Annual Report 2016

Raiffeisen BANK

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Raiffeisen
BANK
Hungary

Consolidated key data of Raiffeisen Bank Zrt.

Monetary values in euro mn	2016	Change	2015
Income statement			
Net interest income	103	(16.94%)	124
Net fee and commission income	103	(3.74%)	107
Trading profit (loss)	42	35.48%	31
Operating expenses	104	(15.45%)	123
Profit before tax	48	41.18%	34
Profit after tax	48	45.45%	33
Balance sheet			
Loans and advances to banks	806	326.46%	189
Loans and advances to customers	2,685	(8.05%)	2,920
Deposits from banks	848	(3.31%)	877
Deposits from customers	4,261	3.12%	4,132
Equity (incl. minorities and profit)	561	12.42%	499
Balance sheet total	6,412	2.13%	6,278
Resources			
Average statistical number of staff	2,125	(14.11%)	2,474
Banking outlets on balance-sheet day	67	(5.63%)	71

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2016 was 311,02 HUF/EUR in 2015 was 313,12 HUF/EUR.

Contents

Report of the Board of directors

Ladies and Gentlemen,

The 2016 financial year was dominated by two key issues: Firstly, the market environment, which remained challenging due to the very low interest rate level and continuing high regulatory and political pressures; secondly, the start of the process of evaluating a merger of RBI and RZB.

The capitalization requirements for banks were increased substantially following the 2008 financial crisis and there has also been extensive tightening of regulations by the national and international regulatory authorities. February 2015 saw the implementation of a transformation program designed to strengthen the capital base – it targeted a CET1 ratio (fully loaded) of at least 12 per cent, a reduction of complexity and a substantial reduction of costs. With a CET1 ratio (fully loaded) of 13.5 per cent at 31 December 2016, RBI achieved its target ahead of schedule.

Following an extensive evaluation phase, on 5 October 2016, the Management and Supervisory Boards of RBI and RZB passed in principle a resolution to merge RBI and RZB. The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The merger is effective once it has been entered in the commercial register, which is expected by the end of March 2017 at the latest.

The strengths of the merged entity will build on prior achievements. These include the geographic footprint in the attractive growth markets of CEE, with top-five market positions in 9 of a total of 14 markets, as well as a stable business in Austria. The focus will remain on long-term customer relationships in the respective local markets. As a customer-oriented universal bank, solutions to address corporate customer needs based on local market access and an extensive network, along with a comprehensive multi-channel offering for retail customers in CEE, play an important role in the overall focus.

I would like to take this opportunity to thank all employees of Raiffeisen Bank Hungary for their hard work and constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

On behalf of the Board of Directors,

Dr. Johann Strobl
Chairman of the Board of Directors

Foreword by the Chief Executive Officer

After having reached a turn around in 2015, Raiffeisen Bank Hungary continued their improvement and increased the profit to EUR 51 million.

The economic climate in Europe and Hungary was favourable despite a somewhat lower GDP growth in Hungary, as economic fundamentals further strengthened and the country was upgraded to investment grade by the main rating companies, Moodys and Standard & Poors. Interest rates declined further significantly and continuously throughout the year. The base rate was cut to 0.90% with 1 month Bubor reaching now a level below 0.20%. The National Bank of Hungary (MNB) continues its expansive monetary policy to support economic growth and cut the 3 months deposit facility for financial institutions in Hungary by 70%.

The good results of Raiffeisen Bank Hungary were due to a cost reduction of 20% and much lower risk cost, as a result of good recovery from selling existing non-performing loans and of an excellent portfolio quality of new loans booked in the last 5 years. Interest income fell by 10% due to the lower interest rates and resulting lower margins and commission/fee income declined by only 1%

NPL amount was reduced by more than 40% to the amount of EUR 320 million, and for the remaining NPL the coverage ratio is a high 74%.

The results were also positively influenced by the Visa Europe transaction, which resulted in an extra net income of EUR 6.1 million.

Corporate Customers and Financial Institutions remain key target segments for Raiffeisen Bank Hungary. The corporate client base grew in 2016, with numerous „tombstone" international acquisitions, both in the corporate and FI/custody area. The activity and market share in project-, trade-, agro finance and in treasury services are positive. Raiffeisen Bank Hungary is among market leaders in export financing and one of the largest EXIM Bank partner. Also, the Small Business (SME) customer number, assets, liabilities and revenues continued to grow. Raiffeisen Bank Hungary maintained its top 3 market position in new SME customer acquisition.

In Retail Private Individuals (PI) the number of primary customers increased, and the customer base both in Premium and Private Banking increased further. The Assets under Management increased in all retail relationship segments. Raiffeisen Bank Hungary became market leader in Private Banking - Friedrich Wilhelm Raiffeisen managing EUR 1.4 billion Customer Assets. Furthermore the Premium Banking has a top 3 market position with more than 32.000 customers.

For 2017 we expect an increase in GDP of Hungary to approx. 3%, an increase in the overall bank lending stock and continued stable finances of the Hungarian state. Interest rates are expected to stay extremely low over the year, while inflation might edge up to 3% towards year end.

Finally, effective May 1, 2017, George Zolnai will take over as CEO for Raiffeisen Bank Hungary and I would like to thank customers, colleagues and shareholders for the excellent support received not only last year but also the last 6 years.

Kind regards,

Heinz Wiedner

Overview of the 2016 business year

Macroeconomic environment in 2016

Last year brought significant changes in the United States. In the November election, the Republican presidential candidate, Donald Trump was victorious while the Fed tightened its monetary policy again after a period of 12 months. The current period can also be seen as the reverse of the 2008 presidential election. Then, Obama interrupted a strong Republican administration with a Democrat majority in legislation while the Fed began a historic easing in order to lessen the impact of an economic crisis unseen for 70 years. This time it was Trump who led the Republican Party to victory in legislation but the Fed is set for a major tightening after 8 years.

Emerging markets show a mixed picture: China's growth is definitely slowing and the structure of growth is undergoing a steady transformation whereas Russia has probably turned the corner, partly helped by stabilization on the commodities market. Following nine months of continuous negotiations, OPEC and several non-OPEC producers agreed in December to cap their oil production at 32.5 million barrels per day for six months from January. This means that global oil prices could move away even further from the earlier USD 30-40 level, generating significant inflationary pressure in all developing countries.

In the European Union, the economic outlook has improved in the past period. Both consumer and business confidence are strengthening; consumption and investments are growing. Emphasis is increasingly shifting to domestic demand while external demand is still showing only moderate recovery, primarily due to the weak demand seen in emerging market economies. Although the southern periphery countries have mostly come off their lows and growth has returned in many places, Italy and Greece still carry major risks. In terms of managing the problems, the (actual or ostensible) efforts of the national governments are supported by interest rate cuts on the part of the European Central Bank and by the extension of its asset purchase programme.

The countries of Central and Eastern Europe produced growth above the EU average (except for Serbia, where the crisis is proving to be particularly stubborn), but the pace of convergence remains far behind that of the pre-crisis years.

1.1. The Hungarian economy

In Hungary, the pace of growth temporarily slowed in 2016 in line with expectations: the annual GDP growth was 2%. The slowdown in economic growth compared to previous years was due to the temporary decline in EU funding while the automotive industry, which earlier showed dynamic growth, no longer constituted a driving force in the absence of new capacities. Construction and investments declined considerably. However, it is positive that the expansion of household consumption continued to accelerate while service sectors and agriculture also contributed to growth. The unemployment rate continued to fall: By the end of 2016, it sank close to 4% from levels above 10% in previous years. Although the government's "workfare" programmes had a lot to do with this, new jobs were also created in the private sector. The Funding for Growth Scheme (FGS) of the National Bank of Hungary (MNB) contributed to pickup in capital spending in the corporate sector. 2016 was the third year in a row with near-zero inflation, mainly due to the still negative imported inflation.

The balance of the general government budget still showed a surplus in the first 11 months of the year while the substantial amounts spent in the last month will contribute to economic growth in 2017. The government debt fell to 73.9% of the GDP from 74.7% in the previous year; the external indebtedness ratios (ratio of foreign currency debt, the role played by foreigners in debt financing) continued the improving trend of earlier years. The external balance (foreign trade and balance of payments) continues to show a considerable surplus. One after the other, rating agencies upgraded

Hungary's debtor ratings - after half a decade, all three leading rating agencies returned Hungary's sovereign debtor rating to investment grade last year.

1.2. Interest rates and money markets

The National Bank of Hungary's Monetary Council resumed in March 2016 its rate-cutting cycle started in 2012, concluding the series of rate cuts in May. Thus, the central bank's policy rate fell to a new historic low of 0.9%. Including these cuts, the base rate has been reduced by 610 basis points since August 2012. Yields on government securities decreased considerably further during the year (by 18 basis points on the 10-year maturity) due to the favourable external environment and improving domestic macroeconomic trends as well as the central bank's self-financing programme. The quantitative restriction on the central bank's policy instrument, the three-month deposit, resulted in the BUBOR rates diverging considerably downwards from the base rate. The 3-month BUBOR rate fell by 98 basis points in 2016. The forint slightly strengthened against the euro and softened to some extent against the dollar on average over the year.

1.3. The banking sector

In 2016 the banking sector recorded an overall pre-tax profit of HUF 510 billion according to preliminary data. Interest result showed a 6% growth, while commissions rose by 1%. Operating costs fell by 2% from a year earlier.

Changes in impairment and provisions - including one-off items recorded as extraordinary - improved the banking sector's profits in 2016.

Profitability ratios show significant improvement. Return on assets rose to 1.5%, and return on equity increased to 15%.

The sector's combined total assets grew by 4% in 2016.

Both client loans and client deposits showed expansion at the end of 2016. The volume of corporate loans grew by 4%, and that of retail loans was unchanged.

The ratio of non-performing loans fell both in the retail and the corporate sectors. The volume of household foreign-currency loans remained below 1% at the end of 2016.

The volume of client deposits rose by 9% last year, primarily thanks to the increase in corporate deposits. The volume of new retail loans continued to grow in 2016, primarily as a result of new placements of home loans.

Expert staff

On 31 December 2016, headcount at Raiffeisen Bank was 2,051 and total headcount of the Raiffeisen Bank group was 2,398. Personnel expenditures remained almost unchanged in 2016 compared to the previous year, which contributed to the bank's profitable operation. At the same time, the bank paid special attention to retaining and recognising staff with key expertise and experience, placing considerable emphasis on providing its employees with fair and competitive income compared to the Hungarian job market. Business, staffing and job market criteria also play an important role in shaping the bank's remuneration and rewards system. The Cafeteria system, which has been in place for years, offers a choice to employees so that they can receive the benefits best suited to their personal needs.

Development programmes are geared to the business strategy, organisational and personal objectives and market conditions. The bank's performance management process provides a framework for vertically and horizontally harmonising objectives and for the continuous bidirectional communication supporting the development of employees and their individual ambitions and successful work. Acknowledgments depending on performance and individual and group contribution to the organisation's goals encourage staff to achieve outstanding performance. Some of the training courses aim to impart the skills necessary for successfully performing the given role, while others facilitate employees' development in alignment with succession planning within the company, and with their individual career goals. Besides programmes designed to help integrate new employees, classroom and online training courses for the development of various competencies are also available to a limited extent. The development of managers follows an integrated concept, the primary aim of which is to successfully manage changes and to support employees' motivation, wellbeing and successful operation. The Bank implements some of the training courses with the use of external consultants and trainers. In addition, internal knowledge sharing and skills development also take place very successfully and in an organised manner. In 2016, our employees spent more than 5,000 working days in various professional and skills development trainings, team-building programmes and conferences in line with our strategy and the market environment.

Corporate social responsibility

Raiffeisen Bank's corporate social responsibility activity continues to focus on supporting programmes that develop the life skills of children raised in care as well as on providing quality meals for children in need. Since 2008, the programme has been known as „Raiffeisen Közösen" (Raiffeisen Together).

In 2016, we contributed HUF 16,200,000 to the "Lunch for All" programme, providing meals for 30 children in each of 12 villages (Vejti, Siklósnagyfalu, Baranyahídvég, Pap, Sósvertike, Bolhó, Tiszatelek, Kisbajom, Szamosújlak, Tiszaigar, Hernádvécse and Katádfa).

Just as in earlier years, we participated in volunteer efforts last year, including the "Day of Giving" organised by the Volunteer Centre Foundation (ÖKA), when our colleagues volunteered to beautify the Vácrátót Botanical Garden along with workers from other companies, and the bank's staff provided financial assistance to schoolchildren as part of the "Pénz7" (Money Week) programme organised by the Banking Association.

In addition, we supported the Public Benefit Foundation for the Bókay Children's Clinic, the HBLF ROMASTER Foundation and the Foundation for Saving Premature Babies and Children's Intensive Care, and, just as in earlier years, organised a Children's Day programme for the children of the "Biztos kezdet ház" (Secure start home for children) of Bódvalenke.

Shareholder

Raiffeisen-RBHU Holding GmbH 100%

Board of Directors

Chairman

Dr. Johann Strobl
Raiffeisen Bank International AG

Members

Berszán Ferenc
Raiffeisen Bank International AG

Andreas Gschwenter
Raiffeisen Bank International AG

Nicolaus Hagleitner
Raiffeisen Bank International AG

Klemens Haller
Raiffeisen Bank International AG

Kementzey Ferenc
Raiffeisen Bank Zrt.

Dr. Karl Sevelda
Raiffeisen Bank International AG

Dr. Herbert Stepic
Raiffeisen Bank International AG

Mag. Heinz Wiedner
Raiffeisen Bank Zrt.

From 01.05.2017
Chairman

Andreas Gschwenter
Raiffeisen Bank International AG

Members

Klemens Haller
Raiffeisen Bank International AG

Nicolaus Hagleitner
Raiffeisen Bank International AG

Michael Höllerer
Raiffeisen Bank International AG

Peter Jacenko
Raiffeisen Bank International AG

Fabian Stenzel
Raiffeisen Bank International AG

Kementzey Ferenc
Raiffeisen Bank Zrt.

Zolnai György
Raiffeisen Bank Zrt.

Audit Comittee

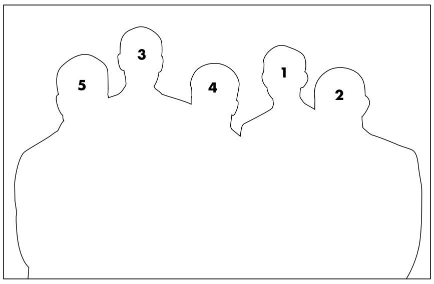
Chairman

Georg Feldscher
Raiffeisen Bank International AG

Members

Igaz Katalin
dr. Tóthné dr. Szabó Mercedes
Raiffeisen Bank Zrt.

Management of Raiffeisen Bank Zrt.



1 Heinz Wiedner
Chief Executive Officer

2 Kementzey Ferenc
Member of the Management Board

3 Radovan Dunajsky
Member of the Management Board

4 Ralf Cymanek
Member of the Management Board

5 Kaliszky András
Member of the Management Board

Declarations and principles

1. Declaration on Corporate Governance Practice

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

1.1. Primary decision-making bodies

1. Governing body

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

2. Executive body

Board of Directors

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

The Board of Directors exercises its rights and discharges its duties as a body. The Board of Directors consists of nine members, two of whom (the executive members) are also in a regular employment relationship with the company. The members of the Board of Directors are elected by the Sole Shareholder for a maximum of five years, and may be re-elected. All the obligations and prohibitions specified for executive officers under Act CCXXXVII of 2013 on credit institutions and financial enterprises (Credit Institutions Act) apply to the members of the Board of Directors.

The principle of majority of external members applies in the Board of Directors. The personal composition of the Board of Directors ensures that expertise, experience and independence are equally present in the decision-making procedures.

The Board of Directors convenes as many times as is necessary, but at least once a year. Minutes are taken of the meetings, and the resolutions are documented. The Board of Directors may also pass resolutions without holding a meeting, by means of a written ballot. In 2016 the Board of Directors held four meetings and passed resolutions by means of a written ballot on 7 occasions.

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

The submission of proposals for amendment of the deed of foundation, the raising or lowering of the share capital, or approval of the company's financial statements prepared in accordance with the Accounting Act, and the utilisation of the after-tax profit – all of which fall exclusively within the scope of authority of the Sole Shareholder – is one of the most important duties of the Board of Directors. The following matters, among others, fall within the competence of the Board of Directors:

Determining the company's operating and business policy guidelines, accepting the annual business plan, approving the Bank's corporate structure and the job descriptions of individual members of the management, authorizing the establishment and termination of subsidiaries and project companies in the Bank Group, authorising the establishment of joint ventures and the acquisition of business interests, appointing and dismissing the Bank's CEO and deputy CEOs and approving the selection of members of the management and supervisory boards of the Bank's subsidiaries.

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

Committees established by the Board of Directors

Remuneration Committee

The Remuneration Committee is a committee set up by the Board of Directors in order to make preparations for remuneration-related decisions, and provide support and advisory in the development and implementation of remuneration-related principles.

Nomination Committee

The Nomination Committee is a committee established by the Board of Directors, which develops the principles of selecting members of the Bank's executive bodies and nominates candidates accordingly, and makes proposals for the members of the Bank's and Bank Group's management bodies, as well as for the fundamental principles and framework that are to be used for checking compliance with the requirements specified for employees who fill executive jobs and key positions.

Risk Taking and Risk Management Committee

The Risk Taking and Risk Management Committee is a committee established by the Board of Directors, which provides support for decision-making, gives its opinion on the Bank's risk taking strategy and risk appetite, and supports the oversight of the implementation of the risk assumption strategy.

Management

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

1.2. Secondary decision-making bodies

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

The most important secondary decision-making bodies are the following:

- Management Meeting
  The regular forum at which the members of the Management consult and make decisions
- Credit Committee
  The Bank's decision-making body in matters related to individual corporate loans and the setting of risk limits.Risk limits may apply to banks, as well as to corporate, SME and municipality customers, and, in certain cases, to private customers.
- Problem Loan Committee
  The Problem Loan Committee discusses the management of problem assets and customers, as well as the management and approval of limits granted to customers with poor ratings or where a certain level of collateral coverage is not achieved.
- Provisioning Committee
  The Provisioning Committee decides on the generation of impairments and provisions. In terms of accounting, the Committee approves provision and impairment amounts in compliance with the Hungarian accounting standards and the IFRS, at monthly frequency.
- Project Committee
  The Project Committee is the Management-level body that has primary responsibility for the project-based coordination of the Bank's developments, and that exercises full control over the Bank's project management.
- Asset-Liability Committee
  The purpose of the Asset-Liability Committee (ALCO) is to ensure that the Bank's asset-liability structure is in line with its stated profitability and market-share objectives, and at the same time to ensure compliance with the parent company's and the Bank's internal liquidity, financing and interest rate risk limits.
- ICAAP Committee
  The ICAAP Committee has the task of ensuring the satisfactory operation, approval and ongoing development of the internal capital adequacy assessment process: overseeing the ICAAP process and defining the tasks related to it, prioritising them and monitoring implementation, drawing conclusions and incorporating the results into the decision-making process.
- Operating Risk Committee
  The purpose of the Operating Risk Committee is to take decisions on risks exceeding the risk tolerance limits and on the necessary steps, and to monitor the implementation of such measures.
- Market Risk Committee
  The main task of the Market Risk Committee is to monitor the development of market risk factors and the related hybrid risk factors in the Bank, and to make strategic decisions related to risk management.

1.3. Supervisory Board and Audit Committee

The Supervisory Board, elected by the Bank's Sole Shareholder, oversees the Bank's Management and business operations, and also performs the duties of the Audit Committee. The principle of majority of independent members fully applies to the composition of the Supervisory Board. The Supervisory Board meets, in accordance with a predetermined schedule, to discuss business reports on the company's position, regular and extraordinary internal audit and compliance reports, and may include on its agenda any plan or report of the company that is judged to be important, and – according to its schedule – may request information and conduct audits in respect of the company's key processes and systems. The Sole Shareholder may make its decisions regarding the stand-alone annual financial statements prepared in accordance with the Hungarian Act on Accounting and the consolidated statements prepared in accordance with International Financial Reporting Standards, and regarding the utilisation of the after-tax profit, only if in possession of the written report of the Supervisory Board.

The Supervisory Board is responsible for managing the Company's internal audit organisation within the framework specified by the Credit Institutions Act. The Supervisory Board exercises a preliminary right of consent in respect of decisions related to the establishment and termination of employment relationships with managers and employees of the Internal Audit Department, as well as to the determination of their remuneration.

The Supervisory Board consists of three members, each with a five-year mandate. The regulations pertaining to the nomination and recall of the employees' representative on the Supervisory Board are determined by the Workplace Council that operates within the Bank.

The Supervisory Board/Audit Committee convenes as many times as is necessary, but at least twice a year. Minutes are taken of the meetings, and the resolutions are documented. The Supervisory Board/ Audit Committee may also pass resolutions without holding a meeting, by means of a written ballot. In 2016 the Board of Directors held two meetings and passed resolutions by means of a written ballot on 5 occasions.

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

1.4. Auditor

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

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

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

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

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

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

The Bank ensures the coordination of its decision-making forums, and of its dealings with the authorities and regulatory bodies, through a unified organisational structure. In addition, the Bank has an organisational unit that is responsible for maintaining contact with the Sole Shareholder, which ensures continuous communication and transparency of operations for the Sole Shareholder.

1.6. Internal control system

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

Internal Audit Department

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

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

Compliance Office

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

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

1.7. Disclosure, publication

The Bank fulfils its disclosure and publication obligations – in strict compliance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Hpt.), Part 8 of EU Directive 575/2013, Act CXX of 2001 on the Capital Market (Tpt.) and Act CXXXVIII of 2007 on Investment Enterprises and Commodity Exchange Service Providers and the Rules Governing the Activities they May Perform, as well as Act C of 2000 on Accounting and Decree No. 24/2008 (15 August) of the Ministry of Finance on the detailed rules of disclosure obligation related to publicly traded securities – via its own website and the capital market disclosures website operated by the MNB.

2. Use of financial instruments

In accordance with the provisions of IFRS and the Accounting Act, the Bank has classified financial assets into the following categories:

- Financial asset held for trading: a financial asset acquired for the purpose of achieving a gain from short-term price and exchange rate movements.

- Derivatives held for hedging: The Bank concludes interest rate swap transactions for fair value hedging purposes in order to offset changes in the fair value of the embedded derivative of the underlying fixed-interest transaction (fixed-interest loan, deposit or fixed-interest issued bond) or structured-interest transaction (structured-interest issued bonds). For risk hedging purposes the Bank applies portfolio-based cash-flow hedging two-currency interest-rate swap transactions, where the hedged portfolio is a group of foreign-currency loans and forint deposits, and the purpose of hedging is to eliminate fluctuations in interest income and interest expense that would otherwise result from changes in reference rates and fluctuations in the forint exchange rate.

- Originated loans and other receivables are financial instruments involving fixed or specifiable payments and created by the Bank through the making available of financial assets, goods or services, unless the Bank has created them for the purpose of short-term sale.

- Financial assets held to maturity, which the Bank intends to hold, and is capable of holding, until maturity.

- Financial assets available for sale are financial assets that are not classed as a financial asset held for trading, credit facilities or loans originated by the Bank, or a financial asset held to maturity. This category primarily includes ownership interests held for investment purposes, and debt securities stated among long-term assets but not held to maturity.

The Bank's accounting policy and several disclosures require that the fair value of financial assets and liabilities be determined. Fair value is determined for the purposes of valuation and/or disclosure, using the following methods.

All financial assets are initially recognised at their fair value plus any directly associated transaction costs (with the exception of financial assets valued at fair value against the profit/loss, where the transaction costs are booked directly as part of profit/loss). In the course of normal business, the fair value of a financial asset at the initial recognition is the transaction price (that is, the fair value of the consideration given or received).

After the initial recognition, the fair value of financial assets quoted on active markets is determined on the basis of the purchase price in the case of assets or the sales price in the case of liabilities. If no independent price is available, the fair value is determined using valuation techniques relying on observable market data. The method can be a comparison with similar assets, for which there are available observable market price quotes, a discounted cash-flow analysis, option pricing models and other valuation techniques generally used by market players. The fair value of financial assets can also be determined, fully or partially, by using techniques based on assumptions that are not supported by actual market transactions or observable market data.

