KPMG

Raiffeisen Bank Zrt.

Consolidated financial statements

31 December 2018

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Independent Auditors' Report

To the shareholder of Raiffeisen Bank Zrt.

Opinion

We have audited the 2018 consolidated financial statements of Raiffeisen Bank Zrt. (hereinafter referred to as "the Bank") and its subsidiaries (hereinafter referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, which shows total assets of MHUF 2,417,257, the consolidated statement of profit or loss , which shows profit for the year of MHUF 24,056, and the consolidated statements of 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 2018, 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") and those are prepared, in all material respects, in accordance with the provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of Act C of 2000 on Accounting in force in Hungary (hereinafter referred to as "the Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. 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 for the purposes of our audit of the consolidated financial statements, as provided in applicable laws in force in Hungary, "The Policy on Rules of Conduct (Ethics) of the Audit Profession and on Disciplinary Procedures" of the Chamber of Hungarian Auditors, as well as with respect to issues not covered by these, in the "Code of Ethics for Professional Accountants" issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is an English translation of the Independent Auditors' Report on the 2018 consolidated financial statements of the Raiffeisen Bank Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete consolidated financial statements it refers to.

1. Applying IFRS 9 - Impairment of loan portfolio (Impairment allowance of HUF 52,436 million, reversal of impairment for the year of HUF 9.818 million)

See Note 6.2

Key audit matter	*Our response*
The impairment on loans are considered to be a key audit matter owing to the significance of the loan portfolio, and the high degree of complexity and judgment applied in determining impairment including probability of default and loss given default parameters. Due to the cautious application of former IFRS regime, the change from the incurred loss model (IAS 39 *Financial instruments: Recognition and measurement*) to the expected loss model (IFRS 9 *Financial instruments*) resulted in reversal of impairment losses as at 1 January 2018. The impairment of non-retail stage 3 loans are based on management's judgment in estimating when an impairment event has occurred, and the present value of expected future cash flows which are inherently uncertain. This is challenging from an audit perspective since the estimation of collateral values and future expected cash-flows require expert assessment and contains assumptions. Portfolio based impairments are determined on a rating/scoring based approach at a customer/deal level in case of retail and non-retail loans. This is challenging from an audit perspective because the complex models and parameters used to determine level of impairment might result in significantly different impairment. The models are subject to several attributes including probability of default, loss given default, forward looking information and the application of expert judgment to the determination of the applied model parameters. In case of retail mortgage loans the group changed its impairment model during 2018, and replaced the Discounted Weighted Collateral Value model, which was the first model implemented as part of adopting IFRS 9 by the Best Estimation Expected Loss (BEEL) model.	Our audit contained the following procedures: We obtained understanding of the processes and controls implemented by the Group to ensure the completeness and accuracy of the impairment related to loans. We tested the application level controls related to impairment involving our IT specialists. We assessed the appropriateness of impairment recorded in relation to selected non-retail stage3 exposures. We assessed of assumptions used and observed the documents relating to portfolio changes due to loan sale, write-off or improved cash-flow projections of previously derecognized and recognized, formerly FX denominated and HUF converted retail mortgage portfolio. We inspected any external communication on estimates and provision level received from Hungarian National Bank. We recalculated the expected credit loss models in case of the stage 1&2 and retail stage 3 exposures and assesses their sensitivity to parameters used in estimation. We checked the adequacy of the disclosures in respect of provisioning and impairment models and related financial information in the financial statements.

Impairment related disclosures are likely to be subject to scrutiny from rating agencies and regulators.	

2. Transition to IFRS 9 (net transition adjustment as at 1 January 2018 of HUF 1,269 million that increased equity)

See notes point 44

Key audit matter	*Our response*
Transition to and adoption of IFRS 9 *Financial Instruments* standard is considered to be a key audit matter owing to the complex transition accounting requirements underlying the determination of transition adjustment, subjective assumptions made by the Group to ensure that financial assets are classified into the appropriate category and high degree of judgement in determining impairment. Transition to IFRS 9 required the Group to implement new accounting policies, and make appropriate changes in accounting systems and internal controls. The Group implemented a new system to ensure the IFRS 9 compliant financial reporting process. Transition to IFRS 9 was a project centrally managed by the parent of the Bank that was implemented locally. The selection of major accounting policies and some calculations including impairment of stage 1&2 non-retail exposures and fair value of stage 1&2 unquoted financial instruments are made by the parent of the Bank. However, it is the Group's responsibility to ensure that the input data is accurate and complete, as well as to assess the reasonableness of the resulting output data and account it in an appropriate manner. Transition adjustments and disclosures are likely to be subject to scrutiny from rating agencies and regulators.	Our audit contains the following procedures: We evaluated the appropriateness of the selection of accounting policies based on the requirements of IFRS 9, the Group's operations and industry practice. We obtained understanding of and evaluated the Group's new or revised processes, systems and controls implemented over classification and measurement of financial instruments. We assessed the processes, decisions, judgements and estimates applied by the Group to ensure the completeness and accuracy of the transition adjustments. We evaluated the adequacy of calculations made by the parent of the Bank involving of the auditor of the parent of the Bank. We evaluated the completeness, accuracy and relevance of the transition disclosures.

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Due to the above mentioned reasons recognition, measurement and disclosure matters relating to transition to IFRS 9 are considered to be a key audit matter.	

Other Information

The other information comprises the 2018 consolidated business report of the Group. Management is responsible for the preparation of the consolidated business report in accordance with the Act on Accounting and other applicable legal requirements, if any.
Our opinion on the consolidated financial statements expressed in the Opinion section of our report does not cover the consolidated business report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the consolidated business report and, in doing so, consider whether the consolidated business report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the Act on Accounting, we are also responsible for assessing whether the consolidated business report has been prepared in accordance with the Act on Accounting and other applicable legal requirements.

With respect to the consolidated business report, based on the Act on Accounting, we are also responsible for checking that the information referred to in Section 95/C and Section 134 (5) of the Act on Accounting has been provided in the consolidated business report.

In our opinion the 2018 consolidated business report of the Group is consistent, in all material respects, with the 2018 consolidated financial statements of the Group and the applicable provisions of the Act on Accounting.

There are no other legal requirements that are applicable to the consolidated business report of the Group, therefore, we do not express an opinion in this respects.

We confirm that the information referred to in Section 95/C and Section 134 (5) the Act on Accounting has been provided in the consolidated business report.

In addition, in light of the knowledge and understanding of the Groupand its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated business report, and if so, the nature of such misstatement. We have nothing to report in this regard.

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 EU IFRSs and for the preparation of the financial statements in accordance with provisions applicable to entities preparing consolidated annual financial statements in accordance with EU IFRSs of the Act on Accounting and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Standards on Auditing and applicable laws and regulations in Hungary 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 Hungarian National Standards on Auditing and applicable laws and regulations in Hungary, 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We were appointed by members meeting on 26 April 2018 to audit the consolidated financial statements of the Bank for the financial year ended 31 December 2018. Our total uninterrupted period of engagement is 25 years, covering the periods ending 31 December 1994 to 31 December 2018.

We confirm that:

• our audit opinion is consistent with the additional report presented to the Audit Committee of the Group dated 10 April 2019;

• we have not provided to the Group the prohibited non-audit services (NASs) as set out by Article 5(1) of EU Regulation (EU) No 537/2014 and in terms of the member state derogations by the Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors in force in Hungary. We also remained independent of the audited entity in conducting the audit.

The engagement partner on the audit resulting in this independent auditors' report is the signatory of this report.

Budapest, 29 April 2019

KPMG Hungária Kft.

Registration number: 000202

Gábor Agócs
Partner, Professional Accountant
Registration number: 005600

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Raiffeisen
BANK

Raiffeisen Bank Zrt.
Consolidated Financial Statements
31st December 2018

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I. Primary financial statements

A. Consolidated statement of profit or loss

(HUF million)	Notes	2018	2017
Interest income calculated with the effective interest method	(7, 11)	43,206	48,171
Other interest income	(7, 11)	23,140	26,973
Interest expenses	(7, 11)	-24,300	-32,482
Net interest income	**(7, 11)**	**42,046**	**42,662**
Dividend income		44	3
Fee and commission income	(8)	63,261	61,585
Fee and commission expenses	(8)	-19,305	-19,501
Net fee and commission income	**(8)**	**43,956**	**42,084**
Net trading income and fair value result	(9, 11)	3,788	232
Net gains/losses from hedge accounting	(10, 11)	33	223
Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss	(11)	369	-158
Other operating income	(12)	2,858	3,485
Other operating expenses	(12)	-16,705	-15,983
Staff expenses	(15)	-25,435	-23,868
Other administrative expenses	(16, 26)	-19,332	-20,965
Depreciation and amortisation	(24)	-6,362	-5,862
Other result	(13, 14)	-454	-79
Levies and special governmental measures	(17)	-4,976	-4,658
Impairment losses on financial assets	(6, 11)	7,768	14,961
Profit or (-) loss before tax from continuing operations		27,598	32,077
Tax expense or (-) income related to profit or loss from continuing operations	(18)	-3,542	-1,569
Profit or (-) loss after tax from continuing operations		**24,056**	**30,508**
Profit or (-) loss after tax from discontinued operations		0	0
Profit or (-) loss for the year		**24,056**	**30,508**

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 29.04.2019.

B. Consolidated statement of other comprehensive income

(HUF million)	Notes	2018	2017
Profit or (-) loss for the year		**24,056**	**30,508**
Other comprehensive income	**(38)**	**-1,961**	**1,054**
Items that will not be reclassified to profit or loss	**(38)**	**133**	**127**
Fair value changes of equity instruments measured at fair value through other comprehensive income	(38)	143	140
Income tax relating to items that will not be reclassified to profit or loss	(18, 38)	-10	-13
Items that may be reclassified to profit or loss	**(38)**	**-2,094**	**927**
Foreign currency translation		-124	0
Cash flow hedges (effective portion)	**(10, 38)**	**-405**	**-25**
Valuation gains or (-) losses taken to equity	(10, 38)	-511	67
Transferred to profit or loss	(10, 38)	106	-92
Debt instruments at fair value through other comprehensive income	**(38)**	**-1,760**	**1,297**
Valuation gains or (-) losses taken to equity	(38)	-1,842	1,234
Transferred to profit or loss	(38)	82	63
Income tax relating to items that may be reclassified to profit or (-) loss	(18, 38)	195	-345
Total comprehensive income for the year	**(38)**	**22,095**	**31,562**

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 29.04.2019.

C. Consolidated statement of financial position

(HUF million)	Notes	31.12.2018	31.12.2017
Cash, cash balances at central banks and other demand deposits	(6, 19, 46)	156,730	80,064
Financial assets held for trading	(6, 20, 42, 46)	47,938	65,604
Non-trading financial assets mandatorily at fair value through profit or loss	(6, 20, 42, 46)	7,691	0
Financial assets designated at fair value through profit or loss	(6, 20, 42)	24,212	63,346
Financial assets at fair value through other comprehensive income	(6, 22, 23, 42, 46)	468,325	374,106
Financial assets at amortised cost	(6, 21, 42, 46)	1,672,094	1,560,405
Derivatives – Hedge accounting	(10, 42, 46)	2,657	2,608
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	0	0
Current tax assets	(18)	542	613
Non-current assets classified as held for sale	(35)	7,724	0
Investments in subsidaries, joint ventures and associates	(44)	31	0
Investments measured by the equity method		0	0
Property and equipment	(24)	6,788	14,537
Intangible assets	(24)	16,615	14,815
Deferred tax assets	(18)	1,972	1,293
Other assets	(27)	3,938	3,467
Total assets		**2,417,257**	**2,180,858**
Financial liabilities held for trading	(6, 28, 29, 42, 46)	28,424	32,855
Financial liabilities designated at fair value through profit or loss	(6, 28, 29, 42, 46)	0	0
Financial liabilities measured at amortised cost	(6, 25, 29, 30, 31, 32, 42, 46)	2,157,908	1,919,052
Derivatives – Hedge accounting	(10, 42, 46)	4,029	3,530
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-522	84
Current tax liabilities	(18)	4	6
Liabilities included in disposal groups classified as held for sale	(35)	130	0
Provisions	(6, 34)	7,994	9,033
Deferred tax liabilities	(18)	2	361
Other liabilities	(33)	7,246	9,749
Total liabilities		**2,205,215**	**1,974,670**
Share capital	(6, 36)	50,000	50,000
Share premium	(6, 37)	113,445	113,445
Equity instruments issued other than share capital		0	0
Other equity		0	0
Accumulated other comprehensive income	(6, 38)	1,688	3,649
Retained earnings	(6, 40)	15,030	3,064
Other reserves	(6, 39)	7,823	5,522
(-) Treasury shares		0	0
Profit or loss	(6)	24,056	30,508
Total equity		**212,042**	**206,188**
Total liabilities and total equity		**2,417,257**	**2,180,858**

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Ágnes Tölgyes
Cheif Financial Officer

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Tibor Gáspár
Head of Accounting

Date: 29.04.2019.

D. Consolidated statement of changes in equity

Sources of equity changes	Share capital	Share premium	Other comprehensive income not to be reclassified to profit or loss	Other comprehensive income to be reclassified to profit or loss			Retained earnings	Other reserves	Total
			Fair value changes of equity instruments measured at fair value through OCI**	Cash flow hedges (effective portion)	Fair value changes of debt instruments at fair value through OCI**	Foreign currency translation reserve			
Supplementary notes	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance (before restatement)	**50,000**	**113,445**	**159**	**-701**	**4,191**	**0**	**33,572**	**5,522**	**206,188**
Effects of changes in accounting policies	0	0	-1	0	-128	0	1,398	0	**1,269**
Opening balance at 01.01.2018*	**50,000**	**113,445**	**158**	**-701**	**4,063**	**0**	**34,970**	**5,522**	**207,457**
Profit or (-) loss	0	0	0	0	0	0	24,056	0	**24,056**
Other comprehensive income	0	0	134	-369	-1,473	-124	0	0	**-1,832**
Total comprehensive income for the year	**0**	**0**	**134**	**-369**	**-1,473**	**-124**	**24,056**	**0**	**22,224**
Dividends	0	0	0	0	0	0	-17,640	0	**-17,640**
Total contributions and distributions	**0**	**0**	**0**	**0**	**0**	**0**	**-17,640**	**0**	**-17,640**
Transfers among components of equity	0	0	0	0	0	0	-2,301	2,301	**0**
Equity increase or (-) decrease resulting from business combinations	0	0	0	0	0	0	1	0	**1**
Total other equity transactions	**0**	**0**	**0**	**0**	**0**	**0**	**-2,300**	**2,301**	**1**
Closing balance at 31.12.2018	**50,000**	**113,445**	**292**	**-1,070**	**2,590**	**-124**	**39,086**	**7,823**	**212,042**

*Due to the initial application of IFRS 9, the Group does not restate the comparative period, but recognised the cummulative effects of the transition to the appropriate components of equity as at 1.1.2018.

**OCI: Other Comprehensive Income

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 29.04.2019.

