Annual Report 2017

Raiffeisen BANK
Hungary

Consolidated key data of Raiffeisen Bank Zrt.

Monetary values in euro mn	2017	Change	2016
Income statement			
Net interest income	126	21.15%	104
Net fee and commission income	110	6.80%	103
Trading profit (loss)	33	-21.43%	42
Operating expenses	118	13.46%	104
Profit before tax	104	79.31%	58
Profit after tax	99	106.25%	48
Balance sheet			
Loans and advances to banks	733	-9.06%	806
Loans and advances to customers	2,904	8.16%	2,685
Deposits from banks	929	9.55%	848
Deposits from customers	4,840	13.59%	4,261
Equity (incl. minorities and profit)	665	18.54%	561
Balance sheet total	7,032	9.67%	6,412
Resources			
Average statistical number of staff	2,089	-1.69%	2,125
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 2017 was 310,14 HUF/EUR in 2016 was 311,02 HUF/EUR.

Contents

Report of the Board of directors

Ladies and Gentlemen,

The 2017 financial year saw a positive overall macroeconomic trend and favorable market environment. This contributed to the strong year-on-year improvement in RBI's consolidated profit, which more than doubled compared to last year. The better operating result was mainly positively impacted by lower risk costs. Alongside the successful sale of non-performing loans, this was also due to a notable decrease in net provisioning for impairment losses. The result achieved by RBI in 2017 also confirmed that the strategic decisions taken over the past years have played a key role in helping the group to successfully emerge from a challenging transformation period with increased strength. This is further demonstrated by a steadily strengthening capital base, balanced risk profile and considerably reduced NPL ratio – from 8.7 per cent (2016 pro forma) to 5.7 per cent. This improvement in asset quality was based not least on the determined reduction of non-performing loans in recent years.

The merger of Raiffeisen Zentralbank Österreich AG and RBI AG was put into effect on schedule upon entry in the commercial register on 18 March 2017. Following the merger, RBI will continue to pursue its strategy as a leading universal banking group in CEE and Austria with the primary objective of creating long-term value. Selective growth is planned for the coming years in specific markets which demonstrate stability and good economic prospects. Effective capital and risk management as well as the further reduction in non-performing loans will also remain crucial in future. In 2018, there will be an increased focus on the challenges in the form of ongoing regulatory requirements, political risks, progressing digitalization and related changes to the competitive environment.

I would like to take this opportunity to thank all employees of <bank> for their hard work and unwavering efforts in 2017, as well as to ask for their continued commitment in tackling any challenges going forward.

On behalf of the Board of directors

Andreas Gschwenter
Chairman of the Board of directors

Foreword by the Chief Executive Officer

I am pleased to inform you that in the 2017 financial year, Raiffeisen Bank Zrt. generated the best business results in its history to date.

Profit after tax reached HUF 28.5 billion, and as another positive development the bank managed to increase its operating income despite the prevailing low interest rates. Raiffeisen Bank is well-capitalised, its capital adequacy and liquidity requirements are comfortably on-target.

We achieved major successes in the management of our non-performing loan portfolio. As a result of the portfolio-cleansing strategy, the NPL portfolio decreased in size by more than 40%, from HUF 133 billion to HUF 77 billion, while the NPL ratio improved from 14% to 8%.

The number of customers choosing Raiffeisen as their primary bank continued to grow in 2017 both in retail and private banking segments. Retail lending is growing dynamically, with the volume of disbursed personal loans doubling and mortgage loans also showing substantial growth in excess of 85%. We will continue to focus heavily on this segment in 2018. We are proud of our market-leading position in the private banking segment. Our FWR private banking division, which has had a market presence for over 20 years, managed customer assets totalling HUF 480 billion in 2017.

The corporate and financial institution sector remains a key market for Raiffeisen Bank. The growth of corporate and SME loan portfolio exceeded that of the market in 2017, and we successfully met our targets undertaken in the market credit programme of the National Bank of Hungary (MNB). In order to maintain our excellent customer relations and boost our lending activity, last year the bank revised its service model for the SME sector. Raiffeisen – as one of the biggest partners of EXIM Bank – is among the market leaders when it comes to export finance.

In 2017 complying with the new MiFID2 regulations was one of the greatest challenges for the Hungarian banking sector. Besides ensuring legal compliance, we also introduced a new investment advisory model for our customers in the Private Banking and Premium Banking segments. The new model-based system ensures that our customers' portfolios only contain securities that fit their risk appetite and knowledge of the products.

Raiffeisen Bank Zrt. continues its operation as a universal bank, and is devoting considerable resources to improve its digital services, with the results of these efforts expected to appear this year. For example, customers will soon be able to manage their day-to-day finances with our renewed mobile application. Digital developments are being conducted with 14 countries of the RBI Group involving fintech companies.

The Hungarian base rate has been at an all-time low for a long time, and currently stands at 0.9%. However there are signs of the start of a correction in Hungarian economic policy. These include a more careful budgetary planning, and indications of a turnaround in monetary policy. In 2018, based our analysts' opinions, we expect to see GDP growth of around 4%, stable Hungarian public financing and remaining of an advantageous economic environment.

Kind regards,

György Zolnai

Overview of the 2017 business year

Macroeconomic environment in 2017

Last year brought clearly favourable developments in the United States. The first year of Donald Trump's presidency, if not politically, was certainly a success economically and for the capital markets. GDP growth of over 3% in consecutive periods, with record equity market growth, has not been seen since 2014. In this light, we can safely say that this is the first time in many long decades that such a favourable conjunction of economic factors has occurred. And there was certainly a need for this fortunate constellation, as, unusually for America, the political environment was generating uncertainty from day to day.

The emerging markets, meanwhile, are a mixed bag: the rate of Chinese economic growth is clearly slowing, accompanied by a gradual transformation of the growth structure, while in contrast Russia is probably past the low point, helped partly by the stabilising commodities market. The price of oil showed similar volatility to 2016 last year. Despite plummeting to USD 42 in the first half of the year, oil closed the year at a high of over USD 60, which has not been seen since 2015. The turning point was brought by the June meeting of OPEC and the affiliated oil-producing countries. At that stage they only decided to extend, until March 2018, the agreement on reducing output; but it was already looking likely that a stricter, longer-term agreement was beginning to take shape. This agreement was made in November, on the first anniversary of the original one. Encouraged by the rise in oil prices, they have since pushed the deadline for the agreement back by nine months, to the end of 2018.

The economic outlook for the European Union improved in the recent period. Consumer and business confidence is strengthening, accompanied by growth in consumption and investments. The emphasis is shifting increasingly towards domestic demand, while external demand continues to only show a modest upturn, which is primarily attributable to the weak demand typical of emerging market economies. Although the countries of the southern periphery have bottomed out and growth has returned in many places, Italy and Greece continue to represent a major source of risk. The (genuine or only cosmetic) efforts of national governments to manage the problems are being supported by the expansive monetary policy of the European Central Bank.

1.1. The Hungarian economy

The year 2017 was about rapid economic expansion, an upshift in the convergence process, the rapid deployment of EU funds, and growth in investments. The annual GDP change was 4.0 percent. The higher growth rate than in previous years was supported in equal measures by the favourable external environment and domestic economic policy (on the part of both the government and the central bank). Among the various branches of the private sector, investments grew by 16 percent in the manufacturing industry and by more than 30 percent in the logistics and IT sectors in the first three quarters of the year. Bank lending also saw an upturn. In another positive development, the rate of growth in household consumption increased further, while the service sectors and agriculture also contributed to the growth.

The unemployment rate continued to decline: by the end of 2017 it had dropped to 3.8 percent, from over 10 percent in previous years. Workfare programmes played a major role in this, but job creation also got under way in the private sector. Although inflation did rise during 2017 from its close-to-zero level of the preceding three years, each initial jump was followed by a slump. Overall, last year's average inflation rate was 2.3 percent.

The public finance deficit amounted to 2 percent of GDP. Government debt decreased to 72.1 percent of GDP, from the previous year's 73.9 percent; the external debt ratios (foreign currency debt ratio, the ratio of foreign debt holders) continued their improving trend of previous years. The external balance (foreign trade, balance of payments) continues to show a substantial surplus. Hungary's credit rating has improved steady over the past few years, and this trend continued last year with S&P and Fitch both upgrading the country's credit rating outlook to positive.

1.2. Interest rates and money markets

In September 2016, the Monetary Council of the National Bank of Hungary lowered the interest on one-day deposits by 10 basis points (from minus 0.05 percent to minus 0.15 percent), and capped the volume of 3-month deposits at HUF 75 billion, which can be regarded as its final target level. Furthermore, the MNB announced that FX swap instruments will be given a greater role in efforts to boost liquidity, in the form of a further increase in the swap portfolio and a focus on the longer (6-12 month) maturities, to ensure that the easing effect is felt in the longest possible section of the yield curve, and as soon as possible. Government securities market yields continued to drop substantially (by 114 basis points at the 10-year maturity) during the year, owing to the favourable external environment and improving domestic economic trends, as well as the MNB's Self-Financing Programme. The quantitative restriction on the central bank's benchmark 3-month deposit instrument, coupled with a series of FX swap tenders generating forint liquidity, led to a further substantial drop in BUBOR interest rates relative to the base rate. The 3-month BUBOR decreased by 34 basis points to 0.03 percent in 2017. On average over the year, the forint weakened slightly against the euro, and strengthened significantly against the dollar.

1.3. The banking sector

The banking sector posted a HUF 694 billion pre-tax profit in 2017, according to the preliminary data. Interest income showed a 1% decrease, while commissions were up by 5%. Operating costs were 1% lower than in the previous year. The profitability ratios show an improvement, with the return on assets rising to 1.8% and the return on equity increasing to 16%. Based on preliminary data, the overall NPL ratio is 6.6%, the NPL ratio of non-financial enterprises is 7.2%, and that of household loans is 10.9%. The sector's combined balance sheet total showed a growth of 6% in 2017. Customer loans and customer deposits both displayed growth at the end of 2017. The volume of loans granted to companies was up 10%, and loans to households 3% higher than in the previous year. The volume of loans to the entire SME sector grew by almost 12%. The volume of customer deposits increased by 12% last year, primarily due to the growth in corporate deposits. The total volume of new retail loan placements rose further in 2017, principally as a result of new housing loans.

Expert staff

On 31 December 2017, headcount at Raiffeisen Bank was 2,000 and total headcount of the Raiffeisen Bank group was 2,347. Personnel expenditures remained almost unchanged in 2017 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 many years, gives staff the opportunity to select the non-wage benefits which are best suited to their individual 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. Acknowledgements 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. Management training is carried out along the lines of an integrated concept, the primary objective of which is to successfully manage changes, motivate staff and promote their well-being and effective working.

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 2017, 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 activities in the area of corporate social responsibility continue to focus on supporting programmes that develop the life skills of children raised in care. However, in 2017, in addition to business sponsorships, our activities also focused on the implementation of our "Semester" programme, as part of which we provided support to 5 university students (selected by way of a call for applications), enabling them to spend a semester at an international university of their choice.

2017 again saw us take part in the "Pénz7" (Money Week) programme organised by the Hungarian Banking Association, in the context of which the bank's staff provided financial training and assistance to school students.

Shareholder

Raiffeisen-RBHU Holding GmbH 100%

Board of Directors

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

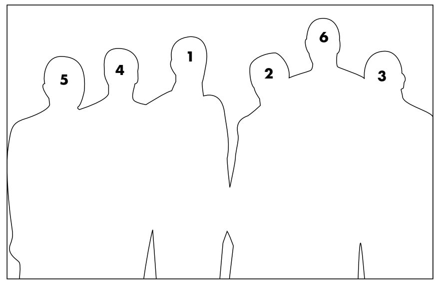
Chairman

Georg Feldscher
Raiffeisen Bank International AG

Members

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

Management of Raiffeisen Bank Zrt.



1 Zolnai György
Chief Executive Officer

2 Tölgyes Ágnes
Member of the Management Board

3 Kementzey Ferenc
Member of the Management Board

4 Ralf Cymanek
Member of the Management Board

5 Bányai Ervin
Member of the Management Board

6 Radovan Dunajsky
Member of the Management Board

Declarations and principles

Declarations and principles

1. Corporate Governance Statement

Responsible corporate governance is essential for attaining the Bank's prime objectives, and a prerequisite for creating value in the long term. The purpose of corporate governance is to establish a healthy balance, and appropriate operating procedures, between owners, customers, employees, business partners, and the general public. Raiffeisen Bank Zrt's operation complies fully with the relevant statutory regulations and the provisions of the National Bank of Hungary. The Bank's structure and the terms of its operation are specified in the Deed of Foundation and Organisational and Operational Regulations approved by the sole Shareholder. The Bank continuously reviews and develops its corporate governance practices.

2. Utilisation of financial instruments

In compliance with IFRS and the Accounting Act, the Bank has grouped the financial instruments into the following categories:

- Financial instrument held for trading: a financial instrument obtained for the purpose of profiting from short-term changes in prices and exchange rates.

- Derivative transactions for hedging purposes: For the purpose of hedging the Bank concludes fair value hedging interest rate swap transactions, which serve to compensate the fair value change in the embedded derivative (structured-interest issued bond) of an underlying transaction that has either fixed interest (fixed-interest loans, deposits or fixed-rate issued bonds) or structured interest. For hedging purposes the Bank also uses portfolio-based hedging dual-currency interest rate swap transactions, where the hedged portfolio is comprised of a group of foreign currency loans and forint deposits, and the purpose of the hedging is to eliminate the fluctuations in interest income and interest expenses that result from changes in the reference interest rates and in the forint exchange rate.

- Originated loans and other receivables: financial assets created by the Bank through the provision of financial instruments, goods or services, entailing payments that are fixed or determinable, unless the Bank has originated these for the purpose of short term sale.

- Financial instruments held until maturity, which the Bank intends to hold until maturity and is capable of doing so.

- Available-for-sale financial instruments: financial instruments that are not classified as financial instruments held for trading, credit or loans originated by the Bank, or as financial instruments held until maturity. This category includes investments embodying an ownership interest, held for the purpose of investment, and debt securities stated among non-current assets and not held until maturity.

The Bank's accounting policy and numerous disclosure obligations require the determination of the fair value of financial assets and liabilities. For valuation and/or disclosure reasons, the fair value is determined using the methods described in the following.

The initial recognition of all financial instruments takes place at the fair value increased by the directly related transaction costs (except in the case of financial instruments valued at fair value against profit or loss, where the transaction costs are accounted for directly in the profit or loss). In the course of normal business operations, the fair value of a financial instrument at the time of initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Following initial recognition, the basis for determining the fair value of financial instruments listed in active markets is the purchase price in the case of assets, and the sale price in the case of liabilities. If an independently quoted price is not available, determination of the fair value takes place using a valuation technique that relies on observable market data. The method may be comparison with similar instruments for which observable market price quotes are available, discounted cash flow analysis, option pricing models, and other valuation techniques that are generally applied by participants in the market. The fair value of financial instruments may also be determined with a technique that is fully or partially based on assumptions that are not supported by current market transactions or observable market data.

The Bank has established the following methodology for determination of the fair value:

a) derivative transactions:

- The fair value of FX forward and futures contracts is the discounted value of the difference between the forward price as at the time of valuation – referenced to the transaction's maturity date – and its strike price, between the maturity date and the date of the valuation.
- The fair value of FX swap contracts is the discounted value of the difference between the forward leg at the time of valuation – referenced to the transaction's maturity date – and its strike price, between the maturity date and the date of valuation. For the valuation yield curve, we take into account the prevailing market interest spread.
- The fair value of interest rate swap transactions and forward rate agreements (FRA) is the discounted net present value of the future cash flow expected from the transactions as at the time of the valuation.
- Determination of the fair value of plain vanilla and exotic FX options takes place with a modified version of the Black-Scholes model. In the case of exotic options for which there is no closed formula, the values are determined using an iterative procedure.
- The fair value of dual currency interest rate swap transactions is the discounted net present value of the future cash flow expected from the transactions as at the time of the valuation, where the basis swap spread typical of the market for such transactions (also embodying the country risk premium) is built into the valuation yield curve.
- We determine the fair value of stock exchange forward stock and index transactions on the basis of the difference between the traded price and the strike price.

b) securities:

Determination of the fair value of Hungarian government bonds classified as financial instruments held for trading and available-for-sale financial instruments is based on the market prices accessible in the Bloomberg information system. The fair value of other securities is the stock exchange closing price, in the case of securities for which this is available. With respect to securities for which a stock-exchange price is not available, the fair value is the discounted net present value of the future cash flow expected from the security as at the time of the valuation.

c) loans

For the hedging of the fair value of certain fixed-interest loan transactions, the Bank concluded interest rate swap transactions. The fair value of these loans hedged with IRS transactions is the discounted net present value of the future cash flows as at the balance sheet date. These loans are stated at fair value in the balance sheet.

Declarations and principles

d) deposits

For the hedging of the fair value of certain structured-interest deposits, the Bank concluded interest rate swap transactions. The structured deposits contain embedded derivatives, which the Bank records separately from deposits, together with the hedging interest rate swaps, at market value. These embedded derivatives and the related interest rate swap transactions are stated at fair value in the balance sheet.

Unstructured deposits included in the hedge accounting are stated by the Bank at fair value in the balance sheet. The fair value is the discounted net present value of the future cash flows as at the balance sheet date.

e) issued bonds

For the hedging of the fair value of certain fixed and structured-interest issued bonds, the Bank concluded interest rate swap transactions. The fair value of such fixed interest issued bonds hedged with IRS transactions is the discounted net present value of the future cash flows as at the balance sheet date. The structured bonds contain embedded derivatives, which the Bank records separately from bonds, together with the hedging interest rate swaps, at market value. These embedded derivatives and the related interest rate swap transactions are stated at fair value in the balance sheet.

Hedge accounting

The Bank has designated certain derivative transactions with a risk management purpose as hedge transactions for the purpose of hedge accounting. At the start of the hedging relationship, the Bank formally documents the relationship between the hedge transaction(s) and the hedged transaction(s), the risk-management objectives and strategy being pursued with the transaction, and the method used for measuring the effectiveness of the hedging relationship. The Bank, both at the beginning of the hedging relationship and continuously thereafter, assesses whether the hedge transaction is likely to be very effective in compensating the changes in the fair value of the hedged that attributable to the hedged risk for the full duration of the transaction, and whether the actual results fall into the 80-125 percent range.