In order to determine fair value, the Bank has developed the following methodology:

a) derivative transactions:

- The fair value of foreign currency forward and futures transactions is the discounted value of the difference between the futures price valid on the valuation date – and applied to the maturity date of the transaction – and the strike price, in the period between the maturity date and the valuation date.
- The fair value of currency swap transactions is the discounted value of the difference between the futures rate of the futures price valid on the valuation date – and applied to the maturity date of the transaction – and the strike price, in the period between the maturity date and the valuation date. In the valuation yield curve, the latest market interest spread is taken into account.
- The fair value of interest rate swap transactions and forward rate agreements (FRA) is the net present value of the expected future cash flow of the transactions, discounted to the valuation date.
- The fair value of plain vanilla and exotic FX options is determined on the basis of the modified Black-Scholes model. With respect to exotic options for which no closed formula exists, the values are determined using an iterative procedure.
- The fair value of two-currency interest rate swap transactions and forward rate agreements (FRA) is the net present value of the expected future cash flow of the transactions, discounted to the valuation date, where the interest margin (basis swap spread) characteristic of the market for these transactions (and that also reflects the sovereign risk premium) is incorporated into the yield curve used for valuation.
- The fair value of stock-market equity and index futures is determined on the basis of the difference between the stock exchange price and the strike price.

b) securities:

The fair value of financial assets held for trading and Hungarian government bonds classified among financial assets available for sale is determined at market prices available in the Bloomberg information system. The fair value of other securities is, in the case of securities for which this is available, the closing stock exchange price. In respect of securities for which this is not available, the fair value is the net present value of the expected future cash flow of the security, discounted to the valuation date.

c) loans

In order to hedge changes in the fair value of certain fixed-interest loan transactions, the Bank concluded interest rate swap transactions. The fair value of loans hedged by such IRS transactions is the net present value of the expected future cash flows, discounted to the balance sheet date. These loans are stated in the balance sheet at fair value.

d) deposits

In order to hedge changes in the fair value of certain structured-interest deposits, the Bank concluded interest rate swap transactions. Structured deposits contain embedded derivatives, which the Bank books separately from the deposit, along with the hedging interest rate swap at market price. These embedded derivatives and the related interest swap transactions are booked in the balance sheet at fair value.

Non-structured deposits included in the hedge accounting are booked in the balance sheet at fair value. The fair value is the net present value of the expected future cash-flows, discounted to the balance sheet date.

e) issued bonds

In order to hedge changes in the fair value of certain fixed- or structured-interest issued bonds, the Bank concluded interest rate swap transactions. The fair value of fixed-interest issued bonds hedged by such IRS transactions is the net present value of the expected future cash flows, discounted to the balance-sheet date. Structured bonds contain embedded derivatives, which the Bank books separately from the bond, along with the hedging interest rate swap at market price. These embedded derivatives and the related interest swap transactions are booked in the balance sheet at fair value.

Hedge accounting

For risk management purposes the Bank applies both fair value hedging transactions and cash flow hedging transactions.

The Bank determines the market value of hedging and hedged transactions and analyses hedging efficiency on a monthly basis. In the course of analysing hedging efficiency, the Bank uses the regression calculation method. The method looks for strong correlation between changes in the past valuation differences of the hedging and hedged transactions. The Bank considers a hedging transaction efficient if the main conditions of the hedged and the hedging transactions are close to identical, and the term of the hedging transaction is the same as, or at most as long as, the term of the hedged transaction, and if the determination coefficient of the regression equation is 0.8 or higher, and if its beta value remains between 0.8 and 1.25 throughout the hedging relationship.

3. Basic principles of the risk management and hedge transaction policy

Risk management at Raiffeisen Bank operates independently and is fully separated from the business departments, under the supervision of the Chief Risk Officer. The analysis and management of customer credit risk is the task of the Credit Risk Department and the Retail and SME Credit Risk Department; the analysis of market, operational and fraud risk, as well as compliance with the Basel III regulations, capital measurement and the development of portfolio-level credit risk models, is the task of the Integrated Risk Analysis Department.

1.1. Credit risk

The risk assessment and credit appraisal of non-retail customers is based on an individual analysis and rating, typically with quarterly financial monitoring and an annual limit review. In retail and micro-company lending, automated, scorecard-based rating is used.

The limits on lending reflect the balance of business and risk criteria determined and considered to be desirable by the Bank's owner and management, within the constraints of the Act on Credit Institutions and other statutory provisions, as well as of the Bank's Credit Policy.

The Bank responded to customers' payment difficulties caused by the economic crisis with loan restructuring solutions, by introducing processes designed to give early warning of defaults, and by strengthening its collection and receivables management activity, and in the course of 2016 it managed to significantly reduce the volume of its NPL portfolio.

The Bank Group's risk management processes comply with the Basel III requirements. The core data necessary for the sophisticated measurement of risks is recorded in structured form in a modern data warehouse. Since May 2012 the capital requirement of the entire bank portfolio (corporate, retail and SME) is quantified by the Bank using the advanced internal ratings-based (IRB) approach.

The measurement and reporting of risks is performed on a monthly and quarterly basis in accordance with the Group's expectations and with regulatory requirements. The Bank group widely uses the outcomes of risk models in the course of pricing, making credit decisions and determining strategic directions, in order to ensure the Bank Group's long-term capital adequacy, the development of a stable, profitable portfolio also in terms of risks, and the efficient use of available capital.

1.2. Operational Risk

Every organisational unit (department, region, subsidiary) plays an active part in the management of operational risk and, where necessary, in reducing the risk level. The Bank makes concerted efforts to develop its risk management organisation and raise the level of risk-awareness, which encompasses the identification, collation, evaluation, reporting and monitoring of any operational risks that could jeopardise the achievement of the Bank's business objectives. The main tools used for the identification of risks include loss-data collection, risk indicators and scenario analyses, as well as risk self-assessments.

In the course of its risk management activities the Bank places strong emphasis on the "use test" (for the practical implementation of measures to reduce operational risk), in which context the Bank initiates risk mitigation measures if risks are found to exceed the tolerance threshold.

In order to further strengthen its operational risk management activity, the Bank has made preparations for implementing various standards that meet the requirements of the advanced measurement approach.

Considering the increasing focus on the satisfactory management of operating risks on the part of the oversight authorities, the Group and local management, and in order to coordinate the tasks related to the implementation of the AMA (Advanced Measurement Approach) as efficiently as possible, an independent Operating Risk Controlling team has been set up within the IRD Department, which hereinafter will operate independently from the Fraud Risk Controlling team.

1.3. Market and liquidity risk

The management of market and liquidity risks takes place at several levels within the Bank, through use of advanced methods and infrastructure, with monitoring performed independently from the business departments. The measurement and reporting of risks is performed on a daily/weekly/monthly and quarterly basis, in accordance with the Group's expectations and with regulatory requirements. The classification, measurement and management of risks and the setting aside of provisions is performed in the context of the Bank's ICAAP procedures.

The measurement and controlling of risks is achieved through complex position, risk, stop loss and VaR limit systems, applying a methodology that conforms to the parent bank's requirements and regulatory provisions. The management of market and liquidity risks related to banking activity extends to the following areas: trading book and banking book risk and interest rate risk; the Bank's liquidity risk, measured both on a going concern basis and through stress testing; the risk associated with the possible illiquidity of market positions; equity risk; currency risk; option trading risk; the counterparty risk relating to OTC derivative transactions.

1.4. Fraud Risk

Fraud risk is one of the key operational risks. In order to improve the effectiveness of risk management, in the course of 2014 the Bank centralised its credit fraud management activities at the Integrated Risk Management Department, in the fraud and operating risk controlling team. As a continuation of the integration, non-lending fraud risk management is also conducted by the Integrated Risk Management Department from Q3 2015. Senior management also assigned the HFRM (Head of Fraud Risk Management) function to this group, which coordinates the Bank Group's entire fraud management activity.

4. Environmental protection

The Company does not possess any assets of key importance from an environmental-protection perspective.

5. Employment policy

Raiffeisen Bank is one of the leading employers in the financial sector: at the end of 2016, employee headcount stood at 2,083. It is particularly important for the Bank to perform its activities as an equitable and fair employer, fully observing and complying with the provisions of the Hungarian Labour Code, and ensuring favourable working conditions and career prospects for its employees.

Recruitment and selection is performed centrally by the Human Resources Department, taking care to ensure that there is no discrimination in the day-to-day practice of selection. Raffeisen Bank's selection processes are aimed at the recruitment of skilled and qualified staff, but also provide the opportunity for graduates at the start of their careers to join the Bank and embark on an intensive programme of professional development.

The Bank gives special priority to ensuring that its employees receive an equitable and competitive income by the standards of the Hungarian labour market. The Cafeteria system of non-cash benefits, which has been in operation for many years, allows employees to choose the fringe benefits that are best suited to their personal requirements.

The performance management process in operation at the Bank applies to all employees, and provides a framework for clear target-setting, constructive feedback, and well-founded performance appraisals. Financial rewards and non-financial recognition based on performance provide incentives for staff to excel.

Raiffeisen Bank conducts complex training and development programmes, which, besides the enhancement of professional knowledge and skills, focus on personal, leadership, language and computer skills development. The Bank's employees spend 3 days on average each year at training and development events and on various programmes. The Bank supports its employees through various welfare services that help them overcome daily performance challenges and stress situations as efficiently and successfully as possible.

The Bank runs talent and career management programmes with the aim of consciously nurturing and developing internal succession candidates in management and key specialist positions.

The Workplace Council performs its activities within the organisational framework of the Bank, thus ensuring that employees' interests are taken into consideration.

6. Research and development

Our Company conducted no research and development projects in 2016.

This publication contains an extract of Declarations and principles

Performance of the various business divisions

1.1. Corporate and Investment Banking Division

Raiffeisen Bank's "Corporate and Investment Banking Division" maintained its predominant position in the market of commercial banks in 2016. With a 10% share, it is one of the predominant banks in the medium-sized and large corporate segment, while in export financing and in treasury services it also belongs to the top banks.

On the lending side, the third, i.e. last, phase of the central bank's Funding for Growth Scheme will end in March 2017. From the launch of the Funding for Growth Scheme, the Bank concluded 1,700 corporate loan contracts during the three phases of the programme, in a total amount of HUF 200 billion, 89% of which was placed out by this division.

In the SME sector, refinanced credit programmes were the most popular facilities while among companies not complying with the SME requirements, credit facilities funded by the Bank were the most sought-after products.

The Bank's Structured Products Department had an excellent year in 2016. The Trade and Agriculture Financing area maintained the growth dynamics of previous years. In terms of credit products refinanced by Eximbank, we managed to retain our market leader position with new loan disbursements in the amount of more than EUR 200 million, while in Agriculture Financing, our biggest achievements in 2016 include our participation in the "Land for the Farmers" land purchase financing programme, through which the Bank financed land purchases by around 50 farmers.

The Bank also achieved an outstanding portfolio growth in Project Finance and Syndications: making the most of the favourable investment and capital expenditure activity in Hungary it managed to grow in all segments (office, hotel, logistic projects). The expansion of the credit portfolio took place against the backdrop of a conservative business policy and risk assumption. While exploiting market opportunities, we used refinanced credit facilities to a significant extent (the MNB's FGS Pillar I and Pillar II, and Eximbank's Competitiveness-Boosting Credit Package).

In factoring, the main focus was on the implementation of the new software, due to be completed in 2017. In line with the sales strategy, the aim is to achieve growth in this area as well.

In documentary transactions, in spite of the challenging market environment - lack of new EU projects, the weaker-than-expected performance of the construction industry, competition with insurers on the market of guarantees, adverse legislative changes from the point of view of guarantee issuance - the Bank maintained its volume of guarantees and letters of credit, and established new partnerships with 150 clients in 2016.

In the area of Municipalities, the service model focuses on larger municipalities and the companies owned by them, where we still provide full-scale banking services.

The Bank successfully implemented the Raiffeisen Electra electronic banking platform fully serving corporate clients' cash management needs, as a result of which clients can also manage their daily banking on the internet and their smartphones in addition to the already familiar Terminal application.

The Financial Institutions area closed a very good year. It significantly expanded its client and custody portfolios and joined the forint CLS system.

The Bank's Markets Department - based on statistics published by the MNB - executed the second-highest volume of foreign exchange transactions in the country in 2016 and was again the largest player in the derivatives section of the Budapest Stock Exchange. As a primary dealer of government bonds, we were one of the key participants in the domestic bond market.

1.2. Small and medium-sized enterprises

The year 2016 brought a number of positive changes for the Bank's SME customers. Our strategic objective is to forge close, collaborative partnerships with our SME clients, earning the position of trusted adviser to them, and, building on such foundations, to find optimal financial solutions for their businesses that are right for both parties. Accordingly, we upgraded our SME education strategy and relationship management policy, whereby our experienced advisers are able to offer effective assistance, whether in terms of choosing the right bank account, the use of more complex transactional services or choosing between available financing solutions. It gives us great pleasure that after the restructuring of the branch network in 2015, the number of the Bank's SME customers continued to rise in 2016. Acquiring almost 8,000 new clients, we are again one of Hungary's three most dynamic banks, taking first place in terms of acquiring new clients per branch. We managed to further increase our total client portfolio and market share: The number of our SME clients exceeded 45,000 at the end of 2016. The Bank regularly measures customer satisfaction (NPS), which was again excellent last year, at around 35 points on average compared to 22 points in 2015.

Our activity in the Raiffeisen Business Partner Club continued in 2016. Participants again gave very positive feedback and evaluations of the Club's events and Club members showed an even higher satisfaction (NPS=51). In the context of the Business Partner Club we organise conferences, special events and business breakfasts all over the country. At these events, well-known specialists help our customers expand not only their understanding of banking-related issues, but also their knowledge of other aspects of company management. The Club provides our customers with excellent networking opportunities, as well as a range of exclusive partner discounts.

In the course of the year, the macroeconomic environment also stayed favourable: the GDP growth and the recovery of the credit market strengthened the business activity of SMEs. In comparison with the previous four years, in 2016 a record-high volume of new loans were placed, as a result of which the Bank well overshot its PHP (the MNB's Market-based Lending Scheme) growth commitment.

Our FX Spot Rate Conversion Service, which enables our customers to quickly convert currencies via our DirektNet internet bank, free of charge and at competitive exchange rates, in relation to their export-import activities or for making repayments on their foreign currency loans, remained popular. We further developed our new electronic corporate banking system ELECTRA, launched in 2015, which offers our customers a number of new functions. At the same time, we started phasing out our less competitive Raiffeisen Expressz electronic banking system.

The growing number of bank card and online purchases makes it important for businesses to offer modern, cash-free means of payment. For this, the Bank continues to offer a competitive solution with the help of its collaboration partner (SIX), continuously striving for up-to-date developments. Thanks to this year's developments, SIX's POS terminals will also accept Erzsébet cards and several new terminals and facilities will become available to customers.

In spite of the low interest environment, the division's profitability continued to improve. Alongside an increase in customer numbers, growth in the Bank's liability portfolios and transaction volumes, among other factors, made a significant contribution to the improvement of the segment's financial profitability and record-high profits. In 2016, operating costs fell substantially and risk costs fell slightly further as the volume of non-performing loans also continued to decline, so our NPL ratio dropped below 5% by the end of 2016.

1.3. Retail customers

The Retail Division closed the year 2016 with substantial profits, largely due to cost management, better-than-targeted risk costs and the release of risk provisions.

In line with its long-term strategy, the Bank focused on customer relationship-based segments, that is the Premium and Private Banking segments, in 2016. Due to the rationalisation of the branch network in 2015, the Bank's cost base improved by almost 20%. Furthermore, the quality of customer service and customer satisfaction both continue to show high levels; the overall Net Promoter Score of the Bank improved in all segments and customer attrition also remained well below the targeted level. Paralel to this, the Bank launched its three-year Digital programme, with the aim to considerably strengthen alternative channels.

In terms of retail deposits, our market share grew to 6.4% in 2016. Within this, our retail customers' current account balances are 36% higher than at the end of 2016, primarily thanks to the steadily expanding primary clientele, the acquisition of Premium clients and the interest rate environment. The increase in current account balances considerably exceeds the decrease in fixed-term deposits. In terms of current account volumes, our market share grew from 5.9% to 6.7%.

In 2016 retail customers' investment volumes rose to HUF 309.7 billion, growing at different rates in different segments. Premium Banking investments were up by 8%, while volumes in the retail segment declined. Assets in government securities grew by 14% in 2016, mainly due to this product's attractive yield.

Overall, retail savings - together with bonds and investment funds - amounted to HUF 683 billion in assets under management in 2016.

2016 was a turnaround year in retail lending not only in Hungary but also for Raiffeisen Bank as the interest in retail loans increased considerably. This growth potential drove the Bank's lending strategy as well as its results in 2016.

Within secured loans, the Bank launched several new products in 2016 such as the five-year and ten-year fixed-rate loan and the Family Home Allowance ('CSOK'). Thanks to the new products, our new business in mortgage loans, in terms of volume, grew by 68% compared to 2015.

Unsecured lending also expanded substantially in 2016, at different rates for different products: in terms of volumes, our new business grew by 76% for credit cards, by 18% for personal loans and by 9% for overdraft facilities.

However, the upswing in lending as a whole could not offset the further erosion of the total credit portfolio due to the substantial trend of early repayments related to the low interest environment. This affected adversely the retail segment in particular – here the total credit portfolio declined by 15.9%. In contrast, the total credit volume of the Premium Banking segment continued to grow, by 8.7%.

All in all, the Bank's market share fell in terms of retail loan volumes, and stood at 5.5% at the end of 2016.

The Bank continues to give priority to statutory compliance and implemented the EU directive on retail lending in March 2016. Furthermore, complying with the new regulations, we introduced the Basic Account and restructured the process of bank switching along European Union guidelines.

1.4. Private Banking Customers

The objective of Friedrich Wilhelm Raiffeisen Private Banking is to preserve and increase the family wealth of our clients and ensure that it can be passed down safely from generation to generation.

Through their specialist work, our experienced advisors assure our clients of security, convenience, discretion and individual solutions tailored to their specific needs.

Key results and events in 2016:

Friedrich Wilhelm Raiffeisen Private Banking closed the most successful year in its history in 2016. Thanks to the confidence that our customers have in us, and which we value highly, the assets entrusted to our care amounted to HUF 435 billion by the end of the year, which represents a growth of 22% relative to the previous year. This above-the-average growth further strengthens our position in the market. The division serves Hungary's richest families; the entry limit is HUF 70 million and the average volume of assets per family is HUF 194 million.

Earning and maintaining the satisfaction of our preferred private customers would be inconceivable without offering customised solutions and the highest possible quality of service. In 2016 we once again invested substantial sums in the interests of launching new products and services, as well as developing our IT systems and the knowledge base of our banking advisers. Our personal advisers greet customers in the comfortable, well-appointed and discrete surroundings of Private Banking branches all around the country, and upon request they can also visit customers at their home or office at a time arranged by telephone, anywhere in the country.

However, ultimately it is the expertise of our investment advisers that provides the basis for our customers’ trust. The complex aspects of financial transactions that are aimed at preserving or expanding wealth – aspects that require time and constant attention – can only be effectively grasped by expert professionals. Our investment advisers seek out and offer the financial structures that are essential for ensuring the effective long-term management of our customers’ assets:

The Bank’s advisers proactively provide their customers with the information they need to make decisions, and use their professional expertise to assist them in choosing the necessary securities. We tailor the investment portfolios based on the risk appetite of our customers and the return that they wish to achieve, and send notification if market information that could have a bearing on the portfolio comes to light.

Friedrich Wilhelm Raiffeisen Private Banking celebrated its 20th anniversary in 2016. The Bank is proud that the values providing the basis for our service remained the same over these twenty years and serve to our customers’ satisfaction.

1.5. Financial institutions

For Raiffeisen Bank, financial institution customers are of key strategic importance. This segment represents a source of income for the Bank under conditions of moderate lending exposure and capital requirement, and with a high proportion of commission revenues, while also assuring a secure source of deposits and stable, long-term customer relationships. Risk costs are marginal in this segment, and our other costs are also low.

The division’s key target group includes domestic insurance companies, investment fund managers, funds, as well as domestic and international financial institutions and investment service providers.

In 2016 again, the Bank achieved outstanding results in terms of securities and investment services, as well as in the custody field. With support from the reinforced group-level management at the Vienna headquarters, the bank group offers a unique solution to customers in terms of custody and clearing services for their investments in Central and Eastern Europe. The recognition of the upgraded custody product in the market is shown by the fact that Raiffeisen’s solution was chosen by several new domestic and international clients in 2016.

In the falling interest rate environment, there is still a strong demand from our institutional investor clients for individually structured investment instruments, as well as for the products offered by our Markets Department. Thanks to our attractive products associated with a wide range of investment and portfolio management services, we were able to increase our commission revenues in 2016 again.

The Financial Institutions area assumed a leading role in a number of banking projects and other projects affecting the entire Hungarian capital market. Positive feedback from both customers and industry professionals prove that Raiffeisen Bank is one of the strongest brands in the regional money and capital markets.

Raiffeisen Bank International at a glance

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in CEE, where today it maintains a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. In CEE, at the end of 2016, around 46,000 RBI employees served some 14.1 million customers in around 2,500 business outlets. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and large multinational corporate customers operating in CEE. All in all, RBI employs about 49,000 people and has total assets of approximately Ð 112 billion.

Raiffeisen Zentralbank Österreich (RZB AG) was established in 1927 as "Girozentrale der österreichischen Genossenschaften" and at that time served as the liquidity balancing center for Austria's agricultural cooperatives, as envisioned by social reformer Friedrich Wilhelm Raiffeisen.

RZB AG had one of the largest banking networks in CEE through its subsidiary, Raiffeisen Bank International (RBI AG), which has been listed on the stock exchange since 2005. At the end of 2016, RZB AG held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float. RZB AG was primarily owned by the eight Raiffeisen regional banks and served as their central institution pursuant to the Austrian Banking Act (BWG). Following the merger between RZB AG and RBI AG, effective retroactively as of 30 June 2016, RBI AG will assume the role of RBG's central institution by way of universal succession.

KPMG

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Independent Auditors' Report

To the shareholder of Raiffeisen Bank Zrt.

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank Zrt. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (hereinafter referred to as the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Budapest, 21 April 2017

KPMG Hungária Kft.

István Henye
Partner

Consolidated income statement

(HUF million)	Note	2016	2015
Interest and similar income	(5)	**54,822**	**67,177**
- cash and cash equivalents		306	5,474
- on placements with banks		3,719	1,402
- on loans to non-banks		36,411	47,386
- on securities		13,011	11,298
- from leases		1,375	1,617
Interest expenses and similar charges	(6)	**22,714**	**28,653**
- on borrowings from banks		4,511	5,173
- on deposits from non-banks		4,781	9,359
- on debt securities issued		2,584	4,220
- on subordinated liabilities		3,259	4,516
- other interest-like expenses		7,579	5,385
Net interest income		**32,108**	**38,524**
Fee and commission income		38,914	40,584
Fee and commission expense		6,905	7,412
Net fee and commission income	(7)	**32,009**	**33,172**
Dividend income		0	5
Net trading income	(8)	13,174	9,430
Net income from derivatives held for risk management	(9)	373	581
Other operating income	(10)	4,369	4,735
Operating income		**17,916**	**14,751**
Impairment losses	(11)	**508**	**(11,258)**
hereof result of Settlement Act	(17)	(2,185)	(20,844)
Personnel expenses	(12)	23,221	23,218
Rental expenses		5,113	9,493
Equipment expenses		4,025	5,174
Other operating expenses	(10)	34,080	49,292
Operating expenses		**66,439**	**87,177**
Profit/(loss) before tax		**15,086**	**10,528**
Income tax expense	(13)	67	231
Deferred tax	(13)	4	19
Profit/(loss) for the period		**15,015**	**10,278**
Attributable to:			
Equity holders of the parent		15,015	9,984
Non-controlling interest		0	294

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

Consolidated statement of comprehensive income

(HUF million)	**2016**	**2015**
Profit/(loss) for the period	***15,015***	***10,278***
Other comprehensive income/(loss)		
Change of financial assets measured at fair value throughother comprehensive income :		
Change in fair value of available-for-sale financial assets	*3,671*	*912*
Amount transferred to profit or loss	*(1,315)*	*(7)*
Cash flow hedges :		
Effective portion of changes in fair value	*864*	*1,090*
Amount transferred to profit or loss	*820*	*117*
Income tax on other comprehensive income/(loss)	***(1)***	***16***
Other comprehensive income/(loss) for the period, net of income tax	***4,039***	***2,128***
Total comprehensive income/(loss) for the period	***19,054***	***12,406***
Total comprehensive income/(loss) attributable to:		
Equity holders of the Bank	*19,054*	*12,112*
Non-controlling interest	*0*	*294*
Total comprehensive income/(loss) for the period	***19,054***	***12,406***

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

Consolidated statement of financial position

(millió forint)	Note	2016	2015
Assets			
Cash and cash equivalents	(15)	260,921	505,024
Placements with banks	(16)	250,536	59,194
Net loans	(17)	835,104	914,198
Financial assets at fair value through profit or loss	(18)	152,799	175,150
Available for sale securities	(19)	210,373	62,001
Held to maturity securities	(19)	209,359	187,611
Investments in associated undertakings	(20)	9	9
Investments in unlisted securities	(20)	431	1,341
Property, plant and equipment	(21)	15,936	17,335
Investment property	(21)	0	0
Intangible assets	(22)	12,982	12,653
Goodwill	(23)	1,048	1,048
Current tax assets		24	13
Deferred tax assets	(39)	0	0
Other assets	(25)	44,807	30,228
Assets classified as held for sale	(33)	0	0
Total assets		**1,994,329**	**1,965,805**
LIABILITIES AND EQUITY			
Deposits from banks	(27)	263,782	274,544
Deposits from non-banks	(28)	1,325,354	1,293,677
Debt securities issued	(29)	38,741	64,761
Subordinated liabilities	(30)	59,598	60,018
Financial liabilities at fair value through profit or loss	(26)	42,457	44,436
Current tax liabilities		1	45
Deferred tax liabilities	(39)	35	123
Provisions	(32)	5,092	11,045
Other liabilities	(31)	84,644	60,870
Liabilities classified as held for sale	(33)	0	0
Total liabilities		**1,819,704**	**1,809,519**
Equity attributable to equity holders of the parent		**174,625**	**155,729**
Ordinary shares		50,000	50,000
Share capital	**(34)**	**50,000**	**50,000**
Retained earnings	(36)	(173,732)	(186,784)
Capital reserve	(35)	293,094	293,094
General reserves*	(35)	2,668	863
Fair value reserve	(35)	2,595	(1,444)
Non-controlling interest	(37)	**0**	**557**
Total equity		**174,625**	**156,286**
Total liabilities, non-controlling interest and shareholder's equity		**1,994,329**	**1,965,805**

* In 2015 the general reserves were not separately presented.