Sources of equity changes	Share capital	Share premium	Other comprehensive income not to be reclassified to profit or loss	Other comprehensive income that may be be reclassified to profit or loss			Retained earnings	Other reserves	Total
			Fair value changes of equity instruments measured at fair value through OCI*	Cash flow hedges [effective portion]	Fair value changes of debt instruments at fair value through OCI*	Foreign currency translation reserve			
Supplementary notes	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance (before restatement)	**50,000**	**293,094**	**32**	**-745**	**3,308**	**0**	**-173,732**	**2,668**	**174,625**
Opening balance at 01.01.2017	**50,000**	**293,094**	**32**	**-745**	**3,308**	**0**	**-173,732**	**2,668**	**174,625**
Total comprehensive income for the year									
Profit or (-) loss for the period	0	0	0	0	0	0	30,508	0	**30,508**
Other comprehensive income	0	0	127	44	883	0	0	0	**1,054**
Total comprehensive income for the year	**0**	**0**	**127**	**44**	**883**	**0**	**30,508**	**0**	**31,562**
Capital reduction	0	-179,649	0	0	0	0	179,650	0	**1**
Total contributions and distributions	**0**	**-179,649**	**0**	**0**	**0**	**0**	**179,650**	**0**	**1**
Transfers among components of equity	0	0	0	0	0	0	-2,854	2,854	**0**
Equity increase or (-) decrease resulting from business combinations	0	0	0	0	0	0	0	0	**0**
Total other equity transactions	**0**	**0**	**0**	**0**	**0**	**0**	**-2,854**	**2,854**	**0**
Closing balance at 31.12.2017	**50,000**	**113,445**	**159**	**-701**	**4,191**	**0**	**33,572**	**5,522**	**206,188**

*OCI: Other Comprehensive Income

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 29.04.2019.

E. Consolidated statement of cash flows

(HUF million)	Notes	2018	2017
Profit or loss for the period		**24.056**	**30.508**
Cash flows from operating activites			
Adjustments for:			
Depreciation and amortisation	(24)	6,362	5,862
Net impairment loss on non-financial assets	(13)	101	79
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(11)	-7,627	-16,178
Net interest income	(11)	-42,045	-42,662
hereof: amortization, accruals and unwinding		12,595	16,410
Net gains or (-) losses from derecognition of non-financial assets	(12)	-18	-41
Other		298	-1,133
Income tax expense	(18)	3,542	1,601
		-39,387	**-52,473**
Changes in operating assets and liabilities:			
Change in financial assets held for trading	(20)	17,666	14,542
Change in non-trading financial assets mandatorily at fair value through profit or loss	(20)	-7,691	0
Change in financial assets designated at fair value through profit or loss	(20)	4,234	-923
Change in financial assets at fair value through other comprehensive income	(22)	-95,951	-161,700
Change in financial assets at amortised cost	(22)	-94,208	-27,971
Change in derivatives (assets) – Hedge accounting	(10)	-523	-26
Change in other assets and assets held for sale	(27, 35)	-8,414	5,313
Change in investments in subsidaries and joint ventures	(44)	0	0
Change in financial liabilities held for trading	(28)	-4,431	-10,977
Change in financial liabilities designated at fair value through profit or loss		0	0
Change in financial liabilities measured at amortised cost	(30)	244,433	197,304
Change in derivatives (liabillities) – Hedge accounting	(10)	568	1,577
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	-607	84
Change in other liabilities, provisions and liabilities held for sale	(33, 34, 35)	-3,479	3,219
		51,597	**20,442**
Interest received	(7, 11)	66,346	75,144
Interest paid	(7, 11)	-24,300	-32,482
Dividend received		44	3
Income tax paid	(18)	-4,141	-3,562
Net cash from operating activities		**74,215**	**37,581**
Cash flows from investing activities			
Purchases of securities	(20, 22)	-28,811	-3,316
Disposals of securities	(20, 22)	53,899	31,580
Purchases of investment in subsidaries, joint ventures and associates	(44)	-31	0
Disposals of investment in subsidaries, joint ventures and associates	(44)	0	0
Purchases of other equity investments		0	0
Disposals of other equity investments		213	0
Purchases of property and equipment	(24)	-7,340	-1,247
Disposals of property and equipment	(24)	12,522	418
Purchases of intangible assets	(24)	-5,601	-4,546
Disposals of intangible assets	(24)	24	141
Net cash from investing activities		**24,875**	**23,030**
Cash flows from financing activities			
Issuance and repurchase of issued debt securities	(31)	-1,025	-942
Maturity of issued debt securities	(31)	-4,552	-20,086
Increase of subordinated liabilities	(32)		
Decrease of subordinated liabilities	(32)	0	-15,551
Issuance of new shares and proceeds from share premium		0	0
Dividend paid	(36)	-17,640	0
Net cash used in financing activites		**-23,217**	**-36,579**

(HUF million)	Notes	2018	2017
Net increase/decrease of cash, cash balances at central banks and other demand deposits		**75,873**	**24,032**
Cash, cash balances at central banks and other demand deposits at 1 January		**80,064**	**55,048**
Net effect of exhange rate changes		793	984
Cash, cash balances at central banks and other demand deposits at 31 December	(19)	**156,730**	**80,064***

*Placements with the National Bank of Hungary and with other banks have been reclassified from *'Cash, cash balances at central banks and other demand deposits'* to *'Financial assets at amortised cost'* at 31.12.2017, therefore they differ from the amounts reported in the financial statements of 31.12.2017 by HUF 231 billion.

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 29.04.2019.

II. 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 website of the Bank can be found at: https://www.raiffeisen.hu/raiffeisen-csoport/raiffeisen-bank-zrt

The Bank holds a full commercial banking license issued by the National Bank of Hungary 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 2018 comprise the Bank and its subsidiaries (together referred to as the 'Group'). For further information on consolidated subsidiaries please see *Note 44 Investments in subsidiaries.*

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 preparation

(2.1) Statement of compliance

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

IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

These financial statements were authorised for issue by the shareholder on 29 April 2019.

(2.2) 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;
- financial assets at fair value through other comprehensive income are measured at fair value;
- assets and liabilities that are hedged are measured at fair value only 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 – if applicable –, at cost less accumulated depreciation and impairment losses.

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.

The selection, development, application and disclosure of critical accounting policies and accounting estimates are agreed with the Supervisory Board of the Group.

Significant areas of estimation uncertainty are expected credit loss described in *Note 6 Financial risk management* and the determination of fair value described in *Note 42 Determination of fair value.*

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.

(2.3) 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.

(3) Changes in accounting policies

(3.1) Changes in the presentation of financial statements

In addition to the introduction of IFRS 9, the Group has also made changes to the presentation of its financial statements. After the changes, they are based on the requirements for the reporting of financial information (FINREP) issued by the European Banking Authority (EBA). The changes improve transparency and comparability and are largely related to the presentation of financial instruments, using the new measurement categories introduced by IFRS 9. The Group continues to present profit or loss and other comprehensive income in separate statements.

The following tables present the new classification applied in the statement of financial position and the statements of profit or loss and other comprehensive income for the financial year ended on 31.12.2017. The columns show the old, while the rows show the new structure of the statement of financial position and statements of profit or loss and other comprehensive income. Accounting policies and the notes explaining the effects of transition to IFRS 9 are presented according to the new presentation structure.

Changes in presentation – reconciliation of the items of the old and new statement of financial position, statement of profit or loss and statement of other comprehensive income

Assets

(HUF million)	Cash and cash equivalent	Placements with banks	Net loans	Financial assets at fair value through profit or loss	Available for sale securities	Held to maturity securities	Investments in subsidiaries, joint ventures and associates	Investments in unlisted securities	Property, plant and equipment	Intangible assets (including goodwill)	Current tax assets	Deferred tax assets	Other assets	Total assets
Cash, cash balances at central banks and other demand deposits	75,166	1,243	0	0	0	0	0	0	0	0	0	0	3,655	**80,064**
Financial assets held for trading	0	0	0	65,604	0	0	0	0	0	0	0	0	0	**65,604**
Financial assets designated at fair value through profit or loss	0	0	4,234	59,112	0	0	0	0	0	0	0	0	0	**63,346**
Financial assets at fair value through other comprehensive income	0	0	0	0	373,519	0	0	587	0	0	0	0	0	**374,106**
Financial assets at amortised cost	235,985	226,008	896,317	0	0	192,053	0	0	0	0	0	0	10,042	**1,560,405**
Derivatives – Hedge accounting	0	0	0	2,608	0	0	0	0	0	0	0	0	0	**2,608**
Current tax assets	0	0	0	0	0	0	0	0	0	0	613	0	0	**613**
Property and equipment	0	0	0	0	0	0	0	0	14,537	0	0	0	0	**14,537**
Intangible assets	0	0	0	0	0	0	0	0	60*	14,755	0	0	0	**14,815**
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0	1,293	0	**1,293**
Other assets	0	0	0	0	0	0	0	0	0	0	0	0	3,467	**3,467**
Total assets	**311,151**	**227,251**	**900,551**	**127,324**	**373,519**	**192,053**	**0**	**587**	**14,597**	**14,755**	**613**	**1,293**	**17,164**	**2,180,858**

*Change in classification of concessions and similar rights

Equity and liabilities

(HUF million)	Deposits from banks	Deposits from clients	Debt securities issued	Financial liabilities at FVTPL	Current tax liabilities	Deferred tax liabilities	Subordinated liabilities	Provisions	Other liabilities	Share capital	Retained earnings	Capital reserve	General reserve	Fair value reserve	Total liabilities and total equity
Financial liabilities held for trading	0	0	0	32,855	0	0	0	0	0	0	0	0	0	0	**32,855**
Financial liabilities at amortised cost	288,219	1,501,086	17,714	0	0	0	43,781	0	68,252	0	0	0	0	0	**1,919,052**
Derivatives – Hedge accounting	0	0	0	3,530	0	0	0	0	0	0	0	0	0	0	**3,530**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	84	0	0	0	0	0	0	0	0	0	0	0	0	**84**
Tényleges adókötelezettségek	0	0	0	0	6	0	0	0	0	0	0	0	0	0	**6**
Provisions	0	0	0	0	0	0	0	9,033	0	0	0	0	0	0	**9,033**
Deferred tax liabilities	0	0	0	0	0	361	0	0	0	0	0	0	0	0	**361**
Other liabilities	0	0	0	0	0	0	0	0	9,749	0	0	0	0	0	**9,749**
Total liabilities	**288,219**	**1,501,170**	**17,714**	**36,385**	**6**	**361**	**43,781**	**9,033**	**78,001**	**0**	**0**	**0**	**0**	**0**	**1,974,670**
Share capital	0	0	0	0	0	0	0	0	0	50,000	0	0	0	0	**50,000**
Share premium	0	0	0	0	0	0	0	0	0	0	0	113,445	0	0	**113,445**
Accumulated other comprehensive income	0	0	0	0	0	0	0	0	0	0	0	0	0	3,649	**3,649**
Retained earnings	0	0	0	0	0	0	0	0	0	0	3,064	0	0	0	**3,064**
Other reserves	0	0	0	0	0	0	0	0	0	0	0	0	5,522	0	**5,522**
Profit or loss	0	0	0	0	0	0	0	0	0	0	30,508	0	0	0	**30,508**
Total equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**50,000**	**33,572**	**113,445**	**5,522**	**3,649**	**206,188**
Total liabilities and total equity	**288,219**	**1,501,170**	**17,714**	**36,385**	**6**	**361**	**43,781**	**9,033**	**78,001**	**50,000**	**33,572**	**113,445**	**5,522**	**3,649**	**2,180,858**

Statement of profit or loss

(HUF million)	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income	Net result from derivatives held for risk management	Other operating income	Impairment losses and provisions	Wages	Rental expenses	Costs of equipment	Other operating expense	Current tax	Deferred tax	Profit or loss for the year
Interest income calculated with the effective interest method	48,145	0	0	0	0	26	0	0	0	0	0	0	0	0	0	48,171
Other interest income	4,037	4	0	0	0	12,882	10,050	0	0	0	0	0	0	0	0	26,973
Interest expenses	-176	-13,231	0	-4	0	-10,386	-8,685	0	0	0	0	0	0	0	0	-32,482
Dividend income	0	0	0	0	3	0	0	0	0	0	0	0	0	0	0	3
Fee and commission income	151	0	41,809	0	0	14,071	5,358	196	0	0	0	0	0	0	0	61,585
Fee and commission expenses	0	0	0	-7,687	0	-10,267	0	-331	0	0	0	0	-1,216	0	0	-19,501
Net trading income and fair value result	0	0	0	0	0	3,937	-3,709	4	0	0	0	0	0	0	0	232
Net gains/losses from hedge accounting	0	0	0	0	0	0	223	0	0	0	0	0	0	0	0	223
Net gains/losses from derecognition of financial assets measured at amortised cost	0	0	0	0	0	3	0	-161	0	0	0	0	0	0	0	-158
Other operating income	0	0	0	0	0	0	0	3,485	0	0	0	0	0	0	0	3,485
Other operating expenses	0	0	0	0	0	-2	0	68	65	0	0	0	-16,114	0	0	-15,983
Staff expenses	0	0	0	0	0	0	0	0	9	-23,865	0	0	-12	0	0	-23,868
Other administrative expenses	0	0	0	0	0	0	0	0	0	-241	-7,935	-4,501	-8,288	0	0	-20,965
Depreciation and amortisation	0	0	0	0	0	0	0	0	0	0	0	0	-5,862	0	0	-5,862
Other result	0	0	0	0	0	0	0	0	-79	0	0	0	0	0	0	-79
Levies and special governmental measures	0	0	0	0	0	0	0	0	0	0	0	0	-4,626	-32	0	-4,658
Impairment losses on financial assets	0	0	0	0	0	0	0	0	9,416	0	0	0	5,545	0	0	14,961
Income tax	0	0	0	0	0	0	0	0	0	0	0	0	0	-2,894	1,325	-1,569
Profit or (-) loss for the year	**52,157**	**-13,227**	**41,809**	**-7,691**	**3**	**10,264**	**3,237**	**3,261**	**9,411**	**-24,106**	**-7,935**	**-4,501**	**-30,573**	**-2,926**	**1,325**	**30,508**

When applying the rules of IFRS 9, the Group removed the effect of changes in fair value of derivatives from net interest and fee income, hence interest and fee income recognised on derivatives are reported in the net interest income.

Additionally, net fee and margin income from currency exchange activities are reported in net fee income from 2018 onward, as opposed to being reported as net trading income and results from changes in fair value until 2017. Reclassification has been performed for the comparative period as well.

Other comprehensive income

	Change of financial assets measured at fair value through other comprehensive income		Cash flow hedges			
(HUF million)	Change in fair value of available-for-sale financial assets	Amount transferred to profit or loss	Effective portion of changes in fair value	Amount transferred to profit or loss	Income tax on other comprehensive income	Other comprehensive income total n
Items that will not be reclassified to profit or loss	**140**	**0**	**0**	**0**	**-13**	**127**
Fair value changes of equity instruments measured at fair value through other comprehensive income	140					**140**
Income tax relating to items that will not be reclassified to profit or loss					-13	**-13**
Items that may be reclassified to profit or los	**1,234**	**63**	**67**	**-92**	**-345**	**927**
Cash flow hedges [effective portion]	0	0	67	-92	0	**-25**
Valuation gains or (-) losses taken to equity			67			**-92**
Transferred to profit or loss				-92		**67**
Fair value changes of debt instruments at fair value through OCI	1,234	63	0	0	0	**1,297**
Valuation gains or (-) losses taken to equity	1,234					**1,234**
Transferred to profit or loss		63				**63**
Income tax relating to items that may be reclassified to profit or loss					-345	**-345**
Other comprehensive income total	**1,374**	**63**	**67**	**-92**	**-358**	**1,054**

(3.2) *Changes in accounting policies*

Except for the changes below, the Group applied consistently the accounting policies reported in *Note 4 Significant accounting policies* in the financial statements for each period reported.

The Group applies IFRS 9 (see 3.2.1) and IFRS 15 (see 3.2.2) from 1 January 2018.

