either:
 - the Group has transferred substantially all the risks and rewards of the asset, or
 - the Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

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

Retail loan and financial leasing contracts denominated in foreign currencies were subject to conversation to HUF according to the Supreme Court's Law and Settlement Law released in July and October, 2014. After conducting the settlement process, all the related exposures were converted to HUF during 2015. Change in denomination of the currency qualifies for derecognition and consequently the related exposures should be released from books and recorded as a new disbursement. The initial fair value for recognition equals to the latest net carrying value of the financial assets before conversation according to the Bank's estimation.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(6) Significant accounting policies

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

6.5 Financial asset at fair value through profit and loss

Financial assets or financial liabilities at fair value through profit or loss are financial assets and financial liabilities that are classified either as held for trading or designated by the Group as at fair value through profit or loss upon initial recognition. These financial instruments are carried at fair value with any gain or loss arising from change in fair value being included as Income from trading activities in the Consolidated Statement of Comprehensive Income in the period in which it arises.

Included in this category debt securities, equities and short positions that have been acquired principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking.

6.6 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

6.7 Derivative financial instruments and hedge accounting

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

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

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items (efficiency tests). The effectiveness of the hedge must be tested both at its inception (designation of hedging relationship) and regularly during the entire lifetime of the hedge. In the case of a fair value hedge, changes in the fair value of derivatives that are designated as hedging items in fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

If the hedged item is derecognised, the unamortized fair value adjustment is recognised immediately in profit or loss.

IAS 39 Financial Instruments: Recognition and Measurement requires hedge effectiveness to be assessed both prospectively and retrospectively. Retrospective test reveals the degree of hedge effectiveness achieved during the period from designation to the performance of the test; in other words, it measures how much the actual results have deviated from those of a perfect hedge.

(6) Significant accounting policies

Prospective test demonstrates the expected effectiveness of the hedge in future periods. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the delta change in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the delta fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

The Group applies hedge accounting to its fixed rate assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the banking book.

6.8 Due from banks

Due from banks include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss,
- Those that the Group upon initial recognition designates as available-for-sale,
- Those for which the Group may not recover substantially all of its initial investment other than because of credit deterioration.

After initial measurement Due from banks are stated at amortized cost less any amounts written off and allowance for impairment. The amortisation is included in Interest income in the Consolidated Statement of Comprehensive Income. The losses arising from impairment are recognised in the Consolidated Statement of Comprehensive Income in impairment losses, provisions and net loan losses.

Where the loan on drawdown is expected to be retained by the Group and not sold in short term the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example due to a counterparty credit event).

6.9 Loans and advances to customers

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and are carried at amortized cost using the effective interest rate method less allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the established future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal repayments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

A credit risk allowance for loan impairment is established for significant loans if there is objective evidence that the Group will not be able to collect all amounts due. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Loans that are individually assessed for impairment (over HUF 75 million in case of non performing status)) and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. When a loan is uncollectible, it is written off against the related allowance for impairment; subsequent recoveries are recognized in the Consolidated Statement of Comprehensive Income as other operating income.

(6) Significant accounting policies (continued)

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the allowance.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal systems that consider credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors and have been estimated based upon historical patterns of losses in each component.

The general mostly applied rule of calculating impairments and allowances are based on discounted expected future cash flow method, with best available data for the Group. The present value of the available estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the available estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans and advances to customers are classified to the non-performing loan category if the receivable is individually impaired. Evidence of impairment may include that the borrower is experiencing significant financial difficulties (is under liquidation), the probability that they will enter into bankruptcy (past due rate is 100%) or delinquency in interest or principal payments (have more than 90 days past due) and where observable data indicates that there is a change in economic conditions that correlate with default (managed by work-out department). For more information on non-performing loans see Note (45) on Risk Management.

Where possible the Group seeks to restructure loans rather than to take possession of collateral. Restructuring may involve extending the payment period arrangements and the agreement of new loan conditions, particularly interest level. Management continuously monitors renegotiated or restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

6.10 Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. The net investment in finance leases provided by the Group is included in loans and advances to customers. A receivable is recognized over the leasing period of an amount equaling the present value of the lease payment using the implicit rate of interest at the inception of the lease and including any residual value that has been guaranteed whether by the lessee, a party related to the lessee, or an independent third party. All income resulting from the receivable is included in Interest income in the Statement of Comprehensive Income, except for the residual value accounted as other operating income (expense) when closing the contract.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- there is substantial change to the asset.

(6) Significant accounting policies (continued)**6.11 Financial investments – Held-to-maturity**

Held-to-maturity financial investments are non-derivative financial assets which carry fixed of determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "interest income" in the Statement of Comprehensive Income.

6.12 Financial investments - Available-for-sale

Available-for-sale financial investments are those which are designated as such or are not classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. After initial recognition, investments which are classified 'available-for-sale' are re-measured at fair value. Unrealized gains and losses on re-measurement to fair value are reported in the Consolidated Statement of Other Comprehensive Income for the period.

In the case of debt instruments classified as available-for-sale the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Consolidated Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through profit or loss.

6.13 Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the Statement of Financial Position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in net trading income.

6.14 Fair values

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. For equities traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market closing prices at the close of business on the reporting date.

The fair value of interest-bearing items not traded on an active market is estimated based on discounted cash-flows using interest rates for items with similar remaining maturity. The carrying value of demand deposits is considered to be the fair value.

For equities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected discounted cash flows.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(6) Significant accounting policies (continued)

Classification is based on a hierarchy that reflects the significance of unobservable inputs used in the measurement. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 40.

6.15 Repurchase and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the Consolidated Statement of Financial Position and are measured in accordance with accounting policies for non-trading investments. The liability for amounts received under these agreements is included in Deposits from banks. The difference between sale and repurchase price is treated as interest expense in the respective period.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the Consolidated Statement of Financial Position.

Amounts paid under these agreements are included in due from banks and other financial institutions. The difference between purchase and resale price is treated as interest income in the respective period.

6.16 Intangible assets, property and equipment

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

The following depreciation rates and residual values are applied:

	Depreciation rate	Residual value
Premises	2%	30% of gross value
Leasehold improvements	5%	individually assessed
Electronic equipment's and office furniture	14.5%	individually assessed
Computer equipment	33%	individually assessed
Software	20%	individually assessed
Motor vehicles	20%	20% of gross value

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

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from de-recognition of the asset is included in the Statement of Comprehensive Income as Operating income in the year the asset is derecognized. The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Lands are not subject to depreciation.

6.17 Goodwill

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(6) Significant accounting policies (continued)

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

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

6.18 Repossessed assets and other assets

Reposessed properties are usually reposessed under lease contracts or real estate developments/projects or construction contracts.

The Bank Group keeps all reposessed real estates with the intent to dispose of the asset in the reasonable short period of time. Repossessed assets shall be measured at the lower of cost and fair value less cost to sell (FVLCTS) and shall not be amortised but only subject to the impairment test.

Reposessed properties are derecognised when either they have been disposed or when the reposessed property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Transfers are made to or from reposessed property only when there is a change in use. For a transfer from reposessed property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

Other assets are recognized at cost, which comprise all costs of purchase, costs of conversion and other costs. The balance of other assets includes those balances which have not been disclosed separately in the statement of financial position (e.g. trade receivables, inventories). After initial recognition they are measured at the lower of cost and net realizable value.

6.19 Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded and met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, equipment and intangible assets once classified as held for sale are not depreciated or amortised.

6.20 Deposits from banks and from customers

All money market and customer deposits are initially recognized at fair value. After initial recognition, all interest bearing deposits, other than liabilities held for trading, are subsequently measured at amortized cost.

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

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

6.21 Liabilities from issued securities

Financial instruments issued by the Group – other than deposits from banks and customers - that are not designated at fair value through profit or loss, are classified as Liabilities from issued securities, where the substance of the contractual arrangement results in the Group having an obligation to deliver cash to the holder. After initial measurement liabilities from issued securities are subsequently measured at amortised cost.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(6) Significant accounting policies (continued)**6.22 Revenue recognition**

Revenue is recognized to the extent that is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale financial investments and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or financial liability. The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for providing services over a period of time - such as servicing fee, account turnover fee, card fee, investment services fee, documentary fee and cash management fee - are accrued over that period. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transactions. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the Consolidated Statement of Comprehensive Income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

Dividend income is recognised when the Group's right to receive the payment is established.

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

6.23 Taxation

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

Deferred tax

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015****(6) Significant accounting policies (continued)**

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Recognised and unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax items are recognised in the Consolidated Statement of Comprehensive Income as Income tax expense.

Deferred tax asset and deferred tax liabilities are offset if legally enforceable rights exists to set off current tax assets against current tax liabilities and the deferred taxes relates to the same taxable entity and the same tax authority.

Bank tax

In August 2010 the Hungarian Parliament approved a new Act called the "bank tax". The tax remained in place also in 2015 based on a modification at the Law. Each financial institution that already had a closed financial year and related financial statements on 1 July 2010 was subject to assessment and payment of this the bank tax in 2010. On 15 November 2010 the Hungarian Parliament approved an amendment to the Bank Tax Act applicable for 2011. The amendment practically splits into two payment titles the original bank tax payment obligation for banks only.

The basis and the rate of the new bank tax that establishes the tax payable was different for the different types of financial institutions (in case of banks it is calculated on the adjusted balance sheet total, in case of financial enterprises - such as leasing companies - it is based on the net interest income and net commission income and in case of investment fund management companies on the total net asset value of the funds managed, etc.). From 2012 net interest income and net commission income can be netted from bank tax point of view at leasing companies.

For 2015 and 2014 the basis and rates are uniformly based on statutory reported financial data of the reporting entity for the period ended 31 December 2009.

The respective tax rates for 2014 were different for the types of financial institutions: e.g. for credit institutions the tax rates were 0.15% of adjusted total asset value for the first HUF 50 billion; and 0.53% had been applied for the amount exceeds HUF 50 billion. For leasing companies 6.5% had been applied for the net of net interest income and net commission income.

Bank tax is presented as operating expense in the Consolidated Statement of Comprehensive Income as it does not meet the definition of income tax under IFRS and presented on a separate line on the face of the Consolidated Statement of Comprehensive Income.

Financial Transaction Duty

Financial Transaction Duty Act came into effect from 1 January 2013 as a new taxation duty. From 1 January 2013 to 31 July 2013 the transaction duty rate was 0.2% of the transaction amount, except cash withdrawal transactions, where 0.3%, but capped at HUF 6,000 per withdrawal transaction.

On 27 June 2013 the Parliament approved a modification of the Act that included the increase of the financial transaction duty rate. In case of cash transactions duty was increased from 0.3% to 0.6% and the HUF 6,000 per withdrawal transaction cap was abolished, while the 0.2% rate increased to 0.3% and the HUF 6,000 cap remained. The revised duty rates come into force from 1 August 2013.

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

6.24 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(6) Significant accounting policies (continued)**6.25 Fiduciary assets**

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these Consolidated Financial Statements.

6.26 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the Financial Statements at fair value, and the fair value is recognized in other liabilities.

Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee and the amount recognized less cumulative amortization. Any change in the fair value relating to financial guarantees is taken to the Consolidated Statement of Comprehensive Income.

6.27 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

6.28 Operating profit

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

6.29 Employee benefits – Share based payment transactions

The fair value of the amount payable to employees in respect of share appreciation rights is recognised as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognised as personnel expenses in Consolidated Statement of Comprehensive Income.

For share-based payment awards with non-vesting conditions the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

6.30 Government measures related to consumer loan contracts**(a) Act on Settlement**

In accordance with the Act XL of 2014 (Act on Settlement)) in case of HUF mortgage loans are assumed unfair charged, have been settled with clients during 2015 in relation to that.

(b) Act on Conversion into HUF

Based on the Act LXXVII of 2014 on "Settlement of certain issues concerning the modification of the currency and interest conditions related to consumer loan agreements" the Bank completed the conversion of foreign currency consumer mortgage loans and relating amounts (accrued interests, provision for impairment) into HUF.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(6) Significant accounting policies (continued)**(c) Conversion of foreign currency denominated consumer loans into HUF**

On August 2015 the Hungarian government and the Hungarian Banking Association reached an agreement on the conversion of foreign currency denominated car loans and consumer loans into HUF. Accordingly, the applicable exchange rates were the spot market rates on 19 August 2015. However, based on the agreement a subsidy was given to clients: the difference between the FX rates used for the conversion of FX mortgage loans and the 19 August 2015 spot FX rates will be borne equally by the banks and the state. From the clients' point of view the conversion is not mandatory.

Settlement and conversion process was conducted during 2015, which resulted in the recognition of settlement and conversion (gross) amount of HUF 78,338 million for the Group. The gross amount was compensated by the matured unrecovered customer outstanding's (e.g. penalty interest, reversal of provisions) following the collection order established in the Settlement Law.

6.31 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's Financial Statements are listed below. The list contains standards and interpretations issued and expected to be relevant to the Group and to be adopted when they become effective.

IFRS 9 Financial instruments

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

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017.

IAS 1 Presentation of financial statements

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Group.

Part B – Information on the Consolidated Statement of Comprehensive Income

(7) Interest income and interest expense

(million HUF)	2015	2014
Interest from customers	40,153	58,807
Interest income from financial investments –Available-for-sale	1,437	4,443
Interest from banks	4,317	3,277
Interest income from financial investments –Held-to-maturity	-	45
Subtotal	45,907	66,572
Interest from financial assets at fair value through profit or loss	1,100	825
Total interest income	47,007	67,397

Low demand for new financing over the past years caused the continuous erosion of the Group's customer loan portfolio, while the change in regulatory environment had a negative impact on consumer loan spreads. This together with the increasing proportion of non performing loans resulted in a drop of interest income.

(million HUF)	2015	2014
Interest paid to customers	12,753	19,605
Interest paid to banks	2,820	3,775
Interest paid on issued securities	1,915	3,986
Total interest expenses	17,488	27,366

Interest expense related to financial liabilities not carried at fair value through profit and loss amounts HUF 17,234 million as at 31 December 2015 and HUF 27,138 million in 2014, respectively.

(8) Fee and commission income and expense

(million HUF)	2015	2014
Servicing fee income for loans	5,432	6,198
Account turnover fee income	10,582	12,033
Card fee income	4,902	5,562
Investment services fee income	5,202	4,346
Documentary fee income	1,224	1,199
Cash management fee income	1,545	1,766
Agent fee income	698	636
Other fee income	2,675	2,503
Total fee and commission income	32,260	34,243

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(8) Fee and commission income and expense (continued)

(million HUF)	2015	2014
Card fee expense	2,466	2,501
Account turnover fee expense	582	494
Investment services fee expense	207	183
Documentary fee expense	313	199
Servicing fee expenses for loans	32	36
Agent fee expense	39	91
Other fee expense	835	1,295
Total fee and commission expenses	4,474	4,799

(9) Income from trading activities

(million HUF)	2015	2014
Net revaluation gain/(loss) from derivatives and trading with foreign currencies	(7,132)	7,932
Net realised gain/(loss) from derivatives	3,515	5,236
Net revaluation gain/(loss) on hedging instruments	(9)	8
Net revaluation gain/(loss) from trading with financial assets through profit or loss	85	30
Net realised gain/(loss) from trading with financial assets through profit or loss	125	490
Net gain from financial investments – Available-for-sale	19	203
Total	(3,397)	13,899

Change in market conditions and regulatory environment had a significant effect on the structure of the Group's asset portfolio, impacting the Group's financing activities in parallel, which indicated a significant change on the FX result.

In addition to that, the unrealised revaluation gain connected to the derivative portfolio was also lower than during the comparing period.

(10) Other operating income and expense

(million HUF)	2015	2014
Net losses from selling of tangible and intangible assets	(5)	(5)
Dividend and similar income	4	3
Result on disposal of inventories	78	(121)
Income from property management	1,679	2,247
Net result on non-current asset held for sale	1,827	(125)
Additional income on loan portfolio	1,522	-
Other operating income / (expenditures)	749	869
Total	5,854	2,868

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(11) Impairment losses, provisions and net loan losses

(million HUF)	2015	2014
Individual impairment for loan losses	32,673	43,490
Collective impairment for loan losses	3,237	(2,008)
Impairment losses on loans subtotal	35,910	41,482
Net loan losses and provision according to the Loan Settlement Law	(5,231)	70,205
Net loan losses and provision according to the Loan Settlement Law subtotal	(5,231)	70,205
Provision expense/(reversal) for financial guarantees	(955)	(182)
Provision expense/(reversal) for other commitments and contingencies	(2,872)	(323)
Result on sale of loans	(568)	2,235
Net losses on repossessed properties	2,921	3,425
Other impairment losses for other receivables	19	970
Other provision expenses/(reversal)	2,019	740
Other impairment losses and provisions	564	6,865
Total	31,243	118,552

(12) Operating expenses without bank tax

(million HUF)	2015	2014
Personnel expenses	23,835	23,066
a, Salaries	16,562	16,017
b, Other benefits	1,493	1,498
c, Social contributions	5,780	5,551
Depreciation	4,534	5,853
Office and Information Technology maintenance	5,872	5,936
Financial transaction duty	4,288	4,634
Other taxes and obligatory fees	4,258	4,128
Material expenses	1,852	2,118
Rent and leasing	2,979	2,167
Communications	1,820	2,296
Advertising	1,232	1,968
Expert fees	174	139
Other expenses	2,966	4,175
Total	53,810	56,480

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(13) Bank tax

The following table illustrates the bank tax obligation of the Group in 2015 and in 2014.

Company (million HUF)	2015	2014
CIB Bank Ltd.	11,384	11,384
CIB Leasing Co. Ltd.	420	420
CIB Real Estate Leasing Ltd.	51	51
CIB Factor Ltd.	48	48
Total	11,903	11,903

(14) Income tax benefit / (expense)

The current income tax expense is based on the corporate income tax payable on the results for the year determined in accordance with Hungarian accounting and taxation rules.

The corporate income tax rate of 19% applicable to all Group companies but dependent from the level of profitability the tax rate has been reduced to rate of 10% of the amount of profit before tax. If the tax base of a company is below HUF 500 million the corporate income tax rate is 10%. If the tax base of a company is above this amount the corporate income tax rate is 19% for the part of the profit above HUF 500 million.