3. Principles of the risk management and hedge transaction policy

Raiffeisen Bank has an independent risk management unit that is fully separated from the business units, and which operates under the supervision of the Chief Risk Officer. The analysis and management of the credit risk of customers is the responsibility of the Credit Risk Division and the Retail and SME Risk Management Division; the analysis of market, operational and fraud risk, compliance with the Basel III regulations, capital measurement, and development of portfolio-level risk models is the responsibility of the Integrated Risk Analysis Division.

1.1. Management of Credit Risk

The risk assessment and credit appraisal of non-retail customers is based on an individual analysis and rating, usually accompanied by quarterly financial monitoring and an annual limit review. In retail and micro-enterprise lending automated, scorecard-based appraisals are used.

The boundaries of lending are determined by the balance of business and risk considerations deemed desirable by the Bank's owner and management, within the constraints of the Credit Institutions Act and other statutory provisions, as well as the Bank's Lending Policy Guidelines.

The Bank responded to the customers' payment difficulties caused by the economic crisis with loan restructuring solutions, the introduction of default early warning processes, and a strengthening of collection and receivables management, and in 2016-2017 achieved a significant reduction in non-performing customers.

The Bank Group's risk management processes operate in compliance with the requirements of Basel III. The core data necessary for the sophisticated measurement of risks are stored in structured form in a modern data warehouse. From May 2012, the capital requirement for the entire bank portfolio (corporate, retail and SME) is quantified by the Bank on the basis of an advanced, internal rating-based (IRB) approach. In 2017, the standard methodology was reinstated for the municipalities portfolio.

The measurement and reporting of risks takes place on a monthly and quarterly basis in keeping with Group and regulatory requirements. The Bank Group comprehensively uses the results of risk models for the purposes of determining pricing, lending decisions and strategic directions, thereby ensuring the Bank Group's long-term capital adequacy, the establishment of a profitable portfolio that also offers stability in terms of risks, and the effective deployment of the capital at its disposal.

1.2. Management of Operational Risk

All organisational units (division, region, subsidiary) actively participate in the management of operating risk and, where necessary, in reducing the level of risk. The Bank makes concerted efforts to develop the risk management function and raise levels of risk awareness, which encompasses the identification, gathering, evaluation, reporting, monitoring and management of all operational risks that may jeopardise achievement of the Bank's business objectives. The main tools used for identifying risks are loss-data gathering, risk indicators, scenario analyses and risk self-assessments.

In the course of its risk management, the Bank places particular emphasis on the "use test" (for reducing the level of operational risk in practice), in the context of which the Bank initiates risk reducing measures in response to risks that exceed the risk tolerance threshold.

In the interest of further strengthening operational risk management activity, the Bank has implemented standards that also comply with the requirements applicable under the advanced measurement approach.

To ensure the most effective possible coordination of the increasing focus on the appropriate management of operational risks at group and local management level, as well as the tasks related to introduction of the Advanced Measurement Approach (AMA), the independent Operational Risk Controlling Group was established within the IRD Division in Q4 2016, and thus now operates independently from the Fraud Risk Controlling Group.

1.3. Management of Market Risk

The management of market risk takes place at several levels within the Bank, using advanced methods and infrastructure, with the monitoring performed independently of the business departments. The measurement and reporting of risks takes place on a daily/weekly/monthly and quarterly basis in keeping with Group and regulatory requirements. The grouping, measurement and management of risks, and the generation of economic capital, takes place in the framework of the Bank's ICAAP processes.

The measurement and controlling of the risks is achieved with complex position, risk, stop loss and VaR limit systems, the methodology of which is in harmony with the expectations of the parent bank and regulators. Management of the market risk related to banking activity extends to the following sub-areas: trading-book and banking-book interest-rate risk; risk of the bank's liquidity based on the going concern principle and on a stress-based approach; risk arising from potentially illiquid market positions; stock price risk; exchange rate risk; risks associated with option trading; counterparty risk of OTC derivative transactions.

1.4. Management of Fraud Risk

Fraud risk is a major component of operational risk. To increase the effectiveness of fraud risk management, in 2014 the Bank centralised lending fraud management operations within the Integrated Risk Analysis Division, in the current Fraud Risk Controlling Group. As a continuation of the integration process, between Q3 2015 and Q3 2017, non-lending fraud management was also performed by the Integrated Risk Analysis Division, but after Q3 2017 non-lending fraud management was moved to the newly established Bank Security Division. The HFRM (Head of Fraud Risk Management) function, which supports the coordination of all fraud management activity in the local Bank Group, was also created in this department at senior management level.

4. Environmental protection

The Bank and its subsidiaries do not possess any equipment of outstanding importance from the perspective of environmental protection. Nevertheless, the introduction of activity based on the use of renewable energy sources through Euro Green Energy Kft. is a sign of the Raiffeisen Group's growing commitment to seeking new, environmentally friendly solutions.

5. Employment policy

Raiffeisen Bank is one of the leading employers in the financial sector: At the end of 2017 its employee headcount was 2,073 persons. The Bank considers it a clear priority to conduct its activity as a fair and honest employer, not only fully observing and complying with the provisions of the Hungarian Labour Code, but also ensuring that its employees enjoy favourable working conditions and career opportunities.

Recruitment and selection is performed centrally by the Human Resources Division, and care is taken to ensure that no discrimination finds its way into the daily practice of selection. Raiffeisen Bank's selection procedures target skilled and qualified staff, but also provide an opportunity for graduates at the beginning of their careers to join the Bank and embark on an intensive professional career path.

The Bank makes a special effort to ensure that its employees enjoy an equitable and competitive income by the standards of the Hungarian labour market. The Cafeteria system, which has been in place for many years, gives staff the opportunity to select the non-wage benefits which are best suited to their individual needs.

All employees fall within the scope of the performance management process operated by the Bank, which provides a framework for the setting of clear objectives, the giving of constructive feedback and sound performance assessments. The performance-based financial and moral incentives encourage staff to strive for excellence.

Raiffeisen Bank engages in complex training and development activity, focusing not only on professional expertise and skills, but also on personal, leadership, language and information technology skills development programmes. Annually, the Bank's employees spend an average of 3 days attending training and development events and programmes. The Bank runs community-building and employee welfare programmes to support staff in responding as successfully and effectively as possible to the everyday performance challenges and stress situations that they face.

The Bank operates a comprehensive talent and career management programme, with the aim of retaining employees in management and key professional positions, and grooming internal successors.

The Workplace Council, operating within the Bank's organisational framework, ensures the representation of employees' interests.

6. Compliance activity

In keeping with the applicable laws and MNB requirements, the Bank operates an independent organisational unit – as part of the internal lines of defence – for identifying and managing compliance risks, which performs the following functions:

Monitoring compliance with ethical rules, issuing guidelines in respect thereof, conducting the investigations of reports that are made

Organisation, management and coordination, within the Bank, of efforts to combat money laundering and international terrorist financing, and of measures related to international sanctions: operation of a reporting and monitoring system, liaison with the relevant authorities

Ensuring and controlling compliance with the data protection rules, liaison with the relevant authorities

Ensuring and controlling compliance with the laws relating to the separation of financial and investment services, the restriction of information flow, the prohibition of insider dealing and market distortion, and the conclusion of transactions by employees, liaison with the relevant authorities

Ensuring and controlling compliance with the laws on conflicts of interest

Ensuring and controlling compliance with the laws relating to investment service provision (e.g. Bszt.)

Organisation and implementation, within the Bank, of anti-corruption measures

7. Research and development

Our company conducted no research and development projects in 2017.

Performance of the various business divisions

Performance of the various business divisions

1.1. Corporate and Investment Banking

The Bank's "Corporate and Investment Banking Division" maintained its leading position in the commercial banking market in 2017, retaining its share of both lending and deposits. With its 10% market share, it is one of the key banking participants in the medium-sized and large corporate segment, and is also among the leading banks in the field of export finance and treasury services.

As a part of the corporate strategy, from September 2017 the SME segment and the medium-sized corporate clientele were brought under joint management. The aim of this was to give SME customers direct access to the products and sector-specific know-how and solutions that are available in the corporate division (e.g. export finance, trade finance, agriculture financing facilities, execution of money and capital market transactions – treasury advice).

The Bank's Structured Products Division closed an excellent year in 2017.

The Trade and Agriculture Finance Division disbursed new loans totalling more than HUF 50 billion in the course of the year, while overhauling substantial part of its product range in line with changes to the strategy of the Hungarian Export-Import Bank (Exim). The division maintained its market-leading position in respect of Exim refinanced transactions in 2017. Disbursement of the first trade finance transaction to an SME took place concurrently with the re-segmentation of the SME customer base into the corporate division.

The Bank achieved outstanding portfolio growth in the Project Finance and Syndication Division. Every sub-segment contributed an equal share to this growth, specifically: commercial real estate finance, non-real estate project and structured finance, and non-structured syndicated loans. The expansion in the loan portfolio was achieved alongside a conservative business policy and approach to risk assumption. In its efforts to leverage the available market opportunities this year, the Bank again used refinanced loan facilities (as part of the MNB FGS and Exim Competitiveness-Boosting Credit Scheme).

Factoring business volume started to increase again in 2017 after the stagnation of previous years, despite the emergence of very fierce competition in the Hungarian factoring market.

The main focus was on expanding the customer base, boosting direct sales, and mapping and leveraging new market opportunities. Concurrently with this, the full integration of the new factoring software with the Bank's IT system continued in a project which, after its completion, will enable customers to make use of the widest possible range of electronic factoring services.

As regards documentary credit, the guarantee and letter of credit portfolio was maintained at its existing level in spite of the intensifying market competition. The persistently favourable macroeconomic environment and increasingly substantial volume of placed EU funds are a cause for optimism, because they are expected to promote further growth in industrial output and the volume of foreign trade, which will in turn make a substantial contribution to growth in the turnover of the documentary credit products.

In the Municipalities Division, the service model is centred around the larger municipalities and companies under their ownership, where the Bank continues to provide a fully comprehensive banking service.

The Raiffeisen Electra electronic banking system, which offers a wide range of cash management services to customers, came to enjoy great popularity in the first year following its market launch for corporate customers. As a new function, the Bank introduced the Spot Rate Currency Conversion service in 2017, enabling customers to convert currencies quickly, free-of-charge and at a competitive exchange rate for their import-export activities or servicing of foreign currency debts.

The Financial Institutions Division closed a very good year, substantially growing its customer base and custodianship portfolio, as several international banks chose Raiffeisen Bank as their partner for the execution of CLS transactions.

The Bank's Markets Division – based on statistics released by the National Bank of Hungary – transacted the second highest foreign exchange turnover in the country in 2017, and was once again the largest operator in the derivative section of the Budapest Stock Exchange. Besides this, in 2017 the Bank was the biggest distributor of Hungarian government bonds in the primary government securities market.

1.2. Retail customers

The Retail Division concluded the year 2017 with an excellent profit figure, due in equal measures to the gross revenue and the favourable development of risk costs. Besides the Premium and Private Banking segments, the Retail Banking segment also made a significant contribution to the favourable business results in 2017.

As in the year 2016, the focus in 2017 continued to be on maintaining the high standard of service, and this is clearly reflected in our favourable customer satisfaction indicators (Net Promoter Score), as well as the low churn rate, especially in the Premium Banking segment.

During the year, the Bank joined the digital project launched by Raiffeisen Bank International, through which it aims to strengthen the alternative channels considerably.

The Bank's market share of retail liabilities increased to 6.6% in 2017. Within this figure, the Bank's retail customers kept a 40% higher volume in their current accounts than at the end of 2016, primarily due to a continuous rise in customers using Raiffeisen as their primary bank, the acquisition of Premium customers, and the market interest-rate environment. The growth in current account deposits significantly exceeds the decrease in the volume of fixed-term deposits.

In 2017 the investment portfolio of retail customers grew to HUF 313 billion, primarily due to a 7.5% increase in the investments of customers in the Premium Banking segment. Assets managed in the form of government securities grew by a lesser extent than this.

Overall, retail savings grew by 9.2% in 2017.

The division also achieved considerable success in terms of retail lending in 2017. There was a substantial increase in demand for both retail mortgage loans and personal loans.

With regard to secured loans, the greatest development of 2017 was the introduction of the Certified Consumer-Friendly Housing Loans, but the efficiency of the application process was also improved significantly in the interest of providing a more customer-friendly service. Owing to the new products, the market opportunities and greater focus on this area, the volume of new mortgage loan placements rose by more than 80% in comparison to 2016.

Unsecured lending also expanded considerably in 2017, albeit in a differing extent for each product. The biggest increase was seen in the case of personal loans, where the previous year's performance was doubled.

Overall, the upturn in lending was insufficient to compensate for the decrease in the total volume of loans, due to the amortisation of the existing portfolio and the significant tendency towards the making of prepayments, which was triggered by the environment of low interest rates. This process was particularly marked in the retail segment, where a 5.1% decrease was seen in the entire loan portfolio. In contrast to this, the overall loan portfolio in the Premium Banking segment continued to grow, at a rate of 27.3%.

All in all, the Bank's market share of retail loans decreased slightly, and thus at the end of 2017 the market share stood at 4.52%.

The Bank continues to pay particular attention to ensuring legal compliance, and accordingly 16% of its mortgage loan portfolio was refinanced by a mortgage bank.

1.3. Private Banking Customers

The mission of Friedrich Wilhelm Raiffeisen Private Banking is to protect and grow its customers' family wealth, and ensure that it is passed down from generation to generation.

The Bank's experienced advisers use their expertise to serve their customers with security, convenience, discretion, and made-to-measure solutions.

Friedrich Wilhelm Raiffeisen Private Banking closed the most successful year in its history in 2017. Thanks to the valued trust placed in us by the Bank's customers, the assets entrusted to our care reached HUF 480 billion by the beginning of the year, which represents a 10% growth relative to the previous year. This above-average rate of growth further strengthens the Bank's market position. The division serves Hungary's wealthiest families, with an entry threshold of HUF 70 million, and average assets per family of HUF 205 million.

Earning and maintaining the satisfaction of our preferred private customers would be inconceivable without tailored solutions and the highest standard of service. In 2017 the division continued to invest considerable sums in the interest of launching new products and services and developing IT systems and the knowledge base of its banking advisors.

It treated implementation of the MiFID2 guidelines as the priority task of the year, with the primary aim of strengthening investor protection. Concurrently with the changes in law, Friedrich Wilhelm Raiffeisen Private Banking has revised its customer service and investment consulting model.

The new service model rests on four main pillars:

offering long-term financial solutions with active investment advice

availability, to customers, of dedicated, highly qualified advisors

support for the work of the investment advisors with state-of-the-art IT tools

asset allocation based on yield and risk optimisation in the course of the provision of investment advice.

The personal advisors serve customers countrywide in comfortable Private Banking branches that offer a pleasant atmosphere and discretion; and if required, after making an appointment by telephone, they will also make house calls anywhere in the country.

The trust of customers is built on the expertise of the investment advisors. It takes a specialist to fully understand the complex steps – which are time-consuming and require constant attention – involved in the financial transactions that serve to protect and grow the customer's wealth. The investment advisors research and recommend the financial structures that are indispensable for the long-term management of customers' assets.

The advisors pro-actively supply customers with the information necessary for making decisions, and draw on their professional experience to help choose the right securities. They customise the investment portfolios on the basis of the customers' risk appetite and desired yield, and send notification if any market intelligence is obtained that might be significant with respect to the portfolio.

1.4. Financial institutions

Financial-institution customers are strategically important to the Bank. This segment represents a source of commission-heavy revenue, a dependable liabilities portfolio and stable, long-term customer relationships with moderate lending exposure and capital requirements. The risk cost of the segment is negligible, and costs are also low.

A key target group of the division consists of domestic insurance companies, investment fund managers, funds, and domestic and international financial institutions and investment service providers.

In the course of the year it achieved major successes in the areas of security and investment services, and custody services. At the Bank Group's headquarters in Vienna, with the support of the strengthened group-level management, it offers a unique solution for the custodianship and settlement of customers' investments in Central and Eastern Europe. The market recognition of the Bank's renewed custody service is shown by the fact that in 2017 Raiffeisen's solution was chosen by a number of new domestic and international customers.

In an environment of falling interest rates, investor customers continue to show strong demand for individually structured investment instruments, and for the investment products offered by the Markets Division. Due to the sale of a wide range of investment products, and the products associated with portfolio management activity, the division's commission revenue continued to rise in 2017.

The Bank took on a leading role in several projects, some internal and others relating to the whole Hungarian capital market. The unequivocally positive feedback both from customers and from the profession prove that Raiffeisen Bank is one of the strongest brands in the regional money and equity markets.

Raiffeisen Bank International at a glance

Raiffeisen Bank International AG regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 14 markets across the CEE region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, nearly 50,000 employees serve RBI's 16.5 million customers in more than 2,400 business outlets, primarily in CEE. RBI AG shares have been listed on the Vienna Stock Exchange since 2005.

At year-end 2017, RBI's total assets stood at Đ 135 billion. The regional Raiffeisen banks hold approximately 58.8 per cent of RBI shares, with the remaining approximately 41.2 per cent in free float.

Following the merger in March 2017 with Raiffeisen Zentralbank Österreich AG (RZB AG), its former majority shareholder, RBI AG assumed all rights, obligations and functions of the transferring company RZB AG in their entirety, in particular, the role of central institution for the Austrian Raiffeisen Banking Group.

KPMG Hungária Kft.
Váci út 31.
H-1134 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

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 2017, the consolidated statements of profit or loss, 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 2017, 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 (hereinafter referred to as "EU IFRSs").

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.

Other Matters

We draw attention to the fact that these consolidated financial statements in English are not intended for statutory filing purposes as the Group is required to prepare and file consolidated financial statements in accordance with EU IFRSs based on the provisions of the Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act") in Hungarian. Therefore, this report does not constitute an independent auditors' report in accordance with Sections 156-158 of the Act.

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.

KPMG

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.

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, 26 April 2018

KPMG Hungária Kft.

Gábor Agócs
Partner

Raiffeisen Bank Zrt. - 33 - 2017.12.31.