Consolidated statement of changes in equity

(HUF million) Note	Ordinary shares (34)	Share capital	Capital reserve (35)	General reserve* (35)	Fair value reserve (35)	Total other reserves	Retained earnings (36)	Total equity	Non controlling interest (37)	Total equity
Balance 1 January 2016	**50,000**	**50,000**	**293,094**	**863**	**(1,444)**	**292,513**	**(186,784)**	**155,729**	**557**	**156,286**
Total comprehensive income/(loss) for the period										
Profit or loss	0	**0**	0	0	0	**0**	15,015	**15,015**	0	**15,015**
Other comprehensive income/(loss)										
Net change in fair value of available-for-sale financial assets, net of tax	0	**0**	0	0	3,670	**3,670**	0	**3,670**	0	**3,670**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	0	**0**	0	0	(1,315)	(1,315)	0	(1,315)	0	(1,315)
Effective portion of changes in fair value of cash flow hedge items, net of tax	0	**0**	0	0	864	**864**	0	**864**	0	**864**
Net amount transferred to profit or loss (cash flow hedge items), net of tax	0	**0**	0	0	820	**820**	0	**820**	0	**820**
Total other comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**4,039**	**4,039**	**0**	**4,039**	**0**	**4,039**
Total comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**4,039**	**4,039**	**15,015**	**19,054**	**0**	**19,054**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of share capital and share premium	0	**0**	0	0	0	**0**	0	**0**	0	**0**
Transfer to reserves, net of tax	0	**0**	0	1,805	0	**1,805**	(1,805)	**0**	0	**0**
Total contributions by and distributions to owners	**0**	**0**	**0**	**1,805**	**0**	**1,805**	**(1,805)**	**0**	**0**	**0**
Changes in ownership interests	0	**0**	0		0	**0**	(158)	**(158)**	0	**(158)**
Change in non-controlling interest during the period	0	**0**	0	0	0	**0**	0	**0**	(557)	**(557)**
Non-controlling interest arising on acquisition	0	**0**	0		0	**0**	0	**0**	(557)	**(557)**
Decrease in non-controlling interest during the period	0	**0**	0	0	0	**0**	(158)	**(158)**	(557)	**(715)**
Total changes in ownership interests	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**	**0**
Total transactions with owners, recorded directly in equity	**0**	**0**	**0**	**1,805**	**0**	**1,805**	**(1,963)**	**(158)**	**(557)**	**(715)**
Balance 31 December 2016	**50,000**	**50,000**	**293,094**	**2,668**	**2,595**	**298,357**	**(173,732)**	**174,625**	**0**	**174,625**

* 2015-ben az általános tartalék nem került külön bemutatásra.

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

Consolidated statement of changes in equity

(HUF million)	Ordinary shares	Share capital	Capital reserve	General reserve*	Fair value reserve	Total other reserves	Retained earnings	Total equity	Non controlling interest	Total equity
Note	(34)		(35)	(35)	(35)		(36)		(37)	
Balance 1 January 2015	**50,000**	**50,000**	**249,481**	**0**	**(3,572)**	**245,909**	**(196,214)**	**99,695**	**639**	**100,334**
Total comprehensive income/(loss) for the period										
Profit or loss	0	**0**	0	0	0	**0**	9,984	**9,984**	294	**10,278**
Other comprehensive income/(loss)										
Net change in fair value of available-for-sale financial assets, net of tax	0	**0**	0	0	928	**928**	0	**928**	0	**928**
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	0	**0**	0	0	(7)	(7)	0	(7)	0	(7)
Effective portion of changes in fair value of cash flow hedge items, net of tax	0	**0**	0	0	1,090	**1,090**	0	**1,090**	0	**1,090**
Net amount transferred to profit or loss (cash flow hedge items), net of tax	0	**0**	0	0	117	**117**	0	**117**	0	**117**
Total other comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**2,128**	**2,128**	**0**	**2,128**	**0**	**2,128**
Total comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**2,128**	**2,128**	**9,984**	**12,112**	**294**	**12,406**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Issue of share capital and share premium	0	**0**	43,613	0	0	**43,613**	0	**43,613**	0	**43,613**
Transfer to reserves, net of tax	0	**0**	0	863	0	**863**	(863)	**0**	0	**0**
Total contributions by and distributions to owners	**0**	**0**	**43,613**	**863**	**0**	**44,476**	**(863)**	**43,613**	**0**	**43,613**
Changes in ownership interests	0	**0**	0	0	0	**0**	309	**309**	0	**309**
Change in non-controlling interest during the period	0	**0**	0	0	0	**0**	0	**0**	(376)	**(376)**
Non-controlling interest arising on acquisition	0	**0**	0	0	0	**0**	0	**0**	(376)	**(376)**
Decrease in non-controlling interest during the period	0	**0**	0	0	0	**0**	309	**309**	(376)	**(67)**
Total changes in ownership interests	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total transactions with owners, recorded directly in equity	**0**	**0**	**43,613**	**863**	**0**	**44,476**	**(554)**	**43,922**	**(376)**	**43,546**
Balance 31 December 2015	**50,000**	**50,000**	**293,094**	**863**	**(1,444)**	**292,513**	**(186,784)**	**155,729**	**557**	**156,286**

* 2015-ben az általános tartalék nem került külön bemutatásra.

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

Consolidated statement of cash flows

(HUF million)	Note	2016	2015
Profit/(loss) for the period		**15,015**	**10,278**
Cash flows from operating activites			
Adjustments for:			
Depreciation and amortisation	(21,22)	4,883	10,077
Net impairment loss on non-financial assets	(17)	(351)	(102)
Net impairment losses and write-offs on financial assets	(7)	(508)	11,258
Net interest income	(5)	(32,108)	(38,523)
Disposal of assets		(4)	276
Other		(1,365)	(54)
Income tax expense	(13)	71	250
		(29,382)	**(16,818)**
Change in placements with banks	(16)	(191,342)	(27,663)
Change in loans and advances to customers	(17)	79,602	198,373
Change in derivative financial instruments	(18)	7,243	(7,850)
Change in AFS securities (without revaluation)	(19)	(146,106)	(59,718)
Change in other assets and asset held for sale	(25,33)	(14,635)	27,265
Change in deposits from banks	(27)	(10,762)	(39,934)
Change in deposits from non-banks	(28)	32,185	(31,274)
Change in other liabilities, provisions and liabilities held for sale	(31,32,33)	17,313	(2,979)
		(226,502)	**56,220**
Interest and dividends received		54,822	67,181
Interest paid		(22,735)	(28,653)
Income tax paid		(215)	(57)
Net cash from / (used in) operating activities		**(208,997)**	**88,151**
Cash flows from investing activities			
Purchase of securities	(19)	(101,865)	(146,826)
Disposals of securities	(19)	94,930	91,489
Purchase of investment in associates		0	0
Disposal of investment in associates		0	0
Purchase of equity investments		0	0
Disposal of equity investments	(20)	1,406	6
Purchase of property, plant and equipment	(21)	(1,048)	(1,992)
Disposals of property, plant and equipment	(21)	748	53
Purchase of intangible assets	(22,23)	(3,590)	(3,357)
Disposals of intangible assets	(22,23)	82	0
Net cash used in investing activities		**(9,337)**	**(60,627)**

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

Consolidated statement of cash flows

(HUF million)	Note	2016	2015
Cash flows from financing activities			
Change in issued debt securities	(29)	114	(8,992)
Repayment of debt securities	(29)	(26,134)	(30,812)
Change in subordinated liabilities	(30)	0	(44,677)
Issuance of new shares and proceeds from share premium	(34)	0	43,546
Dividend paid		0	0
Net cash from financing activities		**(26,020)**	**(40,935)**
Net increase/decrease of cash and cash equivalents		**(244,354)**	**(13,411)**
Cash and cash equivalents at 1 January		**505,024**	**518,386**
Net effect of exchange rate		251	49
Cash and cash equivalents at December 31		**260,921**	**505,024**

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

Notes to the consolidated financial statements

(1) General information

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

The Bank holds a full commercial banking license issued by the Hungarian National Bank and carries on a wide range of financial activities. The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 comprise the Bank and its subsidiaries (together referred to as the “Group”). For further information on consolidated subsidiaries please see Note 43.

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

(2) Basis of presentation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by EU.

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

These financial statements were authorized for issue by the Stakeholder on 21 April 2017.

b) Basis of measurement

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

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

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 41.

c) Functional and presentation currency

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

d) Changes in accounting policies

There were no changes in accounting policies in 2016.

(3) Significant accounting policies

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

a) Financial statement presentation

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

b) Basis of consolidation

I. Subsidiaries

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

II. Special purpose entities

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

III. Funds management

The Group manages and administers assets held in investment funds on behalf of investors. The financial statements of these investment funds are not included in these consolidated financial statements, except when the Group controls the investment funds. Information about the Group's funds management activities is set out in Note 44.

IV. Control

There is only one basis for consolidation, namely control. Control exists if an investor has all three of the following elements: (a) controlling influence over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Definition of control was implemented in IFRS 10. The Bank adopted the new definition of control and involves entities with relevant impacts.

V. Transactions eliminated on consolidation

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

VI. Joint arrangements

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

c) Investments in associates

Associates are entities over which the Group has significant influence, but according to IFRS 10 it has no control.

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

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

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

Profits on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the respective associates. Losses are also eliminated to the extent of the Bank's interest in the associates unless the transaction provides evidence of an impairment of the asset transferred.

d) Foreign currency transactions

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

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The Group uses the exchanges rates published by National Hungarian Bank.

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

e) Intangible assets

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

I. Goodwill

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

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

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

II. Intangible assets other than goodwill

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

Other intangible assets are amortised using the straight-line method over their estimated useful life not exceeding 6 years from the date when the asset is available for use. The amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5, and the date that the asset is derecognized. Amortisation methods and useful lives are reviewed at each financial yearend and adjusted if appropriate.

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

f) Property, plant and equipment

I. Owner occupied property

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

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

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

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

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

Freehold land is not depreciated.

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

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

II. Investment property

Investment property is property held (by the owner or by a lessee under financial lease) to earn rentals or for capital appreciation or both. The Group applies cost model as valuation method for investment property. The Group uses straight line depreciation, and the useful lives of the properties are 20 years. Fair value of investment properties is disclosed according to IAS 40. It is determined by independent experts and is reviewed quarterly. The fair value is supported by market evidence. (See Note 21).

g) Cash and cash equivalents

Cash and cash equivalents includes notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

h) Determination of fair value

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

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

Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are measured at fair value based on bid prices for assets held and ask prices for liabilities issued. When independent prices are not available, fair value is determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For financial instruments, fair value may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. Determination of fair value is more detailed in Note 41.

i) Recognition of financial instruments

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

j) Placements with banks and Loans and advances to customers

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

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

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

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

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

l) Investments in securities

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

I. Held-to-maturity securities

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

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

II. Available-for-sale securities

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These financial assets are mainly Hungarian Government Bonds.

Available-for-sale securities are recognised on settlement date, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

Available-for-sale securities are initially measured at fair value plus direct transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented within equity in the fair value reserve until the securities are either sold or impaired. When available-for-sale securities are sold, cumulative gains or losses in other comprehensive income are transferred to profit or loss. Amortization of premiums or discounts is booked as interest income during the instrument's duration.

m) Derivatives

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

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

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

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

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

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

Hedge accounting

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

Fair value hedges

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

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

The Group hedges fixed-rate loans, deposits, fixed-rate issued bonds and purchased bonds in fair value hedges.

Cash flow hedges

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

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

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively from that point of time when the hedging relationship became ineffective.

n) Impairment of financial assets

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

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

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

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

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses, on a case-by-case basis, at each balance sheet date, whether there is any objective evidence that a loan is impaired. Impairment losses on loans carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of discount.
At the end of 2014, a new impairment calculation methodology was introduced for the part of non-performing mortgage portfolio which are to be sold by the Group in the near future. The basic principle of this new methodology is that the location of the real estate designated as a cover determines the expected cash-flow, and via this, the level of the impairment. Overall, the new methodology has a one-off effect of HUF 14.6 billion during the year of 2014.

Collectively assessed loans and advances

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

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

The Group has implemented some changes to its portfolio based loan loss provisioning policy as a consequence of the economic slowdown. In the case of non-retail portfolio based loan loss provisioning, the Bank applies a model determined on RBI group level. At the end of 2010 RBI (Raiffeisen Bank International) harmonized the provisioning model for the entire international bank group. The average of the last five years' default rates is used; in parallel, default rates for each sectors are not differentiated; in case of the internal rating categories there is no smoothing; and the loss given default is determined on RBI group level.
In December 2013, RBI introduced a new Corporate rating model which assigns 25 different rating grades for non-defaulted customers. The default rates corresponding to the rating grades are estimated on a group level for each relevant non-retail asset class (Regular Corporate, Large Corporate, Specialized Lending, Financials), as Network Units might not have enough observations in each rating grades for accurate local estimation.

In line with the RBI Group Accounting regulations the Group has introduced in its financial reporting the application of credit conversion factors concerning the off-balance sheet items' portfolio-based loan loss provisioning.

In Retail portfolio the internal rating based methodology was implemented in 09/2016 to comply RBI Group Standards. In the new methodology the Bank allocates portfolio-based impairment on deals that are not in default status based on article 178 of CRR. The probability of default (PD) is calculated based on calibrated scores in line with the relevant RBI Group Directive. Besides PD, Bank takes into account Loss Given Default (LGD) without conservative margins and Credit Conversion Factor (CCF) when calculating portfolio-based impairment.

Write-off of loans and advances

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

Reversals of impairment

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

Assets acquired in exchange for loans

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

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

Assets acquired in exchange for loans and leases at termination of a contract are held at a value established by an external (technical) appraiser. Until the assets acquired from lease contracts are sold, provision is allocated to the receivables, then the amount of receivables is reduced by the sales revenue of the assets. The provision recognized on loans is affected by the annual loss-rate of the assets sold in current year and on the future prospects of sales.

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

II. Impairment of held-to-maturity securities

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

III. Impairment of available-for-sale securities

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

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

o) Derecognition of financial assets and liabilities

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

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

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

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

In certain transactions the Group retains the obligation to service the transferred financial assets for a fee. The transferred asset is derecognized in its entirety if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee exceeds the value of the service.

The Group enters into purchases (sales) of securities under agreements to resell (repurchase) substantially identical securities at a certain date in the future at a fixed price.

Securities purchased subject to commitments to resell them at future dates are not recognized as securities. The amounts paid are recognized in other assets and shown as collateralized by the underlying security.

Securities sold under repurchase agreements continue to be recognized and measured in the consolidated statement of financial position as part of the securities portfolio. The proceeds from the sale of the securities are reported as other liabilities.

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

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

p) Offsetting financial assets and financial liabilities

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

q) Finance and operating leases

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

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

r) Deposits, Debt securities issued and Subordinated liabilities

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

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

s) Provisions for contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

t) Financial guarantees

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

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

Further details are set out in Note 40.

u) Interest income and expense

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

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

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

v) Fee and commission income

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

w) Net trading income

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

x) Other operating income

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

y) Dividends

Dividend income is recognised when the right to receive income is established. This is usually the date of the approval of the dividend in case of equity securities.

z) Income tax

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

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

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

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

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

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

aa) Share capital

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

bb) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these consolidated financial statements:

Standards and interpretations that are not yet applicable (already endorsed by the EU)
The following new or amended standards and interpretations, which have been adopted, but are not yet mandatory, have not been applied early.

IFRS 15 (Revenue from contracts with customers; entry into force January 1, 2018)
The standard regulates when revenue is recognized and how much revenue is recognized. IFRS 15 replaces IAS 18 (Revenue), IAS 11 (Construction contracts) and a series of revenue-related interpretations. The application of IFRS 15 is obligatory for all IFRS users and is applicable to almost all contracts with customers – the material exemptions are leasing contracts, financial instruments and insurance contracts.

IFRS 9 (Financial Instruments; entry into force January 1, 2018)
IFRS 9 (financial instruments) contains requirements for the classification, measurement, derecognition of and accounting for hedging relationships. The IASB published the final version of the standard within the context of completion of the various phases on July 24, 2014 and it was definitively incorporated into EU law through the EU Commission's adoption of Regulation (EU) No. 2016/2067 of November 22, 2016. Key requirements of IFRS 9 are:
According to IFRS 9, all financial assets must be measured at amortized cost or fair value. Specifically, debt investments

that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortized cost at the end of subsequent accounting periods. All other instruments must be measured at fair value.
IFRS 9 also includes an irrevocable option to recognize subsequent changes in the fair value of an equity instrument (not held for trading purposes) in other comprehensive income and to recognize only dividend income in the profit and loss statement.

With regard to the measurement of financial liabilities (designated as measured at fair value through profit or loss), IFRS 9 requires that changes in fair value arising out of changes in the default risk of the reporting entity are to be recognized in other comprehensive income. Changes in fair value attributable to a reporting entity's own credit risk may not be subsequently reclassified to profit or loss.

For subsequent measurement of financial assets measured at amortized cost, IFRS 9 provides for three stages which determine the future amount of losses to be recognized and the recognition of interest. The first stage requires that at the time of initial recognition, expected losses must be shown in the amount of the present value of an expected twelve-month loss. If there is a significant increase in the default risk, the risk provision must be increased up to the amount of the expected full lifetime loss (stage 2). When there is an objective indication of impairment, the interest in step 3 must be recognized on the basis of the net carrying amount. In addition to transitional provisions, IFRS 9 also includes extensive provisions on disclosure both during transition and during ongoing application. New provisions relate in particular to impairment. The mandatory date of the initial application of IFRS 9 will be January 1, 2018.

The Raiffeisen Group is implementing a centrally managed IFRS 9 program ("IFRS 9 Implementation") which is sponsored by the Group's Chief Financial Officer and Chief Risk Officer and for which experts provide support in matters relating to methodology, data acquisition and modelling, IT processes and accounting. Overall steering is the responsibility of an IFRS 9 steering committee ("Steering Committee IFRS9 Business Policy & Group Implementation"), whose members include Finance and Risk employees together with the board members with relevant responsibility. Policies and training on IFRS 9 are being provided across all Group units and Group functions as part of the IFRS 9 program in order to prepare for IFRS 9's entry into force for the Group as of January 1, 2018. During the 2016 financial year, the Raiffeisen Group also further developed the relevant technical concepts and associated implementation guidelines. As part of the project, steps were commenced to conduct Group-wide iterative impact analyses with regard to classification and measurement ("SPPI test" and "benchmark test") and impairment of financial instruments. Raiffisen Group will complete the analyses in stages in 2017 and move the project into its implementation phase.

The Bank anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Entity's financial assets and financial liabilities. It is expected that overall, IFRS 9 will increase the level of risk provision. The Bank RBI also assumes that IFRS 9 will have consequences for the classification and measurement of financial instruments. Following a detailed analysis, it was established with regard to classification and measurement that for certain contractual cash flows of financial assets there is a risk that parts of the portfolio will have to be re-measured "at fair value through profit or loss".

Standards and interpretations not yet applicable (not yet endorsed by the EU)

Amendments to IAS 7 (Disclosure initiative; entry into force January 1, 2017)
The amendments aim to ensure that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to IAS 12 (Deferred taxes; entry into force January 1, 2017)
The amendments clarify that unrealized losses related to debt instruments measured at fair value but at cost for tax purposes can give rise to deductible temporary differences.

Amendments to IFRS 15 (Revenue from contracts with customers; entry into force January 1, 2018)
The IASB published clarifications to IFRS 15 in 2016. The amendments to clarify IFRS 15 'Revenue from contracts with customers' address three of the five topics identified (identifying performance obligations, principal versus agent

considerations and licensing) and aim to provide transition relief for modified contracts and completed contracts. The consequences for the consolidated financial statements are still being analyzed.

IFRS 16 (Leases; entry into force January 1, 2019)
For lessees, the new standard provides an accounting model which does not distinguish between finance and operating leases. In future, it will be necessary to report the majority of lease agreements in the balance sheet. For lessors, the rules of IAS 17 remain largely applicable, with the result that in future, they will still have to distinguish between finance and operating lease agreements – with corresponding implications for accounting. The consequences for the consolidated financial statements are still being analyzed.

Annual improvements to IFRS – 2014–2016 cycle (entry into force January 1, 2017/2018)
The amendments include in particular:
- IFRS 1 First-time adoption of International Financial Reporting Standards: Deletion of the remaining short-term exemptions in IFRS 1 for first-time users.
- IFRS 12 Disclosure of interests in other entities: Clarification that with the exception of IFRS 12.B10-B16, the standard's disclosure requirements also apply to interests which fall under the scope of IFRS 5.
- IAS 28 Investments in associates and joint ventures: Clarification that the election to measure an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment on an investment-by-investment basis.

The amendments to IFRS 12 are applicable from January 1, 2017, the amendments to IFRS 1 and IAS 28 from January 1, 2018. Earlier application is permitted.

IFRIC 22 (Foreign currency transactions and advance consideration; entry into force January 1, 2018)
This interpretation clarifies the accounting for transactions that include the receipt or payment of considerations in a foreign currency.

Amendments to IAS 40 for the classification of property under construction or development published (entry into force January 1, 2018)
The amendments serve to clarify the provisions in relation to transfers to or from investment properties. In particular, the amendments clarify whether property which is under construction or development which was previously classified under inventories can be transferred to investment properties when there is an evident change of use.

Amendments to IFRS 10/IAS 28 (Sale or contribution of assets between an investor and its associate or joint venture; entry into force January 1, 2016)
The amendments clarify that for transactions with an associate or joint venture, the extent of recognition of gains or losses depends on whether the sold or contributed assets constitute a business. The effective date has been deferred indefinitely.

(4) Financial risk management

a) Introduction and overview

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

Risk management is independent from the business areas. Credit risk management of customers with non-standard products and services is done by the Credit Risk Management Department, while credit risk management of customers with standard products is done by the Retail Risk Management Department.

Individual credit risk analysis, rating, scoring and monitoring are tasks of the Credit Risk Management Department, while the portfolio based credit risk measurement, market (interest rate, foreign exchange and liquidity) and operational risk analysis is the competence of the Integrated Risk Analysis Department.

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

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

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

b) Credit risk

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

Management of credit risk

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

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

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

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

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

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

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

As a reaction to the current crisis, the Group has carried out integrated provisioning, capital requirement and profit after tax forecasting and stress-testing semi-annually since 2010. Based on our expectations for the macroeconomic environment, we assess future default rates using statistical models, and calculate their effect on the above quantities. The timeline of the forecast has been expanded to 3 years for the baseline and 2 years for the stressed scenarios, and we examine the regulatory and economic capital requirements both on standalone and consolidated level in the expected as well as in pessimistic scenarios.

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

Credit rating systems

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

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

Internal rating categories are the followings:

- **Minimal risk:**
  Non-retail segment: This grade is reserved for externally top rated corporates (AAA) and for other special cases which are regarded to incorporate minimal risk (for example: government linked companies, externally AAA-rated OECD countries).
  Retail segment: This grade is reserved for top rated customers.

- **Excellent credit standing:**
  Non-retail segment: For all other customers, this is the best rating that can be achieved. Based on excellent profitability, financial obligations can be fulfilled at any time. The company has a very strong equity base and a healthy financing structure.
  Retail segment: Based on excellent financial situation payments are expected under all circumstances.

- **Very good credit standing:**
  Non-retail segment: Based on very strong profitability, the probability that all payments – capital and interest – can be fulfilled also in the long run is very high. The company has a strong equity base and healthy financing structure.
  Retail segment: Based on very high income, the probability that all payments – capital and interest – can be fulfilled also in the long run is very high.

- **Good credit standing:**
  Non-retail segment: Based on strong profitability, all financial obligations can be expected to be fulfilled in the medium term. Good equity base and healthy substance.
  Retail segment: Based on favourable financial situation and high soci-demographic status all financial obligations can be expected to be fulfilled in the medium term. Good equity base and healthy substance.

- **Average credit standing:**
  Non-retail segment: Based on strong profitability, no interruptions of principal and interest payments are expected.

Reasonable financing structure with satisfactory equity base.
Retail segment: Based on prober credit capacity and soci-demographic status, no interruptions of principal and interest payments are expected.

- **Acceptable credit standing:**
Non-retail segment Based on satisfactory profitability, no interruption of principal and interest payments are expected, however increased sensitivity towards massive deterioration of the economic environment. Limited financing flexibility.
Retail segment: Based on satisfactory income and prober soci-demographic status, no interruption of principal and interest payments are expected, however increased sensitivity towards massive deterioration of the economic environment.