For deferred tax calculation purposes the Group applied the tax rates that are expected to apply in the year when the asset is realised or the liability is settled

(million HUF)	2015	2014
Current income tax charge	(3,199)	(3,730)
<i>A, Corporate Income tax</i>	<i>(130)</i>	<i>(386)</i>
<i>B, Local business tax</i>	<i>(2,664)</i>	<i>(2,919)</i>
<i>C, Innovation contribution</i>	<i>(405)</i>	<i>(425)</i>
Deferred income tax	169	283
Total income tax benefit / (expense)	(3,030)	(3,447)

(million HUF)	2015	2014
Origination and reversal of temporary differences	169	283
Total deferred income tax	169	283

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(14) Income tax benefit / (expense) (continued)

Reconciliation of income tax expense to profit before tax	(million HUF)	2015		2014	
		%		(million HUF)	
Profit before tax	(37,194)			(100,693)	
Theoretical income tax expense at the statutory rate	(7,067)	19.00%		(19,132)	19.00%
Tax base amending items according to the local regulations	(11,352)	31%		14,327	(14.00%)
<i>Use of deferred losses</i>	(115)	0.31%		(323)	0.32%
<i>Non-deductible provision</i>	84	(0.23%)		293	(0.29%)
<i>Non-deductible expenditure</i>	(11,321)	30.44%		14,356	(14.26%)
Effect of applying tax rate of 10%	90	(0.24%)		105	(0.10%)
Not recognised tax asset	18,290	(49.17%)		4,803	(4.77%)
Other income type taxes	3,069	(8.25%)		3,344	(3.32%)
Income tax at effective tax rate	3,030	(8.15%)		3,447	(3.42%)

Deferred tax assets and liabilities comprise (million HUF)	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Loans	26	167	-	265
Leasing	166	158	740	746
Properties	-	412	-	421
Securities at fair value	-	28	-	10
Other assets and liabilities	9	52	10	107
Total deferred tax to profit or loss	201	817	750	1,549
Deferred tax recognised in OCI			-	-
Total	201	817	750	1,549

The management assessed whether sufficient taxable profit will be available at some of the entities in the Group to allow the benefit of all deferred tax asset to be utilised and decided to derecognize the deferred tax asset as at 31 December 2015 at those companies where the profitability of the entity in the near foreseeable future is doubtful or uncertain.

In 2013 the Group made impairment on deferred tax asset in relation to carry forward tax losses previously recognized in the Consolidated Financial Statements.

Deferred tax asset is not recognized on the balance of carry forward unused tax losses; which amount was HUF 359,507 million as at 31 December 2015 and HUF 348,284 million as at 31 December 2014.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(15) Dividend paid

There were no dividends, declared or paid in either 2015 or 2014.

(16) Other comprehensive income

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

(million HUF)	2015	2014
Net gains/(losses) from changes in fair value	3,276	28
Amortization of AFS securities	8	208
Net non-realised (loss) / gain on available-for-sale financial assets (net of taxes)	3,284	236
Total	3,284	236

Share classified as non-current assets held for sale were valued at fair value as at 31 December 2015, which resulted the recognition of HUF 3,166 million non realized gains through other comprehensive income. This fair value adjustment is based on the price offer received for the transfer of the shares.

Part C – Information on the Consolidated Statement of Financial Position

(17) Cash and current accounts with central bank

Cash and current accounts with the central bank comprise notes and coins of various currencies and nostro accounts with the central bank kept in Hungarian Forint. The Bank is required to maintain a minimum average balance as a restricted deposit for the month equivalent to 2% of the Bank's total resident customer deposits, foreign customer HUF and currency (less than one year) deposits with the National Bank of Hungary, both in 2015 and 2014 respectively.

(million HUF)	2015	2014
Cash	9,663	9,076
Current HUF account with the National Bank of Hungary	13,596	18,259
Total (included cash and cash equivalents Note 41)	23,259	27,335
Compulsory reserve set by the National Bank of Hungary	9,663	9,076

(18) Due from banks

(million HUF)	2015	2014
Foreign currency nostro accounts	9,504	16,352
Due from banks	469,881	286,505
Included in cash and cash equivalents (Note 41)	479,385	302,857
Total	479,385	302,857

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

(million HUF)	2015	2014
Hungarian Government securities – HUF	2,690	33
Included in cash and cash equivalents (Note 41)	2,690	33
Hungarian Government securities – HUF	56,660	12,044
Hungarian Government securities – NON-HUF	177	168
Bank and corporate bonds – HUF	11	48
Shares listed on stock exchange – HUF	83	158
Shares listed on stock exchange – NON-HUF	1	25
Total	59,622	12,476

Financial asset at fair value through profit or loss includes only financial assets classified as held for trading. The Group has not designated financial assets as fair value through profit or loss upon initial recognition.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(19) Financial assets at fair value through profit or loss (continued)

Income from equity investments and other non-fixed income instruments is recognized in other operating income.

(20) Loans and advances to customers
Analysis by sector

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

Sector	2015		2014	
	(million HUF)	%	(million HUF)	%
Private customers	334,918	30.62	388,780	29.03
Real estate investments	240,385	21.98	289,560	21.62
Other, mostly service industries	189,787	17.35	212,797	15.89
Trading	67,768	6.20	104,353	7.79
Transportation and communication	45,935	4.20	79,237	5.92
Financial activities	28,532	2.61	51,206	3.82
Agriculture	49,848	4.56	55,972	4.18
Light industry	39,183	3.58	46,467	3.47
Heavy industry	32,278	2.95	35,126	2.62
Food processing	44,098	4.03	41,109	2.98
Chemicals and pharmaceuticals	21,069	1.93	34,573	2.58
Total	1,093,801	100.0	1,339,180	100.0

The leasing subsidiaries of the Bank operate in the domestic leasing market and provide finance lease products to customers.

The following tables indicate the key amounts of this activity for the not past due receivables as at 31 December of the year.

(million HUF)	2015	2014
Future minimum lease payments:		
Within one year	33,629	37,802
One to five years	51,589	62,703
More than five years	21,787	27,000
Total	107,005	127,505

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(20) Loans and advances to customers (continued)

The present value of minimum lease payments receivables comprise (million HUF)	2015	2014
Within one year	29,474	32,086
One to five years	45,226	53,938
More than five years	18,590	22,018
Total	93,290	108,042
Unearned finance lease income	13,715	19,463
Accumulated allowance for uncollectible minimum lease payments receivable	8,270	12,213

The term of the leasing contracts are usually between 3 months and 10 years except in the case of some machinery contracts and property leasing contracts where the duration may reach 35 years or in some cases more.

Allowance for loan losses comprise (million HUF)	2015	2014
Opening balance	277,758	349,736
Increase of allowance during the year	187,219	174,978
Decrease of allowance during the year	(256,045)	(206,500)
Write-off	(25,335)	(40,456)
Closing balance	183,597	277,758

Allowance for loan losses comprise (million HUF)	2015	2014
Individual allowance	162,409	252,132
Collective allowance	21,188	25,626
Total	183,597	277,758

The revaluation gain on loans specified as hedged items was HUF 312 million as at 31 December 2015 and HUF 499 million as at 31 December 2014, respectively. The liquidation value of collateral that the Group holds relating to loans at 31 December 2015 amounts to HUF 902,862 million and HUF 1,173,159 million as at 31 December 2014 respectively.

As at 31 December 2015 the Group has active repurchase agreement with an amount of 2,273 million HUF. As at 31 December 2014 the Group has active repurchase agreement with an amount of 404 million HUF.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(21) Other assets

(million HUF)	2015	2014
Accrued incomes, costs and expenses	782	893
Settlement accounts	235	578
Trade receivables	1,670	1,387
Inventories	1,912	1,233
Other assets	657	947
Total	5,256	5,038

(22) Financial investments - Available-for-sale

(million HUF)	2015	2014
Government securities – HUF	-	37,756
Included in cash and cash equivalents (Note 41)	-	37,756
Government securities – HUF	78,386	44,867
Government securities – NON-HUF	-	100,147
Shares listed on stock exchange – NON-HUF	490	-
Equity investment – HUF	23	23
Total	78,899	182,793

(23) Repossessed properties

(million HUF)	2015	2014
Opening balance	86,199	95,953
Additions	10,775	20,064
Sales	(25,666)	(18,150)
Net loss from impairment charges	(3,558)	(6,931)
Other changes	-	(4,737)
Closing balance	67,750	86,199

Reposessed properties are located in several regions in Hungary, the closing balance includes HUF 28,973 million properties located in Budapest as at 31 December 2015, while it was HUF 35,439 million as at 31 December 2014.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(24) Intangible assets and goodwill

At 31 December 2015 and 2014 intangible assets and the related accumulated depreciation comprised the following

(million HUF)	Cost of intangible assets				2014
	2015	Other changes	Disposals	Additions	
Software licenses and development	41,572	16	-	3,143	38,413
Goodwill	833	-	-	-	833
Other	712	-	1	-	713
Total	43,117	16	1	3,143	39,959

(million HUF)	Depreciation / Impairment of intangible assets				2014
	2015	Other changes	Disposals	Increase	
Software licenses and development	33,903	(20)	1	1,976	31,948
Goodwill	56	-	-	-	56
Other	655	-	1	7	649
Total	34,614	(20)	2	1,983	32,653

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(24) Intangible assets and goodwill (continued)

Net book value of intangible assets (million HUF)	2015	2014
Net book value of intangible assets	7,670	6,465
Goodwill	777	777
Other	57	64
Total	8,504	7,306

The goodwill concerns to the purchase of CIB Factor Ltd. in 2004. The Group applied an impairment test on goodwill and other intangible assets, whether the carrying amount is less than its value in use. The value in use calculation is based on a discounted cash flow model with a discount rate of 11.42% and a growth rate of 0%. The cash flows are derived from the budget for the next 4 years. Based on the impairment test the value in use of the goodwill is higher than its' carrying amount.

Software licenses and developments have definite life. The amount of internally developed software is HUF 2,910 million as at 31 December 2015 and HUF 2,527 million as at 31 December 2014, respectively.

(25) Property and equipment

At 31 December 2015 and 2014 property and equipment and the related accumulated depreciation comprised the following:

(million HUF)	Cost of property and equipment				2014
	2015	Other changes	Disposals	Additions	
Land, premises	20,811	(1,492)	219	67	22,455
Leasehold improvements	6,308	-	654	36	6,926
Electronic equipment and office furniture	9,815	(197)	829	286	10,555
Computer equipment	7,572	42	1,367	215	8,682
Motor vehicles	500	-	88	-	588
Other	121	-	-	-	121
Total	45,127	(1,647)	3,157	604	49,327

(million HUF)	Depreciation of property and equipment				2014
	2015	Other changes	Disposals	Increase	
Land, premises	6,623	(984)	114	847	6,874
Leasehold improvements	5,289	(2)	654	583	5,362
Electronic equipment and office furniture	8,928	(104)	774	475	9,331
Computer equipment	6,886	3	1,366	594	7,655
Motor vehicles	329	2	71	26	372
Other	-	-	-	-	-
Total	28,055	(1,085)	2,979	2,525	29,594

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(25) Property and equipment (continued)

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

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

Net book value of property and equipment (million HUF)	2015	2014
Land, premises	14,188	15,581
Leasehold improvements	1,019	1,564
Electronic equipment and office furniture	887	1,224
Computer equipment	686	1,027
Motor vehicles	171	216
Other	121	121
Total	17,072	19,733

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(26) Deposits from banks

(million HUF)	2015	2014
Deposits from banks in Hungary	64,992	35,634
Deposits from banks in other countries	94,129	135,136
Deposits from National Bank of Hungary	65,907	42,885
Total	225,029	213,655
- <i>from which related party</i>	18,299	20,656

(27) Deposits from customers

(million HUF)	2015	2014
Deposits from customers in Hungary	1,151,583	1,039,657
Deposits from customers in other countries	28,123	75,083
Total	1,179,706	1,114,740
- <i>from which related party</i>	59	48,575

The revaluation loss on deposits specified as hedged items was HUF 0.5 million as at 31 December 2015 and the revaluation gain on deposits specified as hedged items was HUF 210 million as at 31 December 2014 respectively.

(28) Liabilities from issued securities

(million HUF)	2015	2014
Gross amount of issued securities	62,413	125,099
Repurchased amount of issued securities	(35,068)	(38,992)
Revaluation due to fair value hedges	-	(4)
Accrued interest payable from the net amount of issued securities	817	5,307
Net amount of liabilities from issued securities	28,162	91,410

The result from repurchase of issued securities was HUF 66 million as at 31 December 2015 and HUF 316 million as at 31 December 2014 respectively.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(28) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities (million HUF)	2015	2014
CIB 2015/A bonds were issued in HUF since 21 July 2010 and matured on 31 December 2015. The bonds pay fix interest of 44.0% at maturity.	-	6,759
CIB CL 2015/A bonds were issued in HUF since 9 August 2012 and matured on 10 August 2015. The bonds bear interest at 3 month BUBOR plus 100 basis points with quarterly interest payment.	-	10,444
CIB ECL 2015/A bonds were issued in EUR since 10 August 2012 and matured on 10 August 2015. The bonds bear interest at 6 month EURIBOR plus 310 basis points with half-yearly interest payment.	-	6,359
CIB FIX 15/A bonds were issued in HUF since 3 February 2012 and matured on 3 February 2015. The bonds pay fix interest of 44%.	-	12,690
CIB CL 2015/B bonds were issued in HUF since 4 February 2013 and matured on 6 February 2015. The bonds bear interest at 3 month BUBOR plus 30 basis points with quarterly interest payment.	-	7,908
CIB CLE 2016/A bonds were issued in EUR since 7 May 2013 and will mature on 9 May 2016. The bonds bear interest at 6 month EURIBOR plus 220 basis points with half-yearly interest payment.	7,843	7,820
CIB EFIX 15/A bonds were issued in EUR since 3 May 2013 and matured on 8 May 2015. The bonds bear interest at 2.5% with annual interest payment.	-	4,790
CIB CL 2015/C bonds were issued in HUF since 16 July 2013 and matured on 20 July 2015. The bonds bear interest at 3 month BUBOR + 0.3% with quarterly interest payment.	-	4,006
CIB CL 2015/D bonds were issued in HUF since 15 October 2013 and matured on 26 October 2015. The bonds bear interest at 3 month BUBOR + 0.4% with quarterly interest payment.	-	14,036
CIB EFIX 16/A bonds were issued in EUR since 25 October 2013 and will mature on 25 October 2016. The bonds pay fix interest of 2.75% annually.	5,776	5,800
CIB FIX 16/B bonds were issued in HUF since 8 August 2013 and will mature on 30 December 2016. The bonds pay fix interest of 16% at maturity.	4,380	4,016
CIB 2018/B bonds were issued in HUF since 8 August 2013 and will mature on 28 December 2018. The bonds pay fix interest of 30.0% at maturity.	2,436	2,244
CIB CL 2016/A bonds were issued in HUF since 6 June 2014 and will mature on 7 June 2016. The bonds bear interest at 3 month BUBOR plus 30 basis points.	3,282	1,587

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(28) Liabilities from issued securities (continued)

Issued securities listed on the Budapest Stock Exchange comprise the following set of securities (million HUF)	2015	2014
CIB E FIX 17/A bonds were issued in HUF since 18 July 2014 and will mature on 18 July 2017. The bonds pay fix interest of 1.75% annually.	1,598	1,029
CIB E 2FIX 16/A bonds were issued in HUF since 18 July 2014 and will mature on 18 July 2016. The bonds pay fix interest of 1.5% annually.	1,801	1,296
CIB C LE 17/A bonds were issued in HUF since 17 September 2014 and will mature on 18 September 2017. The bonds bear interest at 6 month EURIBOR plus 110 basis points.	1,037	618
CIB Kincsem bonds	8	8
Total	28,162	91,410

(29) Other liabilities

(million HUF)	2015	2014
Accrued liabilities	7,923	3,245
Settlement accounts	1,695	1,169
Suppliers	3,321	3,246
Financial guarantees	889	1,836
Other liabilities	1,782	1,205
Total	15,610	10,701

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

Financial guarantees comprise (million HUF)	2015	2014
Opening balance	1,836	1,983
Increase during the year	269	822
Decrease during the year	(1,216)	(969)
Closing balance	889	1,836

Concerning Financial guarantees see Note 34 on Commitments and contingencies.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(30) Provisions

2015 (million HUF)	Commit- ments and contingen- cies	Other	Total
Opening balance	4,583	32,631	37,214
Increase of provision during the year	1,414	9,685	11,099
Decrease of provision during the year	(4,276)	(38,400)	(42,676)
Closing balance	1,721	3,916	5,637

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

Provisions for commitment and contingences were created for future credit obligations (see also Note (34) on Commitments and contingencies). All of the provisions expected to incur cost over one year.

Other provision established to cover the Group's present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Other provision includes the Group's future obligations relating to rationalising the branch network.

Other provisions includes provision on personal type expenses, and as at 2014 the provision made on Settlement Law based on our best available estimation.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(31) Subordinated debt

(million HUF)	2015	2014
From Intesa Bank Ireland plc. for 30 million EUR. The debt's expiry date is 26 November 2021 with interest payable at 3 months EURIBOR plus 0.37%.	9,397	9,452
From Intesa Sanpaolo S.P.A for 150 million EUR. The debt's expiry date is 23 December 2019 with interest payable at 3 months EURIBOR plus 4.06%.	47,024	47,288
Total	56,421	56,740

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

(32) Share capital

During 2015 the authorized share capital was decreased by HUF 95,000,000,008 for the purpose to increase the Capital reserve.

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

At 31 December 2015 the fully paid share capital consisted of 50,000,000,000 ordinary shares of HUF 1 each.

At 31 December 2014 the fully paid share capital consisted of 145,000,000,008 ordinary shares of HUF 1 each.

There were no significant incremental costs directly attributable to the issue of shares 2015 and 2014.

(33) Reserves
Capital reserve

During 2015 Capital reserve was increased by HUF 95,000,000,008 as a result of the Capital decrease.

Capital reserve contains the shareholders total capital contributions that connecting to the issue of new shares. The difference between the face value of the new shares and the paid capital contribution is recognized in the capital reserve in the amount of HUF 67,000 million during 2014.

Revaluation reserve

Revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Other reserve

Other reserve comprises the additional payment by shareholders to cover financial losses in the amount of HUF 36,000 million as at 31 December 2013. Other reserve comprises the Group's income from transaction under common control in the amount of HUF 4,164 million. These reserves are non-distributable as dividends. In addition to the above other reserve includes proceed received on sale of loan portfolio to the shareholder in amount of HUF 49,137 million.

According to the three year business plan no repayment obligation arises on the additional payment.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(34) Commitments and contingencies

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

2015 (million HUF)	Gross amount	Other liability	Provision
Guarantees	33,530	(868)	-
Letters of credit	4,322	(21)	-
Total financial guarantees	37,852	(889)	-
Loans and overdraft facilities not disbursed	265,797	-	(1,721)
Total	303,649	(889)	(1,721)

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

Letters of credit, guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers contingent upon the failure of the customers to perform under the terms of contract. Guarantees and standby letters of credit carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, guarantees, and endorsement liabilities from bills rediscounted.

Commitment to extend credit represents contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses.

The amount of long term commitments with maturity over one year is HUF 15,710 million as at 31 December 2015 and HUF 15,020 million as at 31 December 2014, respectively.