Although other amendments to standards and interpretations have been applied by the Group (according to their mandatory application date), these amendments and interpretations have no or insignificant effect on the consolidated financial statements.

(3.2.1) *IFRS 9 Financial instruments*

The new standard brings significant changes in the accounting of financial assets and to some extent of financial liabilities.

The following changes have been made to the Group accounting policy because of the transition to IFRS 9:

Classification of financial assets and liabilities

IFRS 9 applies three categories for the classification of financial assets: amortised cost (AAC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Under the new recognition and measurement categories of IFRS 9 classification depends on the business model of the Group as well as the attributes of the contractual cash flows. The standard abolishes the categories of held to maturity (HTM), loans and receivables (L&R) and available for sale (AFS) of IAS 39 for financial assets. Under IFRS 9, contracts with embedded derivatives must be evaluated as a whole, the embedded derivative should not be separated from the host contract. Consequently, the rules of IFRS 9 are applied for the whole financial instrument.

IFRS 9 did not fundamentally change the classification of financial liabilities used under IAS 39.

While under IAS 39 all changes in the fair value of financial liabilities designated at fair value through profit or loss have been recognised in profit or loss, under IFRS 9, as a main rule, the fair value changes of such financial liabilities are recognised as follows:

- the effects of chages in the liability's credit risk are presented in other comprehensive income, and
- any other changes in the fair value are recognised in profit or loss.

The classification of financial assets and liabilities applied by the Group according to IFRS 9 is described in *Note 4.11.2 Classification and measurement.*

Impairment of financial assets

IFRS 9 uses a forward looking expected credit loss model ('ECL') to recognise impairment in contrast to IAS 39 which uses an incurred loss model. Significant judgement is needed to determine how the changes in economic factors affect the expected credit loss which is refelected in the ECL model as a probability weighted result.

The new impairment model is applied to debt instruments at amortised cost or at fair value through other comprehensive income, certain loan commitments and financial guarantee contracts.

Under IFRS 9, expected credit loss is recognised earlier than under IAS 39. The impairment rule of IFRS 9 applied by the Group as described in *Note 4.11.5 Impairment of financial assets.*

Transition

The Group applied the accounting policy changes resulting from IFRS 9 retrospectively using the following practical expedients:

- Comparative information have not been restated. The differences between the prior carrying amount of financial assets and liabilities and the carrying amount on the day of initial application of IFRS 9 (ie. 1 January 2018) were recognised in retained earnings and accumulated other comprehensive income as appropriate. Accordingly, data published for 31 December 2017 does not reflect the requirements of IFRS 9 hence it is not comparable with the amounts reported for 31 December 2018, prepared under IFRS 9.

- The Group assessed the following based on facts and circumstances at initial application of IFRS 9 (ie. 1 January 2018):
  - Determination of business models the Group applies for its financial assets.
  - Designating certain equity instruments, that are not held for trading, at fair value through other comprehensive income.
- If a debt instrument has low credit risk at the initial application of IFRS 9, it is assumed that the credit risk of such debt instrument did not increase significantly since its initial recognition.
- The Group chooses to apply the hedge accounting requirements of IAS 39 for the reporting date started on 1 January 2018.

Additional information about the transition to IFRS 9 and its effects to the financial statements are described in *Note 46 The effects of transition to IFRS 9.*

(3.2.2) *IFRS 15 Revenue from contracts with customers*

IFRS 15 regulates the accounting of contracts with customers and replaces other IFRS standards, IAS 18 Revenue and IAS 11 Construction contracts as well as related interpretations.

The Group applies IFRS 15 from 1 January 2018 retrospectively without using any of the practical expedients of IFRS 15. IFRS 15 affects the net fee income (and relating assets and liabilities) of the Group, however, it did not change their accounting treatment. Therefore, the effects of IFRS 15 are limited to new disclosure requirements (see *Note 8 Net fee and commission income*).

(4) *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.

(4.1) *Presentation of financial statements*

These consolidated financial statements include the financial statements 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.

(4.2) *Basis of consolidation*

i. *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 when control commences until the date when control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Bank. The costs directly attributable to the acquisition are accounted for at the date of acquisition in the statement of profit or loss. Any excess of the consideration paid for the subsidiary over the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the consideration paid for the subsidiary 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 profit or loss, after reassessing the identification and measurement of the assets acquired. The acquired identifiable assets, liabilities and contingent liabilities are meaured at fair value at the date of acquisition.

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 risks and benefits associated with them, the Group concludes that it controls those entities.

iii. Funds management

The Group manages and administers assets held in investment funds on behalf of investors. The financial state-ments 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) rights to the income of the 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 these returns. Definition of control is defined in IFRS 10. The Bank adopted the definition of control and consolidates subsidiaries based on that.

v. Transactions eliminated on consolidation

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

(4.3) Investment 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 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 and other comprehensive income of the investee after the date of acquisition. The statement of comprehensive income of the consolidated financial 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.

(4.4) 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 execute in a currency other than the functional currency are considered to be foreign currency transactions. 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 Bank of Hungary.

The foreign exchange 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 reporting date. 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 in-struments, which are recognised in other comprehensive income.

(4.5) *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 consideration paid 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 consideration transferred, the excess is recognised immediately in profit or loss.

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 measured by the equity method'.

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 when 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 when the asset is derecognised. Amortisation methods and useful lives are reviewed at each financial year-end and adjusted if appropriate.

Personnel expenses incurred during developing intangible assets are capitalised 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.

(4.6) *Property and equipment*

i. Owner occupied property

Items of property 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 and equipment are recognised in the carrying amount of those items if it is probable that associated future economic benefits will flow to the Group and related costs can be measured reliably.

Depreciation is allocated over the estimated useful life of the asset using the straight-line method and is included in line item 'Depreciation and amortisation' in the consolidated profit or loss.

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 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 and equipment are determined by comparing the pro-ceeds from disposal with the carrying amount of property and equipment, and are recognised net in line items *'Other operating income'* or *'Other operating expense'* 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 proper-ties is disclosed according to IAS 40. It is determined by independent experts and is reviewed quarterly. The fair value is supported by market evidence.

iii. ***Leased assets***

In the case of a finance lease, substantially all the risks and rewards of ownership of the leased asset are trans-ferred to the Group. The Group classifies a lease as a finance lease when it meets the criteria in IAS 17, either alone or in combination, unless it is clear from other features that the lease does not substantially transfer all the risks and rewards of ownership. In this case the lease is classified as an operating lease.

At the beginning of the lease the Group recognises the financ lease as an asset and a liability. These are included in line items *'Property and equipement'* and *'Financial liabilities measured at amortised cost'* respectively. The leased asset is stated at the lower of the fair value at the inception of the lease or the net present value of the minimum lease payments.

Leased assets are depreciated over a period which is the shorter of the estimated useful life and the lease term. Initial costs incurred when entering into a finance lease contract are capitalised and recognised in profit or loss over the lease term like the lease income or expenses.

All leases other than financial leases are recognised as operating leases. The Group recognises the lease payments under operating leases on a straight-line basis over the term of the lease under *'Other administrative expenses'*.

(4.7) *Assets obtained against receivables*

If the Group has mortgages registered on the collateralised property, it is entitled to sell it with or without a court resolution, under a sales procedure conducted on its own behalf. The property may also be subject to forced sale if the owner is a company subject to liquidation.

If the Group has a purchase right over the property, the Group's claim may be enforced against the property. In this case, the Group is entitled to purchase the property at the purchase price determined in the option contract and to offset its claim against the purchase price or to assign a third party to exercise the right of purchase and to offset the purchase price paid by the third party against its claim.

Assets of which the Group takes possession upon resigning credit and leasing transactions are valued at a price determined by an expert. In case of assets withdrawn from leasing, the Group calculates the impairment loss only for the receivable before the sale, because later the receivable is reduced by the income from the sale of the asset. In case of loan contracts, impairment losses are recognised for the assets repossessed on the basis of the annual loss rates on sale transactions and future prospects.

Impairment loss allowance is recognised in the statement of financial position as 'Other assets' and in statement of comprehensive income as 'Other operating expenses', the amount of the reversal is reported as 'Other operating income'.

(4.8) *Investments in subsidaries, joint ventures and associates*

The Group reports equity instruments as interests that are acquired in accordance with the Group's long-term strategic goals, plans and business policies. Shares and other ownership interests acquired this way may include subsidiaries, associates and other investments.

A subsidiary is an entity over which the Group has control. As a parent company, it is entitled to the positive returns generated by the investee, bears the consequences of the negative returns and is able to control its operations with its decisions, thus influencing its returns.

An associate is an entity over which the Group has significant influence without having control.

The interests over which the Group has control but are not consolidated are recognised under *'Investments in subsidiaries and joint ventures'*. The Group measures these interests at cost, less any accumulated impairment losses, using the option provided by IAS 27. If it is necessary to account for impairment or other items of a profit-type nature (eg. reduction of share capital), it is recognised in other comprehensive income.

Non-trading equity instruments over which the Group has neither control nor significant influence are measured at fair value through other comprehensive income.

(4.9) *Cash and cash equivalents*

Cash and cash equivalents include 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.

(4.10) *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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 observable 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.

The determination of fair value assumes that the sale or disposal of the asset occurs on the primary market for the asset or liability or, lacking that, on the most favorable market for the asset or liability.

The primary market is the market with the highest volume and activity level for the asset or liability to be valued.

The most favorable market is the market that maximises the amount that would be received for the sale of the as-set, or minimises the amount that would be paid for the transfer of the liability after taking into account transaction costs and shipping costs.

More information about the determination of fair value is in *Note 42 Determination of fair value.*

(4.11) *Financial instruments*

(4.11.1) *Recognition and initial measurement – accounting policy effective before and after 1 January 2018*

For regular way purchases and sales of financial assets the Group applies trade date accounting, ie. recognition when the Group is committed to the sale or purchase of the asset. Regular way purchase or sale is a purchase or sale of an asset based on a contract whose terms require delivering the asset within the time frame established by conventions and regulations in the market.

Every other financial asset and liability (including financial assets and liablities measured at fair value through profit or loss) is recognised when the Group falls under the provisions of the contract eg. receivables arising from loans to banks or clients are recognised when the loan is disbursed.

At initial recognition the Group measures the financial assets or liabilities at their fair value plus or minus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

According to IFRS 9.B5.1.2A the best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie. the fair value of the consideration given or received).

If the fair value determined by the Group differs from the transaction price at initial recognition – eg. off-market interest rate loans – than the difference at initial recognition is recognised as follows:

a) if that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss under 'Net trading and fair value result';
b) in all other cases the measurement is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(4.11.2) *Classification and subsequent measurement*

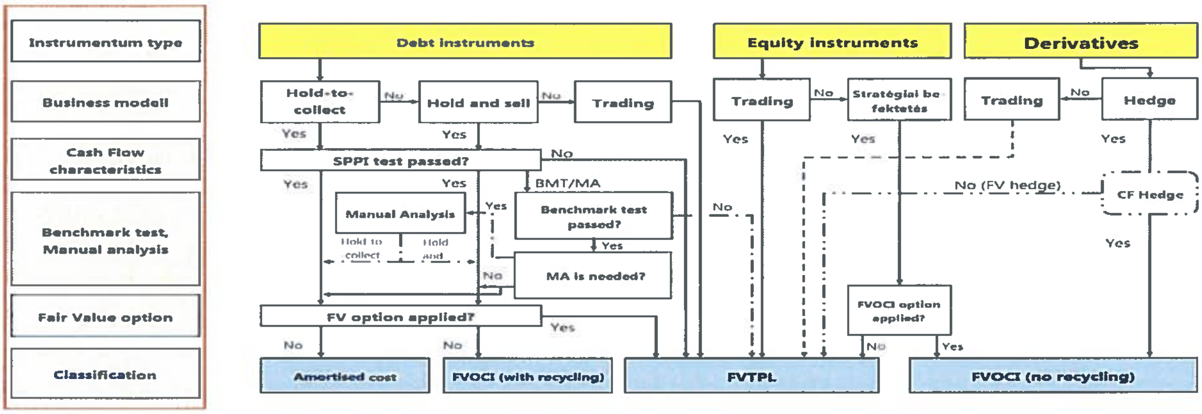
i. Classification and measurement of financial assets – accounting policy applicable from 1 January 2018

At initial recognition the Group classifies financial assets to the following categories: amortised cost, fair value throung other comprehensive income or fair value through profit or loss.

The classification of a financial asset is based on a two-step methodology as follows:

- business model
- contractual cash flow characteristics (Solely Payment of Principal and Interest, SPPI test)

The following chart illustrates the methodology discussed above:



Business model of financial assets

The business model is determined on a portfolio basis as it best reflects the Group's business objectives for a group of assets and it is also the level of aggregation that management uses. When determining the business model, the Group takes into consideration the following information:

- how the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the Group's key management personnel;
- 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 – eg. 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 the 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).

Hold-to-collect business model

The model's objective is to hold financial assets to collect contractual cash flows even when if sales of financial assets have occurred or are expected to occur.

The following examples of sales 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.

Quantitative guidelines or thresholds are not provided by IFRS 9 on the value or frequency of sales from hold-to-collect business model. For the Group, the sale of less than 10% of the portfolio (carrying value) during a rolling 3 year period would potentially be considered consistent with hold-to-collect business model. Sale of an asset with maturity of less than 3 months can be deemed as close to maturity.

Hold-and-sell business model

The objective of this business model is to meet the Group's everyday liquidity needs. Realising profit from financial assets in this types of portfolios can be achieved by both collecting contractual cash flows and selling financial assets in the portfolio.

Other business models

- Trading portfolio: the primary obejective is to realise short-term profits.
- Strategic investment portfolio: the goal is to hold long-term investments and collect cash flows (eg. dividend).
- Hedge portfolio: derivatives in hedging relationships as a hedging instrument.

Analysis of contractual cash flow characteristics

The Group assesses 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 (SPPI test), ie. whether they are consistent with the terms of a basic lending agreement. For this purpose the principal is the fair value at initial recognition. The interest can only contain 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 (eg. liquidity risk) and costs (eg. administrative costs), as well as profit margin. This also means that the contractual terms need to be examined, whether they introduce features that change the timing or amount of contractual cash flows. The Group consideres the following factors:

- contractual feature that change the timing or amount of contractual cash flows;
- gearing;
- prepayment and prolongation options;
- contractual terms that limit the Group's receivables to defined assets of the debtor or cash flows generated by a defined asset (eg. non-performing financial assets that cannot be liquidated); and
- contractual terms that modify the time value of money element – eg. the interest rate is reset on a regular basis.

The Group uses both quantitative (Benchmark test) and qualitative (Manual Analysis) approaches to determine whether the time value of money element of the interest rate is modified.

The Group primarily performs the analysis of contractual cash flow characteristics by clasterisation of financial assets. In 2018, the Group identified the following two portfolios where the contractual terms are not consistent with a basic lending agreement as described in IFRS 9.

Subsidised housing loans ('CSOK' – housing subsidy for families, Subsidised Housing Loans): these loans granted to individuals for the purpose of financing the purchase of flats/houses share two characteristics. One shared characteristic is that a pre-determined portion of the contractual interest is generally paid by Hungarian government instead of the borrower over a certain period. The other shared characteristic is that contractual interest reprices with a pre-determined frequency (interest period can be 3.5 and 10 years) and depends on average yields ('GDMA average yields') observed at government bond and treasury bill auctions, regularly published by Government Debt Management Agency ('GDMA'). In the formula determining contractual interest the Group multiplies GDMA average yields with 1.3 and adds a risk premium to the resulting interest rate. The Group regards the multiplier applied to GDMA average yields as a leverage factor inconsistent with a basic lending agreement and thus contractual cash flows of subsidised housing loans are deemed not to solely represent payments of principal and interest on principal outstanding.