- **Weak credit standing:**
Non-retail segment: The Company shows marginal profitability and has only limited financial flexibility. Substantial deterioration of the economic parameters could negatively affect timely principal and interest payments.
Retail segment: The customer shows lower income and has limited credit capacity. Substantial deterioration of the economic parameters could negatively affect timely principal and interest payments.

- **Very weak credit standing:**
Non-retail segment: Company with weak profitability and inadequate financing structure. Already minor deterioration of the economic environment can interfere with full and timely fulfillment of financial obligations.
Retail segment: Customer with low income and has unfavourable soci-demographic status. Already minor deterioration of the economic environment can interfere with full and timely fulfilment of financial obligations.

- **Doubtful/high default risk:**
Non-retail segment: Company with very weak profitability and problematic financing structure. Partial loss of principal or interest is expected in work out case.
Retail segment: Customer with very weak low income and has unfavourable soci-demographic status. Partial loss of income or interest is expected in work out case.

- **Default:**
Financial obligations could not be completely fulfilled in time.

- **Unrated:**
Non-retail segment: Unrated exposures in the corporate sector mostly belong to that subsegment of the corporate portfolio which is under Standard approach (No 575/2013/EU Regulation Article 150), thus do not have internal rating per definition (e.g. pending legal; the clearing accounts of the exchange agents of banks).
Retail segment: Unrated exposures in the retail sector mostly negative accounts and distressed exposures, marginal amount of data quality problem loans and employee loans. Loans which are provided by subsidiaries in the retail sector are also in unrated exposures.

Impaired loans and securities

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

The Group establishes an allowance for impairment losses on assets carried at amortised cost or classified as available-for-sale that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in
respect of losses that have been incurred but have not been identified on loans that are considered individually non-significant, as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Past due but not impaired loans

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

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

2016 (HUF million)	Place-ments with banks	Loans and advances to customers	hereof: Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Govern-ment and public sector	Invest-ment in debt securi-ties	Other recei-vables	Deriva-tive assets	OFF B/S expo-sures
Individually impaired									
Minimal risk	0	14	0	14	0	0	0	0	0
Excellent credit standing	0	0	0	0	0	0	0	0	24
Very good credit standing	0	2,227	2,227	0	0	0	0	0	137
Good credit standing	0	16	16	0	0	0	0	0	158
Average credit standing	0	2,058	1,782	276	0	0	0	0	233
Acceptable credit standing	0	147	33	98	16	0	0	0	218
Weak credit standing	0	785	19	766	0	0	0	0	591
Very weak credit standing	0	4,230	395	945	2,890	0	0	0	387
Doubtful / high default risk	0	621	250	371	0	0	0	0	204
Default	0	127,641	85,158	42,399	84	0	0	0	9,132
Unrated	0	778	750	24	4	0	0	0	2,703
Total gross amount of individually impaired financial assets	**0**	**138,517**	**90,630**	**44,893**	**2,994**	**0**	**0**	**0**	**13,787**
Total individually impaired allowance for impairment	0	85,425	58,336	25,926	1,163	0	0	0	2,461
Total carrying amount of individually impaired financial assets	**0**	**53,092**	**32,294**	**18,967**	**1,831**	**0**	**0**	**0**	**11,326**
Collectively impaired									
Minimal risk	0	7,039	1,971	5,068	0	0	0	0	4,773
Excellent credit standing	0	20,983	0	20,983	0	0	0	0	4,292
Very good credit standing	0	119,908	78,727	41,181	0	0	0	0	13,961
Good credit standing	0	98,380	58,785	39,595	0	0	0	0	70,648
Average credit standing	0	159,325	122,656	36,432	237	0	0	0	46,447
Acceptable credit standing	200	150,290	125,350	24,940	0	0	0	0	33,505
Weak credit standing	0	96,115	66,901	29,214	0	0	0	0	7,659
Very weak credit standing	0	22,912	14,233	8,679	0	0	0	0	1,905
Doubtful / high default risk	0	39,630	32,108	7,522	0	0	0	0	1,641
Default	0	1,801	0	1,801	0	0	0	0	13
Unrated	0	4,920	80	4,838	2	0	0	0	1,545
Total gross amount of collectively impaired financial assets	**200**	**721,303**	**500,811**	**220,253**	**239**	**0**	**0**	**0**	**186,389**
Total collectively impaired allowance for impairment	1	13,116	2,538	10,577	1	0	0	0	520
Total carrying amount of collectively impaired financial assets	**199**	**708,187**	**498,273**	**209,676**	**238**	**0**	**0**	**0**	**185,869**

2016 (HUF million)	Placements with banks	Loans and advances to customers	hereof: Loans and advances to corporate clients	hereof: Loans and advances to retail clients	hereof: Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Past due but not impaired									
Minimal risk	0	0	0	0	0	0	0	0	0
Excellent credit standing	0	3	3	0	0	0	0	0	0
Very good credit standing	0	2	0	2	0	0	0	0	0
Good credit standing	0	7	0	7	0	0	0	0	0
Average credit standing	0	36	0	36	0	0	0	0	0
Acceptable credit standing	0	62	0	62	0	0	2,027	0	0
Weak credit standing	0	69	0	69	0	0	0	0	0
Very weak credit standing	0	114	22	92	0	0	0	0	0
Doubtful / high default risk	0	142	41	101	0	0	0	0	0
Default	0	20	0	20	0	0	0	0	0
Unrated	0	1	0	1	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**456**	**66**	**390**	**0**	**0**	**2,027**	**0**	**0**
Past due comprises:									
up to 30 days	0	332	59	273	0	0	2,027	0	0
31 to 90 days	0	111	5	106	0	0	0	0	0
91 to 180 days	0	11	0	11	0	0	0	0	0
181 days to 1 year	0	1	1	0	0	0	0	0	0
more than 1 year	0	1	1	0	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**456**	**66**	**390**	**0**	**0**	**2,027**	**0**	**0**
Neither past due nor impaired									
Minimal risk									
Excellent credit standing	0	2,554	2,538	16	0	99,303	1	499	26,831
Very good credit standing	0	12,657	9,787	2,870	0	0	3,261	762	24,623
Good credit standing	217,735	11,936	10,452	1,484	0	31,215	11,821	32,518	97,610
Average credit standing	100	7,669	7,283	386	0	1,982	6,757	3,931	38,039
Acceptable credit standing	0	5,808	5,502	306	0	0	3,265	1,802	78,955
Weak credit standing	32,502	11,626	8,524	207	2,895	395,040	3,459	2,582	61,597
Very weak credit standing	0	6,762	6,529	233	0	0	334	151	18,656
Doubtful / high default risk	0	10,698	10,629	69	0	0	314	6	4,624
Default	0	3,288	3,233	55	0	0	1,020	132	1,675
Unrated	0	12	0	12	0	0	14	0	3
Total carrying amount of neither past due nor impaired financial assets	**0**	**359**	**0**	**7**	**352**	**78**	**381**	**484**	**178**
Total gross amount	**250,337**	**73,369**	**64,477**	**5,645**	**3,247**	**527,618**	**30,627**	**42,867**	**352,791**
Impairment for Settlement Packagekage	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total allowance for impairment	**1**	**98,541**	**60,874**	**36,503**	**1,164**	**0**	**0**	**0**	**2,981**
Total carrying amount	**250.536**	**835.104**	**595.110**	**234.678**	**5.316**	**527.618**	**32.654**	**42.867**	**549.986**

2015 (HUF million)	Placements with banks	Loans and advances to customers	hereof: Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Individually impaired									
Minimal risk	0	1,020	1	1,019	0	0	0	0	58
Excellent credit standing	0	992	0	992	0	0	0	0	270
Very good credit standing	0	3,295	1,223	2,072	0	0	0	0	258
Good credit standing	0	3,515	788	2,727	0	0	0	0	2,060
Average credit standing	0	1,911	235	1,676	0	0	0	0	1,265
Acceptable credit standing	0	1,051	4	1,047	0	0	0	0	633
Weak credit standing	0	3,724	4	653	3,067	0	0	0	84
Very weak credit standing	0	1,606	561	1,045	0	0	0	0	1,369
Doubtful / high default risk	0	2,635	1,655	980	0	0	0	0	189
Default	0	225,110	172,140	52,970	0	0	0	0	10,758
Unrated	0	610	449	161	0	0	0	0	2,468
Total gross amount of individually impaired financial assets	**0**	**245,469**	**177,060**	**65,342**	**3,067**	**0**	**0**	**0**	**19,412**
Total individually impaired allowance for impairment	0	152,543	122,157	29,480	906	0	0	0	3,199
Total carrying amount of individually impaired financial assets	**0**	**92,926**	**54,903**	**35,862**	**2,161**	**0**	**0**	**0**	**16,213**
Collectively impaired									
Minimal risk	0	28,511	1,084	27,427	0	0	0	0	136
Excellent credit standing	0	27,987	0	27,987	0	0	0	0	0
Very good credit standing	0	56,216	18,963	37,253	0	0	0	0	1,501
Good credit standing	0	68,699	31,453	37,246	0	0	0	0	76,662
Average credit standing	0	173,369	144,671	28,698	0	0	0	0	50,940
Acceptable credit standing	715	128,234	105,453	22,755	26	0	0	0	31,243
Weak credit standing	34,066	58,700	46,083	12,617	0	0	0	0	8,096
Very weak credit standing	0	25,016	13,650	11,366	0	0	0	0	6,198
Doubtful / high default risk	0	55,839	47,006	8,833	0	0	0	0	1,654
Default	0	7,409	47	7,362	0	0	0	0	0
Unrated	0	4,273	265	3,742	266	0	0	0	608
Total gross amount of collectively impaired financial assets	**34,781**	**634,253**	**408,675**	**225,286**	**292**	**0**	**0**	**0**	**177,038**
Total collectively impaired allowance for impairment	41	13,507	3,110	10,396	1	0	0	0	455
Total carrying amount of collectively impaired financial assets	**34,740**	**620,746**	**405,565**	**214,890**	**291**	**0**	**0**	**0**	**176,583**

2015 (HUF million)	Placements with banks	Loans and advances to customers	hereof: Loans and advances to corporate clients	hereof: Loans and advances to retail clients	hereof: Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Past due but not impaired									
Minimal risk	0	0	0	0	0	0	0	0	0
Excellent credit standing	0	0	0	0	0	0	0	0	0
Very good credit standing	0	0	0	0	0	0	0	0	0
Good credit standing	0	0	0	0	0	0	0	0	0
Average credit standing	0	18	0	18	0	0	0	0	0
Acceptable credit standing	0	16	0	16	0	0	0	0	0
Weak credit standing	0	509	0	32	477	0	0	0	0
Very weak credit standing	0	1	1	0	0	0	0	0	0
Doubtful / high default risk	0	85	22	63	0	0	0	0	0
Default	0	14	0	14	0	0	0	0	0
Unrated	0	0	0	0	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**643**	**23**	**143**	**477**	**0**	**0**	**0**	**0**
Past due comprises:									
up to 30 days	0	605	0	128	477	0	0	0	0
31 to 90 days	0	21	20	1	0	0	0	0	0
91 to 180 days	0	0	0	0	0	0	0	0	0
181 days to 1 year	0	1	1	0	0	0	0	0	0
more than 1 year	0	16	2	14	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**643**	**23**	**143**	**477**	**0**	**0**	**0**	**0**
Neither past due nor impaired									
Minimal risk									
Excellent credit standing	0	2,304	2,304	0	0	0	0	0	16,771
Very good credit standing	0	8,975	8,959	16	0	60,091	3	1	13,811
Good credit standing	0	58,546	58,333	213	0	4,700	3	2,076	68,062
Average credit standing	15,709	6,259	6,012	247	0	4,998	60	39,344	34,582
Acceptable credit standing	0	44,936	44,684	252	0	0	38	341	57,594
Weak credit standing	0	26,262	26,059	203	0	0	4,102	1,463	75,320
Very weak credit standing	8,523	40,618	5,706	81	34,831	303,238	5,304	6,738	33,929
Doubtful / high default risk	222	4,260	4,254	6	0	0	1,776	5	8,671
Default	0	6,881	6,181	700	0	0	4,136	59	4,224
Unrated	0	125	0	125	0	0	10	0	9
Total carrying amount of neither past due nor impaired financial assets	**0**	**717**	**393**	**48**	**276**	**0**	**1,624**	**378**	**1,128**
Total gross amount	**24,454**	**199,883**	**162,885**	**1,891**	**35,107**	**373,027**	**17,056**	**50,405**	**314,101**
Impairment for Settlement Packagekage	**59,235**	**1,080,248**	**748,643**	**292,662**	**38,943**	**373,027**	**17,056**	**50,405**	**510,551**
Total allowance for impairment	**0**	**,**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total carrying amount	**41**	**166,050**	**125,267**	**39,876**	**907**	**0**	**0**	**0**	**3,654**

In 2016 the placement with bank increased significantly due to some large placement (2016: HUF 250.5 billion; 2015: HUF 59.2 billion).
In the case of loans and advances to customers the most changes happened in the non-retail portfolio compared to 2015. In 2016 the exposure of the corporate clients decreased by the measures to reduce the non-performing exposures, the most remarkable step was a market transaction during the 4th quarter of 2016 within a corporate work-out loan package in worth of HUF 69.2 billion was successfully sold.
The exposure of impaired exposures in retail segment also significantly decreased during the year (2016: HUF 44.9 billion; 2015: HUF 65.3 billion) mainly by the loans sales and other collection measures.
Unrated exposures in the retail sector loans (2016: HUF 4.8 billion; 2015: HUF 3.8 billion) are mostly employee loans. Unrated exposure in the retail sector are that loans which are provided by subsidiaries (2016: HUF 0.5 billion; 2015: HUF 0.2 billion).
The exposure of the loans and advances to government and public sector lowered further in 2016 (2016: HUF 6.5 billion; 2015: HUF 35.1 billion) because a government loan was matured during the period.
The unrated part of off-balance items are mostly pending legal issues (2016: HUF 6.7 billion; 2015: HUF 2.3 billion) and employee exposures (2016: HUF 0.3 billion; 2015: HUF 1.6 billion).

Loans with renegotiated terms

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

Loans and advances to corporate clients and sovereigns
All type of lending exposures are concerned in restructuring at workout (loans, overdrafts, bonds, guarantees, factoring frames and any other financing facilities)
As non-retail workout restructurings are occurring only in case
- the client faces financial problems
- has or probably will have material overdue
- significant economic loss is expected on its claim

The fact of restructuring does not mean re-aging or healed status of the client, the restructuring in itself does not mean improved risk status neither on client, nor on portfolio level, it only gives a new financing structure, which best fits to the client's feasible operational/other cash-flow projections.
The re-ageing from workout status, thus the improvement of the rating and the risk status can only be made if the following cumulative conditions are met:
- material loss is no longer expected on the Borrower under existing conditions, and no other default triggers are present
- willingness and ability to repay debt has been proved: minimum 3 consecutive repayment periods of material principal installment are made orderly (i.e. grace period and 'symbolic' installment excluded) and the liquidity plan ensures business continuity.

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

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

Settlement Packages:
FX -protection programs for foreign currency based mortgage loans. Delinquent (up to 180 days in past due) and non-delinquent customers can apply for the fixed FX rate instalment repayment which eliminated the FX volatility risk during the protection period.
As of the Act LXXVII of 2014 („the FX mortgage conversion Act") came into effect on 1st of Feb, 2015, the fixed FX-rate program was discontinued. For more information, please see section of the special regulations on Loan portfolio.

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

2016 (HUF million)	Placements with banks	Loans and advances to customers	hereof:			Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
			Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector				
Individually impaired									
Gross amount	0	53,701	25,399	25,412	2,890	0	0	0	1,718
Allowance for impairment	0	27,402	12,371	13,907	1,124	0	0	0	845
Carrying amount of individually impaired restructured loans	**0**	**26,299**	**13,028**	**11,505**	**1,766**	**0**	**0**	**0**	**873**
Fair value of collaterals	**0**	**41,718**	**12,090**	**29,628**	**0**	**0**	**0**	**0**	**521**
Collectively impaired									
Gross amount	0	45,095	28,569	16,526	0	0	0	0	971
Allowance for impairment	0	5,059	726	4,333	0	0	0	0	38
Carrying amount of collectively impaired restructured loans	**0**	**40,036**	**27,843**	**12,193**	**0**	**0**	**0**	**0**	**933**
Fair value of collaterals	**0**	**24,611**	**14,366**	**10,245**	**0**	**0**	**0**	**0**	**103**
Past due but not impaired									
Past due comprises:	0	119	13	106	0	0	0	0	0
up to 30 days	0	67	0	67	0	0	0	0	0
31 to 90 days	0	7	0	7	0	0	0	0	0
91 to 180 days	0	0	0	0	0	0	0	0	0
181 days to 1 year	0	0	0	0	0	0	0	0	0
more than 1 year	0	193	13	180	0	0	0	0	0
Carrying amount of past due but not impaired restructured loans	**0**	**197**	**13**	**184**	**0**	**0**	**0**	**0**	**0**
Fair value of collaterals	**0**	**119**	**13**	**106**	**0**	**0**	**0**	**0**	**0**
Neither past due nor impaired									
Carrying amount of neither past due nor impaired restructured loans	**0**	**1,234**	**1,045**	**189**	**0**	**0**	**0**	**0**	**1,483**
Fair value of collaterals	**0**	**1,281**	**1,120**	**161**	**0**	**0**	**0**	**0**	**386**
Total gross amount	0	100,223	55,026	42,307	2,890	0	0	0	4,172
Total allowance for impairment	0	32,461	13,097	18,240	1,124	0	0	0	883
Total carrying amount of restructured loans	**0**	**67,762**	**41,929**	**24,067**	**1,766**	**0**	**0**	**0**	**3,289**
Total fair value of collaterals	**0**	**67,807**	**27,589**	**40,218**	**0**	**0**	**0**	**0**	**1,010**

2015 (HUF million)	Placements with banks	Loans and advances to customers	hereof: Loans and advances to corporate clients	hereof: Loans and advances to retail clients	hereof: Loans and advances to Government and public sector	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Individually impaired									
Gross amount	0	63,949	32,839	31,110	0	0	0	0	203
Allowance for impairment	0	34,107	21,017	13,090	0	0	0	0	105
Carrying amount of individually impaired restructured loans	**0**	**29,842**	**11,822**	**18,020**	**0**	**0**	**0**	**0**	**98**
Fair value of collaterals	**0**	**44,594**	**8,582**	**36,012**	**0**	**0**	**0**	**0**	**105**
Collectively impaired									
Gross amount	0	62,834	36,471	26,363	0	0	0	0	856
Allowance for impairment	0	7,495	1,214	6,281	0	0	0	0	31
Carrying amount of collectively impaired restructured loans	**0**	**55,339**	**35,257**	**20,082**	**0**	**0**	**0**	**0**	**825**
Fair value of collaterals	**0**	**33,006**	**17,995**	**15,011**	**0**	**0**	**0**	**0**	**265**
Past due but not impaired									
Past due comprises:	0	68	0	68	0	0	0	0	0
up to 30 days	0	19	19	0	0	0	0	0	0
31 to 90 days	0	0	0	0	0	0	0	0	0
91 to 180 days	0	0	0	0	0	0	0	0	0
181 days to 1 year	0	0	0	0	0	0	0	0	0
more than 1 year	0	0	0	0	0	0	0	0	0
Carrying amount of past due but not impaired restructured loans	**0**	**87**	**19**	**68**	**0**	**0**	**0**	**0**	**0**
Fair value of collaterals	**0**	**41**	**20**	**21**	**0**	**0**	**0**	**0**	**0**
Neither past due nor impaired									
Carrying amount of neither past due nor impaired restructured loans	**0**	**2,137**	**2,125**	**12**	**0**	**0**	**0**	**0**	**2,308**
Fair value of collaterals	**0**	**2,335**	**2,335**	**0**	**0**	**0**	**0**	**0**	**1,019**
Total gross amount	0	129,007	71,454	57,553	0	0	0	0	3,367
Total allowance for impairment	0	41,602	22,231	19,371	0	0	0	0	136
Total carrying amount of restructured loans	**0**	**87,405**	**49,223**	**38,182**	**0**	**0**	**0**	**0**	**3,231**
Total fair value of collaterals	**0**	**79,976**	**28,932**	**51,044**	**0**	**0**	**0**	**0**	**1,389**

The exposure of the restructured loans changes significantly from 2015 to 2016.
Both in non-retail and retail segment the exposure of restructured loans notably decreased by the measures to reduce the non-performing exposures and together with it the exposure of the forborne loans also went down (non-retail HUF 12.7 billion; retail: HUF 6.4 billion).

Write-off policy

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

Collateral

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

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

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

The Weighted Collateral Value is the market value of the collateral after deducting discount & prior ranking liens, limited by the contractually pledged amount, applying a discount for currency mismatch, and limited by the amount of the covered contractual exposure.

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

Collateral related processes (evaluation & regular revaluation, real estate on-site visits, check of physical existance, monitoring of coverage requirements, etc.) are handled by Credit Risk Management Department Collateral and Risk Process Management Division).

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

2016 (HUF million)	Placements with banks	Loans and advances to customers	hereof			Investments in securities	Other receivables	Derivative assets	Guarantees and undrawn credit facilities	Total Collateral
			Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector					
Cash deposit	**0**	**18,674**	**14,682**	**3,933**	**59**	**0**	**7,886**	**349**	**12,360**	**39,269**
Debt securities issued by	**2,320**	**31,127**	**11,655**	**19,472**	**0**	**0**	**10,819**	**11**	**2,327**	**46,604**
Central governments	2,320	19,742	4,313	15,429	0	0	10,285	9	1,543	**33,899**
Companies	0	1,868	1,449	419	0	0	534	2	132	**2,536**
Others	0	9,517	5,893	3,624	0	0	0	0	652	**10,169**
Shares	**670**	**3,089**	**2,580**	**509**	**0**	**0**	**84**	**0**	**107**	**3,950**
Mortgage on	**0**	**309,590**	**128,405**	**180,713**	**472**	**0**	**0**	**0**	**15,628**	**325,218**
Residential real estate	0	193,782	16,306	177,476	0	0	0	0	1,508	**195,290**
Commercial real estate	0	92,008	90,200	1,336	472	0	0	0	5,966	**97,974**
Other	0	23,800	21,899	1,901	0	0	0	0	8,154	**31,954**
Guarantees from	**337**	**23,667**	**15,815**	**7,852**	**0**	**0**	**0**	**0**	**16,666**	**40,670**
Central governments	337	16,976	9,124	7,852	0	0	0	0	8,097	**25,410**
Other banks	0	6,691	6,691	0	0	0	0	0	8,569	**15,260**
Other	**0**	**67,365**	**66,807**	**543**	**15**	**0**	**0**	**0**	**5,343**	**72,708**
Total collateral	**3,327**	**453,512**	**239,944**	**213,022**	**546**	**0**	**18,789**	**360**	**52,431**	**528,419**

2015 (HUF million)	Placements with banks	Loans and advances to customers	hereof			Investments in securities	Other receivables	Derivative assets	Guarantees and undrawn credit facilities	Total Collateral
			Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector					
Cash deposit	**1,126**	**16,705**	**13,934**	**2,770**	**1**	**0**	**6,548**	**473**	**14,713**	**39,565**
Debt securities issued by	**0**	**14,408**	**10,927**	**3,481**	**0**	**0**	**2,556**	**408**	**1,160**	**18,532**
Central governments	0	3,532	1,534	1,998	0	0	2,363	12	307	**6,214**
Companies	0	1,065	697	368	0	0	0	0	242	**1,307**
Others	0	9,811	8,696	1,115	0	0	193	396	611	**11,011**
Shares	**0**	**2,826**	**2,559**	**267**	**0**	**0**	**0**	**0**	**610**	**3,436**
Mortgage on	**0**	**332,919**	**126,590**	**205,835**	**494**	**0**	**0**	**0**	**19,936**	**352,855**
Residential real estate	0	223,191	22,327	200,864	0	0	0	0	1,789	**224,980**
Commercial real estate	0	82,224	79,565	2,165	494	0	0	0	7,248	**89,472**
Other	0	27,504	24,698	2,806	0	0	0	0	10,899	**38,403**
Guarantees from	**23,293**	**15,932**	**9,047**	**6,415**	**470**	**0**	**0**	**0**	**17,725**	**56,950**
Central governments	23,293	10,058	3,645	6,413	0	0	0	0	7,118	**40,469**
Other banks	0	5,874	5,402	2	470	0	0	0	10,607	**16,481**
Other	**0**	**56,824**	**56,101**	**723**	**0**	**0**	**0**	**0**	**10,103**	**66,927**
Total collateral	**24,419**	**439,614**	**219,158**	**219,491**	**965**	**0**	**9,104**	**881**	**64,247**	**538,265**

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

2016 (HUF million)	Placements with banks	Loans and advances to customers	hereof			Investments in securities	Other receivables	Derivative assets	Guarantees and undrawn credit facilities	Total Collateral
			Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector					
Individually impaired	**0**	**89,867**	**34,007**	**55,817**	**43**	**0**	**0**	**0**	**601**	**90,468**
Collectively impaired	0	329,729	176,684	153,045	0	0	0	0	13,302	**343,031**
Past due but not impaired	0	331	47	284	0	0	1,786	0	0	**2,117**
Neither past due nor impaired	**3,327**	**33,585**	**29,206**	**3,876**	**503**	**0**	**17,003**	**360**	**38,528**	**92,803**
Total collateral	**3,327**	**453,512**	**239,944**	**213,022**	**546**	**0**	**18,789**	**360**	**52,431**	**528,419**

2015 (HUF million)	Placements with banks	Loans and advances to customers	hereof			Investments in securities	Other receivables	Derivative assets	Guarantees and undrawn credit facilities	Total Collateral
			Loans and advances to corporate clients	Loans and advances to retail clients	Loans and advances to Government and public sector					
Individually impaired	**0**	**123,139**	**49,366**	**73,773**	**0**	**0**	**0**	**0**	**3,268**	**126,407**
Collectively impaired	23,293	287,098	142,537	144,561	0	0	0	0	7,001	**317,392**
Past due but not impaired	0	682	53	159	470	0	0	0	0	**682**
Neither past due nor impaired	**1,126**	**28,695**	**27,202**	**998**	**495**	**0**	**9,104**	**881**	**53,978**	**93,784**
Total collateral	**24,419**	**439,614**	**219,158**	**219,491**	**965**	**0**	**9,104**	**881**	**64,247**	**538,265**

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

(HUF million)	2016	2015
Real estate	574	422
Inventories	0	0
Other	14	14
Total assets obtained	**588**	**436**

Concentrations by sector

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

2016 (HUF million)	Placements with banks	Loans and advances to customers	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Real estate	0	184,777	0	141	1,601	25,330
Domestic trade	0	148,642	0	310	1,955	111,914
Other, mainly service industries	0	101,445	0	773	271	52,923
Finance	236,037	30,788	130,635	29,281	36,614	129,003
Central Bank	14,500	0	0	0	1,351	0
Public administration	0	3,331	395,001	2,029	0	4,357
Chemicals and pharmaceuticals	0	32,855	1,982	0	592	24,247
Food processing	0	27,261	0	0	5	11,410
Agriculture	0	16,871	0	0	2	3,281
Transportation, communication	0	50,661	0	1	72	7,984
Construction	0	15,513	0	2	106	94,071
Heavy industry	0	27,910	0	0	76	16,193
Light industry	0	22,645	0	1	13	12,561
Energy	0	20,852	0	0	167	30,559
Infrastructure	0	847	0	0	0	1,230
Private households	0	249,247	0	116	42	27,904
Total gross exposure	**250,537**	**933,645**	**527,618**	**32,654**	**42,867**	**552,967**

2015 (HUF million)	Placements with banks	Loans and advances to customers	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Real estate	0	173,743	0	139	532	17,685
Domestic trade	0	152,113	0	438	1,207	109,478
Other, mainly service industries	0	118,831	0	703	126	48,329
Finance	50,991	70,042	67,915	12,447	44,369	33,877
Central Bank	8,244	0	0	0	3,339	0
Public administration	0	35,585	303,238	3,048	0	15,942
Chemicals and pharmaceuticals	0	49,049	1,874	1	571	56,389
Food processing	0	46,432	0	0	16	12,361
Agriculture	0	37,721	0	0	0	2,669
Transportation, communication	0	45,319	0	1	31	10,760
Construction	0	25,664	0	122	25	105,496
Heavy industry	0	29,977	0	0	22	14,812
Light industry	0	13,612	0	0	32	10,207
Energy	0	11,324	0	0	109	41,896
Infrastructure	0	724	0	1	0	1,386
Private households	0	270,112	0	156	26	29,264
Total gross exposure	**59,235**	**1,080,248**	**373,027**	**17,056**	**50,405**	**510,551**

c) Market risk

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

Management of market risk

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

VaR (Value at Risk) limit system is operated by RBI on daily basis where separate VaR limits are assigned to the different risk types: interest rate risk of the trading book, interest rate risk of the banking book, equity price risk of the trading book, volatility risk and Group's FX open position risk. Credit spread risk is indicated as an individual risk factor in the reports as well.