The amount of the securities in custody is HUF 868,034 million at 31 December 2015 and HUF 883,618 million at 31 December 2014, respectively.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

(35. a) Carrying amount of assets and liabilities at 31 December 2015 by earlier of contractual repricing or maturity date

(million HUF)	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non- interest sensitive	Total
Assets								
Cash and current accounts with central bank	13,595	-	-	-	-	-	9,664	23,259
Effective interest rates	1.35	-	-	-	-	-	-	0.79
Due from banks	9,502	368,904	100,979	-	-	-	-	479,385
Effective interest rates	-	0.64	1.13	-	-	-	-	0.73
Financial assets at fair value through profit or loss excluded derivatives	-	5,643	5,000	48,022	574	298	85	59,622
Effective interest rates	-	1.20	1.98	0.85	2.13	3.05	-	1.00
Derivative financial assets	-	2,741	5,467	3,303	3,860	-	-	15,371
Loans and advances to customers	56,408	317,917	321,372	117,998	74,473	22,036	-	910,204
Effective interest rates	3.73	2.41	2.4	3.84	2.9	5.16	-	2.78
Financial investments	-	24,553	43,607	10,226	-	-	3,679	82,065
Effective interest rates	-	1.60	1.44	2.1	-	-	-	1.5
Other assets	-	-	-	-	-	-	105,801	105,801
Liabilities								
Deposits from banks	3,144	63,672	15,185	62,306	70,575	10,147	-	225,029
Effective interest rates	-	0.27	0.14	0.07	0.28	0.00	-	0.19
Derivative financial liabilities	-	3,341	3,413	2,088	3,867	-	-	12,709
Deposits from customers	627,091	228,665	190,059	70,739	63,152	-	-	1,179,706
Effective interest rates	0.07	1.11	1.65	1.70	3.05	-	-	0.78
Liabilities from issued securities	-	4,328	19,800	4,034	-	-	-	28,162
Effective interest rates	-	1.48	1.92	2.20	-	-	-	1.92
Subordinated debt	-	-	47,024	9,397	-	-	-	56,421
Effective interest rates	-	-	3.92	0.34	-	-	-	3.33
Other liabilities	-	-	-	-	-	-	25,840	25,840
Net repricing gap	(550,730)	419,752	200,944	30,985	(58,687)	12,187	93,389	147,840

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

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

(million HUF)	Current	Under 1 month	From 1 to 3 months	3 months to 1 year	From 1 to 5 years	Over 5 years	Non- interest sensitive	Total
Assets								
Cash and current accounts with central bank	18,259	-	-	-	-	-	9,076	27,335
Effective interest rates	2.10	-	-	-	-	-	-	1.40
Due from banks	16,355	286,387	115	-	-	-	-	302,857
Effective interest rates	0.00	1.60	2.84	-	-	-	-	1.51
Financial assets at fair value through profit or loss excluded derivatives	-	35	6,655	4,364	373	865	184	12,476
Effective interest rates	-	1.42	2.45	1.66	2.30	3.51	-	2.20
Derivative financial assets	-	6,613	8,906	4,079	1	-	-	19,599
Loans and advances to customers	106,949	298,357	321,582	249,620	74,136	10,778	-	1,061,422
Effective interest rates	1.08	3.70	3.36	5.18	4.11	3.29	-	3.75
Financial investments	-	7,493	84,927	90,350	-	-	23	182,793
Effective interest rates	-	1.41	1.62	0.2	-	-	-	0.91
Other assets	-	-	-	-	-	-	127,160	127,160
Liabilities								
Deposits from banks	621	53,373	39,515	68,776	43,282	8,088	-	213,655
Effective interest rates	-	0.42	0.22	0.48	0.51	-	-	0.40
Derivative financial liabilities	-	8,528	8,899	1,057	2	-	-	18,486
Deposits from customers	539,350	210,800	214,991	88,205	61,394	-	-	1,114,740
Effective interest rates	0.63	1.49	2.27	2.58	3.82	-	-	1.44
Liabilities from issued securities	-	18,049	39,606	19,370	14,385	-	-	91,410
Effective interest rates	-	2.54	2.94	2.34	2.20	-	-	2.62
Subordinated debt	-	-	47,288	9,452	-	-	-	56,740
Effective interest rates	-	-	4.13	0.55	-	-	-	3.54
Other liabilities	-	-	-	-	-	-	53,831	53,831
Net repricing gap	(398,408)	308,135	71,886	161,553	(44,553)	3,555	82,612	184,780

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

(36. a) Carrying amount of assets and liabilities by maturity date as at 31 December 2015

(million HUF)	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks ⁽¹⁾	23,259	-	-	-	-	23,259
Due from banks	378,406	100,979	-	-	-	479,385
Financial assets at fair value through profit or loss	2,845	652	47,852	3,772	4,501	59,622
Derivative financial assets	1,243	3,770	2,604	7,440	314	15,371
Loans and advances to customers	123,439	49,436	121,906	326,310	289,113	910,204
Financial investments	490	1,998	76,388	-	23	78,899
Non-current assets held for sale	3,166	-	858	-	-	4,024
Tax assets	-	-	-	6,361	-	6,361
Other assets	782	-	315	4,159	-	5,256
Intangible assets, property and equipment, repossessed properties	-	-	-	93,326	-	93,326
Total assets	533,630	156,835	249,923	441,368	293,951	1,675,707
Liabilities						
Deposits from banks	27,360	5,421	29,524	110,831	51,893	225,029
Derivative financial liabilities	1,892	1,671	1,881	6,885	380	12,709
Deposits from customers	825,760	68,259	72,991	144,465	68,231	1,179,706
Liabilities from issued securities	8	-	18,703	9,451	-	28,162
Tax liabilities	-	-	-	4,593	-	4,593
Other liabilities	7,923	-	1,693	5,994	-	15,610
Provisions	-	-	-	5,637	-	5,637
Subordinated debt	-	56	3	46,968	9,394	56,421
Total liabilities	862,943	75,407	124,795	334,824	129,898	1,527,867
Net position	(329,313)	81,428	125,128	106,544	164,053	147,840

¹⁾The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (17).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2015

(36. a) Carrying amount of assets and liabilities by maturity date as at 31 December 2014

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

¹⁾The balance comprises restricted deposits, as the Bank is required to maintain a compulsory reserve set by the National Bank of Hungary, please refer to Note (17).

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

The following table summarizes the maturity profile of the Group's financial liabilities' gross contractual cash flows – together with future interest income – as at 31 December. Repayments which are not subject to notice are treated as if notice were to be given immediately. Carrying amount of the undiscounted financial liabilities is disclosed in the Note (36).

31 December 2015 (million HUF)	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from banks	25,094	5,487	29,868	113,035	54,286	227,770
Derivative instruments	1,243	3,770	2,604	7,440	314	15,371
Deposits from customers	825,817	68,722	76,205	159,979	69,156	1,199,879
Liabilities from issued securities	-	20	23,515	5,453	-	28,988
Subordinated debt	-	466	1,441	53,532	9,545	64,984
Financial guarantees	3,125	7,558	12,627	11,704	2,838	37,852
Total undiscounted financial liabilities	855,281	86,073	146,260	351,143	136,139	1,574,844

31 December 2014 (million HUF)	Under 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from banks	13,013	4,627	28,809	101,590	75,872	221,911
Derivative instruments	6,786	7,137	769	3,794	-	18,486
Deposits from customers	722,893	105,549	95,021	100,061	124,438	1,147,962
Liabilities from issued securities	114	20,908	47,621	25,488	-	94,131
Subordinated debt	-	494	1,535	56,053	9,705	67,787
Financial guarantees	2,388	7,473	17,842	12,525	2,758	42,986
Total undiscounted financial liabilities	745,194	146,188	191,597	299,511	212,773	1,593,0263

Part D – Additional Information

(38) Related Party transactions

(a) Companies (Intesa Sanpaolo Group)

For the purpose of the financial statements, related parties include all the enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the reporting enterprise (this includes parents, subsidiaries and fellow subsidiaries), associated companies and key management personnel.

Intesa Sanpaolo S.p.A /Italy, Torino/ (ultimate parent) is regarded as a related party that has significant control over the Bank.

The Group also has entered into several transactions with companies controlled by Intesa Sanpaolo Group.

All transactions with companies in the Intesa Sanpaolo Group are conducted at market rates.

2015 (million HUF)	Parent	ISP Group Companies	Total
Assets			
Cash and current accounts	4,750	2,380	7,130
Loans and advances to customers / Due from banks	164,300	1,160	165,460
Financial investments	490	-	490
Derivative financial assets	1,757	4,933	6,690
Other assets	-	985	985
Liabilities			
Current accounts	113	47	160
Deposits from customers / banks	14,930	3,268	18,198
Subordinated debt	47,024	9,397	56,421
Derivative financial liabilities	792	1,431	2,223
Other liabilities	-	33	33
Commitments			
Guarantees	126	8	134
Loan commitments	60,000	2	60,002
Interest rate derivatives	52,844	132,732	185,576
Currency derivatives	387,960	1,356	389,316
Equity derivatives	-	58,580	58,580
Net interest income	(1,911)	(286)	(2,197)

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(38) Related Party transactions (continued)

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

The Group has significant transactions with the following ISP Group members:

- BANCA FIDEURAM S.P.A.
- PRIVREDNA BANKA ZAGREB D.D.
- VSEOBECNA UVEROVA BANKA AS
- BANCA IMI SPA
- INTESA SANPAOLO ROMANIA S.A.

The most significant transactions with related parties are loan deposits and derivatives (foreign exchange swap deals and interest rate swap transactions).

(b) Key management personnel

The key management personnel, who have authority and responsibility for planning, directing and controlling the activities of the entity, are the members of the Bank's Management Board and Supervisory Board. They receive conditions generally provided to the employees of the CIB Group.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(38) Related Party transactions (continued)

Members of the Bank's Management Board as at 31 December 2015:

Dr. Pál Simák (CEO) – CIB Bank Ltd.
Giorgio Gavioli – CIB Bank Ltd.
Johann Friedrich Strohmayer – CIB Bank Ltd.
Andrea De Michelis – CIB Bank Ltd.
Dr. Tamás Ákos – CIB Bank Ltd.
István Attila Szabó – CIB Bank Ltd.
Zoltán Csordás – CIB Bank Ltd.
Paolo Vivona – CIB Bank Ltd.

Members of the Bank's Supervisory Board as at 31 December 2015:

Ezio Salvai (Chairman)
Christophe Velle – Intesa Sanpaolo Group
Giampiero Trevisan
Dr. Tünde Barabás – Intesa Sanpaolo Group
Francesco Del Genio – Intesa Sanpaolo Group
Ciro Vittoria – Intesa Sanpaolo Group

Exposures to / from Board members (million HUF)	2015	2014
Assets		
Loans	113	73
Shares	27	25
Liabilities		
Current accounts	-	210
Deposits	-	42
Commitments		
Loans and overdraft facilities not disbursed	7	2
Compensation		
Salaries and other short-term benefits including contribution paid on compensation	1,228	888

There were changes and extension in the Group's key management members during 2015 and 2014.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(39) Average balances

Averages carrying amounts and average interest rates (where appropriate) are set out in the table below. The amounts are calculated by using a simple average of daily balances for trading instruments and monthly balances for other instruments. The average interest rates disclosed are the weighted average effective yields of interest-bearing financial instruments for the reporting period.

(million HUF)	Average carrying amount	2015 Average interest rate (%)	Average carrying amount	2014 Average interest rate (%)
Financial assets				
Cash	8,085	0.00	7,848	0.00
Deposit with banks and subordinated loans	396,382	1.08	222,265	1.42
Financial assets at fair value through profit or loss	53,655	1.51	25,285	2.24
Loans and advances to customers	1,241,086	3.24	1,546,344	3.82
Financial investments	101,140	1.4	193,568	2.29
Other assets	527,379	-	158,158	-
Financial liabilities				
Deposits from banks	219,998	0.22	259,048	0.52
Deposits from customers	1,152,852	1.08	1,132,197	1.67
Liabilities from issued securities	60,632	4.28	98,466	4.67
Subordinated debt	55,956	3.45	67,173	3.23
Other liabilities	277,177	-	427,719	-

(40) Fair value of financial assets and liabilities

The following tables comprise the book value and the fair value of those financial assets and liabilities, which are not presented at fair value in the Statement of Financial Position.

31 December 2015 (million HUF)	Variable rate instruments		Fixed rate instruments	
	Book value	Fair value	Book value	Fair value
Financial assets				
Due from banks	28,278	28,280	451,107	451,132
Loans and advances to customers	770,253	772,519	139,951	133,063
Financial liabilities				
Deposits from banks	101,213	99,366	123,816	120,258
Deposits from customers	790,314	794,532	389,392	392,375
Liabilities from issued securities	12,163	12,162	15,999	16,302
Subordinated debt	56,421	58,343	-	-

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(40) Fair value of financial assets and liabilities (continued)

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

The methods of the fair value calculations are detailed in the following paragraphs.

The estimated fair value of due from banks and loans and advances to customers is based on the discounted amount of the estimated future cash flows.

In the case of financial investments – Held-to-maturity and liabilities from issued securities are measured with the actual market price or by applying broker price quotations.

Deposits from banks and customers have been estimated using discounted cash flows.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: inputs that are quoted marked prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Unobservable input is used for instruments with conditions not closely connected to active markets.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2015 (million HUF)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	15,371	-	15,371
Financial assets at fair value through profit or loss	59,621	1	-	59,622
Financial investments - Available-for-sale	78,876	-	-	78,876
Financial liabilities				
Derivative financial liabilities	-	12,709	-	12,709

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(40) Fair value of financial assets and liabilities (continued)

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

During the reporting period ending 31 December 2015 and 2014 there were no transfers between Level 1 and Level 2 fair value measurements or any transfers into Level 3 fair value measurement.

The following table shows an analysis of financial instruments not measured at fair value by level of the fair value hierarchy:

31 December 2015 (million HUF)	Level 1	Level 2	Level 3	Total fair value	Total book value
Financial assets					
Cash and current accounts with central bank	23,259	-	-	23,259	23,259
Deposits with banks	-	-	479,412	479,412	479,385
Loans and advances to customers	-	-	905,582	905,582	910,204
Financial liabilities					
Deposits from banks	-	-	219,624	219,624	225,029
Deposits from customers	-	-	1,186,907	1,186,907	1,179,706
Liabilities from issued securities	-	28,464	-	28,464	28,162
Subordinated deposits	-	-	58,343	58,343	56,421

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(40) Fair value of financial assets and liabilities (continued)

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. The fair value of deposits from banks and customers is estimated using discounted cash flow techniques. The fair value of deposits on demand is the amount payable at the reporting date.

(41) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalent comprises the following balances with less than three months maturity from the date of acquisition.

(million HUF)	Note	2015	2014
Cash and cash equivalents	17	23,259	27,335
Due from banks	18	479,385	302,857
Financial assets at fair value through profit or loss	19	2,690	33
Financial investments	22	-	37,756
Total		505,334	367,981

(42) Business combinations and transactions under common control

There was no business combination and transaction under common control in 2015 nor in 2014.

(43) Events after the reporting period

The winding up procedure of CIB Car Ltd. and Brivon Hungary Ltd. commences on the 1st of January, 2016.

During February, 2016 the subordinated loan from Intesa Sanpaolo S.P.A with an amount of 150 million EUR will be entirely prepaid and in parallel from this amount the authorized share capital will be increased by issuing new shares.

(44) Segment report

For management purposes the Group is organised into operating segments based on services and products. The Management Board of the Bank monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Operating segment result represents the banking income less of impairment loss, provision and net loan losses. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following segments could be distinguished as being separate from each other

- Retail banking contains private customer current accounts, savings, deposits; customer loans and mortgages; financial leasing services
- Corporate banking contains banking services, savings, deposits, investment savings products and corporate loans.
- Treasury and Bank segment contains trading and treasury services.
- The other segment contains both the subsidiaries whose activities are not financial and public sector, such as property management.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(44) Segment report (continued)

Net banking income of other segment is due to the transfer of interest on non-interest earning asset and liabilities classified to the other segment category.

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

31 December 2015 (million HUF)	Retail banking	Corpo- rate banking	Treasury/ Bank	Other	Total
Net interest income	17,497	11,684	(2,941)	3,279	29,519
Net commission income	20,717	7,069	-	-	27,786
Trading income	-	-	(3,397)	-	(3,397)
Other operating income	-	-	-	5,854	5,854
Net banking income	38,214	18,753	(6,338)	9,133	59,762
Impairment losses, provisions and net loan losses	(19,474)	(12,269)	-	500	(31,243)
Segment result	18,740	6,484	(6,338)	9,633	28,519
Unallocated cost	-	-	-	-	(65,713)
Profit before tax	-	-	-	-	(37,194)
Income tax	-	-	-	-	(3,030)
Profit for the year	-	-	-	-	(40,224)
Segment assets					
Loan and advances to customers	342,973	567,231	-	-	910,204
Deposit with banks	-	-	479,385	-	479,385
Securities	-	-	138,498	23	138,521
Derivative financial assets	-	-	15,371	-	15,371
Other assets	-	-	-	132,025	132,025
Unallocated assets	-	-	-	201	201
Total asset	342,973	567,231	633,254	132,249	1,675,707
Segment liabilities					
Deposit from customers and liabilities from issued securities	510,726	697,142	-	-	1,207,868
Deposit from banks and subordinated debt	-	-	281,450	-	281,450
Derivative financial liabilities	-	-	12,709	-	12,709
Other	-	-	-	25,023	25,023
Unallocated liabilities	-	-	-	817	817
Total liabilities	510,726	697,142	294,159	25,840	1,527,867

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(44) Segment report (continued)

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

Part E – Information on risks

(45) Risk management

Risk is inherent in the Group's activities, but it is carefully managed through a process of ongoing identification, measurement and monitoring, subject to prudent risk limits and strong control. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The most significant risks to which the Group is exposed are credit-, operational-, liquidity- and market risk, including interest rate, foreign exchange risks and other price risk.

The Management Board of the Bank, within the rules as established by the National Bank of Hungary and Intesa Sanpaolo S.p.A, sets risk management policies. The Management Committees of the Group implement the execution of these policies. Besides to the Management Committees, an independent Risk Assumption and Risk Management Committee has been established according to the legislative requirements in order to further strengthening the risk control.

The Risk Management Division is responsible for implementing and maintaining risk related procedures to ensure an independent control process. Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and manages daily liquidity of the Bank. Activity of Treasury is supervised on a daily basis by the Market Risk Department and strategic ALM decisions are made by Financial Risk Committee.

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management. Risk management framework is also comprehensively examined yearly by the National Bank of Hungary in the course of the Supervisory Review and Evaluation Process.

The Group has established reporting systems, which permit the continuous monitoring of risk exposures. The risks are measured and quantified according to different methods, both statistical and non-statistical. Each method is based on different levels of uncertainty. The combination of methods makes it possible for the Group to assess the behaviour of its exposure in different risk scenarios in order to capture all the aspects of the risk. This reflects both the expected loss likely to arise in normal circumstances and unexpected loss, which is an estimate of the ultimate actual loss based on statistical models.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and any exposures arising from forecasted transactions. The Group actively uses collaterals to reduce its credit risks.

(a) Credit risk

Credit risk is the risk that a customer or counter party will be unable or unwilling to meet a commitment that they have entered into with a member of the Group. It arises from lending, trade finance, treasury and other activities undertaken by Group companies. Credit risk on loans and receivables is managed by the Management Board through the Credit Committee, the Asset Quality Session and the Problem Asset Committee, which establish credit regulations including the approval process, discretionary credit limits, standards for the measurement of credit exposures, risk ratings of clients and assessments of management quality and financial performance.