2

Consolidated income statement

(HUF million)	Note	2017	2016
Interest and similar income	(5)	**52,157**	**54,822**
- cash and cash equivalents		862	306
- on placements with banks		1,678	3,719
- on loans to non-banks		35,908	36,411
- on securities		12,267	13,011
- from leases		1,442	1,375
Interest expenses and similar charges	(6)	**13,227**	**22,714**
- on borrowings from banks		4,503	4,511
- on deposits from non-banks		3,790	4,781
- on debt securities issued		1,539	2,584
- on subordinated liabilities		3,395	3,259
- other interest-like expenses		0	7,579
Net interest income		**38,930**	**32,108**
Fee and commission income		41,809	38,914
Fee and commission expense		7,691	6,905
Net fee and commission income	(7)	**34,118**	**32,009**
Dividend income		3	0
Net trading income	(8)	10,264	13,174
Net income from derivatives held for risk management	(9)	3,237	373
Other operating income	(10)	3,261	4,369
Operating income		**16,765**	**17,916**
Impairment losses	(11)	**(9,411)**	**508**
Personnel expenses	(12)	24,106	23,221
Rental expenses		7,935	5,113
Equipment expenses		4,501	4,025
Other operating expenses*	(10)	30,573	31,155
Operating expenses		**67,115**	**63,514**
Profit/(loss) before tax		**32,109**	**18,011**
Income tax expense*		2,926	2,992
Deferred tax		(1,325)	4
Total	(13)	**1,601**	**2,996**
Profit/(loss) for the period		**30,508**	**15,015**
Attributable to:			
Equity holders of the parent		30,508	15,015
Non-controlling interest		0	0

* There were reclassficatios, see on page 12, 2. d) Changes in accounting policies

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

Consolidated statement of comprehensive income

(HUF million)	2017	2016
Profit/(loss) for the period	**30,508**	**15,015**
Change of financial assets measured at fair value throughother comprehensive income :		
Change in fair value of available-for-sale financial assets	1,374	3,671
Amount transferred to profit or loss	63	(1,315)
Cash flow hedges:		
Effective portion of changes in fair value	67	864
Amount transferred to profit or loss	(92)	820
Income tax on other comprehensive income/(loss)	**(358)**	**(1)**
Other comprehensive income/(loss) for the period, net of income tax	**1,054**	**4,039**
Total comprehensive income/(loss) for the period	**31,562**	**19,054**
Total comprehensive income/(loss) attributable to:		
Equity holders of the Bank	31,562	19,054
Non-controlling interest	0	0
Total comprehensive income/(loss) for the period	**31,562**	**19,054**

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

Consolidated Financial Statements

Consolidated statement of financial position

(HUF million)	Note	2017	2016
Assets			
Cash and cash equivalents*	(15)	311,151	269,403
Placements with banks	(16)	227,251	250,536
Net loans	(17)	900,551	835,104
Financial assets at fair value through profit or loss	(18)	127,324	152,799
Available for sale securities	(19)	373,519	210,373
Held to maturity securities	(19)	192,053	209,359
Investments in associated undertakings		0	0
Investments in unlisted securities	(20)	587	440
Property, plant and equipment	(21)	14,597	15,936
Investment property		0	0
Intangible assets	(22)	13,707	12,982
Goodwill	(23)	1,048	1,048
Current tax assets*		613	110
Deferred tax assets	(39)	1,293	0
Other assets*	(25)	17,164	36,239
Total assets		**2,180,858**	**1,994,329**
LIABILITIES AND EQUITY			
Deposits from banks	(27)	288,219	263,782
Deposits from non-banks	(28)	1,501,170	1,325,354
Debt securities issued	(29)	17,714	38,741
Financial liabilities at fair value through profit or loss	(26)	36,385	42,457
Current tax liabilities*		6	1
Deferred tax liabilities	(39)	361	35
Subordinated liabilities	(30)	43,781	59,598
Provisions	(32)	9,033	5,092
Other liabilities*	(31)	78,001	84,644
Total liabilities		**1,974,670**	**1,819,704**
Equity attributable to equity holders of the parent		**206,188**	**174,625**
Ordinary shares		50,000	50,000
Share capital	**(34)**	**50,000**	**50,000**
Retained earnings	(36)	33,572	-173,732
Capital reserve	(35)	113,445	293,094
General reserves	(35)	5,522	2,668
Fair value reserve	(38)	3,649	2,595
Non-controlling interest	**(37)**	**0**	**0**
Total equity		**206,188**	**174,625**
Total liabilities, non-controlling interest and shareholder's equity		**2,180,858**	**1,994,329**

* There were reclassficatios, see on page 12, 2. d) Changes in accounting policies

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 2017	**50,000**	**50,000**	**293,094**	**2,668**	**2,595**	**298,357**	**(173,732)**	**174,625**	**0**	**174,625**
Total comprehensive income/(loss) for the period										
Profit or loss	0	**0**	0	0	0	**0**	30,508	**30,508**	0	**30,508**
Other comprehensive income/(loss)										
Change in fair value of available-for-sale financial assets, net of tax	0	**0**	0	0	1,032	**1,032**	0	**1,032**	0	**1,032**
Change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax	0	**0**	0	0	47	47	0	47	0	47
Effective portion of changes in fair value of cash flow hedge items, net of tax	0	**0**	0	0	67	**67**	0	**67**	0	**67**
Amount transferred to profit or loss (cash flow hedge items), net of tax	0	**0**	0	0	(92)	**(92)**	0	**(92)**	0	**(92)**
Total other comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**1,054**	**1,054**	**0**	**1,054**	**0**	**1,054**
Total comprehensive income/(loss) for the period	**0**	**0**	**0**	**0**	**1,054**	**1,054**	**30,508**	**31,562**	**0**	**31,562**
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**
Total contributions by and distributions to owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Changes in ownership interests	0	**0**	0		0	**0**	0	**0**	0	**0**
Change in non-controlling interest during the period	0	**0**	0	0	0	**0**	0	**0**	0	**0**
Total changes in ownership interests	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**	**0**
Other transactions recorded in equity										
Transfer to reserves, net of tax	0	**0**		2,854	0	**2,854**	(2,854)	**0**	0	**0**
Transfers among components of equity	**0**	**0**	**(179,649)**	**0**	**0**	**(179,649)**	**179,650**	**1**	**0**	**1**
Total other transactions recorded in equity	**0**	**0**	**(179,649)**	**2,854**	**0**	**(176,795)**	**176,796**	**1**	**0**	**1**
Total transactions with owners and other transactions recorded directly in equity	**0**	**0**	**(179,649)**	**2,854**	**0**	**(176,795)**	**176,796**	**1**	**0**	**1**
Balance 31 December 2017	**50,000**	**50,000**	**113,445**	**5,522**	**3,649**	**122,616**	**33,572**	**206,188**	**0**	**206,188**

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 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)										
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**
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**
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	0	**0**	0	0	0	**0**	0	**0**	0	**0**
Total contributions by and distributions to owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Changes in ownership interests										
Change in non-controlling interest during the period	0	**0**	0		0	**0**	(158)	**(158)**	(557)	**(715)**
Total changes in ownership interests	**0**	**0**	**0**		**0**	**0**	**(158)**	**(158)**	**(557)**	**(715)**
Other transactions recorded in equity										
Transfer to reserves, net of tax	**0**	**0**	**0**	**1,805**	**0**	**1,805**	**(1,805)**	**0**	**0**	**0**
Total other transactions recorded in equity	**0**	**0**	**0**	**1,805**	**0**	**1,805**	**(1,805)**	**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**

The accompanying notes (on pages 11 to 99) form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(HUF million)	Note	2017	2016
Profit/(loss) for the period		**30,508**	**15,015**
Cash flows from operating activites			
Adjusments for:			
Depreciation and amortisation	(21,22)	5,862	4,883
Net impairment loss on non-financial assets	(17)	(68)	(193)
Net impairment losses and write-offs on financial assets	(7)	9,479	(157)
Net interest income	(5)	(38,930)	(32,108)
hereof: amortisation, accruals and unwinding		21,265	4 506
Disposal of assets		(2)	(4)
Other		589	(1,366)
Income tax expense	(13)	1,601	2,996
		(204)	**(21,443)**
Change in placements with banks	(16)	23,286	(191,342)
Change in loans and advances to customers	(17)	(74,926)	79,251
Change in derivative financial instruments	(18)	4,530	7,243
Change in AFS securities (without revaluation)	(19)	(161,708)	(146,107)
Change in other assets and asset held for sale	(25,33)	18,995	(6,066)
Change in deposits from banks	(27)	24,437	(10,762)
Change in deposits from non-banks	(28)	175,816	31,677
Change in other liabilities, provisions and liabilities held for sale	(31,32,33)	(2,702)	17,820
		7,728	**(218,286)**
Interest received		36,038	51,208
Interest paid		(18.512)	(23,626)
Income tax paid		(3,424)	(3,225)
Net cash from / (used in) operating activities		**52,134**	**(200,357)**
Cash flows from investing activities			
Purchase of securities	(19)	(36,011)	(101,865)
Disposals of securities	(19)	68,165	94,930
Purchase of investment in associates		0	(157)
Disposal of investment in associates		0	0
Purchase of equity investments		0	0
Disposal of equity investments	(20)	0	1,406
Purchase of property, plant and equipment	(21)	(1,247)	(1,049)
Disposals of property, plant and equipment	(21)	405	748
Purchase of intangible assets	(22,23)	(4,546)	(3,590)
Disposals of intangible assets	(22,23)	141	82
Net cash used in investing activities		**26,907**	**(9,495)**

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

Consolidated statement of cash flows

(HUF million)	Note	2017	2016
Cash flows from financing activities			
Issuance and repayment of in issued debt securities	(29)	(942)	114
Maturity of debt securities	(29)	(20,086)	(26,134)
Repayment in subordinated liabilities	(30)	(15,551)	0
Issuance of new shares and proceeds from share premium	(34)	0	0
Dividend paid		0	0
Net cash from financing activities		**(36,579)**	**(26,020)**
Net increase/decrease of cash and cash equivalents		**42,462**	**(235,872)**
Cash and cash equivalents at 1 January		**269,403**	**505,024**
Net effect of exchange rate		(714)	251
Cash and cash equivalents at December 31		**311,151**	**269,403**

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

Notes to the 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 2017 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 Bank International A.G. (RBI).

Ágnes Tölgyes Chief Financial Officer (address: 1124 Budapest, Nárcisz utca 54. 1. em. 5.) and Tibor Gáspár Head of Accounting Department are obliged to sign these consolidated financial statements. Tibor Gáspár is entitled to perform bookkeeping services (registration number: 168480, address: 2330 Dunaharaszti, Király út 38.)

(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.

These consolidated financial statements in English are not intended for statutory filing purposes as the Group is required to prepare and file consolidated financial statements in accordance with EU IFRSs based on the provisions of the Act C of 2000 on Accounting in force in Hungary in Hungarian.

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 26 April 2018.

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 recognised 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 recognised 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

In 2017, the Bank voluntarily changed some of its accounting policies as follows. The changes had been applied retrospectively by restatement of the comparatives unless indicated otherwise. The Bank does not present a restated statement of financial position as at January 1, 2016 (the beginning of the preceding period) as effects of the implemented changes in accounting policies were considered to be immaterial.

- Local business tax and innovation contribution have been reclassified from operating expenses to income tax expense due to voluntary accounting policy change treating these items as income tax. After the change, the Bank's consolidated and separate accounting policy is consistent in this respect. For further details, see note 13.
- Cash at money exchange agents has been reclassified from other assets to cash and cash equivalents. After the change, the classification in the Bank's consolidated and separate financial statements is consistent in this respect. For further details, see note 15.
- The Group voluntary decided to extend its write-off policy in 2017, see note 3 (n) i). The application of the new policy retrospectively was impractible as the restatement would require significant estimates to be made that cannot be measured reliable based on circumstances that existed in the comparative period.

(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.

Notes to the consolidated financial statements

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

The Group applies consistently the fair value accounting method to all similar common control transactions when recognising the assets acquired and liabilities assumed in the consolidated financial statements. In applying fair value accounting method, the result of the common control transactions is recognised in equity.

c) Investments in associates

Associates are entities over which the Group has significant influence, but 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 recognise 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 recognised 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 recognise 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 by 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.

Notes to the consolidated financial statements

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 recognised 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 derecognised. 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.

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 amortised 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).

At initial recognition if the fair value of the financial instrument significantly differs from the transaction price – for example loans with off-market interest rates – then the fair value is the present value of all future cash-flows discounted using the prevailing market rates of interest for a similar instrument. The fair value difference is amortised to profit or loss during the term of the deal.

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 amortised cost using effective interest method, less impairment losses.

The placements with banks and net loans are presented under placement with banks and net loans in balance sheet.

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.

Notes to the consolidated financial statements

m) Derivatives

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

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

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

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

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

The method of 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.

Notes to the consolidated financial statements

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 recognised 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 recognised 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. The Group reclassifies the cumulated gain or loss in other comprehensive income into profit or loss in the same periods during which the asset or liability affects the profit or loss. However if the Group expects that all or the portion of the loss in the other comprehensive income will not be recovered then it reclassifies that amount immediately into profit or loss.

n) Impairment of financial assets

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

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

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

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

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses, on a case-by-case basis, at each balance sheet date, whether there is any objective evidence that a loan is impaired. Impairment losses on loans carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of discount.

Collectively assessed loans and advances

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

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

The Group has implemented some changes to its portfolio based loan loss provisioning policy as a consequence of the economic slowdown. In the case of non-retail portfolio based loan loss provisioning, the Group applies a model determined on RBI group level. At the end of 2010 RBI (Raiffeisen Bank International) harmonised 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 IFRS9 impairment methodology was implemented in 01/2018 in line with RBI Group Standards. In the new methodology the Bank allocates portfolio-based impairment in Retail segment.
The marginal (monthly) probability of default (PD) is calculated based on rating grades of the deals that are not in default status based on article 178 of CRR 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 monthly expected credit loss (ECL). In case the credit risk increased on a certain deal compared to the originally estimated credit risk, then lifetime ECL is calculated, else impairment is booked based on 12 monthly ECL.

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 receivable 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. Differ from previous years from 2017 partial write-off of non –retail exposures is also possible when there is no reasonable expectation of recovery out of operative cash- flow and/or the assets of the client already handled within official court procedures. In case of partial write-off amount can be written off against corresponding previously set aside provisions. Partially written-off exposures are registered off-balance since the effectiveness of the legal uncollectability.

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 recognised 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 derecognises 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 recognised as a separate asset or liability.

The Group also enters into transactions whereby it transfers assets recognised 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 derecognised 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 derecognises the asset, if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate in the balance sheet items of placements with banks, other assets, deposits or other liablities depending on the nature and proper classification of the instument. In transfers in which control over the asset is retained, the Group continues to recognise 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 derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised 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 recognised as securities. The amounts paid are recognised in other assets and shown as collateralized by the underlying security.

Securities sold under repurchase agreements continue to be recognised 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 recognised on an accrual basis over the period of the transaction and is included in interest income or expense, respectively.

If the contractual cash flows on a financial asset have been renegotiated or modified the Bank re-evaluate the assets. If there is significant modification in the contractual terms it can result derecognition of the old asset and recognition of the new modified asset, the new assets should be recognized at fair value.

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

The derecognition result of the financial instruments reported on the Net trading income and the Other operating income items of the Income statement.

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, recognises 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. The timing of the possible outflows depends on the occurrence, or non-occurrence of events. In case of commitments and certain issued guarantees the event could occure at any time up to the expiry date while in case of pending legal iussues it could by expected at the date of closing of the legal case.

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 amortised 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 recognised on an accrual basis as end when the service has been provided. Commission and fees have no interest nature, so they are not part of amortized cost or they are not arising from financial assets or financial liabilities that are at fair value through profit or loss.

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 recognised 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. The Group considers the business tax and the innovation contribution as part of income tax.

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 accumulated fair value gain or loss is recognised in profit or loss.

Notes to the consolidated financial statements

aa) Share capital

Shares are classified as equity when 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 2017, 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)
For all contracts with customers, the accounting standard specifies how and when income is recognized, based on a five-step model, but does not have any consequences for the recognition of income arising in connection with financial instruments within the scope of IFRS 9. IFRS 15 replaces several other IFRS standards such as IAS 18 (Revenue), IAS 11 (Construction Contracts) and interpretations, which determine the timing of recognition under IFRS. The standard also requires entities to provide users of financial statements with more informative, relevant disclosures in the notes. In 2016 the IASB published clarifications on IFRS 15. These changes address three of the five identified topics (performance obligation identification, principal / agent considerations and licenses) and aim to facilitate transition for modified and completed contracts.
As the focus of IFRS 15 is not on accounting for revenue from financial instruments and leases, its application had no material impact on the consolidated financial statements of the Group so far.

Amendments to IFRS 4 Insurance contracts (entry into force January 1, 2018)
The amendments aim to mitigate the consequences resulting from different first-time effective dates for the application of IFRS 9 and the successor standard to IFRS 4, especially for companies whose activities are predominantly connected with insurance. Two optional approaches are being introduced which can be used by insurers if certain requirements are met: the overlay approach and the deferral approach. The application of these amendments is not expected to have any impact on the consolidated financial statements of the Group.

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.

IFRS 9 (Financial Instruments; entry into force January 1, 2018)

1. IFRS 9 Financial Instruments

Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will adopt the amendments to IFRS 9 on the same date. Based on the assessment undertaken to date, the total estimated adjustment of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is approximately HUF 1,332 million, representing:
- A reduction of approximately HUF 1,532 million to impairment requirements
- An Increase/decrease of approximately HUF 200 million related to classification and measurement requirements other than impairment

Raiffeisen Corporate Lízing Zrt. decreases the opening balance of its equity amounting to HUF 46 million related to adoption of IFRS 9. Adoption of IFRS9 has no significant impact on the equity of other group members.

The European Parliament has issued as of 27. December 2017 a regulation (EU) 2017/2395 on transition requirements for the implementation of IFRS 9. The regulation allows a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:

a) Phasing in the full impact on a straight-line basis over a five-year period; or
b) Recognizing the full impact on the day of adoption.

The Group has decided to adopt the second approach. The CET 1 will decrease by approximately 71 BP.

General commnets in connection with the IFRS9 adoptoin:
- The assessment made is preliminary as not all transition work requirements have been finalized and therefore may be subject to adjustment.
- The new standard will require Group to revise its accounting processes and internal controls, and these changes are not yet complete.
- Group has not finalized the testing and assessment of controls over its new IT systems. Consequently, the related impacts presented below may change when implementation is finalized.
- The systems and the associated controls that are in place to comply with the new requirements have not been operational for a full reporting period.
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until Group finalizes its first financial statements that include the date of initial application.