During the past couple of years audit and control functions became stricter than before. New reports were implemented for market risk related risk types. The bank is carrying out daily market conformity check activity, the results are delivered on a regular basis to the Management.

New Stress Test Analysis assignments were created, that are regularly presented to the Management.

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

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

Non-trading portfolios (banking book) include positions that arise from the interest rate management of the Group's retail and commercial banking assets and liabilities. The Group's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments.
A special interest rate model was introduced for the non-maturity products in the banking book, which is used in risk reports, too.

Exposure to interest rate risk – trading and banking book

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is measured by the sensitivity analysis of the bank-book net interest income and of the mark-to-market value of the trading book to the volatility of interest rates.

Interest rate exposure is the most significant risk factor in the banking and trading book portfolios. On Group level, strict Basis Point Value limits and Value-at-risk (VaR) limits are defined, which are monitored on daily basis.

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

Interest-bearing financial instruments (HUF million)	*As at 31 December 2016*	*As at 31 December 2015*
Fixed rate instruments		
Financial assets	*924,889*	*854,024*
Financial liabilities	*395,381*	*437,655*
Total fixed rate instruments	***529,508***	***416,369***

	As at 31 December 2016		As at 31 December 2015	
Variable rate instruments	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**
HUF	652,076	856,132	686,777	830,987
CHF	29,769	5,122	11,832	13,982
EUR	241,527	402,247	258,183	336,165
USD	26,776	76,473	18,809	64,232
Other currencies	2,943	19,228	2,354	9,300
Total variable rate financial instruments	**953,091**	**1,359,202**	**977,955**	**1,254,666**

During the year the changes were driven by the following factors:

- the stock of the fixed-rate loans and other receivables increased by HUF 50,7 billion,
- in case of placements to banks and loans to financial institutions have been a significant HUF 92 billion increase in the fixed-rate instruments,
- nevertheless the stock of the fixed-rate deposits at National Bank of Hungary (NBH) is showing a HUF 232-billion negative change,
- in case of the fixed-rate securities the increase was significant, HUF 139,7 billion, of which the government bonds accounted for HUF 96,1-billion increase,
- fixed-rate instruments on the liability side showed decreasing in every segment, which was offset just partially by the loans taken out from the NBH (HUF 47.3 billion).

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

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

Fair value hedges (HUF million)	2016	2015
Valuation gain/(loss) on hedged instruments	274	196
Valuation gain/(loss) on hedging interest rate swaps	(475)	(90)

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

Nominal and interest cash flows of cash-flow hedged deals are the following:

Cash flow hedges - 2016 (HUF million)	Within 1 year	1-5 years	Over 5 years
Inflows	27	676	9,228
Outflows	(12)	269	9,140

Cash flow hedges - 2015 (HUF million)	Within 1 year	1-5 years	Over 5 years
Inflows	14,852	15,910	17,860
Outflows	14,426	14,413	17,571

During 2016 net profits of HUF 1,684 million relating to the effective portion of cash flow hedges were recognized in other comprehensive income (2015: HUF 1.207 million gain).

Exposure to currency risk

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

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

2016 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash and cash equivalents	224,458	357	30,321	2,691	3,094	**260,921**
Placements with banks	52,881	24,601	136,849	36,097	108	**250,536**
Loans and advances to customers	502,875	9,052	279,010	44,167	0	**835,104**
Financial assets at fair value through profit or loss – except for derivatives	73,294	0	25,188	6,646	4,804	**109,932**
Available for sale securities	116,439	0	84,699	9,235	0	**210,373**
Held to maturity securities	204,562	0	3,288	1,509	0	**209,359**
Financial assets except for derivatives	**1,174,509**	**34,010**	**559,355**	**100,345**	**8,006**	**1,876,225**
Deposits from banks	113,552	4,058	100,972	45,200	0	**263,782**
Deposits from non-banks	891,200	5,063	323,544	83,646	21,901	**1,325,354**
Debt securities issued	30,480	0	8,261	0	0	**38,741**
Subordinated liabilities	0	0	59,598	0	0	**59,598**
Financial liabilities except for derivatives	**1,035,232**	**9,121**	**492,375**	**128,846**	**21,901**	**1,687,475**
Net open position on balance sheet	**139,277**	**24,889**	**66,980**	**(28,501)**	**(13,895)**	**188,750**
Net derivative and spot instruments (short)/long position	48,992	(24,668)	(73,324)	15,685	13,101	**(20,214)**
Total net currency positions	**188,269**	**221**	**(6,344)**	**(12,816)**	**(794)**	**168,536**

2015 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash and cash equivalents	463,878	205	20,668	17,638	2,635	**505,024**
Placements with banks	8,953	0	50,240	1	0	**59,194**
Loans and advances to customers	569,911	11,805	289,286	43,192	4	**914,198**
Financial assets at fair value through profit or loss – except for derivatives	81,304	0	32,300	6,553	4,588	**124,745**
Available for sale securities	32,247	0	29,754	0	0	**62,001**
Held to maturity securities	167,929	0	15,963	1,489	2,230	**187,611**
Financial assets except for derivatives	**1,324,222**	**12,010**	**438,211**	**68,873**	**9,457**	**1,852,773**
Deposits from banks	114,085	8,573	96,171	55,715	0	**274,544**
Deposits from non-banks	926,117	5,588	272,216	78,387	11,369	**1,293,677**
Debt securities issued	55,273	0	9,488	0	0	**64,761**
Subordinated liabilities	0	0	60,018	0	0	**60,018**
Financial liabilities except for derivatives	**1,095,475**	**14,161**	**437,893**	**134,102**	**11,369**	**1,693,000**
Net open position on balance sheet	**228,747**	**(2,151)**	**318**	**(65,229)**	**(1,912)**	**159,773**
Net derivative and spot instruments (short)/long position	(64,852)	1,870	3,928	66,229	1,142	**8,317**
Total net currency positions	**163,895**	**(281)**	**4,246**	**1,000**	**(770)**	**168,090**

During 2016 the Bank – after the conversion of FX-mortgages in 2015 – is still having a low level of currency position. However a slight increase in case of items denominated in foreign currency may have been observed compering to the previous year, but the whole portfolio (domestic and foreign currencies) neither on the asset nor on the liability side has not increased significantly. Currency position has increased on the asset side: the balance of items denominated in forint has decreased meanwhile the balance of items denominated in foreign currencies has increased.

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

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

Exposure to other price risk – trading book

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

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

Tools for managing market risk – trading book and banking book

Value at Risk

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

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

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

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

A summary of the VaR position of the Group's trading portfolios and banking book at 31st December, 2016 and during the current period is as follows:

VaR position	*2016 (HUF million)*			
Trading Book	***VaR at year end***	***Average VaR***	***Minimum VaR***	***Maximum VaR***
Foreign Currency Risk	*33*	*157*	*11*	*397*
Interest Rate Risk	*264*	*189*	*48*	*596*
Price Risk	*0*	*69*	*0*	*185*
Total Risk	*259*	*258*	*101*	*569*
Diversification Effect	*38*	*157*	*20*	*318*
Banking Book	***VaR at year end***	***Average VaR***	***Minimum VaR***	***Maximum VaR***
Foreign Currency Risk	*0*	*0*	*0*	*0*
Interest Rate Risk	*569*	*913*	*228*	*1 665*
Total Risk	*569*	*913*	*228*	*1 665*
Diversification Effect	*0*	*0*	*0*	*0*

VaR position	2015 (HUF million)			
Trading Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	26	121	6	647
Interest Rate Risk	149	205	96	472
Price Risk	0	3	0	54
Total Risk	146	237	95	686
Diversification Effect	29	92	8	262
Banking Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	0	0	0	0
Interest Rate Risk	812	1.025	501	1.544
Total Risk	812	1.025	501	1.544
Diversification Effect	0	0	0	0

Gap report

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

Repricing of assets and liabilities occurs when:

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

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

The following table shows the gap report of the trading book and the banking book as at 31 December 2016 and 2015, respectively:

Gap report	2016 (HUF million)			
Trading book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	(398)	72	198	21
3 months to 1 year	3,424	(4,354)	1,376	34
1 year to 5 years	(8,458)	(578)	13,524	0
over 5 years	3,831	(2,270)	(2)	0
Banking book	**HUF**	**USD**	**EUR**	**CHF**
less than 3 months	(275,371)	(34,344)	(148,679)	21,204
3 months to 1 year	(16,569)	(7,619)	37,952	(17,289)
1 year to 5 years	(58,902)	4,169	(10,988)	19
over 5 years	15,655	0	(1,201)	33

Gap report	*2015 (HUF million)*			
Trading book	***HUF***	***USD***	***EUR***	***CHF***
less than 3 months	*(575)*	*107*	*186*	*7*
3 months to 1 year	*(314)*	*(1,995)*	*(2,091)*	*(119)*
1 year to 5 years	*(13,572)*	*(1,491)*	*(28,238)*	*0*
over 5 years	*(224,575)*	*(856)*	*0*	*0*

Banking book	***HUF***	***USD***	***EUR***	***CHF***
less than 3 months	*48,785*	*(18,386)*	*(152,245)*	*(32,504)*
3 months to 1 year	*(21,661)*	*(8,599)*	*18,087*	*(34,841)*
1 year to 5 years	*20,353*	*(1,859)*	*652*	*9*
over 5 years	*18,960*	*0*	*(19)*	*0*

d) Liquidity risk

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

Management of liquidity risk

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

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

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

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

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

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

- Purchased a significant amount of liquid government securities to be able to mobilize liquidity in the case of an unexpected liquidity shock
- Reduced its loan to deposit ratio
- Large amount of bonds, that can be used as an instrument of repurchase agreement, issued by ECB and NBH (National Bank of Hungary) were purchased

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

Liquidity risk	2016 (HUF million)					
	Carrying amount	Gross nominal inflow/ (outflow)	3 months or less	3-12 months	1-5 years	more than 5 years
LIABILITIES						
Deposits from banks	263,782	**305,429**	28,624	60,762	147,633	68,410
Deposits from non-banks	1,325,354	**1,325,806**	1,267,476	48,402	5,983	3,945
Debt securities issued	38,741	**39,465**	10,104	10,186	18,228	947
Subordinated liabilities	59,598	**73,161**	823	2,231	70,107	0
Financial liabilities at fair value through profit or loss – except for derivatives	0	**0**	0	0	0	0
Other liabilities	84,644	**84,645**	84,148	497	0	0
Liabilities held for sale	0	**0**	0	0	0	0
Total liabilities	**1,772,119**	**1,828,506**	**1,391,175**	**122,078**	**241,951**	**73,302**
Derivative instruments						
Interest rate swaps	0	**(2,521)**	(1,548)	830	(863)	(940)
Forward exchange contracts:	**0**	**10,941**	**4,843**	**22,567**	**(284)**	**(16,185)**
- Outflow	0	**1,773,440**	1,055,284	478,342	170,647	69,167
- Inflow	0	**1,762,499**	1,050,441	455,775	170,931	85,352
Contingent liabilities	**131,362**	**131,363**	**45,681**	**37,017**	**45,280**	**3,385**
Other commitments and contingencies	131,362	**131,363**	45,681	37,017	45,280	3,385
Commitments	**421,558**	**421,561**	**35,692**	**133,825**	**54,788**	**197,256**
Unutilised loan facilities	149,425	**149,425**	9,922	60,303	15,302	63,898
Unutilised overdraft facilities	197,547	**197,550**	20,494	65,901	4,603	106,552
Unutilised guarantee frames	74,586	**74,586**	5,276	7,621	34,883	26,806

Liquidity risk	2015 (HUF million)					
	Carrying amount	Gross nominal inflow/ (outflow)	3 months or less	3-12 months	1-5 years	more than 5 years
LIABILITIES						
Deposits from banks	274,544	**285,335**	25,593	76,101	143,561	40,080
Deposits from non-banks	1,293,677	**1,293,859**	1,189,497	91,869	7,580	4,913
Debt securities issued	64,761	**67,309**	6,945	19,929	39,488	947
Subordinated liabilities	60,018	**77,631**	868	2,503	22,688	51,572
Financial liabilities at fair value through profit or loss – except for derivatives	0	**0**	0	0	0	0
Other liabilities	60,870	**60,871**	59,747	1,124	0	0
Liabilities held for sale	0	**0**	0	0	0	0
Total liabilities	**1,753,870**	**1,785,005**	**1,282,650**	**191,526**	**213,317**	**97,512**
Derivative instruments						
Interest rate swaps	0	**(3,914)**	(918)	(740)	(2,337)	81
Forward exchange contracts:	**0**	**(6,162)**	**(529)**	**(5,001)**	**(381)**	**(251)**
- Outflow	0	**1,990,629**	1,076,964	497,418	378,238	38,009
- Inflow	0	**1,996,791**	1,077,493	502,419	378,619	38,260
Contingent liabilities	**141,921**	**141,921**	**39,287**	**51,262**	**49,106**	**2,266**
Other commitments and contingencies	141,921	**141,921**	39,287	51,262	49,106	2,266
Commitments	**368,156**	**368,156**	**63,898**	**118,676**	**115,262**	**70,320**
Unutilised loan facilities	192,095	**192,095**	22,398	62,244	75,514	31,939
Unutilised overdraft facilities	98,149	**98,149**	38,413	41,149	27	18,560
Unutilised guarantee frames	77,912	**77,912**	3,087	15,283	39,721	19,821

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

Economic capital allocated for illiquid positions in 2016	
Date	**Million HUF**
29/01/2016	80
29/02/2016	38
31/03/2016	69
29/04/2016	125
31/05/2016	87
30/06/2016	82
29/07/2016	68
31/08/2016	73
30/09/2016	67
28/10/2016	45
30/11/2016	49
30/12/2016	50

Economic capital allocated for illiquid positions in 2015	
Date	**Million HUF**
30/01/2015	84
27/02/2015	60
31/03/2015	103
30/04/2015	110
29/05/2015	81
30/06/2015	66
31/07/2015	81
31/08/2015	48
30/09/2015	85
30/10/2015	103
30/11/2015	107
31/12/2015	3

e) Operational risk

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

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

The Group has an Operational Risk Management network consisting of a separate Operational Risk Controlling Group and a centralized Fraud Risk Controlling Group and approximately 100 dedicated Operational Risk Specialists located in business units, support departments, regions and at subsidiaries.

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

The processes above are used to help identify risks (pro-active risk management) and are needed to reduce the incidence of future loss events. The loss events are uploaded by the dedicated operational risk specialists into a loss database, and based on this and other data such as key risk indicators and risk mitigation plans, quarterly reports are created by Operational Risk Controlling; the Board of Management receives information about operational risk data on a quarterly basis through the Quarterly Risk and Performance Committee report, besides this the CRO and Chief Operational Officer (COO), the Retail Banking Board member, Corporates, Markets and Investment Banking Board member on a quarterly basis by means of the Operational Risk and Fraud Committee materials, and the CRO of RBI through the CRO meetings. The main focus of Operational Risk Controlling is to decrease the risk associated with improper practices; human processing errors; infrastructure and systems; data management; external and internal fraud and theft. To this end, Operational Risk Controlling Group frequently initiates risk mitigation measures.

Operational Risk Controlling gets strong management support, i.e. operational risk issues and possible mitigation measures are discussed quarterly at the Operational Risk and Fraud Committee where the Chief Risk Officer, the Chief

Operations Officer, the Retail Banking Board member, Corporates, Markets and Investment Banking Board member and the Members of the Operational Risk and Fraud Committee (mainly heads of departments) decide on the priority of risk mitigation plans.

f) Capital management

The Group's local regulator (National Bank of Hungary (NBH)) sets and monitors capital requirements for the Group.

With effect from 1 January 2008 the Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The same stands for the Basel III requirements with effect from 30 June 2014.

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

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

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

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

- ***tier 1*** capital (T1)
  - ***common tier 1 capital*** (CET1), which includes capital instruments (paid up capital , share premium, retain earnings, accumulated other comprehensive income, other reserves) and the connected deductions as intangible assets, goodwill, deferred tax assets, IRB shortfall of credit risk adjustment to expected loss, deduction of securitization position, and other deduction of limits exceeding
  - ***additional tier 1 capital*** (AT1): which includes capital instruments eligible as additional tier1 capital
- ***tier 2*** capital (T2), which includes subordinated loans and IRB excess of provision over expected losses

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

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

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

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

The Capital Management on group level has been defined according to the Banking Act (***2013. CCXXXVII. decree)*** 97.§.)-, and the consolidation group is approved by NBH taking into consideration the dominant influence or participating interest of the bank and the subsidiary business type (financial firm or ancillary services company). Consequently the IFRS and the supervisory consolidation group differ.

The following table shows the group of subsidiaries belonging to supervisory consolidation group:

Company
Raiffeisen Befektetési Alapkezelő Zrt.
Raiffeisen Gazdasági Szolgáltató Zrt.
Raiffeisen Corporate Lízing Zrt.
RB Kereskedőház Kereskedelmi Kft.
RB Szolgáltató Központ Kft.
SCTB Ingatlanfejlesztő és Ingatlanhasznosító Kft.
SCT Kárász utca Ingatlankezelő Kft.

Capital requirement calculation

The Group's policy is to maintain the capital adequacy continuously above the required level and take any necessary actions in time. The Group applies regulatory capital (Basel III Pillar 1) as well as economic capital (Basel III Pillar 2, ICAAP) for calculating capital adequacy, as defined in Basel II Framework. The Group calculates the capital requirement for credit risk via the Foundation Internal Ratings Based (F-IRB) approach for its non-retail portfolio since 1 December 2008. Starting from July 2010 and April 2012, capital requirement of exposures to private individuals and Micro-SME customers respectively are measured by advanced IRB method.

Consolidated solvency ratio calculation according to supervisory consolidation group

(HUF million)	*2016*	*2015*
Paid up capital instruments	*50,000*	*50,000*
Capital reserve	*293,094*	*293,094*
Retained earnings	*(174,621)*	*(186,746)*
Accumulated other comprehensive income	*2,595*	*(1,444)*
Funds for general banking risk	*2,668*	*0*
Adjustments to CET1 due to prudential filters	*(643)*	*1,897*
(-) Goodwill	*(1,035)*	*(1,035)*
(-) Other intangible assets	*(12,962)*	*(12,818)*
(-) IRB shortfall of credit risk adjustments to expected losses	*0*	*0*
(-) Securitisation positions	*0*	*0*
Transitional adjustments to CET1 Capital	*0*	*(352)*
Common Equity Tier 1 Capital	***159,096***	***142,596***
Fair value reserve for available-for-sale equity securities	*0*	*0*
Equity consolidation differences according to HAS	*0*	*0*
IRB Excess of provisions over expected losses eligible	*4,796*	*3,500*
Subordinated loans	*49,460*	*58,551*
Transitional adjustments to T2 Capital	*0*	*0*
Tier 2 Capital	***54,256***	***62,051***
Total consolidated regulatory capital	***213,352***	***204,647***
Capital requirement	***88,397***	***67,501***
Consolidated solvency ratio (%)	***19.31%***	***24.25%***

Capital allocation

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

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

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

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

(5) Interest income

(HUF million)	*2015*	*2014*
Cash and cash equivalents	***306***	***5,474***
Placements with banks	***3,719***	***1,402***
Loans and advances to customers	***36,411***	***47,386***
Securities at fair value through profit or loss	***4,312***	***4,836***
Government bonds	*4,046*	*4,562*
Treasury bills issued by the Government	*126*	*206*
Investment certificate	*140*	*68*
Available for sale securities	***2,487***	***227***
Government bonds	*1,983*	*227*
Credit institution bonds	*251*	*0*
Investment certificates	*253*	*0*
Held to maturity securities	***6,212***	***6,235***
Government bonds	*5,521*	*5,918*
Corporate bonds	*691*	*317*
From leases	***1,375***	***1,617***
Interest income	***54,822***	***67,177***

The total interest income calculated with the effective interest method (excluding the assets carried at fair value through profit or loss) is HUF 50,510 million (2015: HUF 62,341 million).

(6) Interest expense

(HUF million)	*2016*	*2015*
Deposits from banks	*4,511*	*5,173*
Deposits from non-banks	*4,781*	*9,359*
Debt securities issued	*2,584*	*4,220*
Subordinated liabilities	*3,259*	*4,516*
Other interest-like expenses	*7,579*	*5,385*
Interest expense	***22,714***	***28,653***

Total interest expense calculated with the effective interest method (excluding the liabilities carried at fair value through profit or loss) is HUF 15,135 million (2015: HUF 23,268 million).

The Bank signed a contract with Raiffeisen Bank International at the beginning of the year 2013, based on it the parent bank guaranteed the takeover of risk under the conditions specified in the contract. For this reason, the Bank had to pay a quarterly fee. In October 2016, this contract was canceled, therefore the Bank had to pay breakage fee which increased the amount of other interest-like expenses compared to 2015.

(7) Net fee and commission income

Fee and commission income

(HUF million)	2016	2015
Account management, turnover and cash handling fees	22,990	24,116
Guarantees and documentary credits	1,816	2,241
Fees from leases	36	132
Fees from investment services	6,892	6,474
Bankcard fees	4,395	4,314
Other commission and fee income	2,785	3,307
Total fee and commission income	**38,914**	**40,584**

Fee and commission expense

(HUF million)	2016	2015
Payments transfer business	1,857	2,435
Loan administration and guarantee business	526	544
Securities business	867	586
Agency fees	1,365	1,274
Bankcard fees	1,198	1,457
Other banking services	1,092	1,116
Total fee and commission expense	**6,905**	**7,412**
Net income from commissions and fees	**32,009**	**33,172**

(8) Net trading income

(HUF million)	2016	2015
Realised net gains/(losses) from securities at fair value through profit or loss	242	(68)
Unrealised net gains/(losses) from securities at fair value through profit or loss	(256)	(938)
Realised net gains/(losses) on FX positions and derivative instruments	17,141	(10,467)
Unrealised net gains/(losses) on FX positions and derivative instruments	(3,953)	20,903
Net trading income	**13,174**	**9,430**

During the year 2016, the realized net gains of FX and derivative deals have been generated by spot deals and conversions (HUF 27,918 million). Meanwhile, in case of the unrealized net gains of the same instruments, the revaluation result of FX deals and deals designated as economic hedge has been significant: HUF -20,761 million and HUF -3,883 respectively.