Each significant outstanding loan is reviewed at least monthly. Loans are classified based on a point rating system, which incorporates qualitative and quantitative factors.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the Statement of Financial Position. Credit risk on trading instruments is managed by the Management Board through the Financial Risk Committee. The Group maintains strict control on open net positions, i.e. the difference between purchase and sale contracts, by both amount and term.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below shows the maximum exposure (gross carrying amount without any impairment losses) to credit risk. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

(million HUF)	2015	2014
Cash and balances with central bank	23,259	27,335
Due from banks and subordinated loans	479,462	302,935
Financial assets at fair value through profit and loss	59,622	12,476
Derivative financial assets	15,371	19,599
Loans and advances to customers	1,093,801	1,339,180
Financial investments – Available-for-sale	78,899	182,793
Other assets	3,788	8,030
Financial guarantees	37,852	42,986
Commitments	265,797	162,250
Total maximum exposure	2,057,851	2,097,584
Total maximum exposure to credit risk	1,869,760	1,810,415

The fair values of derivatives shown on the Statement of Financial Position represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in values.

The Group's loans and advances to customers before taking into account any collateral held or other credit enhancement can be analysed by the following geographical regions:

(million HUF)	2015	2014
Hungary	1,046,793	1,307,451
Euro Zone countries	24,594	10,510
- of which PIGS countries	419	947
European but Non-Euro Zone countries	22,175	20,763
Other regions	239	456
Total	1,093,801	1,339,180

PIGS' countries include the followings: Greece, Portugal, Ireland and Spain. An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements is provided in Note 20.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, mortgage charges over real estate properties, inventory and trade receivables;

The Group also obtains guarantees from parent companies for loans to their subsidiaries. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

(million HUF)	2015	2014
Financial collateral	(22,923)	(21,514)
Guarantees	(24,365)	(7,606)
Total	(47,288)	(29,120)

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

(million HUF)	2015	2014
Performing loans		
A – Excellent	11,940	13,231
B – Stable	107,896	139,550
C – Acceptable	289,226	313,627
D – High Risk	66,526	120,378
Other	31,644	24,709
Retail	273,793	281,675
Total performing loans	781,025	893,170
Non-performing loans		
Corporate loans	224,554	300,203
Retail loan	88,222	145,807
Total non-performing loans	312,776	446,010

The „Other” rating refers to clients, which were assessed with not the latest, but a previous rating model.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. These facilitates focused on management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The attributable risk ratings are assessed and updated regularly.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

The table below shows the credit quality of the due from banks portfolio, based on the external rating system.

(million HUF)	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+/ BB-	Less than B	Not rated	Total
2015	39,271	2,791	172,228	260,980	1,199	2,916	479,385
2014	36,644	14,387	50,077	194,431	48	7,270	302,857

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

2015 (million HUF)	Under 1 month	31 to 60 days	61 to 90 days	Over 91 days	Total
Corporate loan	5,530	718	134	840	7,222
Retail loans	8,816	2,306	636	432	12,190
Total	14,346	3,024	770	1,272	19,412

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

Of the total aggregate amount of gross past due but not individually impaired loans and advances to customers, the liquidation value of collateral that the Group held as at 31 December 2015 HUF 19,347 million and was HUF 52,826 million as at 31 December 2014.

The Group implemented ISP Group's new non-performing classification in June 2015. According to the harmonized rules the non performing exposures should be classified as

- any payments are overdue by more than 90 days with material due amount and not assessed as Doubtful or Unlikely to pay (Past due),
- the improbability that the borrower will thoroughly fulfil its credit obligations (by way of repayment of principal and interest) without recourse to actions such as the enforcement of guarantees/ collateral (Unlikely to pay),
- the client is in a state of insolvency (Doubtful).

The Group addresses impairment into two types: individually assessed allowances and collectively assessed allowances.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

The following table below shows the credit quality of the non-performing loans and advances to customers based on the Group's rules:

(million HUF)	2015	2014
Doubtful loans	49,732	109,426
Unlikely to pay loans	100,281	82,132
Past due loans	357	2,320
Total	150,370	193,878

The Group determines the individually assessed allowances appropriate for each individually significant loan and advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, its expected dividend payout should bankruptcy ensue, its ability to recover outstanding amounts, the availability of other financial support and the realisable value of collateral.

Collectively assessed allowances are assessed for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration historical losses on the portfolio.

Collective allowances are calculated based on the actual rating based PD of the client, and modelled LGD or collateral coverage of the given exposure.

(b) Liquidity risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its payment obligations due to its inability to obtain funds on the market (funding liquidity risk) or to liquidate its assets (market liquidity risk).

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

The intention of the CIB Group is to promote CIB's long standing philosophy of safe, sound and conservative liquidity risk management and to give the right guidance to ensure continuous and safe liquidity levels within the Group. The key elements of the CIB Group's liquidity strategy are as follows:

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

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

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

The liquidity ratio is calculated as the ratio of liquid assets to total assets where liquid assets consists of cash, nostro balances and bonds that are categorized by the National Bank of Hungary as eligible for its repo facility.

The liquidity ratio during the year was as follows

Liquidity ratio (%)	2015	2014
31 December	30.1	22.8
Daily average during the period	24.2	17.1
Highest	30.1	22.8
Lowest	19.1	13.5

(The liquidity of the Group depends on the Bank stand-alone liquidity the above table includes the CIB Bank only liquidity ratios.)

The maturity profile of the Group's financial liabilities at 31 December 2015 is presented in Note 37.

(c) Market risk - Trading

Market risk is the risk of loss due to fluctuations in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored through applying methodology that reflects the interdependency between risk variables.

The market risk for the trading portfolio is managed and monitored based on a VaR (Value at Risk) methodology which reflects the interdependency between different risk factors. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

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

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

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations with separate limit amounts for foreign exchange, interest rate, equity and total VaRs. Exposures are reviewed daily against the limits by management.

VaR – 2015 (million HUF)	Foreign ex- change	Interest rate	Equity	Correla- tion effect	Total
31 December	21	37	1	(21)	38
Daily average during the period	31	66	2	(27)	72
Highest	87	115	4	(84)	122
Lowest	5	28	1	(5)	29

VaR – 2014 (million HUF)	Foreign ex- change	Interest rate	Equity	Correla- tion effect	Total
31 December	59	37	3	(34)	65
Daily average during the period	31	31	2	(18)	47
Highest	115	73	3	(85)	107
Lowest	6	2	2	9	19

(As the market risk trading book is managed at the CIB Bank level, the table includes the amounts on a Bank level basis).

In addition to the VaR limits, position and stop-loss limits have been set up in line with the internal regulations of Intesa Sanpaolo Group.

Position limits enables the monitoring of exposures real time, and as a robust measurement technique, can be relied upon in case of error in the VaR model.

Separate position limits and sub-limits are in place for foreign exchange, equity and interest rate positions.

Stop-loss limits are designed to control the down side movement of the profit and loss in a particular position. Separate stop-loss limits have been established both on a month-to-date and year-to-date horizon for the individual Treasury desks.

(d) Market risk – Non-trading
Interest rate risk– Non-trading

Interest rate risk is measured by the extent to which changes in market interest rates impact on equity and on net interest income. Gaps in the value of assets, liabilities and off balance sheet instruments that mature or reprice during a given period generate interest rate risk. The Group reduces this risk by matching the repricing of assets and liabilities using pricing/maturity techniques, including the use of derivative products.

Interest rate risk is managed by the Treasury in the Group day-to-day operation supervised by the senior management, by Risk Management, and by the Parent Company. Risk tolerance limitation and the related policy are set by the Group's Management Board. On the tactical horizon interest risk is managed by the Financial Risk Committee, which proposes position and sensitivity limits, and monitors such limits to restrict the effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

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

The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating and fixed rate non-trading financial assets and financial liabilities held at 31 December 2015. The sensitivity of equity is calculated by revaluing all non-trading financial assets, liabilities and derivatives at 31 December 2014 for the effects of the assumed changes in interest rates. The Group uses for the sensitivity of equity calculations, among others, the NPV and modified duration method, with zero floor on interest rates.

Threshold of zero is implemented in the calculation for those cases when the decrease of basis points would indicate a negative interest income. This method amends the symmetry of the sensitivity analysis.

At the end of December 2015 there has been a change in methodology of the sensitivity calculation as the Group has inserted the CIB Leasing transactions at analytical level compared to the proxy applied in the previous years. The following table indicates the changes from the methodology at the end of 2015.

After change in methodology:

2015 (million HUF)	Increase in basis points	Sensiti- vity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	+ 200	(1,016.11)	(130.15)	71.30	54.57	(939.34)	(943.62)
EUR	+ 100	(266.95)	(87.21)	121.81	240.68	(396.98)	(121.69)
USD	+ 25	(6.40)	(0.94)	4.41	0.38	68.23	72.07
CHF	+ 25	0.00	28.22	0.49	(0.57)	(0.72)	27.42
Other	+ 25	(3.20)	(0.22)	0.39	0.00	1.16	1.32

2015 (million HUF)	De- crease in basis points	Sensiti- vity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	(200)	681.23	90.34	(50.35)	(4.71)	1,312.90	1,258.19
EUR	(100)	0.00	(9.30)	21.18	(9.09)	381.20	383.99
USD	(25)	6.42	0.16	(3.75)	(0.39)	(76.77)	(58.47)
CHF	(25)	0.00	22.45	0.39	(0.31)	(0.24)	21.01
Other	(25)	3.20	0.44	(0.27)	0.00	(1.45)	(1.28)

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

Before change in methodology:

2015 (million HUF)	Increase in basis points	Sensiti- vity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	+ 200	2.65	(796.6)	(485.3)	(5.0)	(650.9)	(1,937.8)
EUR	+ 100	(2.14)	(101.6)	84.2	13.3	(0.0)	(4.1)
USD	+ 25		(1.3)	3.6	(0.1)	0.0	2.2
CHF	+ 25		(27.6)	(1.5)	(0.7)	(0.7)	(30.5)
Other	+ 25		0.3	0.4	0.0	0.0	0.7

2015 (million HUF)	De- crease in basis points	Sensiti- vity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	(200)	(14.03)	558.6	337.2	8.6	850.9	1,755.2
EUR	(100)	(0.6)	(9.3)	3.4	(8.6)	0.0	(14.5)
USD	(25)		1.3	(3.6)	0.1	0.0	(2.2)
CHF	(25)		(27.6)	(1.5)	(0.7)	0.5	(29.3)
Other	(25)		(0.4)	(0.4)	0.0	0.0	(0.8)

2014 (million HUF)	Increase in basis points	Sensiti- vity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	+ 200	563.5	(25.5)	241.4	115.7	895.1	563.5
EUR	+ 100	(693.1)	22.8	(136.8)	0.0	(807.1)	(693.1)
USD	+ 25	4.3	(4.3)	(0.2)	0.0	(0.2)	4.3
CHF	+ 25	(104.7)	25.2	(0.1)	0.0	(79.5)	(104.7)
Other	+ 25	0.5	0.3	0.0	0.0	0.8	0.5

2014 (million HUF)	De- crease in basis points	Sensiti- vity of net interest income	Sensitivity of equity				Total
			0 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	
HUF	(200)	(573.5)	26.0	(264.8)	(136.0)	(948.2)	(573.5)
EUR	(100)	97.5	(4.5)	19.4	0.0	112.4	97.5
USD	(25)	(4.1)	4.3	0.2	0.0	0.5	(4.1)
CHF	(25)	(25.6)	(0.7)	(0.0)	0.0	(26.4)	(25.6)
Other	(25)	(0.3)	(0.3)	0.0	0.0	(0.7)	(0.3)

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)
Foreign exchange risk – Non-trading

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in currency rates.

The Group has assets and liabilities, both on and off balance sheet, denominated in various foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Any non-trading foreign exchange risk is transferred through internal hedges to trading book and is therefore reflected and managed via the value-at-risk figures in the trading books described under section (c) Market risk – Trading, with the exception of strategic and residual foreign FX positions. Overall strategic FX portfolio was constantly closed until FX conversions related to foreign exchange mortgages and car loans took place in February and November 2015, meaning there were no open FX position and FX exposure related to the conversions while the Group has residual FX position.

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

2015 (million HUF)	Foreign exchange risk – Non-trading Sensitivity of net income		
	EUR	CHF	Total
5% strengthening of currencies vs. HUF	129	(11)	118
5% weakening of currencies vs. HUF	(129)	11	(118)

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

Changes in exchange rates does not have any effect on equity.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

The currency structure of the Group's assets, liabilities as at 31 December 2015 and 2014 is as follows (currency equivalents in million HUF)

2015 (million HUF)	HUF	CHF	EUR	USD	Other	Total
Cash and current accounts with central bank	22,366	23	615	196	59	23,259
Due from banks	282,658	452	187,301	1,442	7,532	479,385
Financial assets at fair value through profit or loss	59,444	-	38	130	10	59,622
Loans and advances to customers	542,249	45,996	318,615	1,972	1,372	910,204
Financial investments -- Available-for-sale	78,386	-	490	-	-	78,876
Non-current assets held for sale	858	-	3,166	-	-	4,024
Other assets	3,693	55	1,478	25	5	5,256
Total assets	988,796	46,528	511,703	3,765	8,978	1,559,768
Deposits from banks	105,760	72,201	46,505	412	151	225,029
Deposits from customers	892,833	5,274	222,024	44,315	15,260	1,179,706
Liabilities from issued securities	10,107	-	18,055	-	-	28,162
Other liabilities	11,183	110	3,960	357	-	15,610
Subordinated debt	-	-	56,421	-	-	56,421
Total liabilities	1,019,883	77,585	346,965	45,084	15,411	1,504,928
Net on-Statement of Financial Position	(31,087)	(31,059)	164,738	(41,319)	(6,433)	54,840
FX position of derivatives	87,580	30,384	(163,374)	41,793	3,617	
Off-balance	219,266	31	63,314	18,428	-	301,039
Guarantees	18,192	-	12,252	2,218	-	32,662
Letters of credit	-	-	3,797	504	-	4,301
Loans and overdraft facilities not disbursed	201,074	31	47,265	15,706	-	264,076

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)

2014 (million HUF)	HUF	CHF	EUR	USD	Other	Total
Cash and current accounts with central bank	26,191	43	813	222	66	27,335
Due from banks	235,392	1,137	59,265	3,815	3,248	302,857
Financial assets at fair value through profit or loss	12,283	-	76	117	-	12,476
Loans and advances to customers	334,809	274,896	449,137	2,264	316	1,061,422
Financial investments – Available-for-sale	82,623	-	100,147	-	-	182,770
Other assets	4,346	124	551	12	5	5,038
Total assets	695,644	276,200	609,989	6,430	3,635	1,591,898
Deposits from banks	56,958	101,640	52,376	1,886	795	213,655
Deposits from customers	813,307	52,942	200,708	39,686	8,097	1,114,740
Liabilities from issued securities	63,698	-	27,712	-	-	91,410
Tax liabilities	9,566	19	705	398	13	10,701
Other liabilities	30,450	6,312	452	-	-	37,214
Subordinated debt	-	-	56,740	-	-	56,740
Total liabilities	973,979	160,913	338,693	41,970	8,905	1,524,460
Net on-Statement of Financial Position	(278,335)	115,287	271,296	(35,540)	(5,270)	67,438
FX position of derivatives	345,466	(109,863)	(277,029)	35,292	6,134	
Off-balance	144,238	1	38,527	16,050	2	198,818
Guarantees	25,511	-	11,681	415	2	37,609
Letters of credit	-	-	2,820	721	-	3,541
Loans and overdraft facilities not disbursed	118,727	1	24,026	14,914	-	157,668

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(45) Risk management (continued)
(e) Operational risk

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

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

Strategic and reputational risks are excluded.

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

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

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

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

As a quantitative measure historical operational risk loss data have been collected and analysed in a systematic way since 2004. On the basis of the analyses performed by Operational Risk Management, mitigating actions are initiated to avoid the re-occurrence of similar losses or prevent the materialisation of potential risks.

In 2015, CIB Group detected and recorded in its internal loss database 698 operational risk events which caused HUF 1,439 million effective operational loss (excluding losses boundary with credit risk and specific provisions). In 2014, the corresponding numbers were 423 events with HUF 1,982 million loss. (Please note that in order to ensure comparability with previous periods, the above disclosed losses of 2015 do not contain the losses arising from the governmental actions driven settlement of bid-offer spreads and unilateral price increases of consumer loans and the associated operating expenses of the settlement process. According to the National Bank of Hungary, these losses shall be classified as operational risk losses however they are considered to be extraordinary and one-off.)

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

Part F – Information on capital

(46) Capital and capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business with special focus on the liquidity risk management tools and the capital requirements.

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in 2015 as well as in 2014.

Internal Capital Adequacy Assessment Process (ICAAP)

The second pillar of Basel II capital framework prescribes how supervisory authorities and banks can effectively assess the appropriate level of capital. The assessment must cover all the risks incurred by the Group, their sensitivity to crisis scenarios, and how they are expected to evolve in light of changes in the Group's business going forward.

The Group not only reviews its capital ratios, but it also assesses and continuously monitors its risk bearing capacity. The Group's primary internal measure to assess the impact of very severe unexpected losses across the different risk types is economic capital, which is also planned as part of the risk and capital strategy.

The Bank continuously focusing on the following risks:

Credit Risk

Risk that customers may not be able to meet their contractual payment obligations.

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, model, compliance and ICT (information and Communication Technology) risk, but excludes strategic and reputational risk.

Market Risk

The risk that arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity prices, foreign exchange rates and commodity prices), the correlations among them and their levels of volatility.

Residual Risk

The risk that arises from the recognized risk measurement and mitigation techniques used by the credit institution proves less effective than expected. The residual risk has three main components: (i) residual risk of assets is used in credit risk mitigation, (ii) residual risk of own bank properties, (iii) residual risk of repossessed properties.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**

(46) Capital and capital managementModel Risk

Risk that occurs when a financial model used to measure a firm's risks does not perform the tasks or capture the level of risks it was designed to. Any model is a simplified version of reality, and with any simplification there is the risk that something will fail to be accounted for.

Concentration Risk

Concentration risk is a banking term denoting the overall spread of a bank's outstanding accounts over the number or variety of debtors to whom the bank has lent money. This risk is calculated using a "concentration ratio" which explains what percentage of the outstanding accounts each bank loan represents.

Banking book – Interest Rate Risk

Risk of losses on the fair value of the portfolio of banking assets and liabilities, not including trading assets and liabilities, resulting from changes in interest rates.

Interest rate risk is taken to be the current or prospective risk to both the earnings and capital of institutions arising from adverse movements in interest rates. In the context of Pillar 2, this is in respect of the banking book only, given that interest rate risk in the trading book is already covered under market risk regulations.

Liquidity Risk

The risk arising from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs.

Country Risk

The risk that the Bank may suffer a loss, in any given country, due to deterioration in economic conditions, political and social unrest, nationalization and expropriation of assets, government repudiation of external indebtedness, exchange controls and currency depreciation or devaluation.

Settlement Risk

Settlement risk is the risk that a transaction executed is not settled as expected through a settlement system. Settlement risk comprises credit risk and liquidity risk elements. Treasury transactions, trading book items (deals) and capital market dealings concluded as part of investment services convey a settlement risk that is a specific mix of credit and liquidity risk. The credit institution or the investment firm bears the risk that while it fulfils its contractual obligations (payment or delivery), the counterparty fails or defaults to do so.