2. Classification and Measurement General

IFRS 9 contains and new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics.
For the Group four classification categories for financial assets will be applied:
- Financial assets measured at amortized cost (AC)
- Financial assets measured at fair value through OCI (FVOCI) and
- Financial assets mandatory measured at fair value through profit or loss (FVTPL) and
- Financial assets designated measured at fair value through profit or loss (FVTPL)

In the Group the existing IAS 39 categories of the held to maturity, loans and receivables and available for sale will be eliminated.
A financial asset shall be measured at amortized cost if both of the following conditions are met:
- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A business model's objective can be to hold financial assets to collect contractual cash flows even when some sales of financial assets have occurred or are expected to occur. IFRS 9 gives the following examples of sales that may be consistent with the hold-to-collect business model:
- The sales are due to an increase in the credit risk of a financial asset;
- The sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent);
- The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows;

For the Group, the sale and of more than 10% of the portfolio (carrying value) during a rolling 3 year period will potentially be considered 'more than infrequent' unless these sales are immaterial as a whole.

Notes to the consolidated financial statements

'Close to maturity' will be applied similarly to the guidance for held to maturity financial assets under IAS 39. A maturity less than 3 month can be seen as close to maturity.
A financial asset is classified as subsequently measured at FVOCI if it is held within a business model whose objective is both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
On initial recognition of an equity instrument that is not held for trading, Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment – by – investment basis for each investment and essentially covers strategic interests that are not fully consolidated. All other financial assets – i.e. financial assets that do not meet the criteria for classification as subsequently measured at either amortised cost or FVOCI – are classified as subsequently measured at fair value, with changes in fair value recognised in profit or loss. In addition, th Goup has the option at initial recognition to irrevocably designate a financial asset as at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency – i.e. an 'accounting mismatch' – that would otherwise arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
A financial asset is classified into one of these categories on initial recognition.
For Financial Liabilities designated at fair value through profit and loss it has to be mentioned that Group elected to adopt on an early basis the requirements of IFRS 9.7.1.2 regarding the presentation of gains and losses and consequently the changes in the fair value of these designated financial liabilities caused by a change in the default risk of The Group was booked in the other comprehensive income in the financial statements for financial year 2017.

2.1 Business model assessment
The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.
The following will be considered as evidence when assessing which business model is relevant:
- How the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the entity's key management personnel;
- How the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- How managers of the business are compensated – e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, value and timing of sales in prior periods, the reasons for such sales, and its expectations about future sales activity; and
- whether sales activity and the collection of contractual cash flows are each integral or incidental to the business model ("hold-to-collect" versus "hold and sell" business model);

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL.

2.2. Analysis of Contractual Cash Flow Characteristics

Once Group determines that the business model of a specific portfolio is to hold the financial assets to collect the contractual cash flows (or by both collecting contractual cash flows and selling financial assets), it must assess whether the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. For this purpose, interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. This assessment will be carried out on an instrument by instrument basis on the date of initial recognition of the financial asset.

In assessing whether the contractual cash flows are solely payments of principal and interest Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. Group will consider:
- Prepayment, extension terms
- Leverage features
- Claim is limited to specified assets or cash flows
- Contractually linked instruments

In 2018 IASB issued an IFRS 9 amendment regarding prepayment features with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract". Group does not expect a significant volume of negative prepayment features with negative compensation which have to be measured mandatorily at FVTPL.

2.3. Modification of Time Value of Money and the Benchmark Test
Time value of money is the element of interest that provides consideration for only the passage of time (IFRS 9.B4.1.9A). It does not take into account other risks (credit, liquidity etc.) or costs (administrative etc.) associated with holding a financial asset.
In some cases, the time value of money element may be modified (imperfect). That would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate. In this case the Group members must assess the modification as to whether the contractual cash flows still represent solely payments of principal and interest, i.e. the modification term does not significantly alter the cash flows from a 'perfect' benchmark instrument. This assessment is not an accounting policy choice and cannot be avoided simply by concluding that an instrument, in the absence of such an assessment, will be measured at fair value. For the following main contractual features that can potentially modify the time value of money a benchmark test will be applied
- Reset rate frequency does not match interest tenor
- Lagging indicator
- Smoothing clause
- Grace period
- Secondary market yield reference

2.4. Impact assessment
IFRS 9 will affect the classification and measurement of financial assets held as at 1 January 2018 of the Group as follows:

Loans and advances to Groups and to customers that are classified as loans and receivables measured at amortized cost under IAS 39 will in genera also be measured at amortized cost under IFRS 9. Only an insignificant portfolio has to be measured mandatory at FVTPL due to failing the SPPI or Benchmark test.
Held to maturity financial assets measured at amortized cost under IAS 39 will in general also be measured at amortized cost under IFRS 9. Only an insignificant portfolio will be reclassified to the business model "hold and sell" and measured at FVOCI.
Available for Sale debt instruments measured at fair value through Other Comprehensive Income under IAS 39 will in general also be measured at FVOCI under IFRS 9.

3. Hedge Accounting
IFRS 9 grants accounting options for hedge accounting. Group plans to continue to apply the provisions on hedge accounting pursuant to IAS 39 while, however, taking into account the changes in the disclosures in the notes pursuant to IFRS 7.

4. Impairment General
The calculation of expected credit losses requires the use of accounting estimates which, by definition, will rarely equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.
Group assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments, leasing receivables and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.
This section provides an overview of the aspects of IFRS 9 that involve a higher degree of judgement or complexity and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Notes to the consolidated financial statements

5. Measurement of Expected Credit Losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Significant judgements are required in applying the accounting requirements for measuring expected credit losses these are:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses
- For the Group credit risk comes from the risk of suffering financial loss, should any of our customers, clients or market counterparties fail to fulfil their contractual obligations to us. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as, financial guarantees, letters of credit, and acceptances.
- Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.
- The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. Group measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach used for the purposes of measuring expected credit losses under IFRS 9.
- IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality since initial recognition. This model requires that a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.
- Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. According to IFRS 9 when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit loss is always measured on a lifetime basis (Stage 3).

6. Significant Increase in Credit Risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

6.1. Quantitative Criteria

The Group uses quantitative criteria as the primary indicator of significant increase in credit risk for all material portfolios. For quantitative staging Group compares the lifetime PD curve at measurement data with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition assumptions are made about the structure of the PD curve. On the one hand in the case of highly rated financial instruments it is assumed that the PD curve will deteriorate over time. On the other hand for low rated financial instruments it is assumed that the PD curve will improve over time. The degree of improvement or deterioration will depend on the level of the initial rating. In order to make the two curves comparable the PDs are scaled down to annualized PDs. In general a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250% although this amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products.

The Group is not aware of any generally accepted market practice for the level at which a financial instrument has to be transferred to Stage 2. From this perspective it is expected that the increase in PD at reporting date which is considered significant will develop over a period of time as a result of an iterative process between market participants and supervisors.

6.2. Qualitative Criteria

The Group uses qualitative criteria as a secondary indicator of significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.

For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:

- External market indicators
- Changes in contract terms
- Changes to management approach
- Expert judgement

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a quarterly basis at a deal level for all non-retail portfolios held by the Group.

For retail portfolios, if the borrower meets one or more of the following criteria:

- Forbearance
- Expert judgement

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at a deal level for all retail portfolios held by the Group.

6.3. Backstop

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. In some limited cases the presumption that financial assets which are more than 30 days past due are to be shown in Stage 2 is rebutted.

6.4. Low Credit Risk Exemption

The Group has not used the low credit risk exemption for any lending business, however it selectively uses the low credit risk exemption for debt securities.

7. Definition of Default and Credit-Impaired Assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

7.1. Quantitative criteria

The borrower is more than 90 days past due on its contractual payments No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

7.2. Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenants
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses

The criteria above have been applied to all financial instruments held by the Goup and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of a minimum of 3 months or longer for distressed restructured exposures. This period of 3 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

8. Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Expected credit losses are the discounted product of the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor (D)

8.1. Probability of Default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. In general the lifetime probability of default is calculated using the regulatory 12 month probability of default, stripped of any margin of conservatism, as a starting point. Thereafter various statistical methods are used to generate an estimate of how the default profile will develop from the point of initial recognition throughout the lifetime of the loan or portfolio of loans. The profile is based on historical observed data and parametric functions.

Different models have been used to estimate the default profile of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, local and regional governments, insurance companies and collective investment undertakings the default profile is generated using a transition matrix approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model.
- Corporate customers, project finance and financial institutions the default profile is generated using a parametric survival regression (Weibull) approach. Forward looking information is incorporated into the probability of default using the Vasicek one factor model.
- Retail mortgages and other retail lending the default profile is generated using parametric survival regression in competing risk frameworks. Forward looking information is incorporated into the probability of default using satellite models.

In the limited circumstances where some inputs are not fully available grouping, averaging and benchmarking of inputs is used for the calculation.

8.2. Loss Given Default

Loss given default represents the Group's expectation of the extent of loss on a defaulted exposure. Loss given default varies by type of counterparty and product. Loss given default is expressed as a percentage loss per unit of exposure at the time of default. Loss given default is calculated on a 12-month or lifetime basis, where 12-month loss given default is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime loss given default is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Different models have been used to estimate the loss given default of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign the loss given default is found by using market implied sources.
- Corporate customers, project finance, financial institutions, local and regional governments, insurance companies the loss given default is generated by discounting cash flows collected during the workout process. Forward looking information is incorporated into the loss given default using the Vasicek model.
- Retail mortgages and other retail lending the loss given default is generated by stripping the downturn adjustments and other margins of conservatism from the regulatory loss given default. Forward looking information is incorporated into the loss given default using various satellite models.
- In the limited circumstances where some inputs are not fully available alternative recovery models, benchmarking of inputs and expert judgement is used for the calculation.

8.3. Exposure at Default

Exposure at default is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis. Where relevant early repayment/refinance assumptions are also considered in the calculation.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default. The prudential regulatory margins are removed from the credit conversion factor. In the limited circumstances where some inputs are not fully available benchmarking of inputs is used for the calculation.

8.4. Discount Factor

In general for on balance sheet exposure which is not leasing or POCI (Purchased or Originated as Credit Impaired) the discount rate used in the expected credit loss calculation is the effective interest rate or an approximation thereof.

8.5. Calculation

The expected credit loss is the product of PD, LGD and EAD times the probability not to default prior to the considered time period. The latter is expressed by the survivorship function S. This effectively calculates future values of expected credit losses, which are then discounted back to the reporting date and summed. The calculated values of expected credit losses are then weighted by forward looking scenario.

Different models have been used to estimate the Stage 3 provisions of outstanding lending amounts and these can be grouped into the following categories:

- Sovereign, corporate customers, project finance, financial institutions, local and regional governments, insurance companies and collective investment undertakings the Stage 3 provisions are calculated by workout managers who discount expected cash flows by the appropriate effective interest rate.
- Retail mortgages the Stage 3 provision is generated by calculating the discounted collateral realization value.
- Other retail lending the Stage 3 provision is generated by calculating the statistically derived best estimate of expected loss which has been adjusted for indirect costs.

No attempt is made to rebut the presumption that financial assets which are more than 90 days past due are to be shown in Stage 3.

9. Forward Looking Information

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the probability of default, loss given default and exposure at default vary by category type. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate or a long run average growth rate until maturity. The impact of these economic variables on the probability of default, loss given default and exposure at default has been determined by performing

Notes to the consolidated financial statements

statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.
In addition to the base economic scenario, Raiffeisen Research also provide a best case and worst case scenario along with scenario weightings to ensure non-linearities are captured. The Group has concluded that three scenarios or less appropriately captured non-linearity. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected credit loss model and multiplying it by the appropriate scenario weighting.
As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and cover any potential non-linearities and asymmetries within Group's different portfolios.

9.1. Sensitivity analysis
The most significant assumptions affecting the expected credit loss allowance are as follows:
Corporate portfolios:
- Gross domestic product
- Unemployment rate
- Long term government bond rate
- Inflation rate

Retail portfolios:
- Gross domestic product
- Unemployment rate
- Real estate prices

10. Transition
Changing in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 are recognized in retained earnings as of January 1, 2018.
The following assessments must be made on the basis of the facts and circumstances that exist at the date of initial application:
- The determination of the business model in which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities measured at FVTPL.
- The designation of certain strategic investments not held for trading as at FVOCI.

IFRS 16 Leases (entry into force January 1, 2019)
For lessees, the new standard establishes an accounting model which does not distinguish between financial leasing and operating leasing. In future, most lease agreements will have to be recognized in the statement of financial position. The standard requires lessees to recognize assets and liabilities in the statement of financial position for all leases of more than 12 months, unless the underlying asset has a low value. The lessee recognizes an asset which represents its right to use the underlying asset. It also recognizes a lease liability which represents its liability to effect the lease payments. For lessors, the rules under IAS 17 (Leases) remain largely valid, meaning that in future it will still also be necessary to distinguish between financial and operating leasing with corresponding different accounting consequences. In addition, the standard also requires entities to provide users of financial statements with more informative, relevant disclosures in the notes.
In 2017, the Group launched a group-wide preliminary study to analyze the impact of IFRS 16 on existing leases. In the context of this preliminary study, contracts (rental and leasing contracts) were analyzed on the basis of the extent to which the existing lease agreements were to be recorded as rights of use and lease liabilities on the balance sheet, and on the other hand, group-wide accounting guidelines were drafted. An effect on equity is not expected. The implementation of the requirements will take place in 2018.

The operating lease contracts shown in note 24 are going to represented as finance lease contracts from January 1, 2018 according to IFRS 16.

Amendments to IFRS 2 Share-based payment (entry into force January 1, 2018)
The amendments concern individual matters relating to the accounting of cash-settled share-based payments. The principal amendment/addition relates to the fact that IFRS 2 now contains provisions which relate to the calculation of the fair value of liabilities resulting from share-based payments. The application of these amendments is not expected to have any impact on the consolidated financial statements of the Group.

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. The application of these amendments is not expected to have any impact on the consolidated financial statements of the Group.

IFRIC 23 Uncertainty over Income tax treatments (entry into force January 1, 2019)
This interpretation clarifies the accounting for uncertainties in income taxes. The application of these amendments is not expected to have any impact on the consolidated financial statements of the Group.

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. The application of these amendments is not expected to have any impact on the consolidated financial statements of the Group.

Annual improvements to IFRS – 2015–2017 cycle (entry into force January 1, 2019)
IAS 12 Income Taxes: The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
The application of these amendment is not expected to have any significant impact on the consolidated financial statements of the Group.

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 from this year also 3 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.

Notes to the consolidated financial statements

- **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.
The impairement related monthly approvals are made by Provision Committee in the Group.

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:

Notes to the consolidated financial statements

2017 (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									
Minimal risk	0	3	0	3	0	0	0	0	0
Excellent credit standing	0	6,777	6,777	0	0	0	0	0	8,016
Very good credit standing	0	0	0	0	0	0	0	0	1,777
Good credit standing	0	2,314	2,298	16	0	0	0	0	218
Average credit standing	0	1,522	1,499	14	9	0	0	0	3,909
Acceptable credit standing	0	26	0	26	0	0	0	0	302
Weak credit standing	0	253	0	253	0	0	0	0	302
Very weak credit standing	0	236	0	236	0	0	0	0	72
Doubtful / high default risk	0	415	238	177	0	0	0	0	179
Default	0	76,563	46,559	30,000	4	0	0	0	7,216
Unrated	0	2,788	2,587	201	0	0	0	0	1,828
Total gross amount of individually impaired financial assets	**0**	**90,897**	**59,958**	**30,926**	**13**	**0**	**0**	**0**	**23,819**
Total individually impaired allowance for impairment	0	42,237	24,313	17,920	4	0	0	0	2,503
Total carrying amount of individually impaired financial assets	**0**	**48,660**	**35,645**	**13,006**	**9**	**0**	**0**	**0**	**21,316**
Collectively impaired									
Minimal risk	0	8,084	2,493	5,591	0	0	0	0	4,585
Excellent credit standing	0	26,219	8	26,211	0	0	0	0	6,831
Very good credit standing	0	151,508	115,436	36,072	0	0	0	0	68,480
Good credit standing	0	146,673	101,913	44,758	2	0	0	0	35,915
Average credit standing	0	205,841	173,651	31,992	198	0	0	0	37,246
Acceptable credit standing	0	144,525	121,065	23,460	0	0	0	0	33,511
Weak credit standing	0	87,477	56,761	30,716	0	0	0	0	7,968
Very weak credit standing	0	23,324	12,939	10,385	0	0	0	0	2,262
Doubtful / high default risk	0	12,685	6,833	5,852	0	0	0	0	653
Default	0	1,412	2	1,410	0	0	0	0	33
Unrated	0	4,485	28	4,457	0	0	0	0	1,321
Total gross amount of collectively impaired financial assets	**0**	**812,233**	**591,129**	**220,904**	**200**	**0**	**0**	**0**	**198,805**
Total collectively impaired allowance for impairment	0	11,281	1,553	9,728	0	0	0	0	585
Total carrying amount of collectively impaired financial assets	**0**	**800,952**	**589,576**	**211,176**	**200**	**0**	**0**	**0**	**198,220**

2017 (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	0	0	0	0	0	0	0	0
Acceptable credit standing	0	0	0	0	0	0	0	0	0
Weak credit standing	0	0	0	0	0	0	0	0	0
Very weak credit standing	0	7	4	3	0	0	0	0	0
Doubtful / high default risk	0	0	0	0	0	0	0	0	0
Default	0	5	0	5	0	0	0	0	0
Unrated	0	315	0	0	315	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**327**	**4**	**8**	**315**	**0**	**0**	**0**	**0**
Past due comprises:									
up to 30 days	0	319	4	0	315	0	0	0	0
31 to 90 days	0	3	0	3	0	0	0	0	0
91 to 180 days	0	5	0	5	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
Total carrying amount of past due but not impaired financial assets	**0**	**327**	**4**	**8**	**315**	**0**	**0**	**0**	**0**
Neither past due nor impaired									
Minimal risk	0	23	21	2	0	90,206	1	259	12,880
Excellent credit standing	0	2,432	2,407	25	0	0	3	245	24,305
Very good credit standing	199,982	10,183	10,126	57	0	147,486	3,585	22,553	119,825
Good credit standing	0	6,168	6,129	39	0	0	10	1,509	28,316
Average credit standing	220	8,216	8,184	32	0	1,772	14	6,193	73,869
Acceptable credit standing	27,049	10,038	4,720	51	5,267	419,594	1,650	1,390	60,746
Weak credit standing	0	3,870	3,816	54	0	0	15	70	19,820
Very weak credit standing	0	7,600	7,493	107	0	0	1	0	3,394
Doubtful / high default risk	0	1,283	1,278	5	0	0	1	0	757
Default	0	9	0	9	0	0	10	0	0
Unrated	0	790	378	408	4	0	1,887	21	227
Total carrying amount of neither past due nor impaired financial assets	**227,251**	**50,612**	**44,552**	**789**	**5,271**	**659,058**	**7,177**	**32,240**	**344,139**
Includes receivables with renegotiated terms	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total gross amount	**227,251**	**954,069**	**695,643**	**252,627**	**5,799**	**659,058**	**7,177**	**32,240**	**566,763**
Total allowance for impairment	**0**	**53,518**	**25,866**	**27,648**	**4**	**0**	**0**	**0**	**3,088**
Total carrying amount	**227,251**	**900,551**	**669,777**	**224,979**	**5,795**	**659,058**	**7,177**	**32,240**	**563,675**