(9) Net income from derivatives held for risk management

(HUF million)	2016	2015
Derivatives held for risk management without hedge accounting	**995**	**880**
Realized and unrealised net gains/(losses) on cross currency interest rate swaps	(354)	(591)
Realized and unrealised net gains/(losses) on other derivatives	1,349	1,471
Hedge accounting	**326**	**577**
Realised net gains/(losses) on hedging derivatives	451	620
Unrealised net gains/(losses) on hedging derivatives	(475)	(31)
Unrealised net gains/(losses) on hedged items	350	(12)
Cash-flow hedge accounting	**(1,234)**	**(964)**
Other	**286**	**88**
Net income from derivatives held for risk management	**373**	**581**

The unrealized revaluation result of cross currency interest rate swaps (CCIRS) was HUF 2,284 million (2015: HUF 2,866 million). The revaluation of CCIRS result was driven by the movements in CCIRS spreads as well as pull to par impact of mark to market and hedge accounting ineffectiveness/termination.
The Group started to apply cash flow hedge accounting in December 2012. During 2016 net ineffectiveness and result from Other Comprehensive Income recognized on cash flow hedges was HUF -1,236 million (2015: HUF -335 million). The Group uses IRS and CIRS to hedge the FCY and interest rate risks arising from a portfolio of floating, foreign exchange denominated (FX) mortgage loans and a portfolio of deposits denominated in local currency.

The FV's of the derivatives designated as CF hedges are as follows:

(HUF million)	2016		2015	
Instrument type	Asset	Liability	Asset	Liability
IRS	14	0	0	0
CIRS	0	1,156	0	2,434
Total	**14**	**1,156**	**0**	**2,434**

(10) Other operating income and other operating expenses

(HUF million)	2016	2015
Other operating income		
Realised net gains/(losses) from available-for-sale securities	(130)	150
Unrealised net gains/(losses) from available-for-sale securities	0	0
Net gains/(losses) from held-to-maturity securities	31	189
Operational fees	108	315
Property development fees	0	0
Gains/(losses) on sale on receivables	0	6
Gains/(losses) on disposal of inventory	(61)	(166)
Gains/(losses) on disposal of investments	1,709	1
Gains/(losses) on disposal of intangibles, property, plant and equipment	(4)	1,498
Energy trading margin	1,964	1,958
Revenues related to damages	7	21
Sales revenues from other non-banking activities	429	516
Other	316	247
Other operating income	**4,369**	**4,735**

Gains/(losses) on disposal of investments include the income from sale of VISA Europe share (HUF 1,918 million) (see Note 20) and the sale price and derecognition of subsidiary Raiffeisen Lízing Zrt. (HUF 209 million).

(HUF million)	2016	2015
Other operating expenses		
Other taxes	23,197	23,357
Telecommunication and information systems expenses	1,047	1,336
Business travel cost	351	400
Professional fees	2,889	3,742
Cash processing and delivery	152	183
Manpower services	75	130
External bankcard services	70	82
Advisory fees	2,190	2,695
Other	402	652
Office supplies	140	229
Depreciation	4,743	9,973
Gains/(losses) on loans sold	(5,269)	2,772
Energy	3	6
Fees to public authorities	2,764	2,449
Advertising, PR and promotional expenses	1,011	1,318
Expenses from other non-banking activities	371	459
Fees and commissions expense	1,638	1,434
Other	1,195	1,817
Other operating expenses	**34,080**	**49,292**

Other taxes mainly contains the amount of HUF 5,379 million Special Tax on Financial Institutions (2015: HUF 12,022 million), the amount of HUF 2,549 million local corporation tax in 2015 (2015: HUF 2,515 million), and the amount of HUF 14,273 million Financial transaction duty (2015: HUF 14,532 million). The amount of the Special Tax on Financial Institutions decrease due to the changes of the tax rate.
The decrease of other taxes in 2015 is due to a reversal of a 2014 provision for banking tax audit (6,657 million HUF).

(11) Impairment and provision for losses

(HUF million)	Note	2016	2015
Impairment loss on		**4,674**	**(6,764)**
Cash and cash equivalents		(22)	(5)
Placements with banks	(16)	(40)	39
Specific allowances for impairment on loans and advances to customers	(17)	4,520	(8,407)
Collective allowances for impairment on loans and advances to customers	(17)	(135)	1,507
Investments in associates	(20)	157	0
Tangible assets	(21)	148	0
Goodwill	(23)	0	0
Other assets	(25)	46	102
Provision on		**(4,166)**	**(4,494)**
Guarantees and contingencies	(32)	(4,166)	(4,494)
Impairment and provision for losses		**508**	**(11,258)**
Hereof result of Settlement Act	(32)	(2,185)	(20,844)

The table contains the impairment allocation and release from Note 16, 17, 20, 21 and 25, and the provision allocation and release from Note 32.
For detailed information on losses due to the Settlement Package, see the section of special regulations on Loan portfolio, on page 89.

(12) Personnel expenses

(HUF million)	2016	2015
Salaries	16,562	16,182
Social security contributions	5,197	5,269
Other personnel benefits	1,462	1,767
	23,221	**23,218**

(HUF million)	2016		2015	
	Staff (person)	**Salary expense**	**Staff (person)**	**Salary expense**
Full time	2,011	16,083	2,387	15,759
Part time	114	479	85	423
Pensioners	0	0	1	0
Other	0	0	1	0
	2,125	**16,562**	**2,474**	**16,182**

(13) Income tax

Income tax expense recognised in the consolidated income statement

(HUF million)	2016	2015
Current tax expense	67	231
Corporate income tax	67	231
Deferred tax expense/(income)	4	19
Origination and reversal of temporary differences	4	19
Income tax	**71**	**250**

The applicable corporate income tax rate on the taxable income of the companies of the Group was 10% up to HUF 500 million tax base and 19% above in 2016 and in 2015, as well. The deferred tax was calculated with the tax rate of 9% in 2016 (2015: 10%), as the corporate income tax rate has been reduced to 9% from 2017.
No deferred tax assets were recognized in 2016 in case of the Bank and the related subsidiaries.

Reconciliation of effective tax rate

	2016		2015	
	(%)		(%)	
Profit before tax		15,086		10,528
Applicable tax rate	10,00%	1,509	10,00%	1,053
Tax effects of items that modify the profit before tax under the Hungarian tax law	(10,73%)	(1,619)	(8,19%)	(862)
Temporary tax effects of IFRS adjustments	0,03%	4	0,17%	18
Provisions, impairment losses for loans and pending interest and commission	(4,66%)	(703)	0,96%	101
Impairment losses on investments in associates	0,04%	6	(0,47%)	(49)
Other provisions	(2,05%)	(310)	(0,14%)	(15)
Tangible and intangible assets	0,39%	59	0,00%	0
Fair value of financial assets at fair value through profit or loss	0,71%	107	0,37%	39
Fair value of financial liabilities	(0,5%)	(76)	0,09%	9
Decrease of probably usable tax loss carry-forward	4,28%	646	0,82%	86
Other	1,82%	275	(1,46%)	(153)
Tax effects of consolidation	1,17%	177	0,39%	41
Income tax	**0,47%**	**71**	**2,37%**	**250**

Income tax recognised in other comprehensive income

(HUF million)	2016	2015
Balance at 1 January	**16**	**0**
Increase in financial year	0	16
Decrease in financial year	17	0
Balance at 31 December	**(1)**	**16**

In 2016, the Group accounted HUF 17 million deferred tax expense (2015: HUF 16 million deferred tax income) in other comprehensive income.

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

(millió Ft)	2016	2015
Loans and receivables	**37,420**	**62,638**
Interest income	41,811	55,879
Impairment losses	(4,391)	6,759
Financial assets and liabilities measured at fair value through profit or loss	**17,859**	**14,847**
Trading securities	4,298	3,830
Net interest income	4,312	4,836
Unrealised net gains/(losses)	(256)	(938)
Realised net gains/(losses)	242	(68)
Trading derivative instruments	13,188	10,436
Derivatives held for risk management	373	581
Held-to-maturity investments	**6,243**	**6,424**
Net interest income	6,212	6,235
Realised net gains/(losses)	31	189
Available-for-sale financial assets	**4,713**	**1,282**
Net interest income	2,487	227
Unrealised net gains/(losses)	2,356	905
Realised net gains/(losses)	(130)	150
Financial liabilities measured at amortised cost	**(22,714)**	**(28,653)**
Net interest expense	(22,714)	(28,653)
Net gains/losses on financial instruments	**43,521**	**56,538**

(15) Cash and cash equivalents

(millió Ft)	2016			2015		
	HUF	Deviza	Összesen	HUF	Deviza	Összesen
Cash and cheques	15,522	3,313	**18,835**	14,122	3,788	**17,910**
Balances with National Bank of Hungary (‚NBH')	208,580	12,440	**221,020**	443,732	14,090	**457,822**
Balances with other banks	355	20,711	**21,066**	6,023	23,269	**29,292**
Cash and cash equivalents	**224,457**	**36,464**	**260,921**	**463,877**	**41,147**	**505,024**

The current account with the National Bank of Hungary (NBH) includes the compulsory reserve. The Group is required to maintain reserves with the National Bank of Hungary equivalent to 1% (2015: 2%) of certain deposits. The required average reserve balance amounted to HUF 25,344 million (2015: HUF 35,297 million). The compulsory reserve requirement may also be met by the Group's holding of government securities (see Note 18 and 19). During 2016 placements for NBH fell by half compared with 2015, due to the fact that NBH lowered the amount of deposits placed at NBH linked to the base rate.

(16) Placements with banks

2016 (HUF million)	Up to 1 year		Over 1 year		Total
	HUF	FCY	HUF	FCY	
National Bank of Hungary	14,500	0	0	0	14,500
Other Banks	1,481	111,700	36,900	85,956	236,037
Impairment losses	1	0	0	0	1
Placements with banks	**15,980**	**111,700**	**36,900**	**85,956**	**250,536**

2015 (HUF million)	Up to 1 year		Over 1 year		Total
	HUF	FCY	HUF	FCY	
National Bank of Hungary	8,244	0	0	0	8,244
Other Banks	710	38,174	0	12,107	50,991
Impairment losses	1	0	0	40	41
Placements with banks	**8,953**	**38,174**	**0**	**12,067**	**59,194**

The claim on Hungarian National Bank runs to the margin call of the derivative deals.
Placements with banks increased by HUF 185,046 million in 2016 compared to the previous year, as the Bank entered into transactions with commercial banks instead of NBH.

Specific allowances for impairment (HUF million)

(millió Ft)	2016	2015
Balance at 1 January	**41**	**1**
Impairment loss for the year:	(40)	
Charge for the year	1	40
Recoveries	(41)	(1)
Effect of foreign currency movements	0	1
Unwinding of discount	0	0
Write-offs	0	0
Balance at 31 December	**1**	**41**

Specific allowances for impairment (HUF million)

(17) Loans and advances to customers

Loans and advances to customers

2016 (HUF million)	Gross amount	Of which: Non-performing loans	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate					
Trading and industrial	281,906	21,270	15,742	1,055	265,109
Commercial real estate	172,182	29,155	16,542	1,091	154,549
Other	201,896	34,856	26,052	392	175,452
Total corporate	**655,984**	**85,281**	**58,336**	**2,538**	**595,110**
Retail	271,181	44,512	25,926	10,577	234,678
Government and public sector	6,480	84	1,163	1	5,316
Loans and advances to customers	**933,645**	**129,877**	**85,425**	**13,116**	**835,104**

2015 (HUF million)	Gross amount	Of which: Non-performing loans	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate					
Trading and industrial	317,462	44,631	35,194	931	281,337
Commercial real estate	172,425	64,548	45,662	1,620	125,143
Other	258,756	61,888	41,300	560	216,896
Total corporate	**748,643**	**171,067**	**122,156**	**3,111**	**623,376**
Retail	292,662	59,915	29,480	10,396	252,786
Government and public sector	38,943	0	906	1	38,036
Loans and advances to customers	**1,080,248**	**230,982**	**152,542**	**13,508**	**914,198**

The significant decrease of non-performing Loans and advances to customers is due to sales and write-offs.

Special provisions relative to credit portfolio

Residential Loan Agreements

The Group accomplished and closed the tasks of the act XXXVIII. of 2014 ("Supreme Court Act"), the act XL. of 2014 (" the Settlement Act", the acts are summary "Settlement Package"), the act LXXVII. of 2014 ("the FX mortgage conversion Act") and the act CXLV. of 2015 ("the FX consumer loans conversion Act").

The "FX mortgage conversion Act" is applicable for those residential loan agreements (and the Bank and the Leasing group responsible for accountability) which was not closed on 1st of February 2015 and also applicable for the defaulters. The act disposes about fixed exchange-rates for the conversion of foreign currency based mortgage loan agreements (1 CHF: 256,47 HUF; 1 EUR: 308,97 HUF; 100 JPY: 216,30 HUF; 1 USD: 236,56 HUF) and determine also the method of calculation of applicable interests.

The second "FX conversion Act" enacted in 2015 disposes of the HUF conversion of non-mortgage loans and lease contracts. According to the Act the loans is to be converted amounts on the fixed exchange-rates defined in the first FX conversion Act, and in the case of not terminated loans is also to be transformed to annuity loans with capitalizing the past-due amounts.

As the change of the currency represent a substantial modification the forint converted loans were derecognized and recognized at fair value in the books therefore the gross amount of the loans were reduced by HUF 114,204 million and at the same time impairment of the loans was used in 2015.

The tables below summarize the P&L effects of the Settlement Package, furthermore in Note 11, 17 and 32 the impact of the Settlement Package is highlighted.

Allowances for impairment and provision for Settlement Package

Specific allowances for impairment (HUF million)	2016	2015
Balance at 1 January	**0**	**55,264**
Impairment loss for the year:		
Charge for the year	0	0
Release	0	(16,156)
Effect of foreign currency movements	0	3,799
Write-offs	0	(42,907)
Balance at 31 December	**0**	**0**

Provisions (HUF million)	2016	2015
Balance at 1 January	**2,255**	**24,634**
Impairment loss for the year:	0	
Charge for the year	0	0
Fair interest adjustment	0	0
Release	(2,185)	(4,688)
Effect of foreign currency movements	0	(161)
Write-offs	(35)	(17,530
Change in consolidation group	(35)	0
Balance at 31 December	**0**	**2,255**

Expenses of Settlement Package

Céltartalék (HUF million)	2016	2015
Interest and Fee income*	**(1)**	**(6,756)**
Compensation according to Settlement Act	(1)	**(6,756)**
Impairment and write-offs	(34)	(60,546)
Compensation according to Settlement Act	(34)	(55,371)
HUF conversion of mortgage loan	0	(5,121)
HUF conversion of consumer loan	0	(182)
Balance at 31 December	**(35)**	**(67,302)**

*cover by suspended interest income

Due to the Settlement Act the Group has an opportunity to recalculate the previous year tax balances, the Group has recalculate these tax balances. This amount will be deducible from the forthcoming corporate tax amounts.

„Funding for Growth" Program of the National Bank of Hungary:
As part of its monetary policy instruments, on 1st of June 2013 the National Bank of Hungary (NBH) is launching its three-pillar Funding for Growth Scheme (FGS) to alleviate disruptions observed in lending to small and medium-sized enterprises, to strengthen financial stability and to reduce the external vulnerability of the country.

During the year 2016 the program was broaden and the third phase, which has two pillars, was launched. In the second pillar of the third phase an on-market Euro/Hungarian forint swap deal (CIRS) is attached to Hungarian forint refinancing deal that allows the financial institutions to provide financing in foreign currency – without FX-risk – for SMEs having natural currency hedging.

Under Pillar I and II of the FGS the NBH provides refinancing loans to credit institutions participating in the Scheme, at a 0 per cent interest rate and with a maximum maturity of 10 years. Banks can give credits to clients at a maximum 2,5 % interest marge.

At the end of 2016 the FGS refinancing loan was HUF 92,448 million (in 2015 was HUF 82,033 million).

Market-Based Lending Scheme Program of the National Bank of Hungary:
In the year of 2016, the National Bank of Hungary in order to mitigate lending risk and to boost economic growth by lending loans to SMEs launched the Market-Based Lending Scheme (MBLS) that helps adaptation of the banks to market-based lending environment. As part of the program, an interest rate swap deal linked to lending activity was introduced by NBH that may encourage lending activity by mitigating the interest rate risk arising from lending to SMEs by taking over it partially by the National Bank.

Throughout the program, the Bank dealt IRS deals with NBH in value of HUF 40,000 million, with which the Bank undertook that would lend SMEs new loans in value of HUF 10,000 million. The Bank fulfilled the undertaking was given throughout the program.

The Bank recognized and accrued initial fair value in value of HUF 1,407 million, of which in the actual year – as a result of the fulfilled undertaking – HUF 414 million was recognized as income.

Allowances for impairment

The following table shows a reconciliation of movements on the allowance account in 2015 and 2016, respectively:

Specific allowances for impairment on loans and advances to customers (HUF million)	*2016*	*2015*
Balance at 1 January	***152,542***	***338,450***
Impairment loss for the year:	*4,520*	*(8,407)*
Charge for the year	*19,588*	*31,736*
*hereof allocation to Settlement Act**	*0*	*0*
Recoveries	*(15,068)*	*(40,143)*
*hereof release due to Settlement Act**	*0*	*(16,156)*
Effect of foreign currency movements	*(157)*	*5,237*
Write-offs	*(71,126)*	*(182,738)*
*hereof usage for Settlement Act**	*0*	*(42,907)*
*hereof usage for de-recognition/recognition of the converted HUF loans**	*0*	*(82,949)*
Change in consolidation group	*(354)*	*0*
Balance at 31 December	***85,425***	***152,542***

*For detailed information on payoffs according to the Settlement -Package, see the section of special regulations on Loan Portfolio (on page 89).

Collective allowances for impairment on loans and advances to customers (HUF million)	*2016*	*2015*
Balance at 1 January	***13,508***	***16,983***
Impairment loss for the year:	*(135)*	*1,507*
Charge for the year	*6,544*	*11,173*
Recoveries	*(6,679)*	*(9,666)*
Effect of foreign currency movements	*(28)*	*(145)*
Write-offs	*(199)*	*(4,837)*
Change in consolidation group	*(30)*	*0*
Balance at 31 December	***13,116***	***13,508***

As at 31 December 2016 accumulated impairment losses amounted to HUF 98,541 million (2015: HUF 166,050 million), equal to 10.55% (2015: 15.37 %) of gross amount of outstanding loans.

Finance lease receivables

As part of its financing activities, the Group enters into finance lease transactions as a lessor. At December 31, 2015 and 2016, the reconciliation of the Group's gross investment in the lease, and the net present value of minimum lease payments receivable by relevant remaining maturity periods is as follows:

2016 (HUF million)	*Up to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
Gross investment leases	*1,269*	*52,603*	*87*	***53,959***
Unearned finance income	*143*	*4,928*	*0*	***5,071***
Net present value of minimum lease payments	***1,126***	***47,675***	***87***	***48,888***
Accumulated allowance for uncollectible minimum lease payments	*293*	*1,274*	*0*	***1,567***
Finance leases per balance sheet	***833***	***46,401***	***87***	***47,321***

2015 (HUF million)	Up to 1 year	1 year to 5 years	Over 5 years	Total
Gross investment leases	8,716	22,223	13,571	**44,510**
Unearned finance income	1,466	3,278	2,021	**6,765**
Net present value of minimum lease payments	**7,250**	**18,945**	**11,550**	**37,745**
Accumulated allowance for uncollectible minimum lease payments	83	108	12	**203**
Finance leases per balance sheet	**7,167**	**18,837**	**11,538**	**37,542**

The Leasing Group entered into new businesses amounting to 18,611 million HUF.

In Leasing Group in 2016, nil contingent rent was recognized in finance income (2015: nil), and unguaranteed residual value amounted to HUF 4,386 million (2015: HUF 3,969 million). At 31 December 2016, the accumulated allowance for uncollectible minimum lease payments amounted HUF 1,567 million (2015: HUF 203 million). Original contracted maturities range from 1 year to 35 years. The contracts earn interest on variable rates linked to the relating BUBOR, CHFLIBOR, EURIBOR. No guaranteed residual value exists.

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

(HUF million)	2016				2015			
	Cost	Accrued interest	Unrealised gain/loss	Book value	Cost	Accrued interest	Unrealised gain/loss	Book value
Debt and equity instruments:								
Government bonds	81,339	1,675	(827)	82,187	118,419	1,757	(428)	119,748
Treasury bills	24,070	153	61	24,284	2,507	45	21	2,573
Corporate bonds and other bonds	1,852	17	113	1,982	1,807	16	51	1,874
Bank bonds	117	0	1	118	0	0	0	0
Investment fund units	0	0	0	0	0	0	0	0
Shares	1,272	0	89	1,361	542	0	8	550
Debt and equity instruments	**108,650**	**1,845**	**(563)**	**109,932**	**123,275**	**1,818**	**-348**	**124,745**
Derivative financial instruments:								
Derivatives held for trading								
FX swaps	388	57	4,141	4,586	207	(2)	6,242	6,447
FX forwards	0	0	4,642	4,642	0	0	3,359	3,359
Security forwards	0	0	0	0	0	0	0	0
FX futures	0	0	1,492	1,492	0	0	57	57
FX options	0	0	1,630	1,630	0	0	1,088	1,088
Interest rate derivatives	0	3,786	11,781	15,567	0	4,601	11,905	16,506
Derivatives held for trading	**388**	**3,843**	**23,686**	**27,917**	**207**	**4,599**	**22,651**	**27,457**
Derivatives held for risk management:								
FX swaps	1,771	(37)	1,351	3,085	8,032	(34)	2,116	10,114
Hereof cross currency interest rate swaps in cash flow hedges	0	3	430	433	0	0	0	0
Interest rate derivatives	0	3,880	7,985	11,865	0	5,810	7,024	12,834
Hereof interest rate swaps in cash flow hedges	0	0	0	0	0	0	0	0
Hereof interest rate swaps in fair value hedges	0	375	1,636	2,011	0	424	1,681	2,105

(HUF million)	2016				2015			
	Cost	Accrued interest	Unre-alised gain/ loss	Book value	Cost	Accrued interest	Unre-alised gain/ loss	Book value
Derivatives held for risk management	***1,771***	***3,843***	***9,336***	***14,950***	***8,032***	***5,776***	***9,140***	***22,948***
Total derivative financial instruments	***2,159***	***7,686***	***33,022***	***42,867***	***8,239***	***10,375***	***31,791***	***50,405***
Total financial asset at fair value through profit or loss	***110,809***	***9,531***	***32,459***	***152,799***	***131,514***	***12,193***	***31,443***	***175,150***

We show the new stock of Government bonds and treasury bills under Financial assets at fair value through profit or loss in year 2016, except for Available-for-sale securities, which changes of fair value are recognised in other comprehensive income.

Derivatives held for risk management

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

(19) Investment in securities

At 31 December 2016, no Investment in securities were pledged as collateral for liabilities (2015: HUF nil million)

During 2016, in connection with available-for-sale investment securities an amount of HUF 3,671 million (2015: HUF 912 million) was recognised in other comprehensive income and an amount of HUF (1,315) million (2015: HUF (7) million) was reclassified from other comprehensive income to profit or loss.
In 2016, an additional group level limit has been adopted in the case of Available-for-sale securities, resulting in a significant increase in the portfolio of government bonds.

During 2016 the Bank sold securities from Held-to-maturity two times. Due to the close maturity (appr. 3 months remained till maturity) it was expected to be indifferent whether to hold or sell these bonds, as the movements of the interest rates till the maturity had not had a significant impact on its fair value.

(HUF million)	2016					2015				
Available-for-sale securities	Cost	Accrued interest	Unre-alised gain/ loss	Dis-count/ Pre-mium	Book value	Cost	Accrued interest	Unre-alised gain/ loss	Dis-count/ Pre-mium	Book value
Bank bonds	70,007	56	451	(44)	70,470	0	0	0	0	0
Investment fund units	650	0	35	0	685	768	0	12	0	780
Government bonds	136,619	3,102	3,054	(3,557)	139,218	60,021	1,832	(340)	(292)	61,221
Treasury bills	0	0	0	0	0	0	0	0	0	0
	207,276	***3,158***	***3,540***	***(3,601)***	***210,373***	***60,789***	***1,832***	***(328)***	***(292)***	***62,001***

(HUF million)	2016					2015				
Held-to-maturity securites	Cost	Accrued interest	Dis-count/ Pre-mium	Impair-ment	Book value	Cost	Accrued interest	Dis-count/ Pre-mium	Impair-ment	Book value
Corporate bonds and other	0	0	0	0	0	0	0	0	0	0
Government bonds	148,201	2,548	(1,437)	0	149,312	116,854	2,654	188	0	119,696
Bank bonds	60,000	47	0	0	60,047	67,794	103	18	0	67,915
	208,201	**2,595**	**(1,437)**	**0**	**209,359**	**184,648**	**2,757**	**206**	**0**	**187,611**

(20) Investments

Investments in associates

In 2014, the Bank sold its investment in associated company, since that it has no affiliated company consolidated with equity method.