Reputational Risk

The reputation risk is defined as a risk of a drop in profits or capital due to a negative perception of the image of the bank by customers, counterparties, shareholders, investors or supervisory authorities

Strategic Risk

Present or prospective strategic risk is defined as the risk linked to a potential drop in profits or capital due to changes in the operating context or erroneous corporate decisions, inadequate implementation of decisions or poor reactions to changes in the competitive environment.

High Risk Portfolio

In line with the National Bank of Hungary's requirement the Group identifies the portfolio meeting the criteria defined by the Supervisor for high risk portfolio and allocates additional capital for it.

(46) Capital and capital management**Applied methodologies**

The Group applies Standardized Methodologies (STA) for managing Credit risks Operational risks and Market risks under the above defined Pillar 1.

The Group continuously improves the applied methodologies to be prepared for implementing advanced methodologies in a proper time frame.

In relation to Pillar 2 the Group implemented advanced methodology that is reviewed and improved periodically.

Capital management

The Group's regulator, National Bank of Hungary sets and monitors capital requirements for the Group.

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

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

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value based on total capital ratio.

To strengthen the Bank's capital position the shareholders increased the Share Capital of the Bank by HUF 3 as the face value of the issue shares in 2014. The total capital contribution that was paid by the shareholders was HUF 116,137 million in 2014 from which HUF 49,137 million was the other equity contribution to cover financial losses.

The difference between the face value of the shares and the total paid contribution was registered as capital reserves.

No capital increase was necessary in 2015.

**Notes to the Consolidated Financial Statements
for the year ended 31 December 2015**
(46) Capital and capital management (continued)

Regulatory capital (million HUF)	2015	2014
Share capital	50,000	145,000
Reserves	135,333	143,143
Current year's profit or (loss)	(40,224)	(104,140)
Total shareholder's equity	145,109	184,003
Deduction items		
Intangible assets	(7,727)	(6,529)
Tier 1 Capital	137,382	177,474
Subordinated capital	46,788	56,473
Revaluation reserve	(1,302)	28
Deductions from Tier 2 Capital	1,302	(28)
Tier 2 Capital	46,788	56,473
Total Capital	184,170	233,947
Risk weighted assets for Credit risks	917,591	1,053,292
Risk weighted assets for Market risks	18,982	31,770
Risk weighted assets for Operating risks	163,185	201,300
Credit Valuation Adjustment	996	2,299
Risk weighted assets	1,100,754	1,288,661
Tier 1 capital ratio	12.48%	13.80%
Total capital ratio	16.73%	18.19%

The minimum capital requirement is 8% under Pillar1. The Group also meet the requirement of SREP.

SREP requirements for 2016 are already available, and the Group meets the relating requirements according to the expectations.



CIB BANK

CIB BANK Ltd. and its subsidiaries

**BUSINESS AND MANAGEMENT REPORT
for 31 December 2015**

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

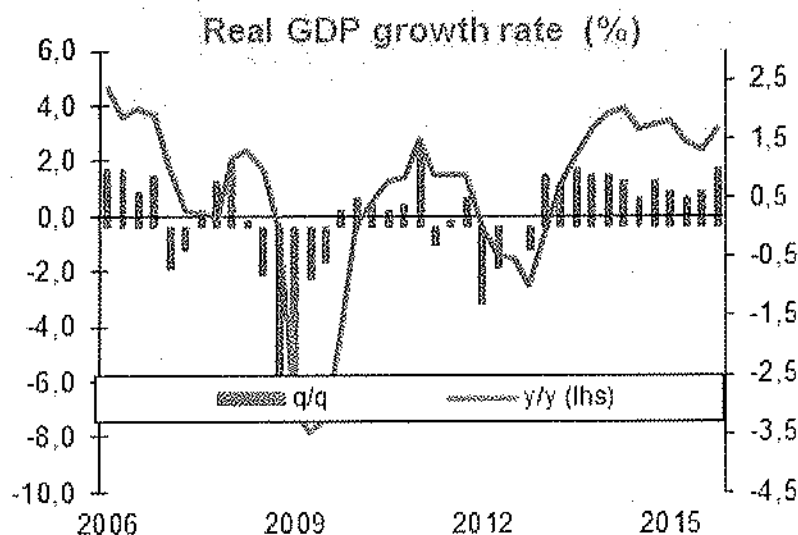
I. Business environment

Macro and microeconomic environment

1. GDP

After the Hungarian economic growth gained momentum in 2013 (following a brief period of recession), the annual average growth rate of GDP accelerated even further in 2014 (to 3.8% versus 1.8% in 2013 – these are upward revised figures released by the Central Statistical Office in 2015). A slight downward shift of the quarterly momentum had already been observed in H2 2014, to be followed by further slowdown in 2015. Last year's slowdown had been widely expected and it emerged from Q2 on. GDP rose by 3.5% in Q1 2015 (this was still higher than in Q3-Q4 2014), while y/y growth rate dropped in Q2 and Q3 to 2.7% and 2.4% respectively. 2015 growth rates on a q/q basis showed a slowdown already from the first quarter (0.5-0.6% in 2015 versus 0.7-1.1% in 2014). The detailed GDP-breakdown had already showed a shift in the structure of GDP-contribution compared to preceding years at the end of 2014 and this was also reflected by the available 2015 data. Net exports were not the sole driver of growth any longer. Domestic demand took the first place amid the revival of household consumption. Investments peaked in 2014 and showed weaker performance in Q1-Q3 2015 given the start of a new fiscal period in the EU. From the production side car manufacturing remained the main driver of growth, but the overall industrial performance became slightly more balanced.

According to the preliminary data release of the CSO Q4 economic growth surpassed expectations and also the performance of the preceding quarters with a growth rate of 3.2%. Hence for the whole of 2015 came at 2.9%. For 2016 further slowdown is likely: most projections fall into the range of 2.0-2.5%, with the NBH forecast at the upper end of the range.



Data source: NBH, Central Statistical Office (CSO)

2. Budget and external balance

In 2015 the cash-flow based budget balance was behind the revised annual plan of HUF 892bn primarily due to delayed inflow of EU funds. However, the ESA balance (also used for the assessment of the Maastricht criteria) arrived better than the official plan of -2.4% of GDP. Preliminary comments from the government in January 2016 suggested that the 2015 deficit was close to 2% of GDP. This implies a better ESA performance compared to 2014 and shows increasing room for state debt reduction.

In the first half of 2015 the fiscal performance was slightly weaker than suggested by the in-year patterns of the revenue and the expenditure side. By the end of Q1 this year the deficit reached HUF 311bn or 61% of the annual target, implying a slightly worse performance compared to 2014. However, the budget was supported by a GDP growth rate arriving above the official budgetary forecast, and this was especially strongly reflected in tax revenues in Q3-Q4. The budget plan and its execution remained significantly affected by special sectoral crisis taxes including the bank tax.

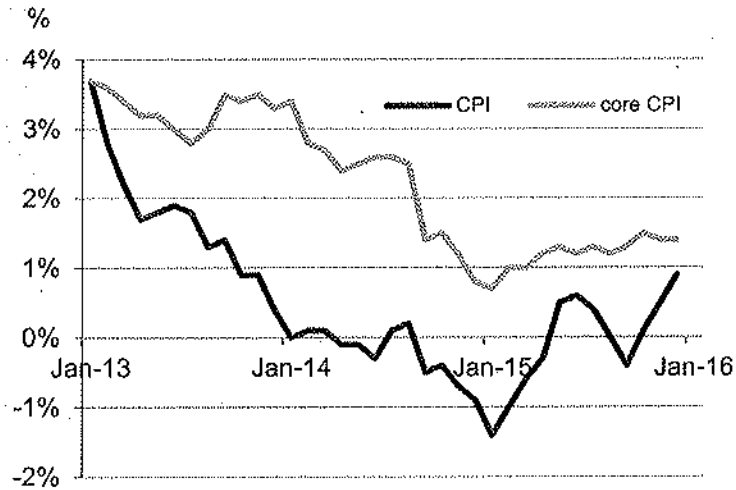
External balance indicators showed a continued favourable development in 2015 (similar to 2014 and the preceding years), partly in tandem with the limited import impact of rising domestic demand (both from the state sector and from households) and also given the strong export performance of the car industry. The cumulated Q3 current account balance came at a surplus of EUR 1.7bn in 2015, which is not only stronger performance than that of last year, but a new historical record, with already five full year surpluses in the time series between 2010 and 2014. The strong current account was primarily a result of the trade balance which showed a positive balance above EUR 8 billion in 2015 (preliminary data). This exceeds the balance performance of the same periods of last year. These developments also indicated an ongoing improvement in the country's net financing capacity. External balances are set to remain positive throughout 2016.

3. Inflation

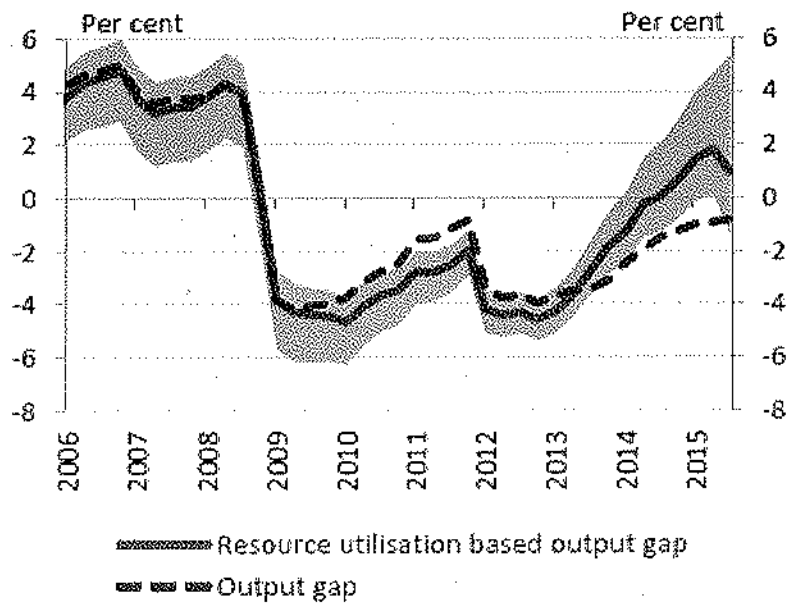
Inflation as measured by average CPI was -0.1% in 2015, followed by an average of -0.2% in 2014. Despite the negative figures, and inflation being in negative territory in five out twelve months last year (and in eight consecutive months from September 2014 to April 2015), deflation was not a real threat in the Hungarian economy. This is because the downward shift was not widespread in several price categories and it was not driven by a weakness of the demand side. Also, core inflation was hovering in positive territory (mostly at or above 1%) eventually hitting an annual average of 1.2% (down from 2.2% in 2014). Price movements were more significantly influenced by cuts in administrative prices (especially household energy prices), though this impact was diminishing in H1 2015. Still, lower fuel prices and partly also lower-than-expected food prices, and the lack of imported inflationary pressures contributed to the fall in headline CPI. Regarding the monthly y/y figures, headline inflation hit a low in January this year (at -1.4%) and it has been on the rise with a temporary drop in the July-October period. CPI returned to the vicinity of 1% (0.9% in December) with an outlook of further rise at the beginning of 2016. Inflation is set to remain well below the central bank's unchanged target level of 3%, with an expected support from ongoing low fuel prices. The central bank projects an annual average CPI of 1.7% for 2016.

Business Report
for the year ended 31 December 2015

INFLATION AND CORE INFLATION



INDICATORS OF OUTPUT GAP



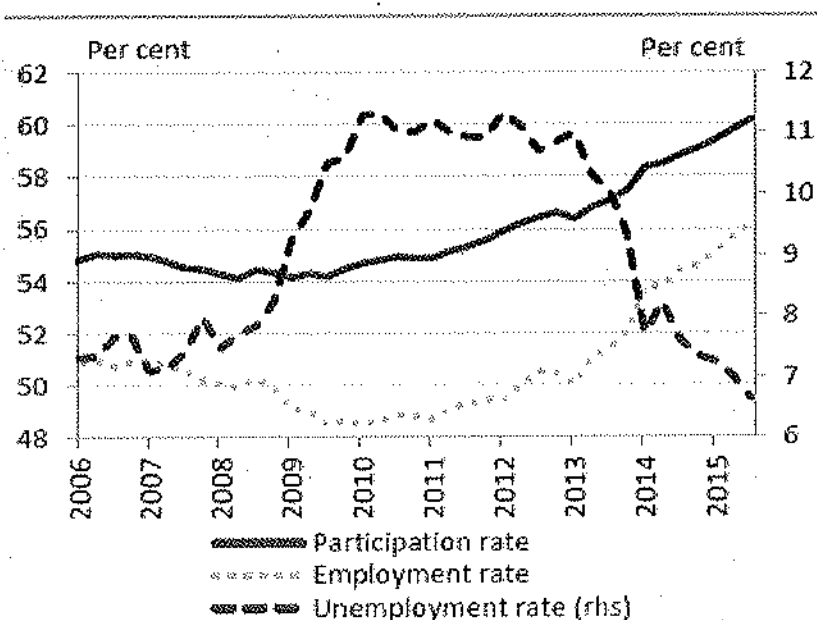
Data source: CSO, NBH

**Business Report
for the year ended 31 December 2015**
4. Labour market

The unemployment rate showed some stabilisation at 7.4% in Q1 2015, following a drop from above 9% to 7.3% in 2014. In general, the unemployment rate remained on a downward track in 2015 – by November, it reached 6.2%. At the same time the number of the employed rose further and exceeded 4.2 million in the September-November period last year.

Such drop in unemployment (since 2013) was supported by a faster rise in employment coupled with the rise of the activity rate. However, this remained strongly affected by employees working abroad and by state subsidized employment. Overall the labour market may still be considered as slack, though to a lesser extent than previously. Labour demand indicators still suggest moderate rise of demand from the side of the private sector. In addition to the state programme, labour market processes are still affected by earlier changes in pension rules and the introduction of stricter rules of unemployment benefits.

In the January-November period of 2015 wages rose by 4.1% compared to the same period of the preceding year. There was also a trend of growth regarding real wages in tandem with the revived (but still moderate) rise of inflation in 2015.

LABOUR MARKET


Data source: NBH, CSO

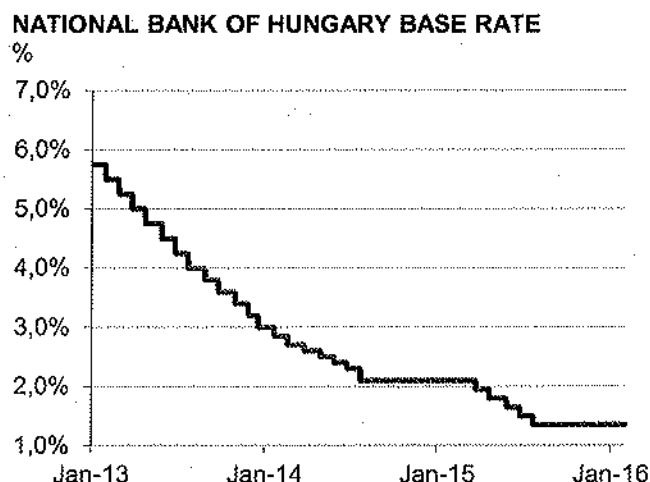
Business Report
for the year ended 31 December 2015

5. Monetary policy

The central bank revived the easing cycle of 2012-14 in March 2015 from 2.10%, moving down with steps of 15 basis points to 1.35%. Since July, the base rate was left unchanged at 1.35%. The switch from 2W to 3M in terms of the main policy instrument did not have any major impact on interest rate policy.

Low inflation (well below the NBH target, ongoing supportive inflation outlook and the relative resilience of local markets despite the swings in global sentiment and the start of QE programme by the European Central Bank (ECB) supported the revival of the easing cycle.

The NBH's Monetary Council (MC) clearly indicated in July that the easing cycle had ended at a 1.35% base-rate level, and that the economy should settle in for a long period of loose monetary conditions. In effect, further monetary easing followed without affecting the main policy rate, applying quantitative measures. Regarding interest rate policy, the NBH's goal is unchanged: to keep the base rate at the lowest possible level for the longest possible time. In light of the internal fundamentals / domestic inflationary outlook and the external environment (financial market risks), the central bank had and probably will continue to have sufficient room for manoeuvre for this purpose. Non-conventional forms of monetary easing, in part through the revised lending program and also through other liquidity/non-interest measures, have gained importance within the policy framework.



Data source: NBH

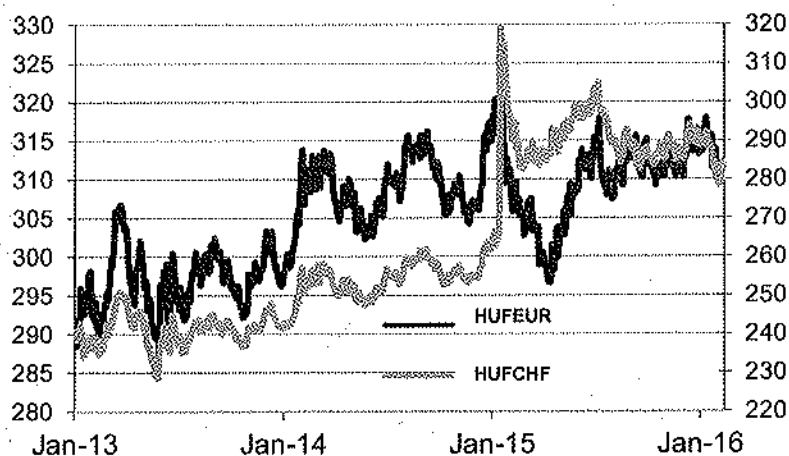
The ECB's monetary easing (QE) provided support to the Hungarian unit during most of 2015, helping the FX market to recover from the CHF-shock. The execution of FX-mortgage conversion in the case of households also eliminated a source of risk from the FX market. While these factors and the ongoing strong external balances of the Hungarian economy provided a solid background for the FX market, the low interest rate premium still makes the forint vulnerable to external shocks. While this exposure and fragility has been reduced further in H1 2015, pending geopolitical risks and a rising wave of global risk aversion intensified pressure on the Hungarian unit. The expected risk of the Fed's forthcoming tightening cycle was dampened by the ongoing shifts in expectations about the start of the cycle and by the expected slow momentum of the tightening cycle that eventually kicked off in December.

Amid these circumstances the HUF/EUR exchange rate showed only modest weakening trend last year. The cross rate fluctuated mostly at 300-320, with a brief deviation above (January) and below (March-April) this range. The average exchange rate level was 309.6 in 2015.

Foreign demand for Hungarian (forint denominated) government bonds decreased in this period, though without triggering any significant pressure either in the FI or the FX market. The stock of non-residents' holdings dropped below the HUF 4000 billion threshold, but this shift was compensated by demand from households and the local banking sector.

**Business Report
for the year ended 31 December 2015**

Regarding the performance of the HUF/CHF cross exchange rate, it was shocked by the decision of the Swiss Central Bank to abandon the 1.20 EUR/CHF limit in January 2015. With the immediate extreme appreciation of the Swiss franc the HUF/CHF rate had jumped temporarily to the 300-322 range before it consolidated in H2 January and February. In March and in Q2 the HUF/CHF rate showed a gradual upward shift from the 283-290 range to the vicinity of the 300 threshold in June 2015. In most of H2 the cross rate was relatively stable, mostly in the range of 285-295. However, with the FX-mortgage conversion the exposure of the Hungary economy and markets to swings in the HUF/CHF rate had been massively reduced.