Notes to the consolidated financial statements

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
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	0	2,554	2,538	16	0	99,303	1	499	26,831
Excellent credit standing	0	12,657	9,787	2,870	0	0	3,261	762	24,623
Very good credit standing	217,735	11,936	10,452	1,484	0	31,215	11,821	32,518	97,610
Good credit standing	100	7,669	7,283	386	0	1,982	6,692	3,931	38,039
Average credit standing	0	5,808	5,502	306	0	0	1	1,802	78,955
Acceptable credit standing	32,502	11,626	8,524	207	2,895	395,040	7	2,582	61,597
Weak credit standing	0	6,762	6,529	233	0	0	3	151	18,656
Very weak credit standing	0	10,698	10,629	69	0	0	4	6	4,624
Doubtful / high default risk	0	3,288	3,233	55	0	0	2	132	1,675
Default	0	12	0	12	0	0	14	0	3
Unrated	0	359	0	7	352	78	338	484	178
Total carrying amount of neither past due nor impaired financial assets	**250,337**	**73,369**	**64,477**	**5,645**	**3,247**	**527,618**	**22,144**	**42,867**	**352,791**
Includes receivables with renegotiated terms	0	0	0	0	0	0	0	0	0
Total gross amount	**250,537**	**933,645**	**655,984**	**271,181**	**6,480**	**527,618**	**24,171**	**42,867**	**552,967**
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**	**24,171**	**42,867**	**549,986**

Notes to the consolidated financial statements

In 2017 the placement with bank decreased slightly (2017: HUF 227.3 billion; 2016: HUF 250.5 billion).
In case of loans and advances to customers in 2017 the exposure of the individually impaired corporate loans decreased further due to significant individual sale transactions and partial/full write-offs (2017: HUF 60 billion; 2016: HUF 90.6 billion). In the other categories the corporate loan portfolio increased already remarkably during the period (2017: HUF 637.7 billion; 2016: HUF 565.4 billion).
The exposure of impaired exposures in retail segment also significantly decreased during the year (2017: HUF 30.9 billion; 2016: HUF 44.9 billion) mainly by the loans sales and other collection measures. The Bank sold a significant retail mortgage loan portfolio in the 4th quarter of 2017 in worth of HUF 25.7 billion, in the frame of the transaction the Bank gave an 18 -month guarantee for the sold items, for that guarantee HUF 760 million provision was allocated.
Unrated exposures in the retail sector loans (2017: HUF 5.1 billion; 2016: HUF 4.8 billion) are mostly employee loans. Unrated exposure in the retail sector also contains loans which are provided by subsidiaries (2017: HUF 0.2 billion; 2016: HUF 0.5 billion).
The exposure of the loans and advances to government and public sector lowered further in 2017 (2017: HUF 5.8 billion; 2016: HUF 6.5 billion) because a government loan was matured during the period.
The unrated part of off-balance items are mostly pending legal issues (2017: HUF 1.8 billion; 2016: HUF 2.7 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.

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

2017 (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 sovereigns	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
Individually impaired									
Gross amount	0	40,197	23,000	17,197	0	0	0	0	650
Allowance for impairment	0	19,260	9,999	9,261	0	0	0	0	649
Carrying amount of individually impaired restructured loans	**0**	**20,937**	**13,001**	**7,936**	**0**	**0**	**0**	**0**	**1**
Fair value of collaterals	**0**	**32,770**	**12,895**	**19,875**	**0**	**0**	**0**	**0**	**113**
Collectively impaired									
Gross amount	0	32,163	17,455	14,708	0	0	0	0	1,366
Allowance for impairment	0	3,805	150	3,655	0	0	0	0	14
Carrying amount of collectively impaired restructured loans	**0**	**28,358**	**17,305**	**11,053**	**0**	**0**	**0**	**0**	**1,352**
Fair value of collaterals	**0**	**22,142**	**12,091**	**10,051**	**0**	**0**	**0**	**0**	**175**
Past due but not impaired									
Past due comprises:									
up to 30 days	0	0	0	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**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Fair value of collaterals	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Neither past due nor impaired									
Carrying amount of neither past due nor impaired restructured loans	0	200	97	103	0	0	0	0	978
Fair value of collaterals	**0**	**244**	**71**	**173**	**0**	**0**	**0**	**0**	**225**
Total gross amount	0	72,560	40,552	32,008	0	0	0	0	2,994
Total allowance for impairment	0	23,065	10,149	12,916	0	0	0	0	663
Total carrying amount of restructured loans	**0**	**49,495**	**30,403**	**19,092**	**0**	**0**	**0**	**0**	**2,331**
Total fair value of collaterals	**0**	**55,156**	**25,057**	**30,099**	**0**	**0**	**0**	**0**	**513**

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 sovereigns	Investment in debt securities	Other receivables	Derivative assets	OFF B/S exposures
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:									
up to 30 days	0	119	13	106	0	0	0	0	0
31 to 90 days	0	67	0	67	0	0	0	0	0
91 to 180 days	0	7	0	7	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**	**193**	**13**	**180**	**0**	**0**	**0**	**0**	**0**
Fair value of collaterals	**0**	**197**	**13**	**184**	**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**

The exposure of the restructured loans changes significantly from 2016 to 2017.
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 14.5 billion; retail: HUF 10.3 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, cash, securities, pledge on machinery, pledge on inventories, commodities, suretyships and guarantees, and other comfort factors.

Collateral related processes (evaluation & regular revaluation, real estate on-site visits, check of physical existence, 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:

2017 (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**	**24,309**	**21,565**	**2,379**	**365**	**0**	**0**	**973**	**13,348**	**38,630**
Debt securities issued by	**0**	**9,709**	**5,962**	**3,747**	**0**	**0**	**1,508**	**0**	**598**	**11,815**
Central governments	0	955	301	654	0	0	1,508	0	57	2,520
Companies	0	2,870	1,827	1,043	0	0	0	0	128	2,998
Others	0	5,884	3,834	2,050	0	0	0	0	413	6,297
Shares	**0**	**2,405**	**1,209**	**1,196**	**0**	**0**	**0**	**120**	**1,560**	**4,085**
Mortgage on	**0**	**267,222**	**111,302**	**155,031**	**889**	**0**	**0**	**0**	**14,168**	**281,390**
Residential real estate	0	164,802	12,297	152,505	0	0	0	0	1,215	166,017
Commercial real estate	0	77,328	75,702	1,074	552	0	0	0	6,606	83,934
Other	0	25,092	23,303	1,452	337	0	0	0	6,347	31,439
Guarantees from	**239**	**31,228**	**20,069**	**11,159**	**0**	**0**	**0**	**0**	**15,575**	**47,042**
Central governments	239	24,220	13,061	11,159	0	0	0	0	11,579	36,038
Other banks	0	7,008	7,008	0	0	0	0	0	3,996	11,004
Other	**0**	**81,627**	**81,207**	**413**	**7**	**0**	**0**	**0**	**7,585**	**89,212**
Total collateral	**239**	**416,500**	**241,314**	**173,925**	**1,261**	**0**	**1,508**	**1,093**	**52,834**	**472,174**

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**

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

2017 (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	67,124	32,920	34,197	7	0	0	0	1,770	68,894
Collectively impaired	0	332,090	192,757	139,333	0	0	0	0	12,944	345,034
Past due but not impaired	0	19	3	16	0	0	0	0	0	19
Neither past due nor impaired	239	17,267	15,634	379	1,254	0	1,508	1,093	38,120	58,227
Total collateral	**239**	**416,500**	**241,314**	**173,925**	**1,261**	**0**	**1,508**	**1,093**	**52,834**	**472,174**

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**

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)	2017	2016
Real estate	1,262	574
Inventories	0	0
Other	14	14
Total assets obtained	**1,276**	**588**

Notes to the consolidated financial statements

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:

2017 (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	174,415	0	3	953	27,633
Domestic trade	0	131,652	0	5	146	134,169
Other, mainly service industries	0	113,696	0	226	106	49,864
Finance	215,944	21,749	230,791	5,157	24,288	118,582
Central Bank	11,307	0	0	0	586	0
Public administration	0	5,955	426,495	1,630	0	1,126
Chemicals and pharmaceuticals	0	39,174	1,772	1	230	22,710
Food processing	0	31,057	0	0	35	12,945
Agriculture	0	19,175	0	0	6	3,322
Transportation, communication	0	99,259	0	1	5,285	10,313
Construction	0	8,806	0	2	32	94,773
Heavy industry	0	43,947	0	0	35	13,772
Light industry	0	24,888	0	0	410	13,386
Energy	0	13,036	0	0	110	36,117
Infrastructure	0	1,180	0	0	0	910
Private households	0	226,080	0	152	18	27,141
Total gross exposure	**227,251**	**954,069**	**659,058**	**7,177**	**32,240**	**566,763**

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	5	1,601	25,330
Domestic trade	0	148,642	0	5	1,955	111,914
Other, mainly service industries	0	101,445	0	116	271	52,923
Finance	236,037	30,788	130,635	21.896	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**	**24,171**	**42,867**	**552,967**

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 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 2017	As at 31 December 2016
Fixed rate instruments		
Financial assets	897,160	924,889
Financial liabilities	348,851	395,381
Total fixed rate instruments	**548,309**	**529,508**

	As at 31 December 2017		As at 31 December 2016	
Variable rate instruments	Financial assets	Financial liabilities	Financial assets	Financial liabilities
HUF	750,272	1,011,433	652,076	856,132
CHF	26,620	6,113	29,769	5,122
EUR	365,149	336,239	241,527	402,247
USD	6,180	130,412	26,776	76,473
Other currencies	2,880	17,085	2,943	19,228
Total variable rate financial instruments	**1,151,101**	**1,501,282**	**953,091**	**1,359,202**

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

- the stock of the fixed-rate loans and other receivables increased by HUF 34 billion,
- in case of placements with banks and loans to financial institutions the fixed-rate instruments decreased by HUF 38 billion,
- the stock of the fixed-rate deposits at National Bank of Hungary (NBH) is showing a HUF 63 billion negative change,
- in case of the fixed-rate securities the increase was HUF 67 billion, of which the government bonds accounted for a significant HUF 40 billion increase,
- the 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 6 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)	2017	2016
Valuation gain/(loss) on hedged instruments	1,543	274
Valuation gain/(loss) on hedging interest rate swaps	(1,625)	(475)

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 - 2017 (HUF million)	Within 1 year	1-5 years	Over 5 years
Inflows	(108)	9,524	17
Outflows	(50)	9,831	127

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

During 2017 net losses of HUF 25 million relating to the effective portion of cash flow hedges were recognised in other comprehensive income (2016: HUF 1,684 million gain).

Notes to the consolidated financial statements

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:

2017 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash and cash equivalents	280,950	1,046	21,986	2,505	4,664	**311,151**
Placements with banks	49,487	22,548	111,440	43,674	102	**227,251**
Loans and advances to customers	488,164	7,305	368,737	36,345	0	**900,551**
Financial assets at fair value through profit or loss – except for derivatives	65,649	0	23,587	5,848	0	**95,084**
Available for sale securities	194,661	0	162,434	0	16,424	**373,519**
Held to maturity securities	188,745	0	1,992	1,316	0	**192,053**
Financial assets except for derivatives	**1,267,656**	**30,899**	**690,176**	**89,688**	**21,190**	**2,099,609**
Deposits from banks	123,842	3,579	124,374	36,424	0	**288,219**
Deposits from non-banks	1,037,908	6,113	291,324	145,938	19,887	**1,501,170**
Debt securities issued	14,523	0	3,191	0	0	**17,714**
Subordinated liabilities	0	0	43,781	0	0	**43,781**
Financial liabilities except for derivatives	**1,176,273**	**9,692**	**462,670**	**182,362**	**19,887**	**1,850,884**
Net open position on balance sheet	**91,383**	**21,207**	**227,506**	**(92,674)**	**1,303**	**248,725**
Net derivative and spot instruments (short)/long position	140,469	(20,854)	(222,338)	111,788	(14,306)	**(5,241)**
Total net currency positions	**231,852**	**353**	**5,168**	**19,114**	**(13,003)**	**243,484**

2016 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash and cash equivalents	228,627	625	32,662	3,155	4,334	**269,403**
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	**1,178,678**	**34,278**	**561,696**	**100,809**	**9,246**	**1,884,707**
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	**143,446**	**25,157**	**69,321**	**(28,037)**	**(12,655)**	**197,232**
Net derivative and spot instruments (short)/long position	48,992	(24,668)	(73,324)	15,685	13,101	**(20,214)**
Total net currency positions	**192,438**	**489**	**(4,003)**	**(12,352)**	**446**	**177,018**

During 2017 and 2016 the Group – 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.

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.

Notes to the consolidated financial statements

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 Monte Carlo VaR calculation (and parametrical VaR calculation in case of Raiffeisen Leasing). 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. Diversification effect is not taken into consideration in case of Economic Capital calculation.

A summary of the VaR position of the Group's trading portfolios and banking book is as follows:

VaR position		2017 (HUF million)		
Trading Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	33	159	7	797
Interest Rate Risk	471	228	35	617
Price Risk	6	3	0	25
Total Risk	270	248	98	826
Banking Book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign Currency Risk	0	0	0	0
Interest Rate Risk	612	977	463	2,064
Total Risk	612	977	463	2,064

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
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

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 the different repricing categories interest rate sensitivities, basis point values (BPV) are assigned. BPV shows the changes in the present value of a certain repricing category's position due to a 1 basis point parallel shift of the interest rate curve. RBI approved BPV limits are assigned for the repricing categories.

The following table shows the gap reports:

Gap report	As at 31 December 2017 (HUF thousend)			
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less then 3 months	(188)	162	3	(15)
3 months to 6 months	(1,357)	(199)	(8)	33
6 months to 1 year	(2,088)	3,064	0	(39)
1 year to 2 years	(1,677)	224	0	(7)
2 years to 3 years	(345)	2	0	(2)
3 years to 5 years	(100)	3	0	(10)
5 years to 7 years	292	(1)	0	(16)
7 years to 10 years	(767)	(24)	0	0
10 years to 15 years	100	0	0	0
15 years to 20 years	0	0	0	0
Over 20 years	0	0	0	0

Banking book	**HUF**	**EUR**	**CHF**	**USD**
Less then 3 months	(917)	(262)	(769)	706
3 months to 6 months	(3,346)	(1,775)	515	465
6 months to 1 year	7,132	1,875	(1)	(1,152)
1 year to 2 years	(503)	365	(1)	706
2 years to 3 years	(5,882)	1,700	1	656
3 years to 5 years	12,163	6,476	10	1,471
5 years to 7 years	(16,895)	3,105	13	0
7 years to 10 years	(324)	950	13	0
10 years to 15 years	(1,084)	10	(9)	0
15 years to 20 years	(485)	0	(10)	0
Over 20 years	(161)	0	0	0

Gap report	As at 31 December 2016 (HUF thousand)			
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less then 3 months	(318)	159	16	57
3 months to 6 months	(155)	252	(9)	(720)
6 months to 1 year	534	57	9	(221)
1 year to 2 years	(263)	47	0	(1)
2 years to 3 years	(3,024)	64	0	(2)
3 years to 5 years	1,777	281	0	(13)
5 years to 7 years	(1,939)	0	0	(3)
7 years to 10 years	(368)	0	0	(15)
10 years to 15 years	1,056	0	0	(7)
15 years to 20 years	0	0	0	(8)
Over 20 years	0	0	0	(33)

Banking book	**HUF**	**USD**	**EUR**	**CHF**
Less then 3 months	(191)	(2,475)	(290)	(243)
3 months to 6 months	(3,239)	(1,331)	1,261	140
6 months to 1 year	4,917	(1,470)	0	68
1 year to 2 years	989	(4,069)	1	120
2 years to 3 years	1,723	2,193	1	(337)
3 years to 5 years	8,846	19,489	5	(35)
5 years to 7 years	(13,181)	483	7	0
7 years to 10 years	689	0	16	0
10 years to 15 years	(1,271)	12	9	0
15 years to 20 years	(581)	0	0	0
Over 20 years	(57)	0	0	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.

The Group's liquidity outlook is stable, liquidity risk exposure is low.

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	2017 (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	288,219	**300,322**	48,541	55,254	148,843	47,684
Deposits from non-banks	1,501,170	**1,501,232**	1,458,345	33,890	5,277	3,720
Debt securities issued	17,714	**18,102**	0	4,662	12,554	886
Subordinated liabilities	43,781	**60,234**	234	1,583	9,863	48,554
Financial liabilities at fair value through profit or loss – except for derivatives	0	**0**	0	0	0	0
Other liabilities	78,001	**78,001**	77,688	313	0	0
Liabilities held for sale	0	**0**	0	0	0	0
Total liabilities	**1,928,885**	**1,957,891**	**1,584,808**	**95,702**	**176,537**	**100,844**
Derivative instruments						
Interest rate swaps	0	**1,908**	(944)	1,312	1,297	243
Forward exchange contracts:	**0**	**49,703**	**6,837**	**41,687**	**(385)**	**1,564**
- Outflow	0	**1,384,697**	646,497	522,907	161,878	53,415
- Inflow	0	**1,334,994**	639,660	481,220	162,263	51,851
Contingent liabilities	**131,305**	**131,305**	**31,527**	**44,468**	**51,597**	**3,713**
Other commitments and contingencies	131,305	**131,305**	31,527	44,468	51,597	3,713
Commitments	**435,447**	**435,447**	**27,079**	**141,165**	**88,795**	**178,408**
Unutilised loan facilities	166,438	**166,438**	14,407	56,767	57,664	37,600
Unutilised overdraft facilities	194,395	**194,395**	10,647	77,173	2,116	104,459
Unutilised guarantee frames	74,614	**74,614**	2,025	7,225	29,015	36,349

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)**

Notes to the consolidated financial statements

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*
- 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

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 2017	
Date	*Million HUF*
31/01/2017	95
28/02/2017	55
31/03/2017	61
28/04/2017	74
31/05/2017	67
30/06/2017	64
31/07/2017	63
31/08/2017	39
29/09/2017	41
31/10/2017	49
30/11/2017	47
29/12/2017	106

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

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.