Loan programs of Hungarian Development Bank (HDB): A common characteristics of the interest of such loans granted to enterprises in course of the loan programs is that the currency in which the loan is denominated differs from the currency of the base rate used to determine variable interest rate on those loans (currency mismatch): according to IFRS 9, due to the currency mismatch, the contractual cash flows of the loans do not solely represent payments of principal and interest on principal outstanding.

The analysis of contractual cash flow characteristics of contracts not clasterised is performed individually.

Classification

The Group measures its financial assets at amortised cost (AC), if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (hold-to-collect) 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 (SPPI).

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

The Group measures its debt instruments at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-and-sell) and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The Group may make an irrevocable election at initial recognition for equity investments not held for trading and does nor qualify as a subsidiary, associate or joint venture, to measure subsequent changes in fair value in other comprehensive income. The Group makes this election on an instrument-by-instrument basis.

All other financial assets – ie. not at amortised cost or at FVOCI – are measured at fair value through profit and loss (FVTPL).

The Group may make an irrevocable election at initial reconition to measure a financial asset at fair value through profit or loss, if it eliminates or significantly reduces an accounting or presentation mismatch.

ii. Classification and measurement of financial assets – accounting policy applicable before 1 January 2018

Under IAS 39, the Group classifies its financial assets into the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale;
- financial assets at fair value through profit or loss:
  - held for trading; or
  - designated at fair value through profit or loss.

Loans and advances to customers and placements with banks

Placements with banks and Loans and advances to customers include loans and advances with fixed or determinable payments which were originated by the Group, other than those originated 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 initially measured at fair value plus any incremental direct transaction costs, and are subsequently measured at their amortised cost using effective interest method, less accumulated impairment losses.

The amortised cost of a financial asset of financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

Held-to-maturity financial assets

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.

Available-for-sale financial assets

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.

Financial assets at fair value through profit or loss

Financial assets 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) or are designated at fair value through profit or loss at initial recognition (securities and derivative contracts). These assets are subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss.

iii. Classification and measurement of financial liabilities – accounting policy effective before and after 1 January 2018

The Group measures financial liablities, except for financial guarantees and loan commitments, at amortised cost or at fair value through profit or loss. Financial liabilities measured at amortised cost have been classified as other financial liabilities before 1 January 2018.

Financial liabilities at fair value through profit or loss include held for trading financial liabilities that are not derivatives and derivatives that are not in hedging relationships.

Financial liabilities at amortised cost (before 1 January 2018 other financial liabilities) are subsequently measured at amortised cost using effective interest method.

The fair value changes of financial liabilities at fair value through profit or loss after initial measurement are recognised in profit or loss.

iv. Reclassifications – accounting policy effective from 1 January 2018

The Group reclassifies a financial asset, when and only when if changes its business model for managing the financial asset.

If the Group reclassifies financial assets, the reclassification is applied prospectively from the reclassification date. The Group determines the reclassification date as the first day of the quarter following the business model change. The Group does not remeasure income, expence (including impairment losses or gains) and interest recognised previously.

The Group cannot reclassifiy a financial liability after initial recognition.

v. Reclassifications – accounting policy effective before 1 January 2018

Under IAS 39, the reclassification of financial assets was only allowed between certain classification categories (eg. from loans and advances to available-for-sale or from held-for-trading to held-to-maturity).

The Group cannot reclassifiy a financial liability after initial recognition.

(4.11.3) *Derivatives – accounting policy effective before and after 1 January 2018*

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

Derivative contracts are entered into with the purpose of trading, or 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.

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 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 profit or loss.

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 to offset exists, and the parties intend to settle the cash flows on a net basis.

Interest income and expense from derivatives – irrespective whether derivatives are held for trading or held for risk management purposes – are recognised in statement of comprehensive income line item *'Net interest income'* and changes in fair value less accured interest are recognised in statement of comprehensive income line item *'Net trading income and fair value result'*.

(4.11.4) *Hedge accounting – accounting policy effective before and after 1 January 2018*

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. 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 underta-king 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 changes in fair value of a recognised asset or liability that could affect profit and loss, changes in the fair value less accrued interest of the derivative are recognised immediately in profit and loss together with changes in the fair value of the hedged item that are attributable to the hedged risk under *'Net gains/losses from hedge accounting'*. Interest income or expense arising from the derivative is reported as *'Net interest income'*.

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 term.

The Group hedges fixed-rate loans, deposits, fixed-rate issued bonds and purchased bonds in fair value hedge relationships with interest rate swaps and cross currency interest rate swaps.

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 less accrued interest 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 gains/losses from hedge accounting'*. Interest income or expense of the derivative is reported as *'Net interest income'*.

The Group applies cash flow hedge accounting using interest rate swaps and cross currency interest rate swaps 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 fluctuations in the base rates and in exchange rates.

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 gain or loss accumulatied in other comprehensive income into profit or loss in the same periods during which the hedged 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 recoverable then it reclassifies that amount immediately to profit or loss as *'Net gains/losses from hedge accounting'*.

(4.11.5) *Impairment of financial assets*

i. *Impairment of financial assets – accounting policies applied from 1 January 2018*

The determination of expected credit losses requires accounting estimates that, as a definition, are rarely the same as the actual results.

The Group measures expected credit losses based on entire contractual term for financial instruments measured at amortised cost or at fair value through other comprehensive income, loan commitments, lease receivables and financial guarantee contracts. For these expected losses in each reporting period the Group recognises an impairment loss allowance (in case of financial assets) or provision (in case of loan commitments or financial guarantee contracts).

The Group does not recognise impairment for equity instuments.

Recognition of expected credit loss

In terms of expected credit losses the Group classifies its assets to the following valuation categories:

Performing financial instruments where the credit risk of the financial instrument has not increased significantly since initial recognicition (Stage 1 classification):
For financial instruments classified to Stage 1, the recognition of 12 months expected credit loss is required, ie. expected credit loss attributable to the financial instrument, arising from default events within 12 months after the reporting date.

Performing financial instruments with a deteriorating credit risk profile, where the credit risk of the financial instrument has increased significantly since initial recognition (Stage 2 classification):
For financial instruments classified to Stage 2 the recognition of lifetime expected credit loss is required. Lifetime expected credit losses are credit losses arising from potential default events during the entire life of the financial instruments.

Credit-impaired financial instruments (Stage 3 classification):
Those exposures are classified as credit-impaired where there is objective evidence that the debtor will not be able

to meet its payment obligations towards the Group. For financial instruments classified as Stage 3, the recognition of lifetime expected credit loss is required (see the definition above).

Purchased or originated credit impaired financial instruments (POCI classification):
POCI financial assets are those which are classified as credit-impaired at initial recognition. For the Group, POCI financial assets can be recognised by either purchase or contract modification, where the modification results in derecognition of the original financial asset and the recognition of the modified financial asset. In case of POCI financial assets, the recognition of lifetime expected credit loss is required from initial recognition until derecognition.

Low credit risk financial assets

The Group applies this qualification only in case of investment grade rated government securities, for which the Group always recognises 12 months expected credit lossess, even if their credit risk have increased significantly since initial recognition. The Group classifies government securities as investment grade for which external credit rating agencies gave AAA and BBB- (Standard &Poor's, Fitch), and Aaa és Baa3 (Moody's) qualification.

Significant increase in credit risk (transfer to Stage 2)

The Group considers an increase in credit risk of a financial instrument significant since its initial recognition, when at least one of the following quantitative, qualitative or termination criteria are met:

Quatitative criteria

The Group applies quantitative criteria as primary indicators related to the signicicant increase in credit risk for all its portfolios. For the quantitative classification, the Group compares the actual and initial probability of default for the remaining maturity of the asset. The increase in probability of default (PD) differs for each segment (it is 250% for non-retail segment, but can decrease to minimum 150% for transactions with a maturity of over one year, in line with the reguations of the parent bank). In the retail segment (households and micro enterprises) the determination of significant increase in PD is based on the initial and actual credit rating, remaining maturity and the PD curve.

Qualitative criteria

For the determination of significant increase in the credit risk for all its material portfolios, the Group uses qualitative criteria as secondary indicators. The transfer to Stage 2 is carried out if the following criteria are met:

In case of sovereign, banking and corporate financial institutions, local and regional government portfolios, if one of the following criteria are met for the borrower:

- renegotiation because of financial difficulties;
- past-due for more than 30 days;
- the client requires special treatment because of its credit risk status.

The review of the significant increase of credit risk includes forward looking information and is carried out quarterly for each non-retail potfolio of the Group.

In case of retail (individuals and micro enterprises) portfolios, if the borrower meets one of the following criteria:

- renegotiation because of financial difficulties;
- expert judgement;
- past-due for more than 30 days;
- default event at another transaction of the client.

The review of the significant increase of credit risk includes forward looking information and is carried out monthly for each retail potfolio of the Group at the transaction level.

Definition of credit-impaired loans (transfer to Stage 3)

In case of non-retail clients in line with the definition of credit-impaired loans, the Group consideres a debt instrument defaulted if it meets one of the following criteria:

Quantitative criteria

The borrower has material contractual payments past due for more than 90 days compared to its contractual payment obligation. It is not possible for borrowers with contractual payments past due for more than 90 days to be classified to a category other than Stage 3.

A delay in payment is considered material, if the delay related financing agrrement reaches HUF 70,000 and 2.5% compared to the non-past due portion of the exposure.

Qualitative criteria

It is expected that the borrower cannot fulfill its payment obligations, which indicates that the borrower is experiencing significant financial difficulties. A non-retail client turns into default due to expected non-payment in the following cases:

- legal claim enforcement procedure (bankruptcy, liquidation) starts against the client;
- the Group terminates the financing agreement with immediate effect;
- the Group restructures the obligation with material losses due to existing financial difficulties in line with the above mentioned materialiaty limit;
- the Group suffers credit losses due to the client, or it sells the asset with losses due to financial difficulties (tipically these are not primary defaults);
- in case of financial institutions the supervisory license is withdrawn;
- payment moratorium in a country.

In case of probable expected credit losses due to other reasons: for the purpose of assessing expected credit losses, in order to sort out clients with financial difficulties, the Group applies a complex early warning system and process based on qualitative and quanitative indicators, which examines the expected credit losses and expected recoveries of the client using financial indicators.

The Group classifies every transaction that meets the default definition of IFRS as non-performing and categorises them as Stage 3 for impairment and provision calculation purposes.

The criteria mentioned above are applied for non-retail debt instruments of the Group and are in line with the definition of non-performance used in internal credit risk management. The definition of default is applied consistently in the Group's models relating to probability of default (PD), exposure at default (EAD), and loss given default (LGD).

If the criteria of default are not met for at least 3 months or in case of restructured loans for more than 3 months, but at least for a 1 year period, the asset is not considered defaulted anymore.

In case of retail clients, in line with the definition of credit-impaired loans, the Group qualifies a debt instrument as default if it meets one of the following criteria:

Quantitative criteria

The given financial asset is in more then 90 days material delay compared the contract or the given financial asset had ever been in a more than 180 days material payment delay.

The delay is considered material, if the delay of the debt instrument arising from the financial agreement reaches HUF 2,000.

Qualitative criteria

It is expected that the borrower cannot fulfill its payment obligation, which indicates that the borrower is experiencing significant financial difficulties. A retail client turns into default due to expected non-payment in the following cases:

- the debtor passed away;
- the debtor committed a fraud;
- legal claim enforcement procedure (bankruptcy, liquidation) starts against the micro enterprise client;
- terminating the financing agreement with immediate effect;
- restructuring the obligation due to financial difficulties;

- envisaging expected credit losses due to oher reasons.

The Group classifies every transaction that meets the default definition as non-performing and categorises them as Stage 3 for impairment and provision calculations. The above criteria are applied to all of the Group's retail debt instruments.

Measurement of expected credit losses

The amount of expected credit loss is an unbiased probability-weighted amount that takes into consideration the time value of money, uses 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.

More specifically the Group measures expected credit losses in the following way:

In case of Stage 1 and Stage 2 exposures: The marginal expected credit loss for the given month is the product of PD, LGD and EAD. The above calculation estimates the future amount of expected credit losses effectively, from which the Group calculate a present value for the reporting date. Then the calculated amount of expected credit losses are weighted based on a forward looking scenarios.

The Group applies different models for estimating its reserves for Stage 3 exposures:

- In case of exposures to sovereigns, corporate clients, project financing and financial institutions, local and regional municipalities, insurance undertakings and collective investment companies in Stage 3, the reserves are calculated by workout experts by discounting the expected reocveries with the effective interest rate of the transactions. The expected recoveries are calculated on a client basis and the experts provide estimates in more scenarios and the probability-weighted averages of the different scenarios are taken into account in the present value calcuations.
- In case of Stage 3 retail loans the expected credit loss is calculated by adjusting statistical estimates for most likely expected loss (BEEL, Best Estimate of Expected Loss) to remove indirect costs, and conservative add-ons from those estimations.

Discount rate

The Group applies the following discount rates when calculating the expected credit losses:

- financial instruments and financial assets which are not purchased or originated credit-impaired (non-POCI): original or current effective interest rate;
- purchased or originated credit-impaired financial assets (POCI): the credit-adjusted effective interest rate;
- undrawn loan commitments: market interest rate;
- financial guarantees: market interest rate.

Forward looking information

Assessment of whether credit risk has increased significantly since initial recognition and the measurement of expected credit losses are estimations incorporating also forward-looking information. The Group performed a chronological analysis and determined the most significant economic variables influencing credit risk and expected credit losses in case of each portfolio.

These economic variables and their impact on the probability of default, loss given default and exposure at default can vary across types of categories.

While making this analysis also expert estimations were used.

The forecasts of the above economic variables ('base case economic scenario') is provided by Raiffeisen Research quarterly, giving the best estimates of those economic indicators for the following three years. The impact of those economic variables on the probability of default, loss given default and exposure at default is determined by using statistical regressions in order to make the impact of historical development of such variables on default rates, non-performing exposures and expected losses understandable.

In case of retail portfolios the Group applies a macroeconomic model based on these economical variables in order to estimate the probability of default. Based on this model the effect of forecasted change in PD is estimated for a 3-

year period, then it returns to the original PD curve.

Besides the base economic scenario a best case (optimistic) and a worst case (pessimistic) scenario is also provided by Raiffeisen Research, together with their weighting in order to grab the expected variance. The Group concluded that three scenarios capture the expected variance properly. The weighting of the scenarios is determined by the combination of statistical analysis and expert credit rating taken the outcomes of the selected individual scenarios into account. The probability-weighted expected credit losses are determined by running the appropriate expected credit loss model to the respective scenarios and weighting the results, the weights being the probabilities of the scenarios.

Like all economic forecasts, these estimates and their probabilities of occurrence are prone to significant uncertainties and thus actual outcomes might significantly differ from forecasts. It is the Group's view that these forecasts represent the best estimate of the possible results and cover eventual differences and asymmetries concerning the various portfolios of the Group.

Recognition of expected credit losses in the statement of financial position

The Group recognises expected credit losses in its statement of financial position as follows:

- for financial assets measured at amortised cost: as loss allowance which is deducted from the gross carrying amount of the asset;
- for loan commitments and financial guarantee contracts: as a provision;
- for financial assets measured at fair value through other comprehensive income: the impairment is not recognised in the statement of financial position, since the carrying amounts of these assets are their fair values. The Group recognises the impairment for these financial assets in the reserve for fair value measurement and discloses those amounts in the Notes.

ii. Impairment of financial assets – accounting policies applied before 1 January 2018

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 go bankrupt, 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 within the portfolio.