HUF/EUR, HUF/CHF DEVELOPMENT


Data source: Bloomberg

6. Banking Environment

The Hungarian banking sector still faces significant challenges.

The largest challenges are

- restoring market-based corporate lending,
- resolving the non-performing portfolio,
- improvement in profitability.

Government actions have a significant negative effect on the profitability of the Hungarian banks (please see section 7. for more details), however the cooperation agreement between the European Bank for Reconstruction and Development (EBRD) and the government concluded in February 2015 shows new direction for the domestic banking sector development in the future such as:

- The government has agreed that does not constitute any law in the future which would have direct negative impact on the banking sector's profitability.
- Under the agreement, the banking sector tax has been reduced from 2016 through the modification of the tax rate. Please see further details in section 7.
- The government is supporting the banking sector on winding up the NPL loan portfolio with following the international best market practices

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Corporate lending, in particular to SMEs, improved substantially in last years. Further acceleration was seen in lending to non-financial corporations, with the Funding for Growth Scheme (FGS) making a considerable contribution in this regard. Funding for Growth Scheme was launched in June 2013 by the NBH and it was extended until the end of 2015. The Funding for Growth Scheme effectively stabilised lending to non-financial corporates, however, market based lending remained remarkably subdued. For this purpose, the NBH addresses an important role to the instruments to be introduced as of 2016, providing positive incentives for lending.

Funds with favourable conditions will remain available for SMEs in a more targeted form and lower volume in 2016, during the phase-out stage of the FGS. In addition to FGS the instruments of the Growth Supporting Programme (GSP) may potentially result in a total of HUF 250-400 billion increase in corporate loans outstanding.

The household loan portfolio declined further primarily in foreign currency lending, while HUF lending increased in 2015. The share of housing loans in new loan disbursements increased substantially: rising employment, higher real wages and decreasing lending rates had a positive joint impact on household borrowing through consumption and household investments.

Credit conditions towards households slightly eased during the year, however as a result of the settlement and conversion into forint, households' debt service burden decreased while their net financial worth increased, which – looking ahead – may also support the households' credit demand in parallel with sound economic environment.

The share of non-performing loans in household mortgage and commercial real estate portfolios is still high. In relation to the quality of the corporate portfolio, nonperforming project loans continued to be the problem; the activities of MARK may help to resolve this problem. Several important steps have been taken already, and as a result, a debt manager functioning on a market basis and setting a European precedent may soon commence operations.

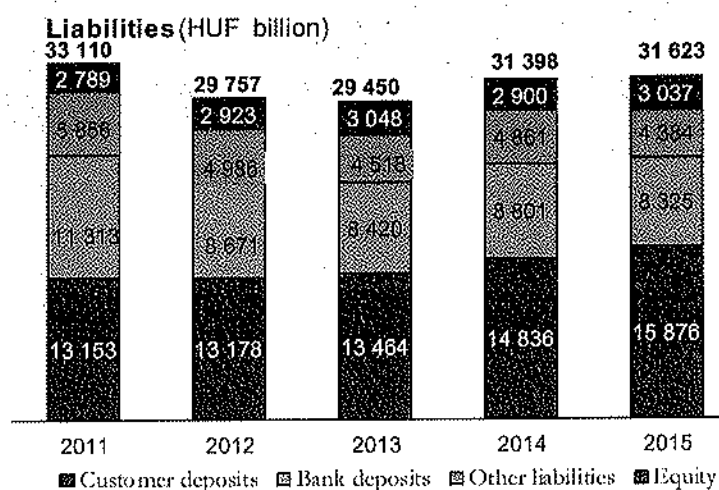
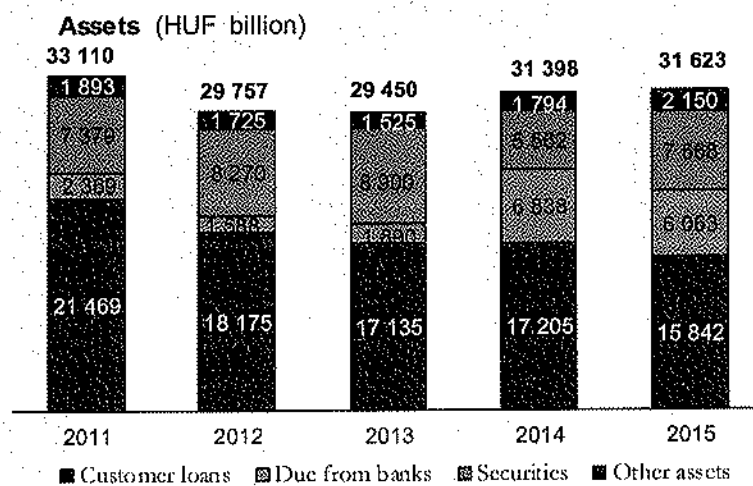
Total assets and liabilities

Based on the most recent available figures (as of December 2015) the banking sector's overall total assets increased by 0.7% (FX adjusted + 0.6%) and amounted to HUF 31,623 billion.

The gross loan portfolio decreased by 7.9% (HUF 15 842 billion) compared to December 2014 (-8.1% excluding the foreign exchange effect). The lending capacity of Hungarian banks remained under pressure also because of low profitability.

Loans to households decreased continuously during the year by 12.8% (excluding FX effect: -13.1%) as new disbursement is lower than the maturing volumes. Demand for new loans was at very low level during the recent years, however from 2014 households new disbursement significantly increased compared to last years. There was 38.3% increase in retail new disbursements as of November 2015 compared to the same period last year. The volume of foreign currency loans significantly decreased due to the conversion of the foreign currency mortgage portfolio from 58.1% as of Dec 2014 to 33.7% as of December 2015.

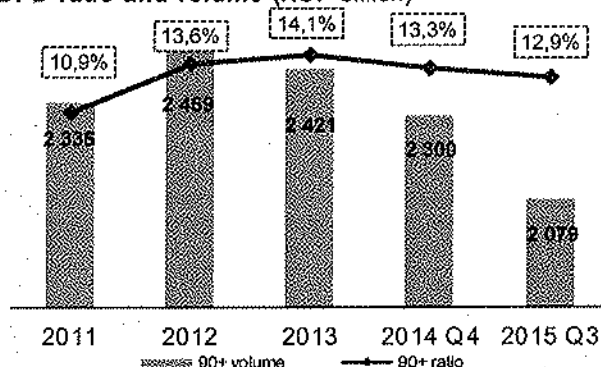
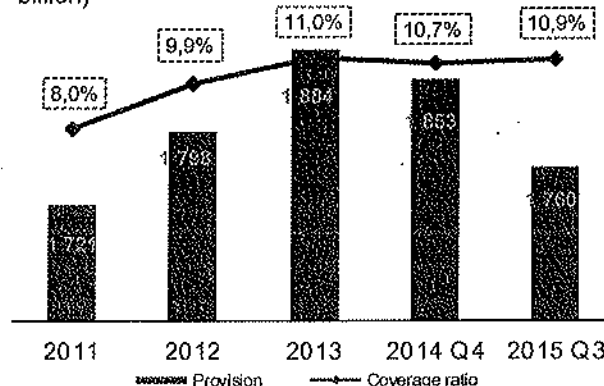
The volume of deposits from customers increased by 7.0% compared to the end of 2014, amounted to HUF 15,876 billion at the end of December 2015. Retail deposits slightly increased (+4.6%), while corporate deposit increased by 14.4%, furthermore other deposits increased by 1.1% compared to December 2014. At the same time the net asset value of investment funds increased by 5.2% (HUF 278 billion) compared to the end of last year and totaled to HUF 5,634 billion at the end of December 2015. While government bond portfolio of consumer customers increased by 32.6% as of November compared to 2014 December.

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Data source: NBH, HAS

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Credit quality

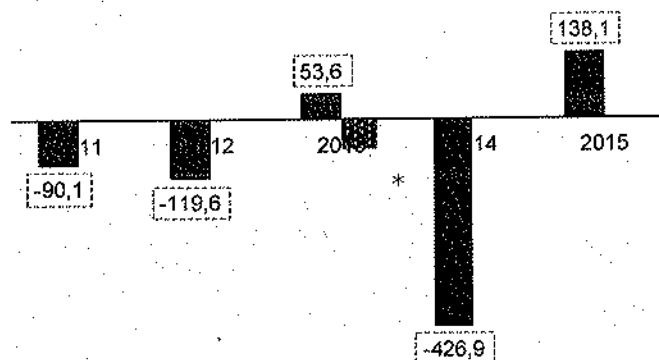
90+ past due ratio decreased to 12.9% as of September 2015. The coverage ratio (Loan loss provisions / Total loan volume) increased by 0.14% points (10.9%). Volume of corporate loans with more than 90 days past due within total loan showed a small decrease of 0.5% points and the 90+ ratio was 13.4% at the end of September 2015. The retail segment's portfolio quality has improved significantly in the first quarter of 2015 due to government measures (90+ ratio was 15.8%), but during the year the loan portfolio was deteriorating again, for the third quarter of 2015 90+ ratio amounted to 18.4%, which is 0.9% point improvement compared to the 2014 year-end.

90+ DPD ratio and volume (HUF billion)

Coverage ratio and Provision volume (HUF billion)


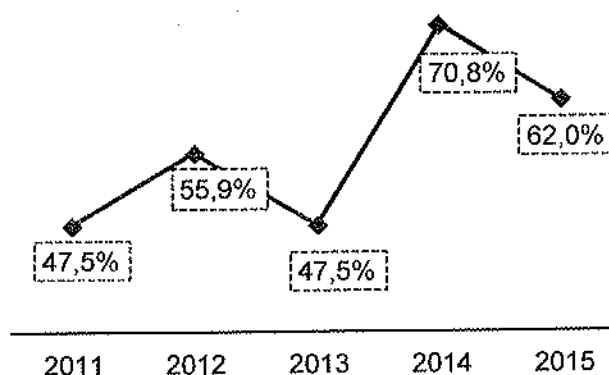
Data source: HFSA; no data is available for December 2015

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Profitability

The profitability of the banking sector increased as of December 2015 compared to the same period of last year, mainly due to the significantly lower provisioning which was partly offset by the significant decrease in interest income. There were high provisioning in 2014 due to settlement and conversion on consumer loans. Profit after tax under local GAAP totaled to HUF 138.1 billion as of December, 2015. Net Interest Income decreased by 15.5%, which was offset by Other Income / Expense decrease. The Profit from Trading Activities decreased by 19.8%, while Net Commission Income increased by 4.6% compared to the same period last year. The cost / income ratio was 62.0% at the end of December 2015.

Profit after tax (HUF Bn)


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

Cost/Income ratio


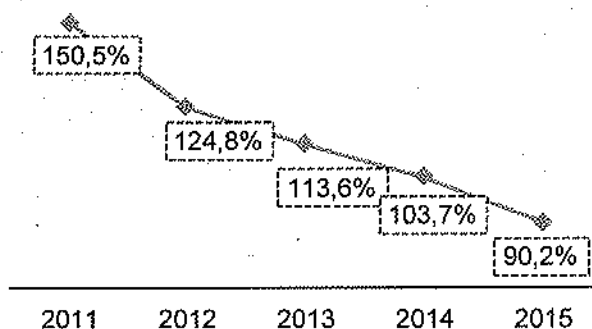
Data source: NBH, HAS

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Liquidity and Capital

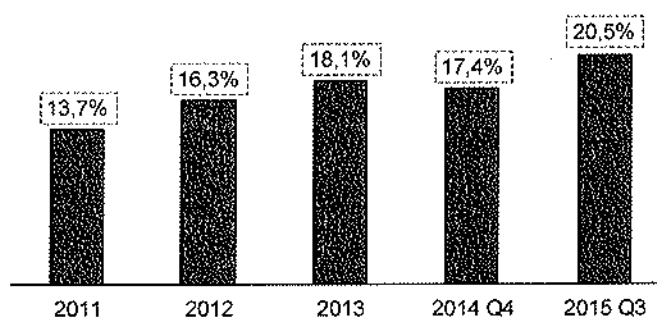
The amount of liquid assets (securities and interbank receivables) increased by HUF 1,231 billion (+9.9%) while the sector's loan to deposit ratio (net customer loan / customer deposits) improved by 13.5 points (90.2% as of December 2015) due to the growth in the customer deposit portfolio and decreasing customer loans.

The new liquidity measures by the Hungarian National Bank introduced in 2011 also contributed to the improving liquidity. The balance sheet coverage ratio (Liquid Assets / Total Assets) should be kept over 10%, while the limit for deposit coverage ratio (Liquid Assets / Customer Deposits) is 20%. These measures were replaced by the new Liquidity Coverage Ratio (LCR), which is in effect from October, 2015 with a limit of 60%. The limit will be increased to 100% starting from April 2016.

The capital position of the banking sector is adequate, the Capital Adequacy Ratio (CAR) was 20.5% as of September 2015 (includes Co-operative credit institutions).

Loan-deposit ratio


Data source: NBH, Hungarian Accounting Standards (HAS)

Capital Adequacy Ratio (%)


Data source: NBH, 2011-2014: Credit institutions operating as joint-stock companies and Special Financial Institutions aggregate figures; 2015: Total Banking sector incl. Co-operative credit institutions

7. Government / Regulatory Actions

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

Exchange rate gap/ unilateral contract modification

Supreme Court's Act and Settlement Act released in July and October, 2014 covers all HUF and foreign currency retail loan and financial leasing contracts. According to the Supreme Court decision the exchange rate gap used by the banks was considered as null and void, and general contract conditions are unfair, which allowed the unilateral changes of prices. Total cost P&L effect for the banking sector was around HUF 600 billion.

HUF conversion

According to the agreement made between the banks and NBH the banks converted all foreign currency mortgage loans at a fixed exchange rate of 309 HUF/EUR and 256.5 HUF/CHF, while unsecured and car-finance loans of households were converted into HUF in Q4 2015. Disappearance of the exchange rate risk of FX-denominated mortgage loans following the conversion will have a positive effect on the sector.

Fair banking law

The banking sector has to apply the new regulation on consumer loan pricing (fair banking pricing) for the converted mortgage loans according to the HUF conversion Act. It has been placed from the 1st of January 2015.

New regulation regarding PTI and LTV in consumer lending

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

Extraordinary bank tax

The extraordinary bank tax amounts to almost HUF 200 billion per annum for the whole banking sector, however in the coming years it will be decreased step by step. The tax burden is well in excess of those levied in other countries of the European Union and has led to deterioration in the profits of banking sector players, in addition to harming their growth prospects. On 9 February 2015 the government announced that the banking sector tax will be reduced from 2016 through the modification of the tax base and tax rate. According to the law approved by the Parliament the extra bank levy will decrease in two steps: from 0.53% to 0.24% in 2016 and to 0.21% in 2017, while adjusted total assets of year-end 2009 will remain the tax base.

Capital requirements

In line with the ECB directives, capital requirement will increase starting from 2016, due to the new buffers. **Capital conservation buffer** will be implemented from 2016 at a rate of 0.625% (increasing every year up to 2.5%). The Central Bank introduces the **Systemic Risk Buffer** from January 2017 (0 to 2%) and it will be linked to the problematic non performing project finance portfolio and repossessed real estate. **Other Systemically Important Institution (O-SII)** Buffer will be introduced from January 2017 with a maximum up to 2%. NBH identified 9 banks in Hungary as systemically important. Three groups were formed with a buffer of 0.5%, 1% and 2% and CIB is expected to receive a 0.5% buffer. The **Counter Cyclical** conservation buffer can be introduced by NBH later based on a system indicator.

II. Business strategy and priorities

In 2013 CIB Bank, with the approval and support of parent bank Intesa Sanpaolo, formulated its strategy that has been reconfirmed for the next years in 2015 again also in face new competitive and regulatory environment following the recent legislative measure in favour of the consumer clients: over the medium term, the Bank is focusing on growth in strategically important segments and products, while maintaining its market position in areas where growth itself is not the primary target. The most important objective of the strategy is to ensure that the Bank returns to operate profitably by applying an efficient and effective operating model.

The strategy is based on three main pillars:

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

The strategic objectives of the plan are:

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

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

Being one of the main market players in the corporate lending segment, CIB is executing a strategy aimed at preserving its position. Among other things, worth to mention is his activity in supporting its customers to apply for the 3rd phase of HNB and for EU funds. CIB continues to offer its own funded or the EXIM Bank refinanced loan schemes and its leasing products while professional EU fund consultancy and factoring service - already among the market leaders - are examples of the enriched product catalogue offering. Beside these over the coming years it will make even better use of the synergies inherent in its relationship with its parent company, Intesa Sanpaolo, in order to help strengthen its presence in the multinational corporate sector.

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

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

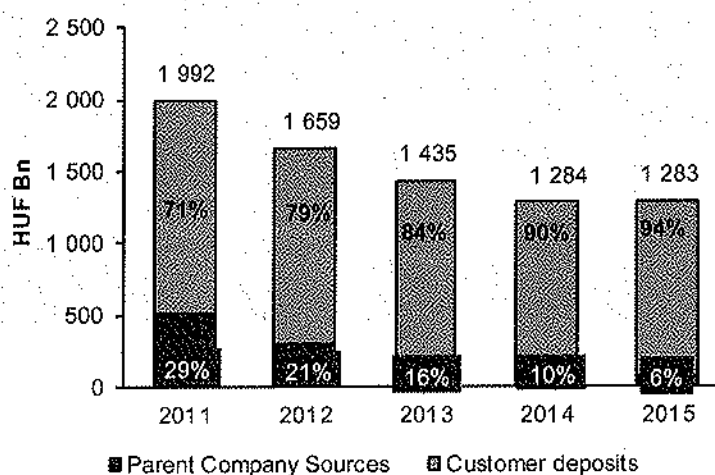
III. Strengths and potential risks of CIB Group

Main strengths

1. Solid liquidity position

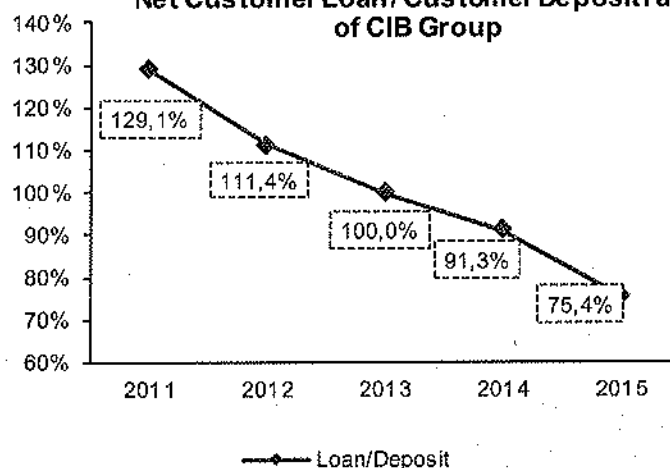
CIB Group has a strong liquidity position, thanks to the solid customer deposit portfolio. The high degree dependency on Intesa Sanpaolo has begun to decrease over the past years as CIB has focused hard on enhancing its self funding capacity. As a consequence the share of Intesa Sanpaolo funding within the total deposit fell from 29% as of December 2011 to 6% as of December 2015. Efforts in the previous years to increase the customer deposit base and the deleveraging have improved the loan to deposit ratio of the CIB Group from 129.1% in December 2011 to 75.4% in December 2015.