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 Executive Officer, 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. RBI CRO receives information about the most relevant Operational Risk issues through the CRO meeting.

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)**
  - o **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
  - o **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 recognised and the Group recognises 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. Above the regulatory minimum capital requirement the Bank needs to keep additional capital for the following capital buffers: systemic risk buffer, capital conservation buffer, systemically important institution buffer.

Consolidated solvency ratio calculation according to supervisory consolidation group

(HUF million)	*2017*	*2016*
Paid up capital instruments	*50,000*	*50,000*
Capital reserve	*113,445*	*293,094*
Retained earnings	*32,011*	*(174,621)*
Accumulated other comprehensive income	*3,649*	*2,595*
Funds for general banking risk	*5,522*	*2,668*
Adjustments to CET1 due to prudential filters	*(1007)*	*(643)*
(-) Goodwill	*(1,035)*	*(1,035)*
(-) Other intangible assets	*(13,688)*	*(12,962)*
(-) IRB shortfall of credit risk adjustments to expected losses	*0*	*0*
(-) Securitisation positions	*0*	*0*
(-) Deferred tax items	*(1,294)*	*0*
Common Equity Tier 1 Capital	***187,603***	***159,096***
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	*4,442*	*4,796*
Subordinated loans	*43,420*	*49,460*
Transitional adjustments to T2 Capital	*0*	*0*
Tier 2 Capital	***47,862***	***54,256***
Total consolidated regulatory capital	***235,465***	***213,352***
Capital requirement	***82,616***	***88,397***
Consolidated solvency ratio (%)	***22.80%***	***19.31%***

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)	*2017*	*2016*
Cash and cash equivalents	***862***	***306***
Placements with banks	***1,678***	***3,719***
Loans and advances to customers	***35,908***	***36,411***
Securities at fair value through profit or loss	***3,868***	***4,312***
Government bonds	*3,482*	*4,046*
Treasury bills issued by the Government	*243*	*126*
Credit institution bonds	*3*	*0*
Investment certificate	*140*	*140*
Available for sale securities	***3,552***	***2,487***
Government bonds	*2,690*	*1,983*
Credit institution bonds	*671*	*251*
Investment certificates	*191*	*253*
Held to maturity securities	***4,847***	***6,212***
Government bonds	*4,690*	*5,521*
Corporate bonds	*157*	*691*
From leases	***1,442***	***1,375***
Interest income	***52,157***	***54,822***

The total interest income calculated with the effective interest method (excluding the assets carried at fair value through profit or loss) is HUF 48,289 million (2016: HUF 50,510 million).

q q

(6) Interest expense

(HUF million)	2017	2016
Deposits from banks	4,503	4,511
Deposits from non-banks	3,790	4,781
Debt securities issued	1,539	2,584
Subordinated liabilities	3,395	3,259
Other interest-like expenses	0	7,579
Interest expense	**13,227**	**22,714**

Total interest expense calculated with the effective interest method (excluding the liabilities carried at fair value through profit or loss) is HUF 13,227 million (2016: HUF 15,135 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, the lack of this item decreased the amount of other interest-like expenses in 2017.

(7) Net fee and commission income

Fee and commission income (HUF million)	2017	2016
Account management, turnover and cash handling fees	23,936	22,990
Guarantees and documentary credits	325	1,816
Fees from leases	90	36
Fees from investment services	8,715	6,892
Bankcard fees	4,761	4,395
Other commission and fee income	3,982	2,785
Total fee and commission income	**41,809**	**38,914**

Fee and commission expense (HUF million)	2017	2016
Payments transfer business	1,774	1,857
Loan administration and guarantee business	686	526
Securities business	941	867
Agency fees	1,783	1,365
Bankcard fees	1,261	1,198
Other banking services	1,246	1,092
Total fee and commission expense	**7,691**	**6,905**
Net income from commissions and fees	**34,118**	**32,009**

(8) Net trading income

(HUF million)	2017	2016
Realised net gains/(losses) from securities at fair value through profit or loss	(203)	242
Unrealised net gains/(losses) from securities at fair value through profit or loss	(1,847)	(256)
Realised net gains/(losses) on FX positions and derivative instruments	8,230	17,141
Unrealised net gains/(losses) on FX positions and derivative instruments	4,084	(3,953)
Net trading income	**10,264**	**13,174**

The realised net gains of FX and derivative deals related to spot deals and conversions (2017: HUF 9,710 million gain, 2016: HUF 3,238 million gain) and also to the swap and forward deals (2017: HUF 3,027 million loss, 2016: HUF 10,470 million gain). In case of the unrealised net gains the revaluation result of FX deals was significant (2017: HUF 4,806 million gain, 2016: HUF 2,599 million loss).

(9) Net income from derivatives held for risk management

(HUF million)	2017	2016
Derivatives held for risk management without hedge accounting	**2,212**	**995**
Realized and unrealised net gains/(losses) on cross currency interest rate swaps	698	(354)
Realized and unrealised net gains/(losses) on other derivatives	1,514	1,349
Fair value hedge accounting	**(182)**	**326**
Realised net gains/(losses) on hedging derivatives	(106)	451
Unrealised net gains/(losses) on hedging derivatives	(1,619)	(475)
Unrealised net gains/(losses) on hedged items	1,543	350
Cash-flow hedge accounting	**263**	**(1,234)**
Other	**944**	**286**
Net income from derivatives held for risk management	**3,237**	**373**

The unrealized revaluation result of cross currency interest rate swaps (CCIRS) was HUF 1,169 million (2016: HUF 2,284 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 2017 due to ineffectiveness of cash-flow hedges HUF 314 million gain (2016: HUF 1,236 million loss) was reclassified from Other Comprehensive Income into profit and loss.

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)	As at 31 December 2017		As at 31 December 2016	
Instrument type	Asset	Liability	Asset	Liability
IRS	257	22	14	0
CIRS	0	555	0	1,156
Total	**257**	**577**	**14**	**1,156**

(10) Other operating income and other operating expenses

(HUF million)	2017	2016
Other operating income		
Realised net gains/(losses) from available-for-sale securities	(178)	(130)
Unrealised net gains/(losses) from available-for-sale securities	0	0
Net gains/(losses) from held-to-maturity securities	17	31
Property development fees	0	0
Gains/(losses) on sale on receivables	0	0
Gains/(losses) on disposal of inventory	481	(61)

(HUF million)	2017	2016
Gains/(losses) on disposal of investments	0	1,709
Gains/(losses) on disposal of intangibles, property, plant and equipment	(2)	(4)
Energy trading margin	2,164	1,964
Revenues related to damages	5	7
Sales revenues from other non-banking activities	383	429
Other	281	316
Other operating income	**3,261**	**4,369**

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) in 2016.

(HUF million)	2017	2016
Other operating expenses		
Other taxes	19,200	20,272
Telecommunication and information systems expenses	918	1,047
Business travel cost	399	351
Professional fees	2,749	2,889
Cash processing and delivery	145	152
Manpower services	52	75
External bankcard services	70	70
Advisory fees	2,130	2,190
Other	352	402
Office supplies	164	140
Depreciation	5,862	4,743
Gains/(losses) on loans sold	(5,569)	(5,269)
Energy	0	3
Fees to public authorities	2,936	2,764
Advertising, PR and promotional expenses	1,552	1,011
Expenses from other non-banking activities	265	371
Fees and commissions expense	1,216	1,638
Other	881	1,195
Other operating expenses	**30,573**	**31,155**

Other taxes mainly contains the amount of HUF 3,887 million Special Tax on Financial Institutions (2016: HUF 5,383 million) and the amount of HUF 14,623 million Financial transaction duty (2016: HUF 14,273 million). The amount of the Special Tax on Financial Institutions decrease due to the changes of both the tax base and tax rate..

Notes to the consolidated financial statements

(11) Impairment and provision for losses

(HUF million)	Note	2017	2016
Impairment loss on		**(10,522)**	**4,674**
Cash and cash equivalents		0	(22)
Placements with banks	(16)	(1)	(40)
Specific allowances for impairment on loans and advances to customers	(17)	(8,920)	4,520
Collective allowances for impairment on loans and advances to customers	(17)	(1,669)	(135)
Investments in associates	(20)	(8)	157
Tangible assets	(21)	0	148
Goodwill	(23)	0	0
Other assets	(25)	76	46
Provision on		**1,111**	**(4,166)**
Guarantees and contingencies	(32)	1,111	(4,166)
Impairment and provision for losses		**(9,411)**	**508**

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.

(12) Personnel expenses

(HUF million)	2017	2016
Salaries	17,999	16,562
Social security contributions	4,720	5,197
Other personnel benefits	1,387	1,462
	24,106	**23,221**

(HUF million)	2017		2016	
	Staff (person)	Salary expense	Staff (person)	Salary expense
Full time	1,957	17,313	2,011	16,083
Part time	125	672	114	479
Pensioners	7	14	0	0
Other	0	0	0	0
	2,089	**17,999**	**2,125**	**16,562**

(13) Income tax

Income tax expense recognised in the consolidated income statement

HUF million)	2017	2016
Current tax expense	2,926	2,992
Corporate income tax	194	67
Local business tax	2,362	2,549
Innovation contribution	347	376
Deferred tax expense / (income)	(1,325)	4
Origination and reversal of temporary differences	(664)	0
Recognition of previously unrecognised tax losses	(661)	4
Income tax	**1,601**	**2,996**

In 2016 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. The corporate income tax rate has been reduced to 9% from 2017, therefore the deferred tax has been calculated with the tax rate of 9% since 2016.
There were HUF 1,293 million deferred tax asset and HUF 361 million deferred tax liability recognised by the Group in 2017 (2016: HUF 35 million deferred tax liability).

In 2017 the local business tax and the innovation contribution have been reclassified from operating expenses to income tax expense.

Reconciliation of effective tax rate

	2017		2016	
	(%)		(%)	
Profit before tax		32,109		18,011
Tax effects of items that modify the profit before tax under the Hungarian tax law	9.00%	2,890	19.00%	3,422
Recognition of previously unrecognised tax losses	(7.85%)	(2,522)	(7.92%)	(2,223)
Non-deductible expenses	(7.27%)	(2,333	(4.06%)	(1,303)
Non-deductible impairment	0.46%	147	0.45%	145
Tax-exempt income	(0.80%)	(258)	(2.03%)	(652)
Other	(0.10%)	(31)	(1.05%)	(337)
Not recognised tax asset or liability	(0.15%)	(47)	(1.24%)	(76)
Effect of applying tax rate of 10%	0.02%	5	(0.36%)	(116)
Corporate income tax return due to Supreme Court Act (Settlement Package)	0.00%	0	(0.32%)	(104)
Tax effects of items that modify the profit before tax under the Hungarian tax law:	(4.81%)	(1,543)	(3.88%)	(1,246)
Effect of consolidation	0.11%	34	1.05%	337
Effects of other income taxes	8.52%	2,737)	9.11%	2,926
Income tax	**4.99%**	**1,601**	**16.63%**	**2,996**

Income tax recognised in other comprehensive income

(HUF million)	2017	2016
Balance at 1 January	**(1)**	**16**
Increase in financial year	0	0
Decrease in financial year	357	17
Balance at 31 December	**(358)**	**(1)**

In 2017, the Group accounted HUF 357 million deferred tax expense (2016: HUF 17 million deferred tax income) in other comprehensive income.

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

(HUF million)	2017	2016
Loans and receivables	**58,172**	**37,420**
Interest income	47,658	41,811
Impairment losses	10,514	(4,391)
Financial assets and liabilities measured at fair value through profit or loss	**17,369**	**17,859**
Trading securities	1,818	4,298
Net interest income	3,868	4,312
Unrealised net gains/(losses)	(1,847)	(256)
Realised net gains/(losses)	(203)	242
Trading derivative instruments	12,314	13,188
Derivatives held for risk management	3,237	373
Held-to-maturity investments	**4,864**	**6,243**
Net interest income	4,847	6,212
Realised net gains/(losses)	17	31
Available-for-sale financial assets	**4,811**	**4,713**
Net interest income	3,552	2,487
Unrealised net gains/(losses)	1,437	2,356
Realised net gains/(losses)	(178)	(130)
Financial liabilities measured at amortised cost	**(20,995)**	**(22,714)**
Net interest expense	(20,995)	(22,714)
Net gains/losses on financial instruments	**64,221**	**43,521**

The net gain on financial instruments due to the decrease of impairment amounting to HUF 14,905 million, which is represented in note 17.
In 2016 there were HUF 7,579 million recognised as interest expense related to the guarantee fee of securitization.
In 2017 there were no guarantee fee recognised as the related contract was terminated in October 2016.

(15) Cash and cash equivalents

(HUF million)	2017			2016		
	HUF	Foreign Currency	Total	HUF	Foreign Currency	Total
Cash and cheques	40,359	9,648	**50,007**	19,692	7,625	**27,317**
Balances with National Bank of Hungary ('NBH')	240,585	6,202	**246,787**	208,580	12,440	**221,020**
Balances with other banks	6	14,351	**14,357**	355	20,711	**21,066**
Cash and cash equivalents	**280,950**	**30,201**	**311,151**	**228,627**	**40,776**	**269,403**

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% (2016: 1%) of certain deposits. The required average reserve balance amounted to HUF 14,367 million (2016: HUF 25,344 million). The rate of compulsory reserve decreased from the former 2% to 1% at 01/12/2016 that caused the decrease of the average reserve balance. The compulsory reserve requirement may also be met by the Group's holding of government securities (see Note 18 and 19).

In 2017 the cash at money exchange agents has been reclassified from other assets to cash and cash equivalents.

(16) Placements with banks

2017 (HUF million)	Up to 1 year		Over 1 year		Total
	HUF	FCY	HUF	FCY	
National Bank of Hungary	11,307	0	0	0	**11,307**
Other Banks	38,180	166,504	0	11,260	**215,944**
Impairment losses	0	0	0	0	**0**
Placements with banks	**49,487**	**166,504**	**0**	**11,260**	**227,251**

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**

The claim on Hungarian National Bank runs to the margin call of the derivative deals. Placements with banks decreased by HUF 20,093 million in 2017 compared to the previous year.

Specific allowances for impairment (HUF million)

(HUF million)	2017	2016
Balance at 1 January	**1**	**41**
Impairment loss for the year:	(1)	(40)
Charge for the year	0	1
Recoveries	(1)	(41)
Effect of foreign currency movements	0	0
Unwinding of discount	0	0
Write-offs	0	0
Balance at 31 December	**0**	**1**

(17) Loans and advances to customers

Loans and advances to customers

2017 (HUF million)	Gross amount	Of which: Non-performing loans	Specific allowances for impairment	Collective allowances for impairment	Carrying amount
Corporate					
Trading and industrial	289,946	565	7,021	711	282,214
Commercial real estate	173,172	14,141	3,721	432	169,019
Other	232,525	21,450	13,571	410	218,544
Total corporate	**695,643**	**36,156**	**24,313**	**1,553**	**669,777**
Retail	252,627	30,773	17,920	9,728	224,979
Government and public sector	5,799	4	4	0	5,795
Loans and advances to customers	**954,069**	**66,933**	**42,237**	**11,281**	**900,551**

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**

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

Special provisions relative to credit portfolio

„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.

The fundings from NBH and the lended loans classified as off-market instruments. In line with the instructions of IAS39 AG64 and AG65 the Bank calculates the fair value difference between the market price and the off market price. The difference is amortised as an interest expense / income.

At the end of 2017 the FGS refinancing loan was HUF 81.435million (in 2016 was HUF 92,448 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 recognised 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 458 million was recognised as income (in 2016 it was HUF 414 million) from derivative instruments.

The initial fair value calculation is based on the discounted fair value of market based yield curve of bid prices. The clear indication of Off market price is the significant difference of initial fair value between similar instrument with market based interest rate and those fundings which were received under this lending scheme.