Investments in unlisted securities

(HUF million)	2016	
	Ownership	Carrying value
Garantiqa Hitelgarancia Zrt.	0.31%	15
SWIFT	0.30%	10
VISA	0.04%	391
CF Pharma	13.19%	15
	-	**431**

(HUF million)	2015	
	Ownership	Carrying value
Garantiqa Hitelgarancia Zrt.	0.31%	15
SWIFT	0.30%	10
VISA Europe	0.04%	1,316
	-	**1,341**

The Bank had VISA Europe share in 2015. Based on binding offer for the VISA Europe share transfer, in 2015 the Bank increased the value of the share to the market price, HUF 1,316 million, which represents the fixed cash reimbursement related the former years turnovers. This valuation gain was shown in the respective other comprehensive income position in equity. The fair value calculation did not contain the not finalised components of the agreement.

VISA Europe was acquisitioned by VISA Inc in 2016. As a result of this transaction the Bank received shares of VISA Inc., cash and the Bank may receive further cash flows based on the profit generated at the period of four years starting from the acquisition date. The accumulated revaluation result from OCI was booked as a realised gain into the P&L. (see Note 10)

(21) Property, plant and equipment

Owner occupied property

2016 (HUF million)	Gross carrying amount as at 1 January 2016	Additions	Disposals	Thereof Impairment	Gross carrying amount as at 31 December 2016
Properties	**11,886**	**253**	**943**	**360**	**11,196**
Freehold	346	0	0	0	346
Leasehold	11,540	253	943	360	10,850
Tangible assets	**1,038**	**35**	**74**	**0**	**999**
Equipment	**27,162**	**761**	**1,587**	**250**	**26,336**
	40,086	**1,049**	**2,604**	**610**	**38,531**

2016 (HUF million)	Accumulated depreciaton as at 1 January 2016	Depre-ciation for the year	Disposals	Thereof Impairment	Accumulated depreciation	Carrying amount as at 1 January 2016	Carrying amount as at 31 December 2016
Properties	**7,040**	**402**	**379**	**220**	**7,063**	**4,846**	**4,133**
Freehold	153	15	0	0	168	193	178
Leasehold	6,887	387	379	220	6,895	4,653	3,955
Tangible assets	**350**	**84**	**0**	**0**	**434**	**688**	**565**
Equipment	**15,361**	**1,273**	**1,536**	**242**	**15,098**	**11,801**	**11,238**
	22,751	**1,759**	**1,915**	**462**	**22,595**	**17,335**	**15,936**

2015 (HUF million)	Gross carrying amount as at 1 January 2015	Additions	Disposals	Thereof Impairment	Assets classified before as held for sale*	Gross carrying amount as at 31 December 2015
Properties	**15,331**	**371**	**3,816**	**3,708**	**0**	**11,886**
Freehold	334	94	82	0	0	346
Leasehold	14,997	277	3,734	3,708	0	11,540
Tangible assets	**1,086**	**0**	**48**	**0**	**0**	**1,038**
Equipment	**15,560**	**1,403**	**2,586**	**881**	**12,785**	**27,162**
	31,977	**1,774**	**6,450**	**4,589**	**12,785**	**40,086**

2015 (HUF million)	Accumulated depreciaton as at 1 January 2015	Depre-ciation for the year	Dispos-als	Thereof Impairment	Assets classified before as held for sale*	Accu-mulated deprecia-tion	Carrying amount as at 1 January 2015	Carrying amount as at 31 December 2015
Properties	**8,453**	**2,337**	**3,750**	**2,142**	**0**	**7,040**	**6,878**	**4,846**
Freehold	158	37	42	0	0	153	176	193
Leasehold	8,295	2,300	3,708	2,142	0	6,887	6,702	4,653
Tangible assets	**205**	**145**	**0**	**0**	**0**	**350**	**881**	**688**
Equipment	**13,561**	**1,393**	**2,457**	**870**	**2,864**	**15,361**	**1,999**	**11,801**
	22,219	**3,875**	**6,207**	**3,012**	**2,864**	**22,751**	**9,758**	**17,335**

*At the end of 2009, the Group has decided to sell 100% of Euro Green Energy Kft, but the sale has not been realised until 31 December 2016, therefore it has been reclassified to Equipments from Assets classified as held for sale in 2015.

Investment property

2015 (HUF million)	Gross carrying amount as at 1 January 2015	Additions	Disposals	Acquired/(sold) through business combinations	Gross carrying amount as at 31 December 2015
Properties	1,234	0	1,234	0	0

2015 (HUF million)	Accumulated depreciaton as at 1 January 2015	Depre-ciation for the year	Disposals	Acquired/ (sold) through business combintions	Accumulated depreciation	Carrying amount as at 1 January 2015	Carrying amount as at 31 December 2015
Properties	1,042	105	1,147	0	0	192	0

The investment property was sold during 2015.

(22) Intangible assets

2016 (HUF million)	Gross carrying amount as at 1 January 2016	Additions	Disposals	Thereof Impairment	Gross carrying amount as at 31 December 2016	Accumulated depreciaton as at 1 January 2016
Softwares	39,308	2,928	1,236	8	41,000	26,748
Other intangible assets	368	662	514	0	516	275
	39,676	**3,590**	**1,750**	**8**	**41,516**	**27,023**

2016 (HUF million)	Depreciation for thenyear	Disposals	Thereof Impairment*	Accumulated depreciation	Carrying amount as at 1 January 2016	Carrying amount as at 31 December 2016
Softwares	2,757	1,228	8	28,277	12,560	12,723
Other intangible assets	422	440	0	257	93	259
	3,179	**1,668**	**8**	**28,534**	**12,653**	**12,982**

2015 (HUF million)	Gross carrying amount as at 1 January 2015	Additions	Disposals	Thereof Impairment	Gross carrying amount as at 31 December 2015	Accumulated depreciaton as at 1 January 2015
Softwares	45,685	3,357	9,734	9,734	39,308	30,447
Other intangible assets	368	0	0	0	368	267
	46,053	**3,357**	**9,734**	**9,734**	**39,676**	**30,714**

2015 (HUF million)	Depreciation for thenyear	Disposals	Thereof Impairment*	Accumulated depreciation	Carrying amount as at 1 January 2015	Carrying amount as at 31 December 2015
Softwares	6,035	9,734	7,412	26,748	15,238	12,560
Other intangible assets	8	0	0	275	101	93
	6,043	**9,734**	**7,412**	**27,023**	**15,339**	**12,653**

* In 2015 the software portfolio has been revised whereby based on the useful life of the portfolio and the re-evaluation of the previously capitalized developments impairment have been written off.

(23) Goodwill

The Group's consolidated financial statement contains goodwill in HUF 1,048 million both in 2016 and in 2015. This amount consist of goodwills in connection with Raiffeisen Befektetési Alapkezelő Zrt. to HUF 1,023 million, with Raiffeisen Autó Lízing Kft. to HUF 13 million and with SCT Kárász utca Kft. to HUF 12 million.

Neither in 2016 and nor 2015 new goodwill was recognized and no impairment losses on goodwill were recognized during these periods.

(24) Operating leases

Leases as a lessee

Non-cancellable operating lease rentals are payable as follows:

(HUF million)	2016	2015
Less than 1 year	3,575	3,934
Between 1 and 5 years	14,301	15,736
More than 5 years	382	879
Total	**18,258**	**20,549**

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

During the year ended 31 December 2016 an amount of HUF 3,967 million was recognised as an expense in profit or loss in respect of operating leases (2015: HUF 4,055 million).

(25) Other assets

(HUF million)	2016	2015
Other tax receivables	2,220	2,049
Cash at money exchange agents	8,483	7,485
Receivables from investment activities	24,171	9,571
Accruals	4,448	3,304
Inventory	2,192	2,320
Lease investments in the process of production	1,368	1,265
Properties taken over from receivables	574	538
Other	250	517
Receivables from purchase, sale of currencies	2,397	3,479
Receivables from of debt securities	121	334
Receivables from customers	165	920
Other	610	766
Other assets	**44,807**	**30,228**
Hereof : specific impairment	1,740	1,964
Specific impairment		
Balance at 1 January	**1,964**	**1,953**
Impairment loss for the year:		
Charge for the year	127	123
Recoveries	(81)	(21)

(HUF million)	2016	2015
Effect of foreign currency movements	(63)	(62)
Write-offs	(105)	(29)
Change in consolidation group	(102)	0
Balance at 31 December	**1,740**	**1,964**

Inventory contains mainly real estate developments in progress HUF 1,368 million in 2016 (2015: HUF 1,265 million) of Raiffeisen Corporate Lízing Zrt.

In addition, the Bank shows the properties taken over from receivables under inventories, which have net book value of HUF 574 million in 2016 (2015: HUF 538 million).

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

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

(HUF million)	2016				2015			
	Cost	Accrued interest	Unrealised gain/loss	Book value	Cost	Accrued interest	Unrealised gain/loss	Book value
Derivative instruments held for trading by type								
FX swaps	388	57	4,074	4,519	207	(3)	3,522	3,726
FX forwards	0	0	3,955	3,955	0	0	3,930	3,930
Security forwards	0	0	0	0	0	0	0	0
Foreign exchange futures	0	0	1,559	1,559	0	0	80	80
Foreign exchange options	0	0	1,367	1,367	0	0	1,071	1,071
Interest rate derivatives	0	3,330	11,569	14,899	0	4,467	11,551	16,018
Total derivative instruments held for trading	**388**	**3,387**	**22,524**	**26,299**	**207**	**4,464**	**20,154**	**24,825**
Derivative instruments held for risk management purposes								
FX swaps	2,961	293	5,042	8,296	1,747	387	8,962	11,096
Hereof cross currency interest rate swaps in cash flow hedges	63	691	8	762	(28)	56	2,434	2,462
Interest rate derivatives	0	2,182	5,680	7,862	0	3,749	4,766	8,515
Hereof interest rate swaps in cash flow hedges	0	416	3	419	0	0	0	0
Hereof interest rate swaps in fair value hedges	0	280	9	289	0	4	31	35
Total derivative instruments held for risk management purposes	**2,961**	**2,475**	**10,722**	**16,158**	**1,747**	**4,136**	**13,728**	**19,611**
Total financial liabilities at fair value through profit or loss	**3,349**	**5,862**	**33,246**	**42,457**	**1,954**	**8,600**	**33,882**	**44,436**

Derivatives held for risk management

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

(27) Deposits from banks

2016 (HUF million)	Under 1 year HUF	Under 1 year FCY	More than 1 year HUF	More than 1 year FCY	Total
Resident	27,698	37,913	67,622	101,547	**234,780**
Non resident	18,232	3,057	0	7,713	**29,002**
	45,930	**40,970**	**67,622**	**109,260**	**263,782**

2015 (HUF million)	Under 1 year HUF	Under 1 year FCY	More than 1 year HUF	More than 1 year FCY	Total
Resident	25,622	46,719	77,943	83,007	**233,291**
Non resident	10,520	18,256	0	12,477	**41,253**
	36,142	**64,975**	**77,943**	**95,484**	**274,544**

The amount of bank deposits is shown slight decrease compared to the previous year, which is mainly due to the decrease in foreign currency deposits under 1 year.

(28) Deposits from non-banks

2016 (HUF million)	Under 1 year HUF	Under 1 year FCY	More than 1 year HUF	More than 1 year FCY	Total
Resident	859,004	387,727	11,856	1,241	**1,259,828**
Non resident	20,334	45,150	6	36	**65,526**
	879,338	**432,877**	**11,862**	**1,277**	**1,325,354**

2015 (HUF million)	Under 1 year HUF	Under 1 year FCY	More than 1 year HUF	More than 1 year FCY	Total
Resident	894,376	332,329	12,704	1,293	**1,240,702**
Non resident	19,034	33,754	3	184	**52,975**
	913,410	**366,083**	**12,707**	**1,477**	**1,293,677**

The deposits from non-banks are essentially on the previous year's level, in case of foreign currency deposits can be seen lower growth.

(29) Debt securities issued

2016 (HUF million) Type of interest	3 month or less Par value	3 month or less Carrying amount	3-12 months Par value	3-12 months Carrying amount	1-5 years Par value	1-5 years Carrying amount	more than 5 years Par value	more than 5 years Carrying amount	Total Par value	Total Carrying amount
autocallable	0	0	0	0	2,500	2,500	0	0	2,500	2,500
fix	2,933	3,030	6,587	8,301	16,027	17,856	930	982	26,477	30,169
indexed	8,500	8,963	3,000	3,034	1,324	1,338	0	0	12,824	13,335
floating	311	313	0	0	622	645	0	0	933	958
Debt securities issued	**11,744**	**12,306**	**9,587**	**11,335**	**20,473**	**22,339**	**930**	**982**	**42,734**	**46,962**

2016 (HUF million)	3 month or less		3-12 months		1-5 years		more than 5 years		Total	
Type of interest	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount
autocallable	0	0	0	0	1,446	1,502	0	0	1,446	1,502
fix	34	35	60	89	2,188	2,513	153	168	2,435	2,805
indexed	2,077	2,196	1,216	1,231	478	484	0	0	3,771	3,911
floating	3	3	0	0	0	0	0	0	3	3
Repurchased own debt securities	**2,114**	**2,234**	**1,276**	**1,320**	**4,112**	**4,499**	**153**	**168**	**7,655**	**8,221**

Net debt securities issued	**9,630**	**10,072**	**8,311**	**10,015**	**16,361**	**17,840**	**777**	**814**	**35,079**	**38,741**

2015 (HUF million)	3 month or less		3-12 months		1-5 years		more than 5 years		Total	
Type of interest	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount
autocallable	0	0	0	0	2,500	2,500	0	0	2,500	2,500
fix	2,752	2,873	6,500	9,058	25,592	28,151	930	887	35,774	40,969
indexed	4,000	4,271	15,500	15,703	12,824	13,347	0	0	32,324	33,321
floating	0	0	0	0	939	955	0	0	939	955
Debt securities issued	**6,752**	**7,144**	**22,000**	**24,761**	**41,855**	**44,953**	**930**	**887**	**71,537**	**77,745**

2015 (HUF million)	3 month or less		3-12 months		1-5 years		more than 5 years		Total	
Type of interest	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount	Par value	Carrying amount
autocallable	0	0	0	0	1,395	1,443	0	0	1,395	1,443
fix	7	8	281	411	1,728	1,891	153	133	2,169	2,443
indexed	494	528	4,828	4,824	3,611	3,746	0	0	8,933	9,098
floating	0	0	0	0	0	0	0	0	0	0
Repurchased own debt securities	**501**	**536**	**5,109**	**5,235**	**6,734**	**7,080**	**153**	**133**	**12,497**	**12,984**

Net debt securities issued	**6,251**	**6,608**	**16,891**	**19,526**	**35,121**	**37,873**	**777**	**754**	**59,040**	**64,761**

30) Subordinated liabilities

	2016					
Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (HUF million)
Raiffeisen Bank International AG	27.06.2008	30	EUR	2.96%	30.06.2020	9,332
Raiffeisen Bank International AG	23.12.2013	20	EUR	5.80%	03.05.2021	6,318
Raiffeisen Bank International AG	30.01.2014	20	EUR	5.80%	30.07.2021	6,282
Raiffeisen Bank International AG	30.01.2014	40	EUR	5.80%	30.07.2021	12,565
Raiffeisen Bank International AG	07.02.2014	25	EUR	5.77%	08.02.2021	7,844
Raiffeisen Bank International AG	07.02.2014	25	EUR	5.77%	08.02.2021	7,844
Raiffeisen Bank International AG	07.02.2014	20	EUR	5.77%	08.02.2021	6,275
Raiffeisen Bank International AG	07.02.2014	10	EUR	5.77%	08.02.2021	3,138
Subordinated liabilities						**59,598**

		2015				
Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (HUF million)
Raiffeisen Bank International AG	27.06.2008	30	EUR	3.14%	30.06.2020	9,395
Raiffeisen Bank International AG	23.12.2013	20	EUR	6.03%	03.05.2021	6,366
Raiffeisen Bank International AG	30.01.2014	20	EUR	6.04%	30.07.2021	6,329
Raiffeisen Bank International AG	30.01.2014	40	EUR	6.04%	30.07.2021	12,657
Raiffeisen Bank International AG	07.02.2014	25	EUR	6.01%	08.02.2021	7,897
Raiffeisen Bank International AG	07.02.2014	25	EUR	6.01%	08.02.2021	7,897
Raiffeisen Bank International AG	07.02.2014	20	EUR	6.01%	08.02.2021	6,318
Raiffeisen Bank International AG	07.02.2014	10	EUR	6.01%	08.02.2021	3,159
Subordinated liabilities						**60,018**

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

(31) Other liabilities

(HUF million)	2016	2015
Other taxes payable	3,722	3,098
Giro, postal clearing accounts, cash in transit	197	155
Suppliers	2,885	3,080
Payables relating to investment activities	66,600	42,612
Accruals	6,863	7,751
Other liabilities from security businesses	841	382
Other liabilities for customers	1,574	1,947
Other	1,962	1,845
Other liabilities	**84,644**	**60,870**

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

(32) Provisions

2016 (HUF million)	At beginning of year	Changes in consolidation group	Provisions made during the year	Provisions reversed during the year	Provision usage	Effect of revaluation	At end of year
Provisions for contingent liabilities and commitment	3,124	0	615	(1,993)	0	(1)	1,745
Provision for pending legal issues	1,908	(24)	103	(789)	0	0	1,198
Provisions for overdue vacations	359	0	61	0	0	0	420
Provision for share incentive program	97	0	19	(30)	0	0	86
Provision for salaries	269	0	0	0	(269)	0	0
Provision for on-going audit and for fine	327	0	0	0	(188)	0	139
Provision for rental expenses	1,501	0	0	0	(1,179)	0	322
Provision for Settlement Act cash-out	2,255	(35)	0	(2,185)	(35)	0	0
Sundry provisions	1,205	(141)	138	(20)	0	0	1,182
Provisions	**11,045**	**(200)**	**936**	**(5,017)**	**(1,671)**	**(1)**	**5,092**

2015 (HUF million)	At beginning of year	Changes in consolidation group	Provisions made during the year	Provisions reversed during the year	Provision usage	Effect of revaluation	At end of year
Provisions for contingent liabilities and commitment	3,055	0	880	(1,002)	0	191	3,124
Provision for pending legal issues	1,552	0	935	(598)	0	19	1,908
Provisions for overdue vacations	381	0		(22)	0	0	359
Provision for share incentive program	78	0	18	0	0	1	97
Provision for salaries	554	0	269	0	(554)	0	269
Provision for on-going audit and for fine	6,657	0	327	(6,657)	0	0	327
Provision for rental expenses	0	0	1,501		0	0	1,501
Provision for Settlement Act cash-out	24,634	0	0	(4,688)	(17,530)	(161)	2,255
Sundry provisions	1,262	0	194	(251)	0	0	1,205
Provisions	**38,173**	**0**	**4,124**	**(13,218)**	**(18,084)**	**50**	**11,045**

*For detailed information on payoffs according to the Settlement Package, see the section of special regulations on Loan Portfolio (on page 89).

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

The Bank has decided to sell 100% of Euro Green in 2009, but the decision has been reviewed and in 2015 the Bank rejected the intention to short-term sell. The assets and liabilities of the company concerned are not classified to assets and liabilities as held for sale any more. The Group has no assets and liabilities held for sale in 2016 either.

Profit/(loss) of discontinued operation

Discontinued operation is a component of the Group that either been disposed of or is classified as held for sale. The Group had no material discontinued operations in 2016.

(34) Share capital

As at 31 December 2016 and 2015, the equity structure of the Group consisted of the following classes of shares:

2016 (HUF million)				
Shareholder	**Type of share**	**Number of shares**	**%**	**HUF million**
Raiffeisen-RBHU Holding GmbH	Ordinary	5,000,009	100.00	50,000
Raiffeisen-RBHU Holding GmbH	Preference	0	0.00	0
Total				**50,000**

2015 (HUF million)				
Shareholder	**Type of share**	**Number of shares**	**%**	**HUF million**
Raiffeisen-RBHU Holding GmbH	Ordinary	5,000,009	100.00	50,000
Raiffeisen-RBHU Holding GmbH	Preference	0	0.00	0
Total				**50,000**

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

In 2015 the Sole Shareholder has decided to increase the share capital. At 08.06.2015, the amount of the capital increased by HUF 10,000. In the same time the Sole Shareholder submitted to the Company amount of HUF 43,612.8 million as capital reserve. The Budapest Court as Court of registry registered it at 15.06.2015.

As at 31 December 2016 and 2015, the Group held no treasury shares in its portfolio.

During 2016 and 2015 there were no dividend payments.

(35) Other reserves

Capital reserve

Capital reserve is provided by the Owner in excess of share capital deducting transaction costs. It is set up to meet regulatory requirements and acts as a buffer. (see Note 34)

General reserve

In accordance with section 83 chapter 38 of the No. CCXXXVII Hungarian Act of 2013, a general reserve equals to 10% of net income after tax is required to be set aside. In the non-consolidated financial statements prepared according to the Hungarian accounting law, it was transferred into general reserve HUF 1,805 million in 2016 (HUF 863 million in 2015). Increases in the general reserve according to IFRS standards are treated as appropriations of retained earnings, as calculated under Hungarian accounting rules and thus are not charged against income.

Fair value reserve

Fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized or impaired. The effective portion of the gain or loss on the hedging instrument in cash flow hedges is also shown here.

(36) Retained earnings

Retained earnings are the accumulated non-distributed net income of the Bank that is retained at the end of the reporting periods.

(37) Non-controlling interest

In 2015 non-controlling interest decreased by HUF 376 million due to the eliminations in more non-controlling interest.

According to a strategic decision born in 2014 the retail leasing activity will be discontinued and the Raiffeisen Corporate Lízing Zrt. will take over the activity of Raiffeisen Lízing Zrt. The handover was accomplished and in 2016 the Raiffeisen Lízing Zrt. was sold, so there is no non-controlling interest in the consolidated financial statements for the current year.

(38) Other comprehensive income

The Group has only income and expense items in other comprehensive income that are or may be reclassified subsequently to profit or loss.

(39) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(HUF million)	2016	2015
Deferred tax assets	0	0
Deferred tax liabilities	35	123
Net deferred taxes	**(35)**	**(123)**

	2016			2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Cash and cash equivalents	0	0	0	4	0	4
Placements with banks	0	0	0	8	0	8
Loans	0	748	(748)	0	1.557	(1.557)
Financial assets at fair value through profit or loss	13	0	13	75	0	75
Available for sale securities	0	60	(60)	0	15	(15)
Investments in associated undertakings	0	48	(48)	0	41	(41)
Investments in unlisted securities	4	0	4	3	0	3
Property, plant and equipment	0	56	(56)	0	0	0
Intangible assets	0	3	(3)	0	0	0
Deposits from non-banks	3	0	3	3	0	3
Debt securities issued	0	10	(10)	0	12	(12)
Financial liabilities at fair value through profit or loss	0	0	0	0	76	(76)
Provisions	448	0	448	138	0	138
Other items	207	315	(108)	171	0	171
Probably useable tax loss carry-forwards	530	0	530	1,176	0	1,176
Net tax assets (liabilities)	**1,205**	**1,240**	**(35)**	**1,582**	**1,705**	**(123)**

In 2016 the Bank has probably not usable tax loss carry-forwards in amount of HUF 221.348 million (2015: HUF 227.234 million) and there were no deferred tax asset recognized on it, as it is not probable hat sufficient positive tax base will be available against which the asset can be utilised.
The tax loss carry-forwards incurred prior to January 1, 2015 can be used latest until the end of the fiscal year of 2025. The tax loss carry-forwards occurred after January 1, 2015, losses can be used for five years.

Movement in deferred tax balance:

2016 (HUF million)	Net balance as at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Change in consolidation group	Net balance as at 31 December	Deferred tax assets as at 31 December	Deferred tax liabilities as at 31 December
Loans	(121)	(4)		93	(32)	0	(32)
Available for sale securities	(2)	0	(1)	0	(3)	0	(3)
Net tax assets (liabilities)	**(123)**	**(4)**	**(1)**	**93**	**(35)**	**0**	**(35)**

2015 (HUF million)	*Net balance as at 1 January*	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*Net balance as at 31 December*	*Deferred tax assets as at 31 December*	*Deferred tax liabilities as at 31 December*
Loans	*(102)*	*(19)*	*0*	*(121)*	*4*	*(125)*
Available for sale securities	*(18)*	*0*	*16*	*(2)*	*0*	*(2)*
Tax assets (liabilities) before set-off	***(120)***	***(19)***	***16***	***(123)***	***4***	***127***
Set-off of tax					*-4*	*4*
Net tax assets (liabilities)	***(120)***	***(19)***	***16***	***(123)***	***0***	***(123)***

(40) Commitments and contingencies

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

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

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

(HUF million)	*2016*	*2015*
	Nominal value	*Nominal value*
Contingencies		
Import letters of credit	*5,033*	*12,691*
Export letters of credit	*0*	*0*
Guarantees issued	*114,788*	*115,538*
Other contingencies (including litigation)	*11,542*	*13,692*
Total contingencies	***131,363***	***141,921***
Commitments		
Unutilized loan facilities	*149,425*	*192,095*
Unutilized overdraft facilities	*197,550*	*98,149*
Unutilized guarantee frames	*74,586*	*77,912*
Other commitments	*43*	*474*
Total commitments	***421,604***	***368,630***
Total commitments and contingencies	***552,967***	***510,551***

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

The Group has a rental commitment for its main offices in Budapest amounting HUF 1,416 million in 2016 for 2017 (in 2015 rental commitment for 2016 amounted to HUF 1,393 million).