Parent Company Sources and Customer Deposits



Data source: CIB Group, IFRS

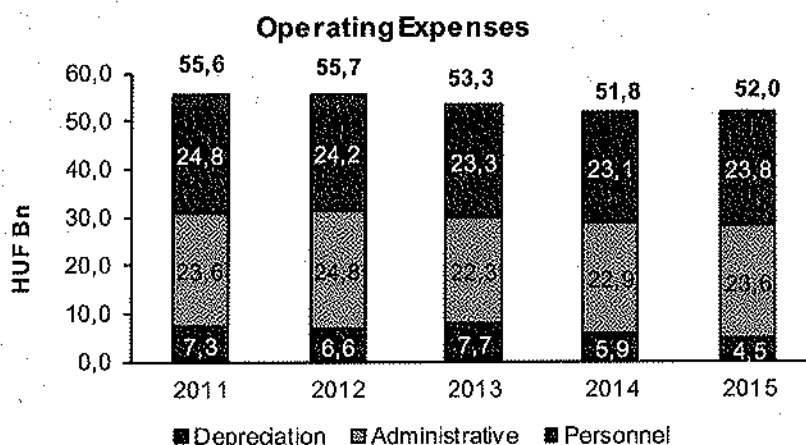
Net Customer Loan/ Customer Deposit ratio of CIB Group



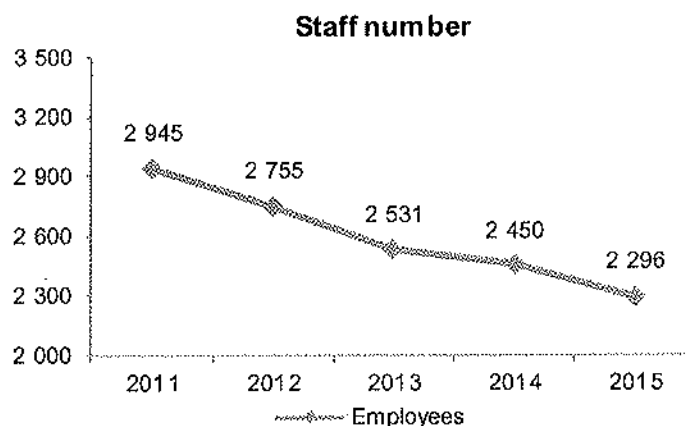
Data source: CIB Group, IFRS

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2. Cost efficiency

The Group has initiated and begun the execution of a wide-ranging cost management programs that resulted 22% decrease in staff number compared to 2011 (-6.3% compared to Dec 2014) and lower operating costs. Operating expenses are kept under strict control and declined continuously, despite the additional recovery unit expenses which were necessary to improve overall recovery rate on NPLs.



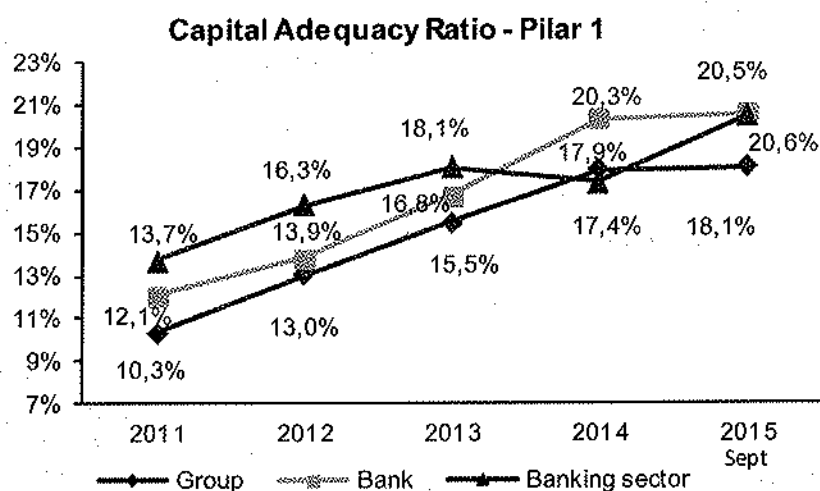
Data source: CIB Group, IFRS (excluding bank tax and transaction duty)



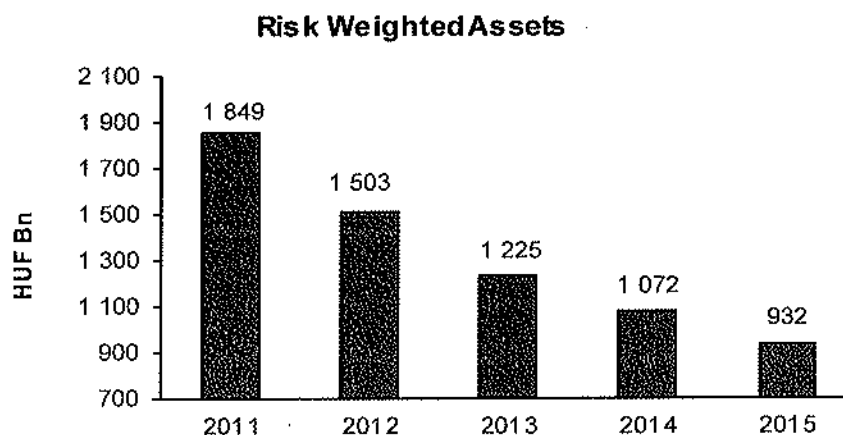
Data source: CIB Group, ending human resources excl. non remunerated maternity leaves, atypical contract and traineeships

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3. Capital adequacy

CiB Group has a solid capital position, the capital adequacy ratio of CiB Group under Pillar 1 totaled 18.1% at the end of September 2015. From 2014 the Group applies new Basel III. (CRR) regulations for capital adequacy calculation. Capital adequacy of the Group is based on IFRS consolidated figures. The capital adequacy ratio of the Bank was 20.6% under Pillar 1, as of September 2015. Further actions to maintain stable capital adequacy still remained a top priority for the Group.



Data source: NBH, CIB Group, 2011-2013 HAS, 2014-2015 IFRS. Solvency capital / Risk Weighted Assets



Data source: CIB Group, 2011-2013 HAS; 2014-2015 IFRS

4. Strong market position

CiB Group has a solid client base across the country in all market segments including retail, local corporate, SME and micro businesses through its banking and leasing network. The Group is one of the largest players in corporate lending where it had 9.1% market share according to the latest available data (November 2015). Its customer base totaled to 460 thousand customers by the end of December 2015. The market share of CiB on the customer loans market was 7.4% (November 2015), and had the same share on the customer deposit market.

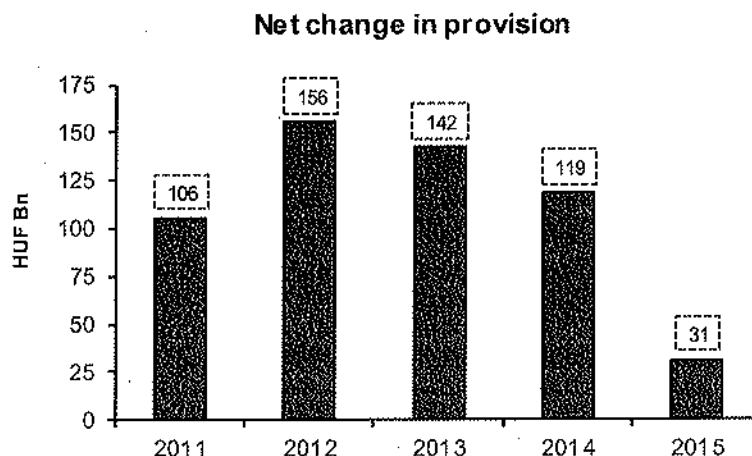
5. Clearly Defined Organizational Structure & Strong Governance

CiB Group has clearly defined organizational structure and strong governance model to ensure transparency, accountability and integrity of its operations. The Group's organizational structure consists of business units, control and support units to enable efficient management across all of the Group's entities. Key executive decision making is further enhanced by operational committees that decide and review spectrum of matters concerning commercial risk assumption, liquidity, distressed asset management, legal, regulatory and compliance related subjects. Furthermore operational management is enhanced by set of controls and decision making mechanisms concerning Management Board, Supervisory Board and Audit Committee. To comply with local and EU-based regulatory frameworks the Group established Remuneration Committee, the Nomination Committee and the Risk assumption and Risk management Committee.

Potential risks

1. Credit risk

The effects of the unfavourable economic environment have negatively impacted asset quality across all segments – and the related cost of risk. The Group applied prudent provisioning policy, which resulted in significant losses during the previous years. Thanks to portfolio cleaning efforts the credit quality of the portfolio started to improve in late 2014 and the positive tendency continued in 2015, which is reflected in the moderate cost of risk in 2015.



Data source: CIB Group, IFRS

2. Interest income and expenses

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

3. Repossessed collateral risk

To minimise credit losses the Group started the repossession of real estate collaterals behind non performing loans at the end of 2009. By the end of December 2015 the net book value of the repossessed real estate portfolio was HUF 68 billion.

4. Tax burdens

The extraordinary **banking sector tax** currently has a negative impact on the P&L of HUF 12 billion. On 9 February 2015 the Government announced that the banking sector tax will be reduced from 2016. According to the law approved by the Parliament the extra bank levy will decrease in two steps: from 0.53% to 0.24% in 2016 and to 0.21% in 2017, while adjusted total assets of year-end 2009 will remain the tax base.

The **transactional duty** came into effect in 2013 caused an additional tax burden of around HUF 10 billion annually.

IV. Outlook for the Banking Sector

1. Sector profitability remains weak

The conversion of foreign currency loans into HUF coupled with the fair banking act put loan spreads under pressure, while the settlement of bid-offer spread and unilateral interest increases had a negative effect on loan volume. Although the one-off loss coming from the settlement was already accounted for in 2014, the above mentioned effects on loan volumes and spreads will have a long lasting negative impact on revenues.

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

2. Slow recovery in banking sector

Although the Hungarian economy will continue to grow by around 2-2.5% in 2016, and the demand for new loans shows signs of improvement both on the corporate and on the retail market, the volume of customer loans is expected to decrease next year, as new loan volume can not compensate the amortization of the existing exposures and NPL portfolio cleaning. The residential real estate market shows signs of recovery, but is still very far from the pre-crisis level. The Hungarian Government announced at the end of 2015 a new program to support families buying new home (CSOK). As the government support is quite generous it might give a boost to the residential real estate market. The commercial real-estate market still suffer from the excess capacities that were built in the pre-crisis years, which makes the banks extremely cautious in financing new real estate projects.

3. Credit quality improvement

As a result of the conversion into forints and the settlement of household's loans, the risk of new defaults in the existing portfolio declined considerably. In case of new loans, the debt cap rules mitigate this risk. However, the high ratio of distressed household mortgage loans continues to be a significant risk in the financial system. Adjustment of the personal bankruptcy conditions and the expansion of National Asset Management Agency for mortgage loans may help mitigate this risk by facilitating the resolution of the non-performing portfolio.

Corporate portfolio cleaning and the wind down of NPL portfolio will be supported by the activation of the national bad bank (MARK Ltd.) and might ease the pressure on the Balance Sheet.

V. Evaluation on the performance of CIB Group including net assets, financial and earning position

Assets

The balance sheet total of CIB Group amounted to HUF 1,676 billion (-3.3% compared to Dec-2014) as of December 2015. The lower balance was primarily a consequence of shrinking customer loan portfolio.

Customer Loans

At the end of December, 2015 CIB Group's consolidated gross loan portfolio was HUF 1,094 billion (-18.3%), half of the decrease came from the government actions on retail loans, while the rest from wind down of NPL and risky portfolio. Within the total portfolio the proportion of retail loans (mortgage, car financing and others) decreased to 33.8% (-2.2%) by the end of December, 2015 as a result of the government measures, while real estate financing accounted for 31.6% (-0.6%) of the portfolio. The share of large corporate loans stagnated, while SME and Small Business financing improved slightly during the current period. Demand for new financing increased compared to 2014, retail new disbursements improved by 250% compared to last year, while SME new financing rose by 15%, supported by the Funding for Growth program of the Central Bank.

Loan portfolio quality

The deterioration of the credit quality of CIB Group's loan did not continue in 2015, and the share of 90 days past due loans decreased to 16.8% (-5.0%) thanks to limited new inflow and portfolio cleaning activities. The improvement is connected to the consumer segment, mainly thanks to government measures, but SME and Small Business delinquencies improved as well. The share of 90 days past due mortgage portfolio decreased by 12.5% points compared to December 2014 to 18.7% by the end of December 2015. In case of corporate real estate finance, portfolio quality stagnated this year and the share of 90 days past due portfolio was 23.9% (+0.5%) by the end of December 2015. During the year CIB provisioned HUF 34.4 billion to cover potential losses from non performing loans.

Securities

The Group held securities portfolio of HUF 142 billion by December, 2015 (-27.4%) of which trading portfolio amounted to HUF 60 billion; available for sale portfolio reached HUF 82 billion, while there were no held to maturity investments. The majority of the security portfolio (97.3% of total securities held) consisted of government bonds.

Reposessed properties, Tangible and Intangible Assets

Net book value of fixed and intangible assets reached HUF 93.3 billion (-17.6% compared to December 2014) out of which the net book value of reposessed real estates was HUF 67.7 billion.

Interbank Receivables

CIB Group's liquid assets portfolio – cash and equivalents and interbank loans – amounted to HUF 502.6 billion (+52.2%) by the end of December, of which 34.4% was placed within Intesa Sanpaolo Group.

Liabilities

Customer Deposits

Total customer deposits, including issued bonds, amounted to HUF 1,208 billion (+0.1%) by the end of December, 2015. Corporate deposits increased during the year, while retail deposits decreased slightly, due to competition of government bonds and investment funds.

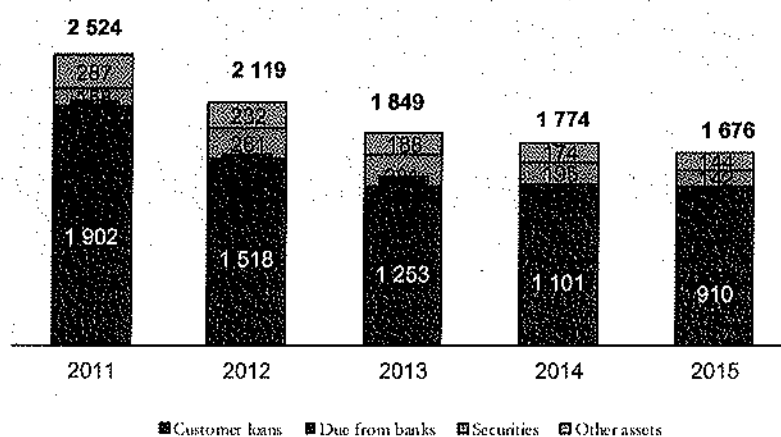
Deposit from banks

Interbank funds – including subordinated deposits – totaled to HUF 281 billion (+4.1%) as of December, 2015. Part of the funds came from the Group's parent company, accounting for 22% of the total of interbank deposits, while the remaining part was received from supranational financial institutions and from the central bank.

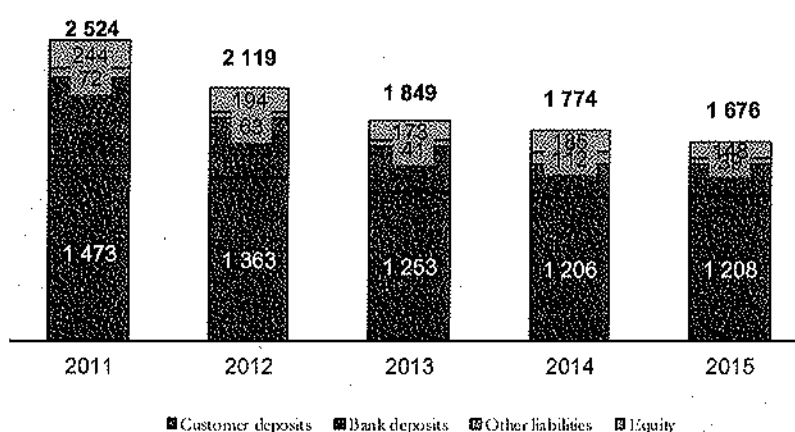
Equity

CIB Group's total shareholders' equity was HUF 148 billion (-20.0%), the reason for the decrease is the HUF 40.2 bn loss in the current year.

Assets (HUF billion)



Liabilities & Equity (HUF billion)



Data source: CIB Group, IFRS

Profit and loss

The Group closed the year with a loss of HUF 40.2 billion, representing a significant improvement from previous year since the loss decreased to 39% of the 2014 loss.

Revenues

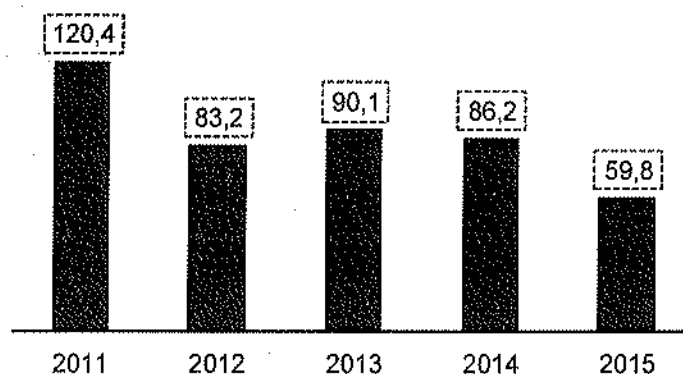
Total revenue of CIB Group amounted to HUF 59.8 billion (-31.6% compared to the same period of 2014), out of which Net Interest Income was HUF 29.5 billion (-26.3%). Net Commission Income was HUF 27.8 billion (-5.6%), while Trading Income totalled to HUF -3.4 billion (-124.4%). Other operating income reached HUF 5.9 bn (+103.4%).

Net interest income was lower than in the same period of 2014, due to the negative impact of the decrease in customer loan volume partly as a result of government measures connected to consumer loans (HUF -3.5 bn negative impact), while loan spreads were deteriorated in the consumer segment, due to the fair bank law (HUF -6.1 bn). In addition deposit spreads were under pressure, because of the base rate cuts of the central bank (HUF -0.9 bn).

Net commission income decreased due to lower transactional turnover.

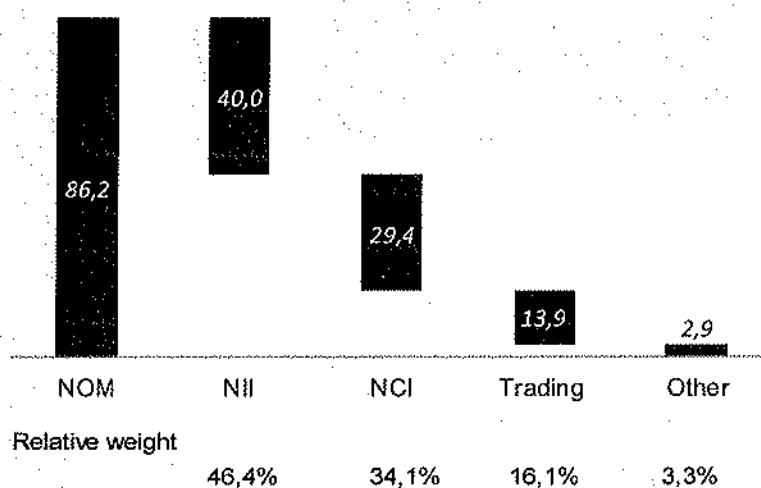
Lower Trading income was the consequence of one-off prepayment fee (HUF 10.2 bn) connected to a long term bank loan facilities that CIB Group paid back before maturity. In addition to that, the unrealised revaluation gain connected to the hedging derivative portfolio was also lower by HUF 5 bn in 2015, than in 2014.