- #### *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 calculates not only individual but also portfolio based loan loss provision for credit losses. Impairment that cannot be identified on an individual loan basis may still be identifiable on a portfolio basis. Hence, all accounts without objective evidence of incurred loss are included in a group of similar financial assets for the purpose of 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 the 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 case of non-retail portfolio based loan loss provisioning, the Group applies a model determined at RBI group level. At the end of 2010, RBI (Raiffeisen Bank International) harmonised the provisioning model for the entire international banking group. From the end of 2010, the average of the last five years' default rates is used; at the same time, default rates for each sector are not differentiated and 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 (corporates, large corporate, project financing, financial institutions), in order to ensure that sufficient number of observation are available in each category for reliable estimates.

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 line with RBI Group standards, the Group introduced an impairment methodology based on Basel II principals in the retail portfolio.

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, the Group takes into account Loss Given Default (LGD) without conservative margins and Credit Conversion Factor (CCF) when calculating monthly expected credit losses. The Group calculates impairment based on the present value of the collateral for housing and mortgage loans that meet the default definition of article 178c of CRR, and based on the BEEL parameter for any other loans.

Reversal 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 revered by reducing the loan impairment allowance account accordingly. The reversal is recognised in the consolidated statement of profit or loss.

- ***Impairment of held-to-mturity 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 the statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

- ***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 reorganisation 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 allowance attributable to time value of money 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.

(4.11.6) *Write-off of financial assets*

i. Write-off of financial assets – accounting policy effective from 1 January 2018

Loans and debt instruments are written off (partially entirely), if the Group has no reasonable expectations of recovering a financial asset or a portion thereof. Generally this is the case, if the Group believes that the debtor does not have sufficient assets that generate enough cash flow to repay the amount to be written off.

In a legal claim enforcement procedure, the Group considers the following factors when deciding on the write-off of a loan to clients other than individuals:

- the claim has been qualified as irrecoverable in a legal claim enforcement procedure (liquidation, enforcement);
- the recoverable amount does not cover collection costs; or
- the expected recovery of the Group is zero in a liquidation procedure based on the ranking order of creditors

The Group applies the partial write-off rules of IFRS 9 for loans to non-individuals, to the extent of existing loss allowance, if it has no reasonable expectations of recovering a financial asset in its enterity, based on ongoing legal claim enforcement procedure or the operating cash flows of the client. In such cases, the legal claim towards the client remains the contractual receivable amount before write-off.

Foregiveness of receivables is also possible for non-individuals and it qualifies as a derecognition event. Foregiveness is only possible with taking the requirements of business rationality into account. Not only business and economic considerations can be reasonable, but also any other considerations, e.g. legal, technical, technological or other.

A loan to an individual can only be written off, if the recoverable amount does not cover collection costs and the claim was qualified as irrecoverable.

The write-off or foregiveness of a loan is recognised in the statement of profit or loss, depending on the classification of the financial asset under either *'Impairment losses on financial assets'* (loans measured at amortised cost or at fair value through other comprehensive income) or *'Net trading income and fair value result'* (loans measured at fair value through profit or loss). Any return on a loan previously written off is recognised under the same lines in the statement of profit or loss.

ii. Write-off of financial assets – accounting policy effective from 1 January 2018

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. For a collateralised loan, only the amount not covered by the collateral can be written off.

Rules for the partial write-off of loans is only applied from 2017, as the retrospective application of the rule is impracticable, given that the determination of previous period information requires estimations which can't be reliably measured based on conditions existing on previous reporting dates. Partial write-off is only possible for corporate clients when there is no reasonable expectation of recovery from operating cash flows and/or the client is under legal claim enforcement procedure. Partial write-off is only allowed against previously charged impairment. Partially written off exposures are recorded separately off-balance sheet until becoming legally irrecoverable.

(4.11.7) *Derecognition of financial assets and liabilities, other than contract modifications –accounting policy effective before and after 1 January 2018*

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 sale and repurchase transaction.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and 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 direction of the transaction. In transfers in which control over the financial 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 is recognised for the servicing contract if servicing fee exceeds the value of the service and a liability is recognised for the servicing contract if servicing fee is lower than the value of the service.

The Group enters into purchases (or sales) of securities under agreements to resell (or 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 presented in the statement of financial position line item 'Financial assets at amortised cost' and disclosed as collateralised 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 included in the statement of financial position line item 'Financial liabilities at amortised cost'.

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

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

The net result from derecognition of financial assets and liabilities is in 'Net trading income' or 'Other operating income/expense' line items of the statement of profit or loss.

(4.11.8) *Modification of financial assets and liabilities*

i. Modification of financial assets and liabilities – accounting policy effective from 1 January 2018

Financial assets

The Group carries out an evaluation when the contractual cash flows of a financial asset are renegotiated, otherwise modified or exchanged for another financial asset. If the renegotiated cash flows differ from the contractual cash flows of the original financial asset significantly, the original financial asset is derecognised and the new financial asset is recognised at fair value on the date of the renegotiation. The difference between the carrying amount of the original financial asset and the fair value of the newly recognised financial asset is included in the line item '*Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss*' in the statement of profit or loss.

The Group evaluates significance based on the following criteria:

- qualitative criteria:
    - change of currency, when the contract does not allow draw-downs in multiple currencies;
    - the financial instrument changes (eg. a loan becomes a bond);
    - addition or elimination of a parameter that violates SPPI criteria.
- quantitative criteria:
    - the cumulative average remaining term of the contract weighted with the cash flows changes by more than 2 years or 50% of the original term (considering the larger of the 2 criteria);
    - the net present value of the modified contractual cash flows discounted using the original effective interest rate (for floating rate instruments, using the actural effective interest rate) differs from the net present value of the original contractual cash flows discounted with the same interest rate by more than 10% and in case of non-retail financial assets by EUR 100,000, in case of retail assets by EUR 2,000 EUR (considering the larger of the 2 criteria).

If the modified cash flows of an asset measured at amortised cost does not differ significantly from the cash flows prior the modification, the modification does not result in derecognition. In this case the Group recalculates the gross carrying amount of the financial asset and the difference between this amount and the gross carrying amount of the asset prior modification is recognised as a modification gain or loss in the statement of profit or loss. If the modification has been carried out in relation to the financial difficulties of the client, the modification gain or loss is presented in statement of comprehensive income line item *'Impairment losses on financial assets'*. In other cases the modification gain or loss is presented in statement of comprehensive income line item *'Other result'*.

Any transaction costs incurred during the modification adjust the amortised cost of the modified financial asset.

Financial liabilities

The Group derecognises the financial liability, if its terms are modified and modified cash flows significantly differ from the original cash flows (the evaluation of significance is the same as for financial assets). In this case the carrying amount of the original financial liability is derecognised and the modified financial liability is recognised at its fair value at the date of modification. The difference between the carrying amount of the derecognised liability and the fair value of the new, recognised liability is reported as *'Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss '* in the statement of profit or loss.

If the modified cash flows of a liability measured at amortised cost does not differ significantly from the cash flows prior to the modification, the modification does not result in derecognition of the financial liability. In this case the Group recalculates the amortised cost of the financial liability and the difference between this amount and the amortised cost of the liability prior to modification is recognised as a modification gain or loss as *'Other result'*.

If the modification does not result in derecognition, transaction costs and fees incurred during the modification adjust the amortised cost of the financial liability.

If the modification results in derecognition of a financial liability, transaction costs and fees incurred during modification are normally recognised in the statement of profit or loss, unless they are proven to be directly attributable to the recognition of the modified financial liability.

ii. Modification of financial assets and liabilities – accounting policy effective before 1 January 2018

Financial assets

The Group carries out an evaluation when the contractual cash flows of a financial asset are renegotiated, otherwise modified or exchanged for another financial asset. If the renegotiated cash flows differ from the contractual cash flows of the original asset significantly, the original financial asset is derecognised and the new asset is recognised at fair value on the date of the renegotiation. The Group determines significance based on qualitative (change of currency, change of debtor) or quantitative (the net present value of the modified contractual cash flows discounted using the original effective interest rate differs from the net present value of the original contractual cash flows discounted with the same effective interest rate by more than 10%) criteria. The difference between the carrying amount of the original asset and the fair value of the new, recognised asset is recognised in the statement of profit or loss.

If the modified cash flows of an asset measured at amortised cost does not differ significantly from the cash flows prior to the modification, the modification does not result in derecognition.

Financial liabilities

The Group derecognises the financial liability, if its terms are modified and modified cash flows significantly differ from the original cash flows (the evaluation of significance is the same as for financial assets). In this case the modified financial liability is derecognised and a new financial liability is recognised at its fair value. The difference between the carrying amount of the derecognised liability and the fair value of the new, recognised liability is accounted for in the statement of profit or loss.

If the modified cash flows of a liability measured at amortised cost does not differ significantly from the cash flows prior the modification, the modification does not result in the derecognition of the financial liability. In this case the Group does not the change carrying amount in the statement of profit or loss, but modifies the effective interest rate.

(4.11.9) *Offsetting of financial assets and financial liabilities – accounting policy effective before and after 1 January 2018*

Financial assets and financial liabilities are offset and the net amount is 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.

(4.11.10) *Finance and operating leases – accounting policy effective before and after 1 January 2018*

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 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.

(4.12) *Deposits, debt securities 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 less directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(4.13) *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 future events. In case of commitments and 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 to occur at the date of closing the legal case.

(4.14) *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 reported as liabilities.

Further details are set out in *Note 41 Contingent liabilities* and *commitments*.

(4.15) *Interest income and expense*

Interest income and expense for financial instruments are recognised in '*Interest income calculated with the effective interest method*' and '*Interest expenses*' in the statement of profit or loss using the effective interest method. Interest income and expense for financial instruments measured at fair value through profit or loss in trading book and classified as held for trading, as well as derivative instruments designated for risk management purposes are recognised in '*Other interest income*' and '*Interest expenses*'. Interest income for loans measured at fair value through profit or loss is recognised in "*Other interest income*' and interest expense for deposits measured at fiar value through profit or loss is recognised in "*Interest expenses*'. In case of derivatives, the interest is separated from other changes in fair value, and as a result the interest result only contains realised and unrealised interest results from derivatives.

The effective interest rate method is the method used for the calculation of amortised cost of financial assets and liabilities and the allocation of interest income and expense between different reporting periods.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life (or a sometimes a shorter period) of the financial asset or financial liability to the net carrying amount of a financial asset or a financial liability. The effective interest rate is determined at the initial recognition of the financial asset or financial liability and is revised in case of financial instruments with a floating interest when the floating interest rate is periodically reset. When calculating the effective interest rate, the Group estimates future cash flows by considering all contractual terms of the financial instrument, but does not take prepayment options and credit losses. The calculation contains all paid or received amounts that is an integral part of the effective interest rate, including transaction costs and any other premium and discount. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Calculation of interest income

Before 1 January 2018, the Group calculated the interest income on impaired financial assets by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment. The base for the calculation of interest for not impaired assets was the gross carrying amount.

After 1 January 2018, the Group calculates the effective interest on financial assets that are not credit-impaired (Stage 1 and Stage 2) by applying the original effective interest rate to the gross carrying amount of the financial asset. In case of credit-impaired (but not POCI) financial assets the interest is calculated by applying the original effective interest rate to the amortised cost (net carrying amount) of the financial asset; if the financial asset is reclassified to a non-credit-impaired category (Stage 1 or 2), the base for effective interest calculation reverts to the gross carrying amount. For POCI financial assets the interest income is calculated by using the credit-adjusted effective interest rate to the amortised cost (net carrying amount) of the financial asset until derecognition.

(4.16) *Fee and commission income*

Every realised and accrued fee and commission income is recognised as a fee and commission income, except for those that are included in the calculation of the effective interest rate of financial instruments and which relate to financial instruments measured at fair value through profit or loss.

The Group applies IFRS 15 Revenue from contracts with cutomers standard for its fee and commission income. This determines a five-step model, which serves as a universal framework for the accounting of revenue.

The method of recognising fee and commission is the following:

i. Identifying the contract
In the Group's practice a contract is an agreement between two or more parties that creates enforceable rights and obligations. Based on the regulated nature of the Group's business activities, the contracts can be documented oral or written arrangements. Irrespectively of its form, a contract has commercial substance and establish right and obligations that are legally enforceable.

ii. Identifying the performance obligations in the contract
Based on the contract, this step determines which specific proposed service or which combination of specific proposed services are considered as separate performance obligation.
The Group determines a service to a client to be distinct, if the following two criteria are met:
- the client can utilise the service (which means that the good or service is capable of being distinct); and
- the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

iii. Determination of the transaction price
The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring services to a customer, excluding amounts collected on behalf of third parties.

Variable consideration
The Group takes into account the variable consideration partially or as a whole, if it is highly probable that no significant reversal will occur in the amount of the recognised accumulated revenue when the uncertainty relating to the variable consideration is resolved. For the purpose of assessing this, the Group takes both the probability and the magnitude of reversal into account.

iv. Allocation of the transaction price to performance obligations
The objective of allocating the transaction price is for the Group to allocate the transaction price to each performance obligation in an amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.
For the purpose of the allocation objective, the transaction price is allocated to each performance obligation on a relative stand-alone selling price basis.
The stand-alone selling price is the price at which the Group would sell a promised service separately to a customer.

v. Recognition of fee and commission income
The fee and commission income is recognised when the Bank satisfies the performance obligation by transferring the proposed service to a customer. This may happen either at a point in time or over time.

Given the activities of the Group, the revenue from services is recognised at a point in time or over short, mostly over monthly periods. There can also be quarterly or yearly fees or commissions which entitle the counterparty of the contract to utilise the related services for those periods.

Periodic service fees usually comprise of numerous items of small amounts, and the Group does not consider the difference between over time and point in time revenue recognition significant for these fees, consequently, they are generally accounted for at the date when they are settled.

All significant services of the Group generating fee and commission income are detailed in *Note 8 Net fee and commission income.*

(4.17) Net trading income and fair value result

Net trading income comprises gains less losses related to trading and non-hedging assets and liabilities held for risk management purposes, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(4.18) *Other operating income/expense*

Other operating income comprises realised gains on disposal of inventory, intangible assets and property and equipment.

(4.19) *Dividend income*

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.

(4.20) *Employee benefits*

The Group applies the requirements of the IAS 19 Employee benefits standard. Employee benefits are considerations given in exchange for service rendered by employees.

Short-term employee benefits comprise of wages, salaries and social security contriutions that are due to be settled within twelve months, short-term compensated absences, profit sharing plans, bonuses and non-monetary benefits.

Long-term employee benefits are other bonuses and compensations payable more than twelve months after the reporting period.

The Group only recognises liabilities or assets relating to termination benefits, if it is demonstrably committed to terminate the employment.

Employee benefits are reported as *'Staff expenses'* and more information is detailed in *Note 15 Staff expenses.*

(4.21) *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.

(4.22) *Share capital*

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

(5) New standards and interpretations not yet effecive

The following standards, modifications of standards and interpretations are not applied in the financial statements, as they are not effective for the reporting period ended 31 December 2018 and the Group did not opt for earlier application.

IFRS 16 Leases

The Group shall apply IFRS 16 Leases standard from 1 January 2019.