Allowances for impairment

Specific allowances for impairment on loans and advances to customers (HUF million)	2017	2016
Balance at 1 January	**85,425**	**152,542**
Impairment loss for the year:	**(8,920)**	**4,520**
Charge for the year	14,076	19,588
Recoveries	(22,996)	(15,068)
Effect of foreign currency movements	(158)	(157)
Write-offs	(34,110)	(71,126)
Change in consolidation group	0	(354)
Balance at 31 December	**42,237**	**85,425**

Collective allowances for impairment on loans and advances to customers (HUF million)	2017	2016
Balance at 1 January	**13,116**	**13,508**
Impairment loss for the year:	(1,669)	(135)
Charge for the year	2,972	6,544
Recoveries	(4,641)	(6,679)
Effect of foreign currency movements	(56)	(28)
Write-offs	(110)	(199)
Change in consolidation group	0	(30)
Balance at 31 December	**11,281**	**13,116**

As at 31 December 2017 accumulated impairment losses amounted to HUF 53,518 million (2016: HUF 98,541 million), equal to 5.61% (2016: 10.55 %) 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, 2016 and 2017, 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:

2017 (HUF million)	Up to 1 year	1 year to 5 years	Over 5 years	Total
Gross investment leases	13,551	37,622	7,864	**59,037**
Unearned finance income	1,174	2,377	772	**4,323**
Net present value of minimum lease payments	**12,377**	**35,245**	**7,092**	**54,714**
Accumulated allowance for uncollectible minimum lease payments	265	37	0	**302**
Finance leases per balance sheet	**12,112**	**35,208**	**7,092**	**54,412**

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**

The Leasing Group entered into new businesses amounting to 20,145 million HUF.(2016:HUF 18,611 million)

In Leasing Group in 2017, nil contingent rent was recognised in finance income (2016: nil), and unguaranteed residual value amounted to HUF 5,416 million (2016: HUF 4,386 million). At 31 December 2017, the accumulated allowance for uncollectible minimum lease payments amounted HUF 302 million (2016: HUF 1,567 million). Original contracted maturities range from 1 year to 34 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)	2017				2016			
	Cost	Accrued interest	Unre-alised gain/ loss	Book value	Cost	Accrued interest	Unre-alised gain/ loss	Book value
Debt and equity instruments:								
Government bonds	72,731	1,710	(2,582)	71,859	81,339	1,675	(827)	82,187
Treasury bills	19,917	293	49	20,259	24,070	153	61	24,284
Corporate bonds and other bonds	1,632	16	125	1,773	1,852	17	113	1,982
Bank bonds	280	0	0	280	117	0	1	118
Shares	918	0	(5)	913	1,272	0	89	1,361
Debt and equity instruments	**95,478**	**2,019**	**(2,413)**	**95,084**	**108,650**	**1,845**	**(563)**	**109,932**
Derivative financial instruments:								
Derivatives held for trading								
FX swaps	363	(40)	2,226	2,549	388	57	4,141	4,586
FX forwards	0	0	1,421	1,421	0	0	4,642	4,642
FX futures	0	0	1,131	1,131	0	0	1,492	1,492
FX options	0	0	1,027	1,027	0	0	1,630	1,630
Interest rate derivatives	0	3,237	13,816	17,053	0	3,786	11,781	15,567
Derivatives held for trading	**363**	**3,197**	**19,621**	**23,181**	**388**	**3,843**	**23,686**	**27,917**
Derivatives held for risk management:								
FX swaps	134	20	91	245	1,771	(37)	1,351	3,085
Hereof cross currency interest rate swaps in cash flow hedges	46	1	(22)	25	0	3	430	433
Interest rate derivatives	0	2,269	6,545	8,814	0	3,880	7,985	11,865
Hereof interest rate swaps in cash flow hedges	0	57	732	789	0	0	0	0
Hereof interest rate swaps in fair value hedges	0	227	1,232	1,459	0	375	1,636	2,011
Derivatives held for risk management	**134**	**2,289**	**6,636**	**9,059**	**1,771**	**3,843**	**9,336**	**14,950**
Total derivative financial instruments	**497**	**5,486**	**26,257**	**32,240**	**2,159**	**7,686**	**33,022**	**42,867**
Total financial asset at fair value through profit or loss	**95,975**	**7,505**	**23,844**	**127,324**	**110,809**	**9,531**	**32,459**	**152,799**

The figures related to debt and equity instruments show the new stock of Government bonds and treasury bills under Financial assets at fair value through profit or loss in year 2017, except for Available-for-sale securities, which changes of fair value are recognised in other comprehensive income.

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.

Notes to the consolidated financial statements

(19) Investment in securities

At 31 December 2017, no Investment in securities were pledged as collateral for liabilities (2016: HUF nil million)

During 2017, in connection with available-for-sale investment securities an income of HUF 1,374 million (2016: HUF 3,671 million) was recognised in other comprehensive income and a loss of HUF (63) million (2016: income of HUF 1,315 million) was reclassified from other comprehensive income to profit or loss.
In 2017, 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 bank and government bonds.

During 2017 the Bank sold securities from Held-to-maturity at once time. Due to the close maturity (appr. 3 months remained till maturity) it was expected to be indifferent whether to hold or sell this bond, as the movements of the interest rates till the maturity had not had a significant impact on its fair value.

(HUF million)	2017					2016				
Available-for-sale securities	Cost	Accrued interest	Unrealised gain/loss	Discount/Premium	Book value	Cost	Accrued interest	Unrealised gain/loss	Discount/Premium	Book value
Bank bonds	169,171	233	1,147	(59)	170,492	70,007	56	451	(44)	70,470
Investment fund units	652	0	33	0	685	650	0	35	0	685
Government bonds	201,639	3,928	4,505	(7,730)	202,342	136,619	3,102	3,054	(3,557)	139,218
Treasury bills	0	0	0	0	0	0	0	0	0	0
	371,462	4,161	5,685	(7,789)	373,519	207,276	3,158	3,540	(3,601)	210,373

(HUF million)	2017					2016				
Held-to-maturity securites	Cost	Accrued interest	Discount/Premium	Impairment	Book value	Cost	Accrued interest	Discount/Premium	Impairment	Book value
Corporate bonds and other	0	0	0	0	0	0	0	0	0	0
Government bonds	133,844	1,791	(3,585)	0	132,050	148,201	2,548	(1,437)	0	149,312
Bank bonds	60,000	3	0	0	60,003	60,000	47	0	0	60,047
	193,844	1,794	(3,585)	0	192,053	208,201	2,595	(1,437)	0	209,359

(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)	2017	
	Ownership	Carrying value
RC Gazdasági és Adótanácsadó Zrt.	20,00%	4
Garantiqa Hitelgarancia Zrt.	0,19%	15
SWIFT	0,02%	13
VISA	0,03%	535
CF Pharma	13,19%	15
Pannon Lúd Kft.	0,89%	5
	-	587

(HUF million)	2016	
	Ownership	Carrying value
RC Gazdasági és Adótanácsadó Zrt.	20,00%	4
Garantiqa Hitelgarancia Zrt.	0,19%	15
SWIFT	0,02%	10
VISA Inc.	0,03%	391
CF Pharma	13,19%	15
Pannon Lúd Kft.	0,89%	5
	-	440

The Bank had VISA Europe share in 2015 to market price HUF 1,316 million. 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

2017 (HUF million)	Gross carrying amount as at 1 January 2017	Additions	Disposals	Thereof Impairment	Gross carrying amount as at 31 December 2017
Properties	11,196	235	313	290	11,118
Freehold	346	0	0	0	346
Leasehold	10,850	235	313	290	10,772
Tangible assets	999	0	0	0	999
Equipment	26,336	1,012	881	121	26,467
Total	38,531	1,247	1,194	411	38,584

2017 (HUF million)	Accumulated depreciaton as at1 January 2017	Depreciation for the year	Disposals	Thereof Impairment	Accumulated depreciation	Carrying amount as at 1 January 2017	Carrying amount as at 31 December 2017
Properties	7,063	737	298	216	7,502	4,133	3,616
Freehold	168	2	0	216	170	178	176
Leasehold	6,895	735	298	0	7,332	3,955	3,440
Tangible assets	434	0	0	119	434	565	565
Equipment	15,098	1,446	493	0	16,051	11,238	10,416
Total	22,595	2,183	791	335	23,987	15,936	14,597

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
Total	40,086	1,049	2,604	610	38,531

Notes to the consolidated financial statements

2016 (HUF million)	Accumulated depreciaton as at 1 January 2016	Depreciation 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**
Total	**22,751**	**1,759**	**1,915**	**462**	**22,595**	**17,335**	**15,936**

(22) Intangible assets

2017 (HUF million)	Gross carrying amount as at 1 January 2017	Additions	Disposals	Thereof Impairment	Gross carrying amount as at 31 December 2017	Accumulated depreciation as at 1 January 2017
Softwares	41,000	4,545	1,173	1,166	44,372	28,277
Other intangible assets	516	0	221	83	295	257
Total	**41,516**	**4,545**	**1,394**	**1,249**	**44,667**	**28,534**

2017 (HUF million)	Depreciation for theyear	Disposals	Thereof Impairment	Accumulated depreciation	Carrying amount as at 1 January 2017	Carrying amount as at 31 December 2017
Softwares	3,639	1,136	348	30,780	12,723	13,592
Other intangible assets	39	116	72	180	259	115
Total	**3,678**	**1,252**	**420**	**30,960**	**12,982**	**13,707**

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 the year	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**

(23) Goodwill

The Group's consolidated financial statement contains goodwill in HUF 1,048 million both in 2017 and in 2016. 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 2017 and nor 2016 new goodwill was recognised and no impairment losses on goodwill were recognised during these periods.

(24) Operating leases

Leases as a lessee

Non-cancellable operating lease rentals are payable as follows

(HUF million)	2017	2016
Less than 1 year	3,091	3,575
Between 1 and 5 years	11,105	14,301
More than 5 years	405	382
Total	**14,601**	**18,258**

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.
Most of the contracts have 3 or 5 year lease period with an extension option of 3 and 5 years.
Contracts shorter than 3 years lease period have an extension option of 1 or 2 years. Indefinite contracts have a one year notice period.

During the year ended 31 December 2017 an amount of HUF 6,413million was recognised as an expense in profit or loss in respect of operating leases (2016: HUF 3,967 million).

(25) Other assets

(HUF million)	2017	2016
Other tax receivables	248	2,136
Receivables from investment activities	7,177	24,171
Accruals	1,917	4,448
Inventory	1,469	2,192
Lease investments in the process of production	0	1,368
Properties taken over from receivables	1,262	574
Other	207	250
Receivables from purchase, sale of currencies	4,842	2,397
Receivables from of debt securities	0	121
Receivables from customers	52	165
Other	1,459	609
Other assets	**17,164**	**36,239**
Hereof : specific impairment	1,740	1,740
Specific impairment		
Balance at 1 January	**1,740**	**1,964**
Impairment loss for the year:	76	46

Charge for the year	89	127
Recoveries	(13)	(81)
Effect of foreign currency movements	0	(63)
Write-offs	(76)	(105)
Change in consolidation group	0	(102)
Balance at 31 December	**1,740**	**1,740**

The Bank shows the properties taken over from receivables under inventories, which have net book value of HUF 1,262 million in 2017 (2016: HUF 574 million).

In 2016 inventory contains mainly real estate developments in progress HUF 1,368 million in 2016 of Raiffeisen Corporate Lízing Zrt.

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

In 2017 the cash at money exchange agents has been reclassified from other assets to cash and cash equivalents.

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

(HUF million)	2017				2016			
	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	363	(40)	2,724	3,047	388	57	4,074	4,519
FX forwards	0	0	1,031	1,031	0	0	3,955	3,955
Short positions	1,596	0	0	1,596	0	0	0	0
Foreign exchange futures	0	0	686	686	0	0	1,559	1,559
Foreign exchange options	0	0	995	995	0	0	1,367	1,367
Interest rate derivatives	0	3,009	14,084	17,093	0	3,330	11,569	14,899
Total derivative instruments held for trading	**1,959**	**2,969**	**19,520**	**24,448**	**388**	**3,387**	**22,524**	**26,299**
Derivative instruments held for risk management purposes								
FX swaps	580	142	2,778	3,500	2,961	293	5,042	8,296
Hereof cross currency interest rate swaps in cash flow hedges	(13)	13	533	533	63	691	8	762
Interest rate derivatives	0	1,753	6,684	8,437	0	2,182	5,680	7,862
Hereof interest rate swaps in cash flow hedges	0	(2)	497	495	0	416	3	419
Hereof interest rate swaps in fair value hedges	0	43	628	671	0	280	9	289
Total derivative instruments held for risk management purposes	**580**	**1,895**	**9,462**	**11,937**	**2,961**	**2,475**	**10,722**	**16,158**
Total financial liabilities at fair value through profit or loss	**2,539**	**4,864**	**28,982**	**36,385**	**3,349**	**5,862**	**33,246**	**42,457**

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

Notes to the consolidated financial statements

2017	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
Resident	6,944	42,817	77,023	111,781	**238,565**
Non resident	39,875	2,266	0	7,513	**49,654**
	46,819	**45,083**	**77,023**	**119,294**	**288,219**

2016	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
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**

Compared to the previous year's decline in bank deposits there is a bigger increase, mainly due to the decrease in foreign currency deposits.

(28) Deposits from non-banks

2017	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
Resident	1,005,474	424,764	7,697	981	**1,438,916**
Non resident	24,743	37,317	1	193	**62,254**
	1,030,217	**462,081**	**7,698**	**1,174**	**1,501,170**

2016	Under 1 year		More than 1 year		Total
(HUF million)	HUF	FCY	HUF	FCY	
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**

The deposits from non-banks also grew compared to the previous year, in case of local currency deposits within 1 year can be seen higher growth.

(29) Debt securities issued

2017 (HUF million) Type of interest	3 month or less		3-12 months		1-5 years		more than 5 years		Total	
	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	1,000	1,000	0	0	1,000	1,000
fix	0	0	3,051	3,798	12,970	14,471	930	1,049	16,951	19,318
indexed	0	0	1,324	1,339	0	0	0	0	1,324	1,339
floating	0	0	0	0	620	652	0	0	620	652
Debt securities issued	**0**	**0**	**4,375**	**5,137**	**14,590**	**16,123**	**930**	**1,049**	**19,895**	**22,309**

2017 (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	645	651	0	0	645	651
fix	0	0	78	102	2,713	3,115	203	244	2,994	3,461
indexed	0	0	477	483	0	0	0	0	477	483
floating	0	0	0	0	0	0	0	0	0	0
Repurchased own debt securities	**0**	**0**	**555**	**585**	**3,358**	**3,766**	**203**	**244**	**4,116**	**4,595**
Net debt securities issued	**0**	**0**	**3,820**	**4,552**	**11,232**	**12,357**	**727**	**805**	**15,779**	**17,714**

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	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**

30) Subordinated liabilities

	2017					
Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (HUF million)
Raiffeisen Bank International AG	2017.12.29	25	EUR	5.35%	2024.12.31	7,821
Raiffeisen Bank International AG	2017.12.29	25	EUR	5.35%	2024.12.31	7,821
Raiffeisen Bank International AG	2017.12.29	40	EUR	5.50%	2024.12.31	12,531
Raiffeisen Bank International AG	2017.12.29	20	EUR	5.42%	2024.12.31	6,299
Raiffeisen Bank International AG	2017.12.29	30	EUR	5.56%	2024.12.31	9,309
Subordinated liabilities						**43,781**

	2016					
Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest	Due date	Carrying amount (HUF million)
Raiffeisen Bank International AG	2008.06.27	30	EUR	2.96%	2020.06.30	9,332
Raiffeisen Bank International AG	2013.12.23	20	EUR	5.80%	2021.05.03	6,318
Raiffeisen Bank International AG	2014.01.30	20	EUR	5.80%	2021.07.30	6,282
Raiffeisen Bank International AG	2014.01.30	40	EUR	5.80%	2021.07.30	12,565
Raiffeisen Bank International AG	2014.02.07	25	EUR	5.77%	2021.02.08	7,844
Raiffeisen Bank International AG	2014.02.07	25	EUR	5.77%	2021.02.08	7,844
Raiffeisen Bank International AG	2014.02.07	20	EUR	5.77%	2021.02.08	6,275
Raiffeisen Bank International AG	2014.02.07	10	EUR	5.77%	2021.02.08	3,138
Subordinated liabilities						**59,598**

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)	2017	2016
Other taxes payable	2,955	3,722
Giro, postal clearing accounts, cash in transit	197	197
Suppliers	2,395	2,885
Payables relating to investment activities	63,624	66,600
Accruals	6,731	6,863
Other liabilities from security businesses	841	382
Other liabilities for customers	1,574	1,947
Other	(316)	2,048
Other liabilities	**78,001**	**84,644**

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

(32) Provisions

2017 (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	1,745	0	1,568	(350)	0	(2)	2,961
Provision for pending legal issues	1,198	0	757	(987)	0	(78)	890
Provisions for overdue vacations	420	0	0	(9)	0	0	411
Provision for share incentive program	86	0	6	0	(50)	1	43
Provision for salaries	0	0	0	0	0	0	0
Provision for on-going audit and for fine	139	0	694	(139)	0	0	694
Provision for rental expenses	322	0	2,693	0	(262)	1	2,754
Provision for Settlement Act cash-out	0	0	0	0	0	0	0
Sundry provisions	1,182	0	165	(66)	(1)	0	1,280
Provisions	**5,092**	**0**	**5,883**	**(1,551)**	**(313)**	**(78)**	**9,033**

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**

The provision increased significantly in 2017 due to provision for rental expenses and provision for guarantee of the retail mortgage loan sale. Note 47. Event after the balance sheet date contains the futher explanation of provision for onerous rental contract.

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

The Group has no assets and liabilities held for sale and no material discontinued operations in 2017 either.

(34) Share capital

As at 31 December 2017 and 2016, the equity structure of the Group consisted of the following classes of shares:

	2017 (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**

	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**

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

IThere was no change in share capital in the last two years.

As at 31 December 2017 and 2016, the Group held no treasury shares in its portfolio.

While there was no dividend payment based on the result of 2016, there will be dividend payment based on 2017.

(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. As there was a significant amount of positive capital reserves accumulated in the previoius years due to capital issuances, while the balance of retained earnings was negative, the owner has decided to transfer HUF 176,649 million capital reserves into retained earnings in 2017. The MNB's permission to the transaction was granted in April 2017.

General reserve

In accordance with section 83 chapter 38 of the No. CCXXXVII Hungarian Act of 2013 and section 40 of the No. CLXXVIII. Accounting Act of 2015, a general reserve equals to 10% of net income after tax is required to be set aside. According to this it was transferred into general reserve HUF 2,854 million in 2017 (HUF 1,805 million in 2016). This transfer is treated as appropriations of retained earnings and is 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 derecognised 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

After Raiffeisen Lízing Zrt.'s (the former subsidiary of the Bank) activity was taken over by Raiffeisen Corporate Lízing Zrt., the Bank sold Raiffeisen Lízing Zrt. So there is no non-controlling interest in the consolidated financial statements for the current year.

(38) Other comprehensive income

According to IAS39 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)	2017	2016
Deferred tax assets	1,293	0
Deferred tax liabilities	361	35
Net deferred taxes	**932**	**(35)**

(HUF million)	2017			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Cash and cash equivalents	0	0	0	0	0	0
Placements with banks	0	0	0	0	0	0
Loans	0	0	0	0	748	(748)
Financial assets at fair value through profit or loss	0	31	(31)	13	0	13
Available for sale securities	0	430	(430)	0	60	(60)
Investments in associated undertakings	0	0	0	0	48	(48)
Investments in unlisted securities	0	0	0	4	0	4
Property, plant and equipment	0	76	(76)	0	56	(56)
Intangible assets	0	0	0	0	3	(3)
Deposits from non-banks	0	0	0	3	0	3
Debt securities issued	0	0	0	0	10	(10)
Financial liabilities at fair value through profit or loss	100	0	100	0	0	0
Provisions	694	0	694	448	0	448
Other items	11	0	11	207	315	(108)
Probably useable tax loss carry-forwards	664	0	664	530	0	530
Set-off of tax	(176)	(176)	0			
Net tax assets (liabilities)	**1,293**	**361**	**932**	**1,205**	**1,240**	**(35)**

In 2017 there were recognised HUF 1,293 million deferred tax asset, from which HUF 629 million HUF due to income tax receivable in future periods in respect of taxable temporary differences and 664 million HUF due to tax loss carry forwards probably usable in the near future according to the Group's opinion.
Furthermore there were recognised HUF 361 million deferred tax liability related to the fair value of available-for-sale assets and cash flow hedge items recognised in other comprehensive income (2016: HUF 35 million deferred tax liability).