(41) Use of estimates and judgements

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

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

Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

Determining fair values

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

Critical accounting judgements in applying the Group's accounting policies

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

Valuation of financial instruments, fair value hierarchy

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

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

- ***Level 1***: Unadjusted quoted prices in active markets for identical assets and liabilities.
- ***Level 2***: Inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). These may be the followings:
  - quoted prices for similar assets or liabilities in active market
  - quoted prices for identical or similar assets or liabilities in markets that are not active
  - inputs other than quoted prices (e.g. yield curves observable at commonly quoted intervals, interest rates, credit spreads, implied volatilities, etc.) that are observable for the asset or liability
  - indirectly observable inputs which can be derived from and confirmed by the observable inputs
- ***Level 3:*** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2016 (HUF million)	Fair value through equity	Amortized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
FINANCIAL ASSETS									
Cash and cash equivalents	0	260,921	0	0	**260,921**	**260,921**	260,921	0	0
Placements with banks	0	250,536	0	0	**250,536**	**250,536**	0	250,536	0
Net loans	0	835,104	0	0	**835,104**	**841,160**	0	788,120	53,092
Financial assets at fair value through profit or loss	0	0	124,882	27,917	**152,799**	**152,799**	100,086	52,713	0
Available for sale securities	210,373	0	0	0	**210,373**	**210,373**	210,373	0	0
Held to maturity securities	0	209,359	0	0	**209,359**	**216,782**	216,782	0	0
Investments in associated undertakings	0	0	9	0	**9**	**9**	0	0	9
Investments in unlisted securities	431	0	0	0	**431**	**431**	0	390	41
Total financial assets	**210,804**	**1,555,920**	**124,891**	**27,917**	**1,919,532**	**1,933,011**	**788,162**	**1,091,707**	**53,142**
Deposits from banks	0	263,782	0	0	**263,782**	**272,112**	0	272,112	0
Deposits from non-banks	0	1,325,354	0	0	**1,325,354**	**1,338,548**	0	1,338,548	0
Debt securities issued	0	38,741	0	0	**38,741**	**39,664**	0	39,664	0
Subordinated liabilities	0	59,598	0	0	**59,598**	**59,598**	0	0	59,598
Financial liabilities at fair value through profit or loss	0	0	16,158	26,299	**42,457**	**42,457**	0	42,457	0
Total financial liabilities	**0**	**1,687,475**	**16,158**	**26,299**	**1,729,932**	**1,752,379**	**0**	**1,692,781**	**59,598**

2015 (HUF million)	Fair value through equity	Amortized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
FINANCIAL ASSETS									
Cash and cash equivalents	0	505,024	0	0	**505,024**	**505,024**	505,024	0	0
Placements with banks	0	59,194	0	0	**59,194**	**59,194**	0	59,194	0
Net loans	0	914,198	0	0	**914,198**	**917,843**	0	824,917	92,926
Financial assets at fair value through profit or loss	0	0	147,693	27,457	**175,150**	**175,150**	130,455	44,695	0
Available for sale securities	62,001	0	0	0	**62,001**	**62,001**	62,001	0	0
Held to maturity securities	0	187,611	0	0	**187,611**	**194,093**	194,093	0	0
Investments in associated undertakings	0	0	9	0	**9**	**9**	0	0	9
Investments in unlisted securities	1,341	0	0	0	**1,341**	**1,341**	0	0	1,341
Total financial assets	**63,342**	**1,666,027**	**147,702**	**27,457**	**1,904,528**	**1,914,655**	**891,573**	**928,806**	**94,276**
FINANCIAL LIABILITIES									
Deposits from banks	0	274,544	0	0	**274,544**	**274,505**	0	274,505	0
Deposits from non-banks	0	1,293,677	0	0	**1,293,677**	**1,323,487**	0	1,323,487	0
Debt securities issued	0	64,761	0	0	**64,761**	**66,500**	0	66,500	0
Subordinated liabilities	0	60,018	0	0	**60,018**	**60,018**	0	0	60,018
Financial liabilities at fair value through profit or loss	0	0	19,611	24,825	**44,436**	**44,436**	0	44,436	0
Total financial liabilities	**0**	**1,693,000**	**19,611**	**24,825**	**1,737,436**	**1,768,946**	**0**	**1,708,928**	**60,018**

There have been no significant transfers between Level 1 and Level 2 of the fair value hierarchy. The valuation methods of financial instruments carried at fair value are also presented in this table. Greater elaboration may be found in the following section.

Assumptions used for calculating the fair value of financial instruments

The estimated fair values disclosed above are designated to approximate values at which these instruments could be exchanged in an arm's length transaction. However, many of the financial instruments have no active market and therefore, fair values are based on estimates using net present value and other valuation techniques (see Note 3 h) and Note 41), which are significantly affected by the assumptions used on the amount and timing of the estimated future cash flows and discount rates. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured.

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

I)Cash and cash equivalents, Placements with banks (Hierarchy level 1)

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

II) Loans and advances to customers (Hierarchy level 2 and 3)

For determining the fair value of these assets, future expected cash flows are discounted to their present value using current market interest rates. Fair value of individually impaired loans and loans where the remaining maturity or the fixed-interest period of the loan is less than 1 year is the book value. According to IFRS 13 standard we evaluate the risk of the possible losses from the default of our customers through provisioning system and we subtract individual loan loss provision from discounted present value.

III) Investments in securities (Hierarchy level 1 and 2)

Quoted market prices are used for exchange-traded securities and listed debt instruments. The fair value of Hungarian government bonds and corporate bonds classified as trading, at fair value or available-for-sale are measured according to the quoted prices available in the Bloomberg Front-End System. The fair value of the securities is the market price quoted on the stock exchange (if such price exists). If no quoted price exists, price of OTC market is used; otherwise the fair value is the present value of the discounted contractual cash-flows at the revaluation date.

The municipal bonds were reclassified permanently to loans and receivables which also implied that the further fair value measurement is no longer necessary. The at cost value is the last fair value of the instruments.

Tondach Participation Right was recognized as loans and receivables and valued by a third, external party. Valuation is carried out once a year.

IV) Investments in associated undertakings and unlisted securities (Hierarchy level 3)

Prices of these instruments are not quoted in the markets. Besides using observable inputs, during the valuation other assumptions are also used by the Bank.

Interests in affiliated companies
The valuation of Interests in affiliated companies is prepared on a quarterly basis or on an annual basis by an internal or a third party.

Shares which are held for strategic purposes
In most cases fair value equals to carrying amount if the instrument does not have a quoted market price or the estimation of fair value is clearly inappropriate or unworkable.
However when fair value is workable and appropriate then the fair value of the instrument is calculated. In this case, valuation shall be carried out at least on an annual basis.

V) Derivatives (Hierarchy level 1 and 2)

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

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

Cross currency swaps are valued based on discounted cash-flow method (calculated by front-office system). Yield curves used for revaluation are shifted using the basis swap spreads characteristic for the cross currency swap markets and representing the country risk.

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

For hedging the exposures to changes in fair value of some loans, deposits or plain vanilla bonds (purchased, own-issued), the Group has entered into interest rate swap transactions. The fair value of these hedged loans, deposits and securities is the discounted present value of the future cash-flows at balance sheet date. These loans, deposits and bonds are measured at fair value in the statement of financial position.

CVA/DVA calculation according to IFRS 13: The goal of the calculation is to evaluate the risk of the possible losses from the default of our counterparties who the Bank has derivative deals with. The varying parameter in the model is the possible future change in the current counterparty's default rate and not the changes in the market prices. In the calculation process is the following: in case of a counterparty an expected future (in certain periods) exposure (Marked-to-market based) is estimated, the default probabilities and products of these factors are added up and in the end, the result is adjusted with the recovery rate of the counterparty.

VI) Deposits from banks, Deposits from customers (Hierarchy level 2 and 3)

Fair value of Deposits from banks and Deposits from customers are determined using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.
According to IFRS 13 standard the Bank evaluates own credit risk as follows: The Bank discounts future cash flows of the deposits by using discount factors that are shifted by the liquidity premium applied for the date of cash flow element and defined for each currency. The level of the premiums are based on market information, for instance: BUBOR/LIBOR reference rates, inters rates of Interest Rate Swaps and Forward Rate Agreements, ASW spreads (Asset Swap Spreads).

VII) Debt securities issued, Subordinated liabilities (Hierarchy level 2)

Fair value of debt securities issued is determined using quoted market prices at the balance sheet date if available, or by reference to quoted market prices for similar instruments. Fair value of subordinated liabilities is calculated by discounting the future cash flows.
Fair value of own issued plain vanilla fixed-rate bonds that are designated as hedge accounting is being calculated using DCF-method: the present value of the expected future cash flows. In case of the structured instruments the embedded derivative is separated from the host contract and measured at fair value.
According to IFRS 13 standard own credit risk is evaluated: Depending on the currency the future cash flows of the bond are discounted by using a shifted EUR or HUF zero coupon swap yield curve. The shift is the actual liquidity premium applies on the date of the pricing.

(41) Related parties

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

Transactions with related parties

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

	2016 (HUF million)			2015 (HUF million)		
Related parties	**Parent company and its group**	**Associates**	**Key management**	**Parent company and its group**	**Associates**	**Key management**
Assets	**292,322**	**0**	**18**	**63, 944**	**0**	**20**
Placements with banks	232,858	0	0	27,589	0	0
Loans and advances to customers	89	0	18	2,685	0	20
Financial assets at fair value through profit or loss	27,962	0	0	33,629	0	0
Available for sale assets	31,288			0		
Other assets	125	0	0	41	0	0
Liabilities	**100,487**	**0**	**563**	**122,964**	**0**	**308**
Financial liabilities at fair value through profit or loss	29,190	0	0	29,703	0	0
Deposits from banks	6,475	0	0	29,917	0	0
Deposits from non-banks	5,219	0	563	2,994	0	299
Subordinated liabilities	59,598	0	0	60,018	0	0
Other liabilities	5	0	0	332	0	9
Income statement	**(9,520)**	**0**	**(859)**	**(3,783)**	**0**	**(875)**
Interest income	3,501	0	0	563	0	0
Interest expense	(9,838)	0	(1)	(10,109)	0	(1)
Net fee and commission income	61	0	0	(70)	0	0
Net trading income	(11,806)	0	1	7,124	0	1
Net income from derivatives held for risk management	10,492	0	0	426	0	0
Other operating income	9	0	0	54	0	0
Impairment losses	0	0	0	0	0	0
Personnel expenses	0	0	(859)	0	0	(875)
Other operating expenses	(1,939)	0	0	(1,771)	0	0
Contingencies and commitments	**6,091**	**0**	**0**	**2,740**	**0**	**0**
Undrawn commitments to extend credit	4,232	0	0	327	0	0
Guarantees	1,859	0	0	2,413	0	0

The above transactions were made in the ordinary course of business and on substantially the same terms and conditions, including interest rates and security, as for third parties.
No impairment losses have been recorded against balances outstanding during the period with related parties, and no specific allowance has been made for impairment losses on balances with related parties at the period end.

Share Incentive Program (SIP)

This is a share based payment program for the management which was developed and handled by the mother company. Based on the central decision no further trenches will be issued and the program will be closed as soon as the current trenches (issued in 2012 and 2013) expire in 2017 and 2018.
In line with the accounting policy of the parent company the Bank makes provisions for cost arising from the program.

Number of shares allocated to the program:

SIP 2012	SIP 2013	**Total** (100%)	MIN - 30%	MAX - 150%
6 841	7 914	14 755	4 427	22 133

(42) Group entities

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

Company	*Ownership ratio 2016*	*Ownership ratio 2015*	*Residence of the Company*	*Brief description of activities*
Subsidiaries				
EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft.	*100.00%*	*100.00%*	*1158 Bp., Késmárk u. 11-13*	*Electricity production*
Raiffeisen Autó Lízing Kft.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Sale of cars and light motor vehicles*
Raiffeisen Befektetési Alapkezelő Zrt.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Fund management activities*
Raiffeisen Biztosításközvetítő Kft.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Activities of insurance agents and brokers*
Raiffeisen Energiaszolgáltató Kft.	*100.00%*	*100.00%*	*1158 Bp., Késmárk u. 11-13*	*Activities of holding companies*
Raiffeisen Gazdasági Szolgáltató Zrt.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Other professional, scientific and technical activities n.e.c.*
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Development of building projects*
Raiffeisen Lízing Zrt.	*-*	*50.00%*	*1054 Bp., Akadémia u. 6.*	*Financial leasing*
Raiffeisen Corporate Lízing Zrt.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Financial leasing*
RB Kereskedőház Kereskedelmi Kft.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Wholesale of metals and metal ores*
RB Szolgáltató Központ Kft.	*100.00%*	*100.00%*	*4400 Nyíregyháza, Sóstói út 31/b*	*Other financial auxiliary activities*
SCT Beruházás Ingatlanfejlesztő és Ingatlanhasznosító Kft.	*-*	*100.00%*	*1052 Bp., Vérmező út 4.*	*Development of building projects*
SCT Kárász utca Ingatlankezelő Kft.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Management of real estate on a fee or contract basis*
SCTAI Angol Iskola Ingatlanfejlesztő és Ingatlanhasznosító Kft.	*-*	*100.00%*	*1052 Bp., Vérmező út 4.*	*Development of building projects*
SCTB Ingatlanfejlesztő és Ingatlanhasznosító Kft.	*100.00%*	*100.00%*	*1054 Bp., Akadémia u. 6.*	*Buying and selling of own real estate*
SCTS Ingatlanfejlesztő és Ingatlanhasznosító Kft.	*100.00%*	*100.00%*	*1052 Bp., Vérmező út 4.*	*Development of building projects*

SCT Beruházás Ingatlanfejlesztő és Ingatlanhasznosító Kft. and SCTAI Angol Iskola Ingatlanfejlesztő és Ingatlanhasznosító Kft. were merged into Raiffeisen Gazdasági Szolgáltató Zrt. as of 01.01.2016. During 2016 Raiffeisen Lízing Zrt. was sold.

(43) Funds management

The Group manages 0 close-ended (2015: 0) and 18 open-ended (2015: 20) investment funds via Raiffeisen Befektetési Alapkezelő Zrt., a fully owned and consolidated subsidiary. However, as the funds themselves are not controlled by the

Group, they are not consolidated. For funds management services provided by the Group, funds should pay certain fees and commission that is presented as „Net fee and commission income" (see Note 7). In 2016 and 2015, transactions with the funds themselves were as follows:

(HUF million)	*2016*	*2015*
Managed funds	***138,893***	***164,704***
Open-ended funds	*138,893*	*164,704*
Close-ended funds	*0*	*0*
Net fee and commission income from funds	*1,280*	*1,845*
Deposits from funds	*41,014*	*54,310*
Interest expense on deposits from funds	*370*	*2,020*

Among open-ended funds there is no fix term funds in 2016, while in 2015 there were two ones, which managed funds in value of HUF 2,087 (Raiffeisen Hozamrögzítő Tőkevédett Alap, Raiffeisen 2016 Kötvény Alap). Deposit from funds contains deposits on demand and with agreed repayment period.

(44) Segment information

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

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

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

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

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

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

2016 (HUF million)	Corporate	Retail/ Private	Bank/ Treasury	Other	Total
ASSETS					
Cash, cash equivalents and placements with banks	30,270	0	451,358	29,829	**511,457**
Loans	626,053	290,770	3,263	13,559	**933,645**
Impairment losses	**(58,038)**	**(26,435)**	**0**	**(14,069)**	**(98,542)**
Financial assets at fair value through profit or loss	0	0	137,092	15,707	**152,799**
Available for sale securities	1,965	0	207,723	685	**210,373**
Held to maturity securities	0	0	209,359	0	**209,359**
Equity investments	49	0	391	0	**440**
Tangible and intangible fixed assets	9,154	0	0	19,764	**28,918**
Goodwill	0	0	0	1,048	**1,048**
Current tax assets	0	0	0	24	**24**
Deferred tax assets	0	0	0	0	**0**
Other assets	17,260	115	15,267	12,165	**44,807**
Assets classified as held for sale	0	0	0	0	**0**
Total assets	**626,713**	**264,450**	**1,024,454**	**78,712**	**1,994,329**
LIABILITIES AND EQUITY					
Deposits from banks	22,817	0	249,279	(8,314)	**263,782**
Deposits from non-banks	529,965	653,128	5,622	136,639	**1,325,354**
Debt securities issued	9,010	25,313	0	4,418	**38,741**
Subordinated liabilities	0	0	0	59,598	**59,598**
Financial liabilities at fair value through profit or loss	0	0	25,259	17,198	**42,457**
Current tax liabilities	0	0	0	1	**1**
Deferred tax liabilities	32	0	0	3	**35**
Provisions	9	0	0	5,083	**5,092**
Other liabilities	7,435	59,704	208	17,297	**84,644**
Liabilities classified as held for sale	0	0	0	0	**0**
Total liabilities	**569,268**	**738,145**	**280,368**	**231,923**	**1,819,704**
Total equity	**0**	**0**	**0**	**174,625**	**174,625**
Total liabilities, non controlling interest and shareholder's equity	**569,268**	**738,145**	**280,368**	**406,548**	**1,994,329**
INCOME STATEMENT					
Net interest income	12,409	23,105	120	(3,526)	**32,108**
hereof intersegment	(102)	(114)	3,562	1,352	**4,698**
Net fee and commission income	14,125	24,017	(8,879)	2,746	**32,009**
Dividend income	0	0	0	0	**0**
Net trading income	392	0	13,179	(397)	**13,174**
Net income from derivatives held for risk management	0	0	0	373	**373**
Other operating income	2,033	1,749	(21)	608	**4,369**
Impairment losses	6,279	(5,085)	(29)	(657)	**508**
Operating expenses	17,801	34,894	512	13,232	**66,439**
Profit/(loss) before tax	**4,879**	**19,062**	**3,916**	**(12,771)**	**15,086**
Income tax expense	0	0	0	67	**67**
Deferred tax	0	0	0	4	**4**
Profit/(loss) for the period	**4,879**	**19,062**	**3,916**	**(12,842)**	**15,015**

2015 (HUF million)	Corporate	Retail/ Private	Bank/ Treasury	Other	Total
ASSETS					
Cash, cash equivalents and placements with banks	34,209	0	504,916	25,134	**564,259**
Loans	699,145	311,007	31,992	38,104	**1,080,248**
Impairment losses	**(133,834)**	**(46,913)**	**(82)**	**14,738**	**(166,091)**
Financial assets at fair value through profit or loss	0	0	150,653	24,497	**175,150**
Available for sale securities	1,858	0	59,363	780	**62,001**
Held to maturity securities	0	0	187,610	1	**187,611**
Equity investments	1,377	0	(27)	0	**1,350**
Tangible and intangible fixed assets	9,723	0	0	20,265	**29,988**
Goodwill	0	0	0	1,048	**1,048**
Current tax assets	0	0	0	13	**13**
Deferred tax assets	0	0	0	0	**0**
Other assets	10,506	155	6,136	13,431	**30,228**
Assets classified as held for sale	0	0	0	0	**0**
Total assets	**622,984**	**264,249**	**940,561**	**138,011**	**1,965,805**
LIABILITIES AND EQUITY					
Deposits from banks	11,917	0	270,924	(8,297)	**274,544**
Deposits from non-banks	599,779	575,316	1,023	117,559	**1,293,677**
Debt securities issued	9,848	49,762	0	5,151	**64,761**
Subordinated liabilities	0	0	0	60,018	**60,018**
Financial liabilities at fair value through profit or loss	0	0	24,122	20,314	**44,436**
Current tax liabilities	0	0	0	45	**45**
Deferred tax liabilities	0	0	0	123	**123**
Provisions	0	0	0	11,045	**11,045**
Other liabilities	5,428	39,187	111	16,144	**60,870**
Liabilities classified as held for sale	0	0	0	0	**0**
Total liabilities	**626,972**	**664,265**	**296,180**	**222,102**	**1,809,519**
Total equity	**0**	**0**	**0**	**156,286**	**156,286**
Total liabilities, non controlling interest and shareholder's equity	**626,972**	**664,265**	**296,180**	**378,388**	**1,965,805**
INCOME STATEMENT					
Net interest income	13,644	25,759	(1,163)	284	**38,524**
hereof intersegment	0	0	670	1,756	**2,426**
Net fee and commission income	14,245	24,470	(8,270)	2,727	**33,172**
Dividend income	5	0	0	0	**5**
Net trading income	400	0	10,752	(1,722)	**9,430**
Net income from derivatives held for risk management	0	0	0	581	**581**
Other operating income	3,985	80	165	505	**4,735**
Impairment losses	6,285	(17,839)	(4)	300	**(11,258)**
Operating expenses	20,478	52,987	1,489	12,223	**87,177**
Profit/(loss) before tax	**5,516**	**15,161**	**(1)**	**(10,148)**	**10,528**
Income tax expense	0	0	0	231	**231**
Deferred tax	0	0	0	19	**19**
Profit/(loss) for the period	**5,516**	**15,161**	**(1)**	**(10,398)**	**10,278**

Measurement of segment profit or loss

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

(45) Events after the balance sheet date

Mag. Heinz Wiedner, the CEO of Raiffeisen Bank Zrt., announced on 11 January 2017. to step down as CEO from 1st May. The Nomination Committee of Raiffeisen Bank Zrt. discussed about the successor on 15 March, and according to the time plan the Board of Directors will finally decide about to appoint Mr. George Zolnai as new CEO on 21 April with the effective date of 1st May.

Consolidated income statement in euro

(million euro)	2016	2015
Interest and similar income	**176**	**217**
- cash and cash equivalents	1	18
- on placements with banks	12	4
- on loans to non-banks	117	153
- on securities	42	37
- from leases	4	5
Interest expenses and similar charges	**73**	**93**
- on borrowings from banks	15	17
- on deposits from non-banks	15	30
- on debt securities issued	8	14
- on subordinated liabilities	11	15
- other interest-like expenses	24	17
Net interest income	**103**	**124**
Fee and commission income	125	131
Fee and commission expense	22	24
Net fee and commission income	**103**	**107**
Dividend income	0	0
Net trading income	42	31
"Net income from derivatives held for risk management"	1	2
Other operating income	14	15
Operating income	**57**	**48**
Impairment losses	**2**	**(36)**
hereof loss of Settlement Act	(7)	(67)
Salaries and staff benefits	75	75
Rental expenses	16	31
Equipment expenses	13	17
Other operating expenses	109	158
Operating expenses	**213**	**281**
Share of profits of associates	**0**	**0**
Profit/(loss) before tax	**48**	**34**
Income tax expense	0	1
Deferred tax	0	0
Profit/(loss) for the period	**48**	**33**
Attributable to:		
Equity holders of the parent	48	32
Non controlling interest	0	1

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2016 was 311,02 HUF/EUR in 2015 was 313,12 HUF/EUR.

Data above are not part of the consolidated report.

Consolidated statement of financial position in euro

(million euro)	2016	2015
ASSETS		
Cash and cash equivalents	839	1,613
Placements with banks	806	189
Net loans	2,685	2,920
Financial assets at fair value through profit or loss	491	559
Available for sale securities	677	198
Held to maturity securities	673	599
Investments in associated undertakings	0	0
Investments in unlisted securities	1	4
Property, plant and equipment	51	56
Investment property	0	0
Intangible assets	42	40
Goodwill	3	3
Current tax assets	0	0
Deferred tax assets	0	0
Other assets	144	97
Assets classified as held for sale	0	0
Total assets	**6,412**	**6,278**
LIABILITIES AND EQUITY		
Deposits from banks	848	877
Deposits from non-banks	4,261	4,132
Debt securities issued	125	207
Subordinated liabilities	192	192
Financial liabilities at fair value through profit or loss	137	142
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Provisions	16	35
Other liabilities	272	194
Liabilities classified as held for sale	0	0
Total liabilities	**5,851**	**5,779**
Equity attributable to equity holders of the parent	**561**	**497**
Ordinary shares	161	160
Preference shares	0	0
Share capital	**161**	**160**
Retained earnings	(559)	(597)
Statutory reserves	942	936
Non-distributable reserve	9	3
Fair value reserve	8	(5)
Non controlling interest	**0**	**2**
Total equity	**561**	**499**
Total liabilities, non controlling interest and shareholder's equity	**6,412**	**6,278**

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2016 was 311,02 HUF/EUR in 2015 was 313,12 HUF/EUR.

Data above are not part of the consolidated report.

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Raiffeisen Bank Zrt. Annual Report 2016
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Exchange rate (National Bank of Hungary) as at 31 December 2016: 1 EUR = 311,02

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