Revenues (HUF Bn)

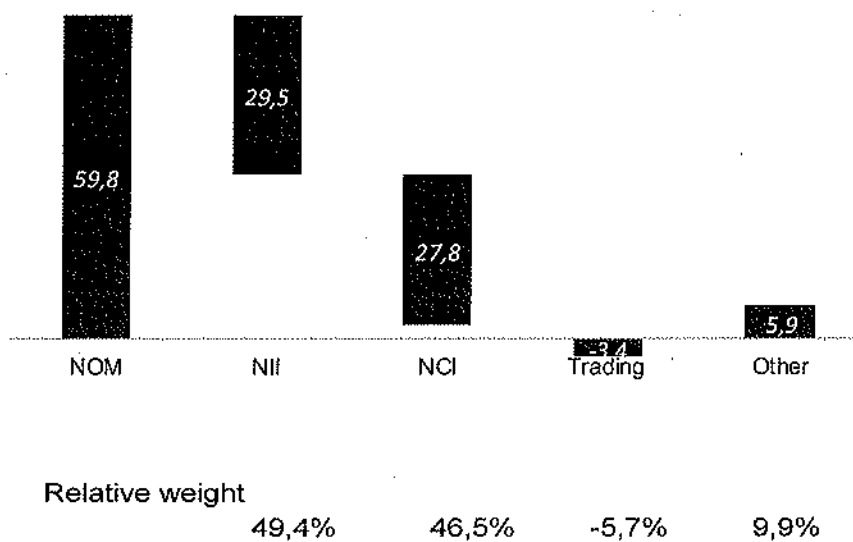


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Breakdown of revenues - 2014



Breakdown of revenues - 2015

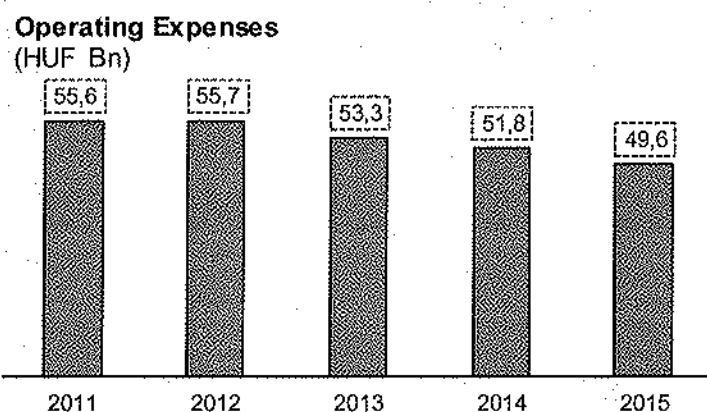


Data source: CIB Group, IFRS

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Operating Expenses

Total operating expenses increased by 4.2% compared to 2014 and amounted to HUF 49.6 billion without the bank tax and transaction duty. Personnel expenses increased by 3.3% in 2015, being offset by cost saving in other administrative expenses.



Data source: CIB Group, IFRS

Banking Sector Taxes and Duties

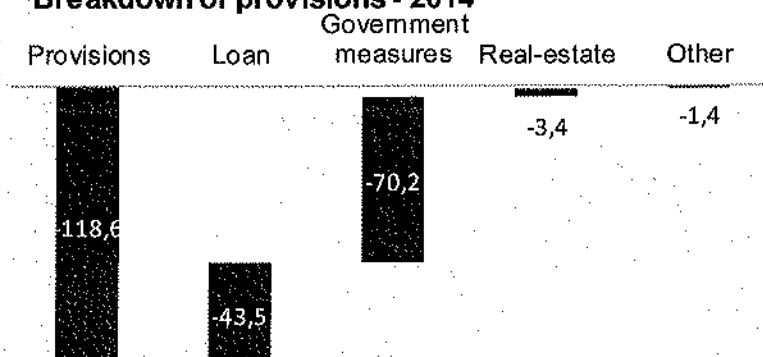
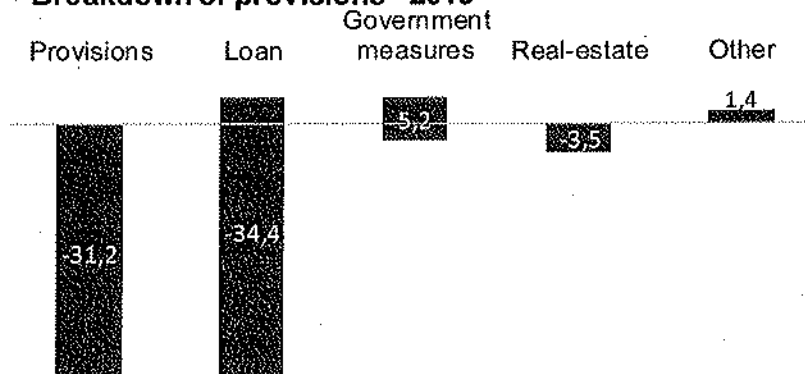
Total extraordinary bank tax of the Group as of December 2015 amounted to HUF 11.9 billion. Transactional Duty expense for the year reached HUF 10.1 billion.

**Business Report
for the year ended 31 December 2015**
Allowances and impairments

The amount of new allowances, impairments and provisions reached HUF 31.2 billion, almost HUF 87 billion less than in 2014. Out of the total, loan impairments were HUF 34.4 bn (HUF 9.1 billion lower than in 2014). 40% of the new provisioning came from the corporate segment (64% in 2014), mainly connected to project finance, while 60% came from the retail business (36% in 2014), mostly connected to the mortgage portfolio.

In 2014 the Group made a provision of HUF 70.2 bn on the potential impact of settlement and conversion of retail loans which covered the losses arose in 2015 while the unused provision of HUF 5.2 bn was reversed after the settlement.

Impairment connected to investment properties amounted to HUF 3.5 bn.

Breakdown of provisions - 2014

Breakdown of provisions - 2015


Data source: CIB Group, IFRS

VI. Operations of the subsidiaries in 2015 ⁽¹⁾

The Group structure was the following at each 31 December:

(number of companies)	2014	2013
Companies for providing services and products to Group's customers	5	5
Companies responsible for the management of repossessed assets	3	3
Companies under unwinding procedure	0	1
Total	8	9

Companies for providing services and products to Group's customers

- **CIB Leasing Ltd..**

The business profile of the company, founded in 2000, is closed-end financial lease – primarily related to motor vehicles – and to provide financing to the purchase of vehicles and machinery. At the end of 2010 CIB Credit Ltd., CIB Property Ltd., and CIB Residential Property Ltd. merged into CIB Leasing Ltd. making the company the only entity in CIB Group providing financial leasing services. The operation of the company was significantly affected by the performance of the Leasing market. New volume on the market increased by 13% compared to 2014 and reached HUF 331 billion during the first three quarters of 2015. With a market share of 5.8% (as of September 2015) CIB Leasing subsidiaries were one of the key players on the market. The total assets of the company in December 2015 were HUF 125.1 billion, significantly affected by the decreasing customer loan portfolio as a result of the Settlement Act and preferential exchange rate conversion of household loans. A net result for the year 2015 was HUF 6.3 billion loss.

- **CIB Rent Ltd..**

The company is specialized in operative leasing transactions. The total assets of the company at the end of 2015 were HUF 5.8 billion, while profit after tax reached HUF 0.3 billion. CIB Bank, the 100% owner of Rent approved HUF 2.3 billion dividend payment, utilizing the 2015 year's profit and retained earnings.

- **CIB Real Estate Leasing Ltd..**

The company started its operation in May 2001 with business activity of financial leasing of real estates. At the end of 2015 total assets of CIB Real Estate Leasing Ltd.. amounted to HUF 4.7 billion, while its net result was a loss of HUF 762 million.

- **CIB Insurance Broker Ltd.**

The company was founded in 2001 to deal with insurance brokerage activities. At the end of 2015 total assets of CIB Insurance Broker Ltd. amounted to HUF 1.5 billion, while its profit after tax was HUF 0.2 billion. CIB Bank, the 100% owner of CIB Insurance Broker approved HUF 1.2 billion dividend payment, utilizing the 2015 year's profit and retained earnings.

- **CIB Factor Ltd..**

The company became part of CIB Group in 2004. Its main activity is the factoring of receivables and the cross-selling of products with the SME division of the Bank. At the end of 2015 total assets of the company reached HUF 16.3 billion, while profit after tax amounted to HUF 0.3 billion. CIB Bank, the 100% owner of CIB Factor approved HUF 2.2 billion dividend payment utilizing the 2015 year's profit and retained earnings.

⁽¹⁾ Financial Statements data are prepared in accordance with Hungarian Accounting Law

**Business Report
for the year ended 31 December 2015**

Companies responsible for the management of repossessed assets

- **Recovery Ltd.**

Recovery Ltd. (previously Expert Ltd.) is the main vehicle for the repossession of real estates. On 31 December 2011 CIB REAL Ltd. (a company dealing with the management of Group's operating premises) merged with Recovery Ltd. The sole legal successor of the merged entities is Recovery Ltd.. Total assets of the company closed at HUF 79.6 billion. Due to financing cost of the real estate portfolio and because of some impairment connected to the previously repossessed real estates, the company closed the year with a loss of HUF 5.1 billion.

- **CIB Car Ltd.**

The company was founded in year 2006, to deal with vehicle trading. Total assets at the end of 2015 were HUF 0.2 billion, while the annual result was a loss of HUF 101 million. Winding up procedure of CIB Car started in 1 January 2016.

- **Brivon Hungary Ltd.**

Brivon Hungary Ltd. was established in 2009 as an SPV, who holds a significant share in a residential project as the only asset. Total assets of the company were HUF 3.0 billion, while net result for 2015 amounted to HUF 0.06 billion loss. Winding up procedure of Brivon started in 1 January 2016.

Winding up procedure finished

- **CIB Leasing Holding Ltd.**

The winding up procedure of CIB Leasing Holding has been finished in 13 January 2015.

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

No significant events or processes occurred after the Balance sheet date, during the period prior to the preparation of the financial statements and the approval thereof that could have a material impact on the Group financial or earnings position.

VIII. Utilisation of financial instruments in the Group

The Group holds a substantial quantity of liquid financial instruments. The purpose of the HUF 502.6 billion in cash and short-term bank placements is to ensure immediate liquidity above the unencumbered high quality security portfolio. The portfolio of securities held for trading of a value of HUF 59.6 billion, serves several purposes at the same time: these investments (besides serving customers with securities) represent a short-term profit-earning opportunity for the Bank, while also serving as a secondary source of liquidity besides its cash-type assets. The majority of the securities portfolio that totals HUF 78.9 billion is available for sale (AFS), while there were no securities in the held-to-maturity portfolio. The Group holds a government bond (former municipality bond) portfolio up to HUF 0.8 billion treated as Loans and advances to customers.

The derivative transactions concluded by the Group cover the following derivatives: (1.) FX forward (stock-exchange and OTC) contracts (2.) FX swaps, (3.) FX options, (4.) interest rate swaps and (5.) forward rate agreements. The Group performs such transactions mainly for hedging purposes. In the latter case the primary objective is not to hedge individual transactions (with a few exceptions see below), but to reduce the bank's global FX and interest rate risk position.

IX. Risk-management and hedging policy of the Group

The Group's regulations pertaining to the various significant types of risk are approved, and reviewed at least once a year, by the Management Board. The Group has credit risk management, market risk management, liquidity and liquidity crisis management, country risk management and operational risk management policies. These regulations serve to define the framework of its activities related to the specific areas of risk management along unified principles across the entire Group.

CIB Group's credit risk management policy defines fundamentals of credit risk management across the Group, risk appetite of the Group both on general level and on an annual basis adjusted to the changing business environment. Basic roles and responsibilities, clear segregation of duties and major tools of credit risk measurement and management are unambiguously defined in the policy.

The market risk management policy includes the guiding principles related to currency and share-price risk, as well as interest risk, the regulations containing methodology of sensitivity analyses and value-at-risk calculations, as well as the market risk limits.

The liquidity policy determines the fundamental principles, goals, and available means of and procedures for liquidity management. Beyond these, it also regulates the permissible extent of liquidity limits, as well as the means and the organizational framework for monitoring them. When elaborating the liquidity strategy, the bank's senior management takes into consideration the likely future development of business volumes, and the cost and other attributes of available funds. The liquidity policy includes the liquidity contingency policy, which specifies the procedures to be followed and the range of means that may be employed in an unexpected but possible crisis situation, and the order in which these may be applied depending on the causes and nature of the crisis. In these regulations, the bank also quantifies the maximum tolerance related to Basel 3 regulatory liquidity ratios, the LCR and the NSFR.

The Group applies hedge accounting to some specific assets and liabilities hedged by interest rate swaps in order to mitigate its interest rate risk in the Banking Book. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument. The Group in accordance with IFRS and Intesa Sanpaolo Group policies designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). In the case of derivatives that do not qualify for hedge accounting, changes in the fair value of such derivative instrument are recognised immediately through profit and loss.

The country risk management policy regulates the method for establishing limits for individual countries, and also specifies the extent of the regularly reviewed limits.

The operational risk management guidelines define the events that are grouped into this risk category, and the methods for measuring the risks of this type borne by the Group.

X. Price, credit, interest, liquidity and cash-flow risks of the Group

In the course of its business operations, the Group is primarily and mainly exposed to credit risk. The mitigation of this type of risk is achieved partly through compliance with the statutory requirements and internal limits, and partly through prudent lending and loss-provisioning practices.

Legal requirements as well as best practices of risk management are transformed into daily operations of the Group by internal regulations. The internal regulations treat in detail the procedures related to debtor rating, deal approval, limit-setting, the recognition and evaluation of collateral, loan and customer monitoring, and risk management, applicable to the various customers and customer groups. They also specify the lending-related responsibilities and duties of the individual organizational units. In keeping with the requirements of the supervisory bodies and its owner, the Group pursues a prudent policy with regard to the assumption of risk.

Lending process is managed along structured principles in its entire complexity from customer request via credit approval and monitoring until full repayment of the loan or, if unavoidable, until work-out management. Basis of any credit-risk related decision is the exposure of the group of connected clients towards CIB Group as a whole.

On account of its activities the Group is exposed to interest rate risk in its core business. Accepting a certain level of interest rate risk is inherent in the business of banking and can be a major source of results and value creation. Each year, the Management Board, under the supervision of the Supervisory Board and in harmony with the group level risk tolerance of the parent company, determines the risk appetite and corresponding limits. Reports on the current interest rate risk position are submitted to the respective risk management committees on a monthly basis and regulated in the banking book interest rate risk management policy.

Special emphasis is also placed on the management of liquidity and cash-flow risks, due to the high importance of maintaining the Bank's solvency and ensuring the safety of customer deposits at all times.

Among the various price risks, the Group is predominantly susceptible to the impacts of changes in currency exchange rates, while fluctuations in the market values of securities and other prices have a lesser effect. The Group aims to hedge its FX positions as well as possible: the carefully considered assumption of positions is achieved as a part of the trading activities performed by the Treasury.

XI. Research and development

In 2015 and 2014 the Group had no own research and development and did not participated in the financing of any research projects.

XII. Employment policy of the Group

In 2015 keeping the focuses of CIB Group, Human Resources Management committed itself to develop the HR policies and improve its internal services. Great emphasis was placed on recognizing outstanding performances both at personal and group level, and on retaining and developing the best colleagues.

After analysing the the employee satisfaction survey results in the first quarter of 2015, the Group worked out action steps in order to increase employee engagement which is crucial in building a more profitable and valuable organisation.

- Actions taken comprised the restructuring the CIB Spirit portfolio (Recognitions, Family, Sport, Health-care, Discounts, etc.) which was refreshed by introducing new elements.
- At the TOP 100 Gala Event the best sales colleagues were celebrated, there was voting for the "Gold Teams" and more than 20 managers won the "Leadership Achievement" award.
- The Group launched more programs in order to find, recognize and develop the top performer colleagues. In 2015 the second Leadership Talent program was closed and the third was launched at the same time. For those colleagues who decided not to be a leader but still feel the need for a constant development on their own professional field the first Expert Talent program got started with more than 120 employees.
- As a new element in the fringe benefits, the tax free support for housing loan repayment was introduced.
- As part of the Group's social responsibility programme, group of volunteers, known as CIB Spirit Ambassadors organized various programs related to charity and sports.

The Group renewed its training programmes in order to better support the execution of business goals. In a series of development centers bankers were assessed from several business segments and as a result their development needs got determined. Training series for branch managers and sales advisors were carried out; the Small Business Academy was launched, the orientation program for new joiners was reformed and the SME-Leasing sales program was launched as well.

During 2015 the Group started to use new and innovative recruitments tools (LinkedIn, Profession database).

XIII. Sites of operation

The Group's head office is located at 1027 Budapest, Medve u. 4-14.

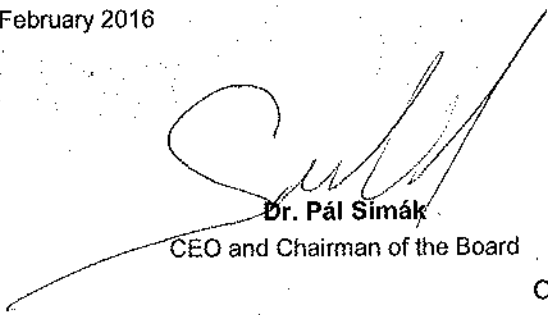
XIV. Environmental protection

As in the previous years, the Company continues to pay special attention to environmental protection and energy saving. The implementation of the energy management system standard will allow us to widely enforce the energy awareness and energy saving aspects of our activities.

The steps of environmental protection and energy saving in 2015:

- In 2016 the group will implement the ISO 50001 energy management standard. The preparation works are done. The new energy management system will enable us to involve the co-departments to the energy management process. With the implementation of the standard we will comply with the ISP expectations, professional requirements and the new regulatory changes at the same time.
- Reviewed the UPS units in HQ Petrezselyem. During this process we reduced the number of UPS units. One unit was switched off last year and the other one switched off this year. Therefore we save 58 MWh energy loss and 18t of CO2 emission.
- Upgraded the UPS system in CIB 24 call center. The new system is up-to-date and more adapted to the real needs so the system use far less energy.
- Changed the refrigerant gases in our liquid chillers. The old type R22 gas was changed to an environment friendly gas type. The new gas is ozone friendly.
- Sticked energy saving stickers next to light switches, taps and thermostats in the operational real estates.

17 February 2016



Dr. Pál Simák
CEO and Chairman of the Board



Andrea De Michelis
Deputy CEO and CFO

CIB Bank Ltd.