IFRS 16 introduces a single lease accounting model for lessees, where it should recognise a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments.The lessee shall recognise separately an interest expense realting to the lease liability and a depreciation expense relating to the right-of-use asset. The lessee should also remeasure the lease liability to reflect certain events that occurred (for example change in the lease term or change in the future lease payments due to a change in the index or rate the variable lease payment is dependent on). The lessee usually recognises the modification of the lease liability as a modification of the right-of-use asset. There are recognition exemptions in the standard for short-term leases and leases of low-value assets. The accounting of the lessor is similar to the current standard, therefore the lessor shall classify leases as either operating or financial leases.

IFRS 16 supersedes the current standards and interpretations on leases, which are IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. IFRS 16 also requires more extensive disclosures than IAS 17.

The Group as a lessee

The effects of initially applying IFRS 16 on the consolidated financial statements is summarised below. The Group will recognise new assets and liabilities relating to leases previously classified as operating leases. Operating lease payments were recognised on a linear basis over the lease term. The classification of expenses relating to leases will change with the transition to IFRS 16, as depreciation relating to the right-of-use asset and interest expense realting to the lease liability will be recognised. Additionally, the distribution of all expenses (currently lease payment expense, under IFRS 16 depreciation and interest) through the lease term will also change for operating leases.

In case of properties, as the contracts contain one or more additional lease or non-lease components apart from the main lease component, the Group allocates the consideration determined in the contract between lease and non-lease components based on their relative stand-alone selling prices. In case of leases of other assets the Group choose the practical expedient when it does not separate the non-lease components from the lease components but accounts for them as one lease component.
In accordance with the recognition exemptions of the standard, the Group elected not to use the requirements of the standard for short-term leases and leases of low-value assets.

At the end of 2018, the Group recognised lease assets of HUF 693 million and lease lialibities of HUF 686 million under IAS 17, and the application of IFRS 16 did not modify them.

The Group as a lessor

As the Group does not participate in lease contracts as a lessor, the transition to IFRS 16 is not expected to be significant.

Transition

The Group applies IFRS 16 from 1 January 2019 and chooses the modified retrospective method of transition, recognising the cumulative effect of initially applying the standard in the opening retained earnings at the date of initial application.

The Group made the following decision about the transition to IFRS 16:

- The Group determines wheather a contract contains a lease under IFRS 16 at the date of initial application.
- For leases previously classified as operating leases, it measures the right-of-use asset at an amount equal to the lease liability, modified by prepaid or accrued payments recognised in the statement of financial position immediately prior to the date of initial application.

- For lease portfolios with rather similar parameters (for example similar remaining lease term, similar leased asset or similar economic environment) the Group applies the same discount rate.
- As an alternative to perform an impairment review the Group evaluated wheather the leases are onerous according to IAS 37 Provisions, contingent assets and liabilities. It did not identify any onerous contract, therefore the right-of-use assets do not have to be modified in the statement of financial position at the date of transition by any provision recognised prior to transition for onerous lease contracts.
- The Group applies the practical expedients of the standard in case of short-term leases.
- The Group does not include initial direct costs in the carrying amounts of right-of-use assets at the date of transition.

Based on information currently available, the Group expects to recignise right-of-use assets amounting to HUF 9,215 million and at same time the lease liabilities will increase by HUF 9,215 million on 1 January 2019 according to new guidance of IFRS 16. The HUF 13,285 million of future lease payments reported in *Note 26 Operating leases* differs from this amount, as it contains VAT, short-term leases and leases of low-value assets in line with IAS 17. As a consequence of the new guidance of IFRS 16, a decrease in operating expenses of HUF 1,594 million, an increase in depreciation of HUF 1,368 million and an increase in interest expense relating to lease liabilities of HUF 249 million is expected to arise in 2019.

Other standards, amendments of standards and interpretations

The following standards, amendments of standards and interpretations are not expected to have a significant impact on the consolidated financial statement of the Group:

IFRIC 23 – Uncertainty over income tax treatments *(effective from 1 January 2019)*

The interpretation clarifies the recognition and measurement requirements of IAS 12 Income taxes. The application of this amendment is not expected to have any impact on the consolidated financial statements of the Group.

Amendments to IAS 28 – Long-term interests in associates and joint ventures (effective from 1 January 2019)

The amendments clarify that an entity is obliged to apply IFRS 9 to long-term interests in associates or joint ventures to which the equity method is not applied. The application of IFRS 9 thus takes precedence over the application of IAS 28. The application of this amendment is not expected to have any significant impact on the consolidated financial statements of the Group.

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

Annual improvements to IFRS – 2015-2017 cycle (effective from 1 January 2019)

The improvements include amendments of IFRS 3 Business combinations, IFRS 11 Joint arrangements, IAS 12 Income taxes and IAS 23 Borrowing costs standards.

- Includes supplementary guidance about the acquisition method of IFRS 3 Business combinations standard. According to this, when a party to a joint arrangement obtains control (according to IFRS 11) over a joint operation, the transaction is accounted for as a business combination. Therefore the acquirer remeasures its previously held interests in the joint operation.
- In relation to IFRS 11 Joint arrangements the accounting treatment of interests acquired has been specified. When an entity that participates in a joint operation subsequently obtains joint control, the transaction does not qualify as a business combination, therefore it does not remeasure its previously held interests.
- In the modification of IAS 12 Income taxes, the regulations on recognising the effects of income tax on dividend paid has been specified. The modification states that income tax consequences of dividend are linked to transactions that generated those distributable profits. Hence, income tax consequences of dividends should be recognised in profit or loss, other comprehensive income or directly in equity accordingly.
- The amendment clarifies the borrowing costs of IAS 23 Borrowing costs an entity has to capitalise. When an entity has borrowings used specifically to finance the acquisition of a qualifying asset, capitalisation of borrowing costs ceases when the activities necessary to prepare the asset for its intended use or sale are complete. After completion, the specific borrowings used are transferred to the general borrowings pool as a general purpose borrowing.

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

Modification to IFRS 9 – Prepayment features with negative compensations (effective from 1 January 2019, earlier application is permitted)

The modifications of IFRS 9 allow financial assets with prepayment features that may result in negative compensation to be measured at amortised cost or at fair value through other comprehensive income, if specific criteria are met. According to the modification negative compensation *might* be regarded as reasonable compensation.

The application of this amendment is not expected to have any significant impact on the consolidated financial statements of the Group.

(6) Financial risk management

(6.1) Introduction and overview

The Group's principles of managing interest rate risk, foreign currency risk, credit risk and liquidity risk are subject to regular review performed by management and by the Board of Directors.

Risk management is operated independently from business areas. Credit risk management is operated by the Credit Risk Management Department (CRM) in case of clients with non-standard products and services, and by Retail Risk Management Department (RMM), in case of clients with standard products.

Individual credit risk analysis, credit rating, credit assessment and credit monitoring is performed by the CRM; portfolio level credit risk measurement and analysis of market (interest rate, foreign currency, liquidity) risks and operational risks is performed by the Integrated Risk Assessment Department.

The Group is exposed to the following risks arising from financial instruments:

i. Credit risk
ii. Market risk
iii. Liquidity risk
iv. Operational risk

This explanatory note describes the Group's exposure to the above risks, its objectives, policies and processes for measuring and managing those risks and its capital management.

(6.2) Credit risk

Credit risk is a risk of financial loss arising from a customer's or client's non-performance of its contractual obligations. It primarily arises from the Group's lending, commercial financing and leasing activities, however it also might arise from specific off-balance sheet products (e.g. guarantees) or from investment debt securities.

Credit risk management

Limits to lending activities are defined by the balance of business and risk considerations which are established by Group's management, within the frame of the Act on Credit Institutions, other laws and regulations and the Group's Credit Policies.

The Group's lending activity is primarily cash flow based, where the cash flows expected from the client's core business activity serve as the basis of repaying the loan. In certain cases more emphasis is put on collateral value, expected future income from the financed project, recovery rate of a portfolio or the combination of those. Accordingly, lending decisions are made based on the amount of the loan requested, its term, type of the product, financial situation, non-financial characteristics and prospects of the client and on the collaterals.

Credit risk arises primarily from the non-performance risk related to banking activities involving retail and corporate clients, banks and municipalities as lenders.

Non-performance risk is the risk that a client will not be able to fulfil its contractual financial obligations. However, credit risk might also arise from migration risk, from the concentration of lenders, credit risk mitigation techniques and from country risk.

Credit risk is the main risk factor within the Group, which is also indicated by the internal and regulatory capital requirements. Thus the Group assesses and monitors credit risk both on individual and on portfolio level.
Credit risk management and lending decisions are based on the corresponding credit policies, credit risk handbooks and on the tools and processes developed specifically for this purpose.

Internal credit risk controlling system involves various types of monitoring measures which are closely integrated in the process starting with the client's application for a loan, continuing through Group's approval and ending with the repayment of the loan.

Losses arising from credit risk are accounted for by recognising impairment on individual and on portfolio level.
In the latter case, impairment is recognised for portfolios consisting of loans which have the same risk profile and fulfil certain conditions. In retail business, unit impairment is recognised on the level of product portfolios.

Impairment associated with the credit risk of loans and advances to clients and banks is recognised in the amount of expected credit loss, and is based on group level standards. Impairment loss is recognised, if the present value of the principal and interest amounts expected to be repaid – taken any collateral into account – is lower than the carrying amount of the respective loan. Impairment on the portfolio level is calculated based on a valuation model that estimates cash flows expected from the loans in the portfolio based on historical loss experience, taking the economic environment and forecasts of future economic conditions into account.

As a reaction to the financial crisis, from 2010 the Group prepares bi-annual integrated forecasts for provisions, impairment, capital requirement and profit and loss after tax and performs stress testing bi-annually. Based on expectations about the macroeconomic environment, we estimate default rates and their impact on the above amounts using statistical models. We extend the forecast period for 3 years and we analyse Pillar I and Pillar II capital adequacy in case of both expected and pessimistic scenarios. Starting from the current year, forecast period used for stress scenarios also covers 3 years.

The Group reacted to the financial difficulties of its clients caused by the financial and real economic crisis with restructuring measures, introducing early warning processes and strengthening of collection and debt management procedures.

Process of credit rating

Risk assessment and rating of corporate clients, project companies, companies acting in commodity and commerce financing and municipality clients is based on individual assessment and rating, with regular financial monitoring and annual renewal of limits. Financing is based on credit limits, with only simple approval method used on the transaction level.

In case of credit products for individuals, private banking clients and small and medium enterprises an automated scorecard based assessment is in place.

Internal credit rating categories are as follows:

- **Minimal risk:**

  Non-retail portfolio: This rating category is reserved for corporates with the highest external credit ratings (AAA) and for other special cases that are deemed to bear minimal risk (e.g. companies related to the government, OECD countries rated AAA by an external credit rating agency).

  Retail portfolio: This rating category is reserved for the clients with the best credit ratings.

- **Excellent credit standing:**

  Non-retail portfolio: For all other clients this is the highest available rating category. Based on the excellent profitability, financial obligations can be fulfilled at any time. Companies in this rating category have a strong equity position and a sound financing structure.

  Retail portfolio: On the basis of an excellent income, financial obligations can be fulfilled at any time.

- **Very good credit standing:**

  Non-retail portfolio: On the basis of a very strong profitability the probability is very high that the client can fulfil all payment obligations – both principal and interest – also in the long term. Companies in this rating category also have a strong equity position and a sound financing structure and market position.

  Retail portfolio: On the basis of a high income the probability is very high that the client can fulfil all payment obligations – both principal and interest – also in the long run. Clients in this category have a comfortable financial situation.

- **Good credit standing:**

  Non-retail portfolio: On the basis of a strong profitability it is expected that the client can fulfil all financial obligations in the medium term. Good capital situation and sound financing structure.

  Retail portfolio: Based on a high income and sociodemographic position it is expected that the client can fulfil all financial obligations in the medium term.

- **Average credit standing:**

  Non-retail portfolio: Based on a strong profitability, continuous principal repayments and interest payments are expected. A reasonable balance sheet structure with a satisfactory equity base.

  Retail portfolio: Based on its sufficient credit capacity and sociodemographic position continuous principal repayments and interest payments are expected.

- **Acceptable credit standing:**

  Non-retail portfolio: Based on satisfactory profitability, continuous principal repayments and interest payments are expected. Increased sensitivity towards serious deterioration of economic environment. Limited flexibility in financing.

  Retail portfolio: Based on satisfactory income and sociodemographic position, continuous principal repayments and interest payments are expected. Increased sensitivity towards serious deterioration of economic environment.

- **Weak credit standing:**

  Non-retail portfolio: Clients in this rating category have a low profitability and their financial flexibility is limited. Significant deterioration of economic parameters might have a negative impact on the timeliness of principal repayments and interest payments. Their business fundamentals are below average and show weaknesses in certain areas.

  Retail portfolio: Clients in this category have a lower income and a more limited credit capacity. Significant deterioration of economic parameters might have a negative impact on the timeliness of principal repayments and interest payments.

- **Very weak credit standing:**

  Non-retail portfolio: Companies with weak profitability and weak financing structure. Yet a lower magnitude negative change in the economic environment can prevent the complete and timely fulfilment of the financial obligations.

  Retail portfolio: Has a low income and an unfavourable sociodemographic position. Yet a lower magnitude negative change in the economic environment can prevent the complete and timely fulfilment of the financial obligations.

- **Doubtful / high default risk:**

  Non-retail portfolio: Companies with a very weak profitability and a problematic financing structure. Partial losses on the principal or on interest should be envisaged.

  Retail portfolio: Has a very low income and an unfavourable sociodemographic position. Partial losses on the principal or on interest are envisaged.

- **Default:**

  Occurred nonperformance. The financial obligations could not be fulfilled entirely and timely.

- **Unrated:**

  Non-retail portfolio: Unrated exposures in the corporate sector mostly belong to the sub-segment under the standardised approach (Article 150 of 575/2013 EU Regulation) and thus they, by definition, do not have an internal credit rating (e.g. liabilities under litigation, settlement accounts with foreign exchange brokers presented under other receivables).

Retail portfolio: Unrated exposures in the retail sector mainly consist of negative account balances, uncoded transactions, transactions unrated due to data failure in a negligible number and employee loans. Loans granted to third parties by subsidiaries are also classified to the unrated retail portfolio.

The following table reconciles relevant balance sheet line items with the financial asset classes determined for disclosure purposes and with the loan commitments and financial guarantees financial instrument classes. Provision balance sheet line item contains expected credit losses for loan commitments and financial guarantee contracts.

31.12.2018 (HUF million)	Cash, cash balances at central banks and other demand deposits *	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Provisions***	Total
Cash	91,867	0	0	0	0	0	0	**91,867**
Placements with banks	64,863	0	0	0	0	408,332	0	**473,195**
Loans and advances to clients	0	0	7,691	0	0	1,061,896	0	**1,069,587**
Investment in debt securities	0	14,860	0	24,212	467,128	201,866	0	**708,066**
Equity instruments**	0	1,447	0	0	1,197	0	0	**2,644**
Other receivables	0	0	0	0	0	0	0	**0**
Loan commitments and financial guarantees	0	0	0	0	0	0	2,485	**2,485**
Derivative assets	0	31,631	0	0	0	0	0	**31,631**
Total	**156,730**	**47,938**	**7,691**	**24,212**	**468,325**	**1,672,094**	**2,485**	**2,379,475**

*This balance sheet line item contains receivables due from HNB amounting to HUF 39,845 million, which is not included in the table *(21) Placements with banks.*

** Included only for the purposes of reconciliation to the balance sheet and is not included in the tables detailing credit risk exposures.