In 2017 the Bank has probably not usable tax loss carry-forwards in amount of HUF 196,501 million. In 2016 the Bank had HUF 221.348 million probably not usable tax loss carry-forwards and there were no deferred tax asset recognised on it, as it was not probable that 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:

2017 (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	(32)	32	0	0	0	0
Financial assets at fair value through profit or loss	(32)	0	(31)	(31)	0	(31)
Available for sale securities	(3)	0	(427)	(430)	0	(430)
Property, plant and equipment	0	(76)	0	(76)	0	(76)
Other items	0	11	0	11	11	0
Financial liabilities at fair value through profit or loss	0	0	100	100	100	0
Provisions	0	694	0	694	694	0
Tax losses carried forward	0	664	0	664	664	0
Tax assets (liabilities) before set-off	**(35)**	**1,325**	**(358)**	**932**	**1,469**	**(537)**
Set-off of tax					(176)	176
Net tax assets (liabilities)	**(35)**	**1,325**	**(358)**	**932**	**1,293**	**(361)**

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)	0	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)**

(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 recognised at the balance sheet date if the counterparties failed to perform as contracted.

(HUF million)	2017	2016
	Nominal value	Nominal value
Contingencies		
Import letters of credit	3,498	5,033
Export letters of credit	0	0
Guarantees issued	119,317	114,788
Other contingencies (including litigation)	8,490	11,542
Total contingencies	**131,305**	**131,363**
Commitments		
Unutilized loan facilities	166,438	149,425
Unutilized overdraft facilities	194,395	197,550
Unutilized guarantee frames	74,614	74,586
Other commitments	11	43
Total commitments	**435,458**	**421,604**
Total commitments and contingencies	**566,763**	**552,967**

Notes to the consolidated financial statements

These commitments and contingent liabilities are exposed to off-balance sheet credit risk because only organization fees and provision for probable losses are recognised 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 recent two main offices in Budapest amounting HUF 1,397 million in 2017 for 2018 (in 2016 rental commitment for 2017 amounted to HUF 1,416 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).

The table below analyses financial instruments by valuation method:

2017 (HUF million)	Fair value through other compre-hensive income	Amor-tized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
FINANCIAL ASSETS									
Cash and cash equivalents	0	311,151	0	0	**311,151**	**311,151**	311,151	0	0
Placements with banks	0	227,251	0	0	**227,251**	**227,251**	0	227,251	0
Net loans	0	900,551	0	0	**900,551**	**924,229**	0	875,569	48,660
Financial assets at fair value through profit or loss	0	0	104,143	23,181	**127,324**	**127,324**	104,143	23,181	0
Available for sale securities	373,519	0	0	0	**373,519**	**373,519**	372,834	685	0
Held to maturity securities	0	192,053	0	0	**192,053**	**203,086**	203,086	0	0
Investments in unlisted securities	587	0	0	0	**587**	**587**	0	535	52
Total financial assets	**374,106**	**1,631,006**	**104,143**	**23,181**	**2,132,436**	**2,167,147**	**991,214**	**1,127,221**	**48,712**
FINANCIAL LIABILITIES									
Deposits from banks	0	288,219	0	0	**288,219**	**291,224**	0	291,224	0
Deposits from non-banks	0	1,501,170	0	0	**1,501,170**	**1,501,191**	0	1,501,191	0
Debt securities issued	0	17,714	0	0	**17,714**	**18,323**	0	18,323	0
Subordinated liabilities	0	43,781	0	0	**43,781**	**43,781**	0	0	43,781
Financial liabilities at fair value through profit or loss	0	0	11,937	24,448	**36,385**	**36,385**	0	36,385	0
Total financial liabilities	**0**	**1,850,884**	**11,937**	**24,448**	**1,887,269**	**1,890,904**	**0**	**1,847,123**	**43,781**

2016 (HUF million)	Fair value through other compre-hensive income	Amor-tized cost	Fair value through profit and loss	Trading	Total carrying amount	Fair value	Level1	Level2	Level3
FINANCIAL ASSETS									
Cash and cash equivalents	0	269,403	0	0	**269,403**	**269,403**	269,403	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**	**854,776**	0	801,684	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**	209,688	685	0
Held to maturity securities	0	209,359	0	0	**209,359**	**216,782**	216,782	0	0
Investments in unlisted securities	440	0	0	0	**440**	**440**	0	390	50
Total financial assets	**210,813**	**1,564,402**	**124,882**	**27,917**	**1,928,014**	**1,955,109**	**795,959**	**1,106,008**	**53,142**

Notes to the consolidated financial statements

FINANCIAL LIABILITIES									
Deposits from banks	*0*	*263,782*	*0*	*0*	***263,782***	***267,308***	*0*	*267,308*	*0*
Deposits from non-banks	*0*	*1,325,354*	*0*	*0*	***1,325,354***	***1,325,418***	*0*	*1,325,418*	*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***	***1,734,445***	***0***	***1,674,847***	***59,598***

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 are shown as loans and receivables at amortised cost.

Tondach Participation Right was recognised 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 Group.

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 amortized cost or 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. The calculation process is the following: in case of a counterparty an expected future (in certain periods) exposure (Mark-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)

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, interest rates of Interest Rate Swaps and Forward Rate Agreements, ASW spreads (Asset Swap Spreads).

Notes to the consolidated financial statements

VII) Debt securities issued, Subordinated liabilities (Hierarchy level 2 and 3)

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.
In case of debt securities issued, RAC (range accrual) and autocallable bonds are existing. These instruments are covered with similar featured Swap contracts with the parent company.
Value of embeded option is calculated from the structured leg of the hedging swap that has the same characteristics as the option. The valuation of the swap is done by Murex on a daily basis.

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.
The debt securities issued are measured at amortized cost and they are not revalued, except in cases where bonds are qualify for hedge accounting. In this case only interest rate risk is hedged, not credit risk.

(42) 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:

	2017 (HUF million)			2016 (HUF million)		
Related parties	Parent company and its group	Associates	Key management	Parent company and its group	Associates	Key management personnel
Assets	**337,925**	**0**	**12**	**292,322**	**0**	**18**
Placements with banks	209,971	0	0	232,858	0	0
Loans and advances to customers	0	0	12	89	0	18
Financial assets at fair value through profit or loss	19,433	0	0	27,962	0	0
Available for sale assets	108,456	0	0	31,288	0	0
Other assets	65	0	0	125	0	0
Liabilities	**98,925**	**0**	**217**	**100,487**	**0**	**563**
Financial liabilities at fair value through profit or loss	25,799	0	0	29,190	0	0
Deposits from banks	28,711	0	0	6,475	0	0
Deposits from non-banks	336	0	217	5,219	0	563
Subordinated liabilities	43,781	0	0	59,598	0	0
Other liabilities	298	0	0	5	0	0
Income statement	**(7,528)**	**0**	**(900)**	**(9,520)**	**0**	**(859)**
Interest income	1,746	0	0	3,501	0	0
Interest expense	(5,477)	0	(1)	(9,838)	0	(1)
Net fee and commission income	52	0	1	61	0	0
Net trading income	298	0	1	(11,806)	0	1
Net income from derivatives held for risk management	(2,460)	0	0	10,492	0	0
Other operating income	44	0	0	9	0	0
Impairment losses	0	0	0	0	0	0
Personnel expenses	0	0	(901)	0	0	(859)
Other operating expenses	(1,731)	0	0	(1,939)	0	0
Contingencies and commitments	**1,766**	**0**	**0**	**6,091**	**0**	**0**
Undrawn commitments to extend credit	0	0	0	4,232	0	0
Guarantees	1,766	0	0	1,859	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.
Some impairment gains have been recorded against balances outstanding during the current period with related parties, and specific allowance has been made for impairment losses on balances with related parties at the period end.

(43) Group entities

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

Company	Ownership ratio 2017	Ownership ratio 2016	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 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 Kárász utca Ingatlankezelő Kft.	100,00%	100,00%	1054 Bp., Akadémia u. 6.	Management of real estate on a fee or contract basis
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
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.

In the current period the Bank has purchased SCTS Ingatlanfejlesztő és Ingatlanhasznosító Kft. from Raiffeisen Gazdasági Szolgáltató Zrt., so the company became directly the whole-owned subsidiary of the Bank.

(44) Funds management

The Group manages 0 close-ended (2016: 0) and 15 open-ended (2016: 18) 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 2017 and 2016, transactions with the funds themselves were as follows:

(HUF million)	2017	2016
Managed funds	**155,349**	**138,893**
Open-ended funds	155,349	138,893
Close-ended funds	0	0
Net fee and commission income from funds	1,708	1,280
Deposits from funds	9,971	41,014
Interest expense on deposits from funds	71	370

Among open-ended funds there were no fix term funds in the two last years. Deposit from funds contains deposits on demand and with agreed repayment period.

(45) 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, taxes) are included in this category.

2017 (HUF million)	Corporate	Retail/ Private	Bank/ Treasury	Other	Total
ASSETS					
Cash, cash equivalents and placements with banks	23,969	0	450,686	63,747	**538,402**
Loans	651,917	277,239	5,085	19,828	**954,069**
Impairment losses	(23,180)	(18,334)	0	(12,004)	**(53,518)**
Financial assets at fair value through profit or loss	-212	0	117,943	9,593	**127,324**
Available for sale securities	1,768	20,258	350,808	685	**373,519**
Held to maturity securities	0	0	192,053	0	**192,053**
Equity investments	587	0	0	0	**587**
Tangible and intangible fixed assets	7,493	0	910	19,901	**28,304**
Goodwill	0	0	0	1,048	**1,048**
Current tax assets	0	0	0	613	**613**
Deferred tax assets	0	0	0	1,293	**1,293**
Other assets	1,557	152	3,655	11,800	**17,164**
Assets classified as held for sale	0	0	0	0	**0**
Total assets	**663,899**	**279,315**	**1,121,140**	**116,504**	**2,180,858**
LIABILITIES AND EQUITY					
Deposits from banks	16,804	20,261	251,010	144	**288,219**
Deposits from non-banks	626,728	742,374	0	132,068	**1,501,170**
Debt securities issued	8,300	6,046	0	3,368	**17,714**
Subordinated liabilities	0	0	0	43,781	**43,781**
Financial liabilities at fair value through profit or loss	0	0	24,069	12,316	**36,385**
Current tax liabilities	0	0	0	6	**6**
Deferred tax liabilities	0	0	0	361	**361**
Provisions	0	0	0	9,033	**9,033**
Other liabilities	8,580	54,284	264	14,873	**78,001**
Liabilities classified as held for sale	0	0	0	0	**0**
Total liabilities	**660,412**	**822,965**	**275,343**	**215,950**	**1,974,670**
Total equity	**0**	**0**	**0**	**206,188**	**206,188**
Total liabilities, non controlling interest and shareholder's equity	**660,412**	**822,965**	**275,343**	**422,138**	**2,180,858**
INCOME STATEMENT					
Net interest income	12,367	22,493	4,487	(417)	**38,930**
hereof intersegment	(102)	(114)	3,562	1,352	**4,698**
Net fee and commission income	15,008	25,340	(8,980)	2,750	**34,118**
Dividend income	3	0	0	0	**3**
Net trading income	(81)	0	10,951	(606)	**10,264**
Net income from derivatives held for risk management	0	0	0	3,237	**3,237**
Other operating income	2,599	24	(1,671)	2,309	**3,261**
Impairment losses	(940)	(7,278)	(10)	(1,183)	**(9,411)**
Operating expenses	19,890	35,257	605	11,363	**67,115**
Profit/(loss) before tax	**10,946**	**19,878**	**4,192**	**(2,907)**	**32,109**
Income tax expense	0	0	0	2,926	**2,926**
Deferred tax	0	0	0	(1,325)	**(1,325)**
Profit/(loss) for the period	**10,946**	**19,878**	**4,192**	**(4,508)**	**30,508**

Notes to the consolidated financial statements

2016 (HUF million)	Corporate	Retail/ Private	Bank/ Treasury	Other	Total
ASSETS					
Cash, cash equivalents and placements with banks	38,752	0	451,358	29,829	519,939
Loans	626,054	290,770	3,263	13,559	933,646
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	110	110
Deferred tax assets	0	0	0	0	0
Other assets	8,778	115	15,267	12,079	36,239
Assets classified as held for sale	0	0	0	0	0
Total assets	**626,714**	**264,450**	**1,024,453**	**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	1,741	(3,129)	(21)	1,917	508
Operating expenses	17,801	34,894	512	10,307	63,514
Profit/(loss) before tax	**9,417**	**17,106**	**3,908**	**(12,420)**	**18,011**
Income tax expense	0	0	0	2,992	2,992
Deferred tax	0	0	0	4	4
Profit/(loss) for the period	**9,417**	**17,106**	**3,908**	**(15,416)**	**15,015**

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.

(46) Disclouser according to the Hungarian Accounting Standard

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.

I. Head of accounting Tibor Gáspár is entitled to perform bookkeeping services (registration number: 168480, address: 2330 Dunaharaszti, Király út 38.)

II. Agnes Tölgyes Chief Financial Officer (address: 1124 Budapest, Nárcisz utca 54. 1. em. 5.) and Tibor Gáspár Head of Accounting Department are obliged to sign these consolidated financial statements.

III. The Group is obliged to have regulatory audit according to the Act C of 2000 on Accounting in force in Hungary and the auditor is KPMG Hungária Kft. (registration number: 000202), the auditor in charge is Gábor Agócs (registration number: 005674). The audited concolidated annual financial statements of the Group is published by the Court of registration and also avaivale at the home page of the Group, at www. raiffeisen.hu.

The following fees were charged by KPMG Hungária Kft. and KPMG Tanácsadó Kft. in 2017 and 2016:

(HUF million)	2017	2016
Audit fee	63	65
Other assurance services	16	11
Services other that audit fee	56	39
Total	**135**	**115**

(47) Events after the balance sheet date

The owner of the Bank decided to pay a dividend of HUF 17,640 million on the basis of the ownership decision of April 26, 2018. The amount will be settled in April 2018. Dividend payment represents a decrease of 171 basis points in the value of the capital adequacy ratio, which does not threaten the Bank's operation.

In line with the Bank's long-term efficiency-enhancing strategic goals, the Bank's management has decided to move its management and central operations units to a joint headquarters. In the framework of the preparation work, it was observed that one of the existing rental agreements is considered to be an onerous contract because of pricing and termination conditions. The Bank created a provision of HUF 2,693 million for the future losses arising from the onerous contract, which was booked in operating expenses. In order for the planned project to be implemented on a timely and cost-effective basis, the Bank has decided to purchase the company that leases the property. The transaction was completed on March 28, 2018.

Consolidated income statement in euro

(million euro)	2017	2016
Interest and similar income	**169**	**176**
- cash and cash equivalents	3	1
- on placements with banks	5	12
- on loans to non-banks	116	117
- on securities	40	42
- from leases	5	4
Interest expenses and similar charges	**43**	**72**
- on borrowings from banks	15	14
- on deposits from non-banks	12	15
- on debt securities issued	5	8
- on subordinated liabilities	11	11
- other interest-like expenses	0	24
Net interest income	**126**	**104**
Fee and commission income	135	125
Fee and commission expense	25	22
Net fee and commission income	**110**	**103**
Dividend income	0	0
Net trading income	33	42
"Net income from derivatives held for risk management"	10	1
Other operating income	11	14
Operating income	**54**	**57**
Impairment losses	**-30**	**2**
hereof loss of Settlement Act	0	(7)
Salaries and staff benefits	78	75
Rental expenses	26	16
Equipment expenses	14	13
Other operating expenses	98	100
Operating expenses	**216**	**204**
Share of profits of associates	**0**	**0**
Profit/(loss) before tax	**104**	**58**
Income tax expense	9	10
Deferred tax	(4)	0
Profit/(loss) for the period	**99**	**48**
Attributable to:		
Equity holders of the parent	99	48
Non controlling interest	0	0

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2017 was 310,14 HUF/EUR in 2016 was 311,02 HUF/EUR.

Data above are not part of the consolidated report.

Consolidated income statement and financial position in euro

Consolidated statement of financial position in euro

(million euro)	2017	2016
ASSETS		
Cash and cash equivalents	1,003	866
Placements with banks	733	806
Net loans	2,904	2,685
Financial assets at fair value through profit or loss	411	491
Available for sale securities	1,204	677
Held to maturity securities	619	673
Investments in associated undertakings	0	0
Investments in unlisted securities	2	1
Property, plant and equipment	47	51
Investment property	0	0
Intangible assets	44	42
Goodwill	3	3
Current tax assets	2	0
Deferred tax assets	4	0
Other assets	56	117
Assets classified as held for sale	0	0
Total assets	**7,032**	**6,412**
LIABILITIES AND EQUITY		
Deposits from banks	929	848
Deposits from non-banks	4,840	4,261
Debt securities issued	57	125
Subordinated liabilities	141	192
Financial liabilities at fair value through profit or loss	117	137
Current tax liabilities	0	0
Deferred tax liabilities	1	0
Provisions	29	16
Other liabilities	253	272
Liabilities classified as held for sale	0	0
Total liabilities	**6,367**	**5,851**
Equity attributable to equity holders of the parent	**665**	**561**
Ordinary shares	161	161
Preference shares	0	0
Share capital	**161**	**161**
Retained earnings	108	(559)
Statutory reserves	366	942
Non-distributable reserve	18	9
Fair value reserve	12	8
Non controlling interest	**0**	**0**
Total equity	**665**	**561**
Total liabilities, non controlling interest and shareholder's equity	**7,032**	**6,412**

The above figures have not been audited in Euro and are not part of the Financial Statements.
The exchange rate applied in 2017 was 310,14 HUF/EUR in 2016 was 311,02 HUF/EUR.

Data above are not part of the consolidated report.

Raiffeisen Bank Zrt. Annual Report 2017
Exchange rate (National Bank of Hungary) as at 31 December 2016: 1 EUR = 311,02
Exchange rate (National Bank of Hungary) as at 31 December 2017: 1 EUR = 310,14

The Publisher undertakes liabilitiy for the correctness of the data and the statements in the present publication and hereby states that it has not failed to disclose any fact that is of relevance in assessing the bank's position. The Publisher is aware that the bank is liable for any damage caused by failure of disclosure or by disclosure of misleading content.

Published by Raiffeisen Bank Zrt. • Executive publisher: Zolnai György, Chief Executive Officer