*** Column Provisions only contains provisions set up in accordance with IFRS 9. Provisions set up in accordance with IAS 37 are detailed in the table *(34) Provisions.*

**** Placements with banks and Loans and advances to clients are presented hereinafter together as 'Loans and advances'.

Credit quality of the Group's exposures

The following tables contain information about the credit quality of financial assets, undrawn loan commitments and financial guarantees. For financial assets measured at amortised cost or at FVOCI *gross* carrying amounts are presented in the lines of the tables. For financial instruments measured at FVTPL, the carrying amounts are presented in the lines. For financial guarantees and undrawn loan commitments the lines contain the guaranteed amounts and the amounts that can be drawn down under of the loan commitment, respectively.

	31.12.2018										31.12.2017
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss		
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		Total	Total
Placements with banks											
Minimal risk	1,925	0	0	0	0	0	0	0	0	**1,925**	**0**
Excellent credit standing	154,279	61,735	0	0	0	0	0	0	0	**216,014**	**0**
Very good credit standing	35,014	30,134	0	0	0	0	0	0	0	**65,148**	**199,981**
Good credit standing	160	0	0	0	0	0	0	0	0	**160**	**0**
Average credit standing	304	0	0	0	0	0	0	0	0	**304**	**220**
Acceptable credit standing	189,653	0	0	0	0	0	0	0	0	**189,653**	**27,049**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**	**0**
Default	0	0	0	0	0	0	0	0	0	**0**	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**	**0**
Gross carrying amount	**381,335**	**91,869**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**473,204**	**227,250**
Loss allowance	-6	-3	0	0	0	0	0	0	0	**-9**	
Carrying amount	**381,329**	**91,866**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**473,195**	**227,250**
Loans and advances to clients											
Minimal risk	35,374	2,555	0	0	0	0	0	0	864	**38,793**	**8,110**
Excellent credit standing	68,689	4,143	0	6	0	0	0	0	1,410	**74,248**	**35,428**
Very good credit standing	208,019	33,029	0	15	0	0	0	0	1,459	**242,522**	**161,691**
Good credit standing	123,556	11,630	0	49	0	0	0	0	932	**136,167**	**155,155**
Average credit standing	219,450	39,040	0	68	0	0	0	0	1,470	**260,028**	**215,579**
Acceptable credit standing	165,925	37,111	0	27	0	0	0	0	1,201	**204,264**	**154,588**
Weak credit standing	39,217	32,554	0	15	0	0	0	0	129	**71,915**	**91,600**
Very weak credit standing	10,085	7,663	0	12	0	0	0	0	157	**17,917**	**31,167**
Doubtful / high default risk	720	4,700	0	23	0	0	0	0	12	**5,455**	**14,384**
Default	9	388	54,876	8,450	0	0	0	0	57	**63,780**	**77,989**
Unrated	5,682	1,027	216	0	0	0	0	0	0	**6,925**	**8,378**

	31.12.2018										31.12.2017
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss		
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		Total	Total
Gross carrying amount	**876,726**	**173,840**	**55,092**	**8,665**	**0**	**0**	**0**	**0**	**7,691**	**1,122,014**	**954,069**
Loss allowance	-1,730	-7,207	-39,458	-4,032	0	0	0	0	0	**-52,427**	
Carrying amount	**874,996**	**166,633**	**15,634**	**4,633**	**0**	**0**	**0**	**0**	**7,691**	**1,069,587**	**954,069**
Investment in debt securities											
Minimal risk	60,011	0	0	0	46,354	0	0	0	0	**106,365**	**90,206**
Excellent credit standing	0	0	0	0	128,611	0	0	0	0	**128,611**	**0**
Very good credit standing	0	0	0	0	65,916	3,230	0	0	449	**69,595**	**147,486**
Good credit standing	0	0	0	0	0	0	0	0	0	**0**	**0**
Average credit standing	0	0	0	0	0	0	0	0	0	**0**	**1,772**
Acceptable credit standing	141,867	0	0	0	223,068	0	0	0	38,623	**403,558**	**419,593**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**	**0**
Default	0	0	0	0	0	0	0	0	0	**0**	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**	**0**
Gross carrying amount	**201,878**	**0**	**0**	**0**	**463,949**	**3,230**	**0**	**0**	**39,072**	**708,129**	**659,057**
Loss allowance	-12	0	0	0	-46	-5	0	0	0	**-63**	
Carrying amount	**201,866**	**0**	**0**	**0**	**463,903**	**3,225**	**0**	**0**	**39,072**	**708,066**	**659,057**
Other receivables											
Minimal risk	0	0	0	0	0	0	0	0	0	**0**	**1**
Excellent credit standing	0	0	0	0	0	0	0	0	0	**0**	**3**
Very good credit standing	0	0	0	0	0	0	0	0	0	**0**	**3,584**
Good credit standing	0	0	0	0	0	0	0	0	0	**0**	**10**
Average credit standing	0	0	0	0	0	0	0	0	0	**0**	**14**
Acceptable credit standing	0	0	0	0	0	0	0	0	0	**0**	**1,650**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**	**15**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**	**1**

(HUF million)	31.12.2018										31.12.2017
	Financial assets at amortised cost			Financial assets at fair value through other comprehensive income					Financial assets at fair value through profit and loss		
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		Total	Total
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**	**1**
Default	0	0	0	0	0	0	0	0	0	**0**	**10**
Unrated	0	0	0	0	0	0	0	0	0	**0**	**1,887**
Gross carrying amount	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**7,176**
Loss allowance	0	0	0	0	0	0	0	0	0	**0**	
Carrying amount	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**7,176**
Loan commitments and financial guarantees											
Minimal risk	19,460	979	0	0						**20,439**	**17,465**
Excellent credit standing	73,686	1,812	0	0						**75,498**	**39,152**
Very good credit standing	176,521	4,426	0	0						**180,947**	**190,082**
Good credit standing	51,661	8,691	0	0						**60,352**	**64,449**
Average credit standing	89,491	9,639	0	0						**99,130**	**115,024**
Acceptable credit standing	72,740	22,509	0	0						**95,249**	**94,560**
Weak credit standing	11,335	13,250	0	0						**24,585**	**28,089**
Very weak credit standing	833	293	0	0						**1,126**	**5,728**
Doubtful / high default risk	122	324	0	0						**446**	**1,589**
Default	0	0	1,686	0						**1,686**	**7,249**
Unrated	1,234	859	761	0						**2,854**	**3,376**
Gross amount	**497,083**	**62,782**	**2,447**	**0**	**0**	**0**	**0**	**0**	**0**	**562,312**	**566,763**
Carrying amount (provision)	-235	-268	-1,982	0	0	0	0	0	0	**-2,485**	**-3,088**
Derivative assets											
Minimal risk									0	**0**	**259**
Excellent credit standing									17,151	**17,151**	**245**
Very good credit standing									1,265	**1,265**	**22,552**
Good credit standing									165	**165**	**1,509**
Average credit standing									6,293	**6,293**	**6,193**
Acceptable credit standing									6,622	**6,622**	**1,390**

	31.12.2018										31.12.2017
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss		
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**		**Total**	**Total**
Weak credit standing									109	**109**	**70**
Very weak credit standing									0	**0**	**0**
Doubtful / high default risk									0	**0**	**0**
Default									1	**1**	**0**
Unrated									25	**25**	**21**
Carrying amount									**31,631**	**31,631**	**32,239**

Comparative information under IAS 39 (impairment allowances and credit quality of the exposures)

31.12.2017 (HUF million)	Placements with banks	Loans and advances to customers	Investment in debt securities	Other receivables	Derivative assets	Loan commitments and financial guarantees given
Individually impaired						
Minimal risk	0	3	0	0	0	0
Excellent credit standing	0	6,777	0	0	0	8,016
Very good credit standing	0	0	0	0	0	1,777
Good credit standing	0	2,314	0	0	0	218
Average credit standing	0	1,522	0	0	0	3,909
Acceptable credit standing	0	26	0	0	0	302
Weak credit standing	0	253	0	0	0	302
Very weak credit standing	0	236	0	0	0	72
Doubtful / high default risk	0	415	0	0	0	179
Default	0	76,563	0	0	0	7,216
Unrated	0	2,788	0	0	0	1,828
Total gross carrying amount of individually impaired financial assets	**0**	**90,897**	**0**	**0**	**0**	**23,819**
Allowance for impairment	0	-42,237	0	0	0	-2,503
Total carrying amount of individually impaired financial assets	**0**	**48,660**	**0**	**0**	**0**	**21,316**
Collectively impaired						
Minimal risk	0	8,084	0	0	0	4,585
Excellent credit standing	0	26,219	0	0	0	6,831
Very good credit standing	0	151,508	0	0	0	68,480
Good credit standing	0	146,673	0	0	0	35,915
Average credit standing	0	205,841	0	0	0	37,246
Acceptable credit standing	0	144,525	0	0	0	33,511
Weak credit standing	0	87,477	0	0	0	7,968
Very weak credit standing	0	23,324	0	0	0	2,262
Doubtful / high default risk	0	12,685	0	0	0	653
Default	0	1,412	0	0	0	33
Unrated	0	4,485	0	0	0	1,321
Total gross carrying amount of collectively impaired financial assets	**0**	**812,233**	**0**	**0**	**0**	**198,805**
Allowance for impairment	0	-11,281	0	0	0	-585
Total carrying amount of collectively impaired financial assets	**0**	**800,952**	**0**	**0**	**0**	**198,220**
Past due but not impaired						

31.12.2017 (HUF million)	Placements with banks	Loans and advances to customers	Investment in debt securities	Other receivables	Derivative assets	Loan commitments and financial guarantees given
Minimal risk	0	0	0	0	0	0
Excellent credit standing	0	0	0	0	0	0
Very good credit standing	0	0	0	0	0	0
Good credit standing	0	0	0	0	0	0
Average credit standing	0	0	0	0	0	0
Acceptable credit standing	0	0	0	0	0	0
Weak credit standing	0	0	0	0	0	0
Very weak credit standing	0	7	0	0	0	0
Doubtful / high default risk	0	0	0	0	0	0
Default	0	5	0	0	0	0
Unrated	0	315	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**327**	**0**	**0**	**0**	**0**
Past due categories:						
up to 30 days	0	319	0	0	0	0
31 to 90 days	0	3	0	0	0	0
91 to 180 days	0	5	0	0	0	0
181 days to 1 year	0	0	0	0	0	0
more than 1 year	0	0	0	0	0	0
Total carrying amount of past due but not impaired financial assets	**0**	**327**	**0**	**0**	**0**	**0**
Neither past due nor impaired						
Minimal risk	0	23	90,206	1	259	12,880
Excellent credit standing	0	2,432	0	3	245	24,305
Very good credit standing	199,982	10,183	147,486	3,585	22,553	119,825
Good credit standing	0	6,168	0	10	1,509	28,316
Average credit standing	220	8,216	1,772	14	6,193	73,869
Acceptable credit standing	27,049	10,038	419,594	1,650	1,390	60,746
Weak credit standing	0	3,870	0	15	70	19,820
Very weak credit standing	0	7,600	0	1	0	3,394
Doubtful / high default risk	0	1,283	0	1	0	757
Default	0	9	0	10	0	0
Unrated	0	790	0	1,887	21	227
Total carrying amount of neither past due nor impaired financial assets	**227,251**	**50,612**	**659,058**	**7,177**	**32,240**	**344,139**

Includes receivables with renegotiated terms

31.12.2017 (HUF million)	Placements with banks	Loans and advances to customers	Investment in debt securities	Other receivables	Derivative assets	Loan commitments and financial guarantees given
Total gross carrying amount	227,251	954,069	659,058	7,177	32,240	566,763
Total allowance for impairment	0	-53,518	0	0	0	-3,088
Total carrying amount	227,251	900,551	659,058	7,177	32,240	563,675

Information about the Group's loan portfolio

AEGON portfolio

The Group acquired the mortgage portfolio of Aegon Hitel Zrt. in accordance with the portfolio purchase agreement signed on 4 June 2018. Only receivables from mortgages due from performing clients were subject to the above agreement, i.e. mortgages due from clients fulfilling their contractual payment obligations according to the mortgage contracts or due from clients with contractual payments no more than 90 days past due.

The purchase of the mortgage portfolio fits integrally into the Group's strategy which, as a universal banking group, defines gaining a dominant market share in the retail lending market as a priority objective. After obtaining all necessary regulatory approvals, the takeover of the clients by the Group was closed at 5 of October 2018. As a result of the transaction the Group acquired 4,264 mortgages and approximately HUF 30.5 billion of loan receivables. While the initial drop outs from the portfolio met the Group's expectations, the quality of the portfolio turned out to be somewhat better than expected.

'Funding for Growth' Program of the National Bank of Hungary:

As part of its monetary policy instruments, on 1 June 2013 the National Bank of Hungary (NBH) launched its three-pillar Funding for Growth Scheme (FGS) the explicit objective of which was to grant access to subsidised loans for small and medium enterprises (SMEs).

During the year 2016 the program was broadened and the third phase, which had 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 foreign exchange risk – for SMEs having natural currency hedging.

NBH refinances only loan amounts disbursed by credit institutions participating in FGS with a collateralised loan bearing 0% interest rate, i.e. NBH does not grant pre-refinancing. SMEs can apply under the FGS for investment (capital expenditure) loans, working capital loans, loans for pre-financing EU subsidies and loans for repaying foreign currency loans (conversion loans). The maximum term is 10 years in case of investment (capital expenditure) loans, loans pre-financing EU-subsidies and conversion loans, and 1 year in case of working capital loans. Credit institutions can only charge a maximum 2.5% interest (including costs and fees).

The refinancing received and the loans granted under FGS are transactions concluded at off-market terms. In these cases, in accordance with IFRS 9.5.1.1A and B5.1.2A, the Group quantifies the fair value difference which is amortised to net interest income over the term of the loans.

Balance of FGS refinancing amounted to HUF 73,767 million as at 31.12.2018 while the Group's refinancing balance as at 31.12.2017 amounted to HUF 81,435 million.

Market-Based Lending Scheme of the NBH

In 2016 the NBH, in order to mitigate lending risk and to boost economic growth by granting loans to SMEs, launched the Market-Based Lending Scheme (MBLS) to help banks to adapt to market-based lending environment.

As part of the program, an interest rate swap (IRS) deal linked to lending activity was introduced by NBH to encourage lending activity by mitigating the interest rate risk arising from lending to SMEs by partially assuming it by NBH.

Under the program, the Group concluded IRS deals with NBH in an amount of HUF 40,000 million and undertook to provide lending to SMEs in an amount of HUF 10,000 million. The Group fulfilled this undertaking.

The basis for estimating fair value at initial recognition is the present value calculated using the yield curve based on 'bid prices' at the date of closing the tenders. An obvious evidence of off-market interest terms is the significant initial fair value difference i.e. the difference between the cost of funding obtained under the scheme and the cost of funding with similar characteristics but at market interest terms.

Purchased or originated credit-impaired (POCI) financial assets:

The predominant part of the Group's POCI portfolio was recognised in the books of the Group through the mandatory conversion of foreign currency denominated loan receivables to Hungarian Forint at fixed exchange rates in accordance with Act XXXVIII of 2014 ('Curia Act'), Act XL of 2014 ('Settlement Act'), Act LXXVII of 2014 ('Hungarian Forint Conversion Act') and Act CXLV of 2015 on questions relating to Hungarian Forint conversion of certain consumer loan contracts.

Changes to the portfolio

In 2018 exposures towards credit institutions increased significantly due to a few placements of individually significant amounts (2018: HUF 473 billion; 2017: HUF 227.3 billion). There was a change in the credit risk categorisation due to the change in Raiffeisen Group's credit rating.

In 2018, besides the significant increase of the portfolio in the corporate segment (2018: HUF 816.9 billion; 2017: HUF 695.6 billion), the balance of non-performing corporate loans continued to decrease (2018: HUF 31.8 billion; 2017: HUF 46.6 billion). The decrease is attributable to the implementation of a comprehensive strategy regarding non-performing portfolio. The Group continues to follow a detailed operative work-out plan under which it takes measures of external refinancing, legal claim enforcement and debt sale, and in case of no further expected recovery, it partially or fully writes off the amounts receivable. The risk costs associated with the decrease of non-performing loans was negligible relative to the size of the portfolio.

In retail and small enterprise portfolio there was a significant increase in 2018 (2018: HUF 296 billion; 2017: HUF 252.6 billion) due to acquisitions (purchase of AEGON portfolio) and increase of market activity, while balances of non-performing loans did not change significantly (2018: HUF 31.9 billion; 2017: HUF 31.4 billion). In retail segment the predominant part of unrated (not categorised) balances (2018: HUF 2.4 billion; 2017: HUF 5.1 billion) consists of employee loans.

Receivables due from municipalities and fiscal institutions continued to increase in 2018 which was caused by a significant client (2018: HUF 7.8 billion; 2017: HUF 5.8 billion).

Expected credit losses

Quantification of expected credit losses for financial assets at amortised costs and financial assets at fair value through other comprehensive income is performed in accordance with the respective accounting policies, see explanatory note *(4.11.5) Impairment of financial assets.*

The determination of the exposure necessary for credit risk management is a complex exercise and requires the application of models as exposure changes depend on market conditions, expected cash flows and the passage of time. The assessment of credit risk of the portfolio contains further estimations regarding the probability of default, the loss given default and the correlations between different clients' non-performance.

Group measures credit risk using the probability of default (PD), the risk exposure (EAD) and the expected loss due to default (LGD). This is the primary approach in measuring expected credit losses under IFRS 9.

Expected credit losses are calculated by workout experts discounting expected recoveries with the effective interest rates of the transactions in case of Stage 3 exposures towards sovereign and corporate clients, from project financing, towards credit institutions, local and regional municipalities, insurance companies and collective investment companies. Expected recoveries are given in multiple scenarios by the experts and a probability-weighted average of the scenarios is taken into accounting when calculating the present value of recoveries.

Measuring expected credit losses of financial assets at amortised cost and financial assets at fair value through other comprehensive income is an area requiring the use of complex models and making significant assumptions regarding future economic conditions and the behaviour of the loans.

Significant estimates made in applying the accounting requirements for expected credit losses are as follows:

- determining the criteria for significant increase in credit risk;
- selecting appropriate models for the purpose of measuring expected credit losses;
- determining the appropriate number of scenarios and the appropriate weighting of them for the product types, markets and the expected credit losses associated with them;
- grouping similar financial assets into portfolios for the purpose of measuring expected credit losses.

PDs in retail portfolios (individuals and micro-enterprises) are estimated across homogenous segments and product portfolios, while LGD estimation is typically more granular (portfolios with homogenous collaterals).

In case of non-retail portfolio, PDs are estimated at the segment level while LGD estimation involves more parameters (segment, product, fact and level of collateralisation).

Probability of default (PD)

Probability of default means the probability that the borrower will not fulfil its financial obligations in the following 12 months or in the remaining lifetime of the financial instrument.

In general, estimation of life-time PDs uses the 12-months probability of default (with default as written in Article 178 of CRR) as a starting point, with conservative margins eliminated from that estimation. Following this, statistical methods are used to determine how certain characteristics (amongst others rating, days past due) evolve from initial recognition over the entire lifetime of the loan portfolio. The typical risk profile is based on historical data and parameters.

The Group uses statistical models to incorporate forward-looking information into PDs in case of the following segments:
- sovereigns, local and regional municipalities, insurance companies and collective investment companies;
- corporate clients, project financing and financial institutions;
- retail (individuals and micro-enterprises).

When certain input parameters are not available entirely, grouping, averaging and benchmarking is used for the purpose of the calculations.

	Average PD	
	Non-retail	**Retail**
Minimal risk	0.03%	0.09%
Excellent credit standing	0.05%	0.26%
Very good credit standing	0.12%	0.52%
Good credit standing	0.22%	1.03%
Average credit standing	0.85%	2.04%
Acceptable credit standing	1.59%	3.98%
Weak credit standing	4.74%	7.63%
Very weak credit standing	9.59%	14.09%
Doubtful / high default risk	21.70%	32.95%

Loss given default (LGD)

The loss given default is the Group's expectation about the magnitude of the loss. The loss rate expected at default is different depending on the type of counterparty and product.

For non-retail segments, given the amount of data available and the weight of non-retail segments in the portfolio, modelling is performed by Raiffeisen Bank International (RBI):
- in case of corporate clients, project financing, credit institutions, insurance companies and local and regional municipalities the Group uses its own LGD estimations taking loss rate experience into account;
- loss given default for sovereign debts is estimated using market information sources;
- in case of investment funds, given the lack of loss experience, expert estimations for uncollateralised LGD, which is taken into account in capital adequacy calculations, is used.

Into LGDs based on own estimations, macroeconomic forecasts were also incorporated and the Group uses a weighted average LGD over three scenarios when quantifying expected credit loss.

In case of retail segment the estimation of LGD is based on recovery data collected by the Group. Modelling is performed by the Group on its own based on the methodology approved by RBI, also validating that methodology.

Exposure at default (EAD)

Exposure at default is measured taking into account all amounts regarded by the Group as receivable at an expected date of default within the next 12 months or over the entire lifetime of the instrument. 12 months and lifetime EAD is determined taking the expected repayment characteristics into account, which varies across product types.

For amortising products and bullet-type loans EAD is based on contractual repayment obligations over the next 12 months or the lifetime of the instrument. Where relevant, assumptions about prepayments and refinancing are taken into account while calculating EAD.

In case of non-retail segments, the Group makes own estimations in order to quantify exposures at default of off-balance sheet items for Corporate and SMB portfolios, the ones having so-called high probabilities of default.
The credit conversion factors applied are quantified using different methodologies for revolving and non-revolving exposures. Related modelling is performed by RBI.

In case of retail portfolios, exposure at default is determined monthly taking the future expected principal repayments into account. In case of revolving transactions, exposure at default is determined taking a credit conversion factor (CCF) into account as follows: EAD = used facility * (1+CCF). The expected lifetime of revolving transactions is estimated using statistical methods, which allows us to calculate lifetime expected credit losses also for such product types.

Forward-looking information

Assessment of whether credit risk has increased significantly since initial recognition and the measurement of expected credit losses are estimations incorporating also forward-looking information. The Group performed a chronological analysis and determined the most significant economic variables influencing credit risk and expected credit losses in case of each portfolio.

These economic variables and their impact on the probability of default, loss given default and exposure at default can vary across types of categories.

While making this analysis expert estimations were also used.

The forecasts of the above economic variables ('base case economic scenario') is provided by Raiffeisen Research quarterly, giving the best estimates of those economic indicators for the following three years. The impact of those economic variables on the probability of default, loss given default and exposure at default is determined by using statistical regressions in order to make the impact of historical development of such variables on default rates, non-performing exposures and expected losses understandable.

The most important macroeconomic variables affecting expected credit losses are as follows:

- Non-retail portfolios: Gross domestic product; Unemployment rate; Long-term (10 years) government bond yields; Inflation rate.
- Retail portfolios: Gross domestic product.

Besides the base economic scenario a best case (optimistic) and a worst case (pessimistic) scenario is also provided by Raiffeisen Research, together with their weighting (the weighting of the three scenarios: 25% optimistic, 50% base, 25% pessimistic scenario), in order to grab expected variances. The weighting of the scenarios is determined by the combination of statistical analysis and expert credit rating taken the outcomes of the selected individual scenarios into account. The probability-weighted expected credit losses are determined by running the appropriate expected credit loss model to the respective scenarios and weighting the results, the weights being the probabilities of the scenarios.

Gross domestic product	Scenario	2019	2020	2021
	Optimistic	4.00%	2.90%	2.30%
	Base	2.90%	-0.40%	-0.80%
	Pessimistic	1.00%	-0.40%	-1.50%
Unemployment rate	**Scenario**	**2019**	**2020**	**2021**
	Optimistic	3.10%	3.20%	4.60%
	Base	3.40%	3.80%	5.30%
	Pessimistic	5.70%	6.10%	8.00%
Long-term (10 years) government bond yields	**Scenario**	**2019**	**2020**	**2021**
	Optimistic	3.52%	3.68%	3.89%
	Base	4.61%	4.81%	5.11%
	Pessimistic	5.43%	5.76%	6.32%
Inflation rate	**Scenario**	**2019**	**2020**	**2021**
	Optimistic	4.99%	5.58%	4.44%
	Base	3.12%	3.89%	2.39%
	Pessimistic	1.46%	1.72%	-0.07%

As all economic forecasts, these estimates and their probabilities of occurrence are prone to significant uncertainties and thus actual outcomes might significantly differ from forecasts. It is the Group's view that these forecasts represent the best estimate of the possible results and cover eventual differences and asymmetries concerning the various portfolios of the Group.

Current year development of expected credit losses

The following table presents the development of loss allowances and provisions for expected credit losses (through reconciling the opening and the closing balance of loss allowances and provisions by classes of financial instruments):

(HUF million)	Opening balance 01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Changes due to update in the methodology for estimation (net)	Decrease in impairment account due to write-offs	Other changes	Closing balance 31.12.2018	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss*
Debt instruments										
Placements with banks	3	6	-2	-1	0	0	0	0	6	0
Loans and advances to clients	1,487	1,226	-257	-625	0	0	0	-101	1,730	0
Investment in debt securities	3	9	0	48	0	0	0	-2	58	0
Stage 1 Total	**1,493**	**1,241**	**-259**	**-578**	**0**	**0**	**0**	**-103**	**1,794**	**0**
Placements with banks	0	0	0	3	0	0	0	0	3	0
Loans and advances to clients	8,559	2,198	-1,759	-1,960	0	0	-30	198	7,207	0
Investment in debt securities	0	0	0	5	0	0	0	0	5	0
of which: non-performing	2,148	1	-234	-716	0	0	-1	407	1,605	0
Stage 2 Total	**8,559**	**2,198**	**-1,759**	**-1,952**	**0**	**0**	**-30**	**198**	**7,214**	**0**
Placements with banks	0	0	0	0	0	0	0	0	0	0
Loans and advances to clients	46,870	3,070	-9,835	5,816	0	0	-6,794	332	39,458	182
Investment in debt securities	0	0	0	0	0	0	0	0	0	0
of which: collectively assessed impairment	21,392	483	-6,111	3,346	0	0	-331	244	19,023	0
of which: individually assessed impairment	25,478	2,587	-3,724	2,470	0	0	-6,463	88	20,436	0
Stage 3 Total	**46,870**	**3,070**	**-9,835**	**5,816**	**0**	**0**	**-6,794**	**332**	**39,459**	**182**
Placements with banks	0	0	0	0	0	0	0	0	0	0
Loans and advances to clients	5,334	40	-6,771	5,529	0	0	-69	-31	4,032	0
Investment in debt securities	0	0	0	0	0	0	0	0	0	0
of which: collectively assessed allowances	5,334	40	-6,771	5,529	0	0	-69	-31	4,032	0
of which: individually assessed allowances	0	0	0	0	0	0	0	0	0	0
POCI Total	**5,334**	**40**	**-6,771**	**5,529**	**0**	**0**	**-69**	**-31**	**4,032**	**0**
Total loss allowance for debt instruments	**62,256**	**6,549**	**-18,624**	**8,815**	**0**	**0**	**-6,893**	**396**	**52,499**	**182**
Loan commitments and financial guarantees given										

(HUF million)	Opening balance 01.01.2018	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Changes due to update in the methodology for estimation (net)	Decrease in impairment account due to write-offs	Other changes	Closing balance 31.12.2018	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss*
Stage 1	190	178	-136	-20	0	0	0	23	235	0
Stage 2	301	419	-512	89	0	0	0	-28	269	0
Stage 3	2,131	35	-586	392	0	0	0	9	1,981	0
Total provisions on loan commitments and financial guarantees given	**2,622**	**632**	**-1,234**	**461**	**0**	**0**	**0**	**4**	**2,485**	**2,348**

*Recoveries of previously written off amounts are reported under Impairment losses on financial assets in the Profit and loss statement

The column *Increases due to origination and acquisition* includes the loss allowance related to the purchased Aegon portfolio the initially recognised amount of which was HUF 1,585 million.

The Group performs further collection procedures in relation to certain financial assets which were written off in the current year. The contractual receivables relating to such financial assets amount to HUF 27,904 million.

Contract modifications and expected credit losses

In 2018 contract modifications occurred which did not lead to derecognition of the financial assets. The amortised costs of financial assets so modified and for which lifetime expected credit losses were recognised amounted to HUF 2,503 million before the modifications and the related net modification loss amounted to HUF 353 million.

Loans with renegotiated terms

Loans with renegotiated terms are loans which were restructured due to the deterioration of the financial situation of the borrower. In such cases original contractual terms are modified to help the borrower overcome financial difficulties.

The definition of renegotiation (forborne) used by the Group is based on EBA (EU) regulation 227/2015.

Non-retail: all types of receivables due from corporate and municipality clients and fiscal institutions may be subject to renegotiations (loans, current account facilities, bonds, guarantees, factoring facilities and other financial assets).

The Group regards its non-retail contracts to be restructured, where a forced renegotiation of the contractual terms occurs due to financial difficulties, where concessions are granted by the Group to the borrower under the modified contract which it would not grant to other borrowers in the normal course of the business, with regards to the financial difficulties of the borrower, in order to achieve full recovery.

Typical concession measures: extending the term, converting a revolving loan into an amortising loan, granting concession period, standstill agreement, capitalisation of interests, favourable pricing, exempting from financial covenants, forgiveness of principal or interest, conversion of the old transaction. In practice, similarly to the previous years, the most common concession measures were the restructuring of terms and repayment amounts and conversion into an amortising loan.

All types of **retail loans** (personal loans, credit cards, current account facilities, mortgages) might be subject to renegotiations. The two main types of renegotiations:

- variations of renegotiations determined by the Group;
- government programs.

The contract shall be regarded as associated with a concession, i.e. forborne based on the above, if

- the borrower is in financial difficulty and
- the terms and conditions of the contract were modified to grant a concession to the borrower (in the form of conversion or modification) that the Group would not grant to borrowers in normal financial situations.

A contract can be regarded as forborne – regardless of the modified conditions or actual past due status – if in course of the contract modification the Group is granting a concession and the borrower had at least once during the 6 months prior to the contract modification contractual payments more than 60 days past due or the borrower was in a more than 60 days delinquency at the date of contract modification.

Exposures associated with concessions (forborne exposures) are regarded by the Group as restructured for the purposes of Regulation 39/2016 of NBH.

Restructured loan exposures of the Group as at 31.12.2018 and as at 31.12.2017 are presented in the following tables:

31.12.2018	**Gross carrying amount/nominal value of restructured assets**			**Accumulated impairment, total amount of negative fair value change due to change in credit risk and provisions**			
(HUF million)	**Hereof: restructured performing**	**Hereof: restructured non-performing**	**Total**	**Hereof: restructured performing**	**Hereof: restructured non-performing**	**Total**	**Collaterals and financial guarantees received**
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	12,647	37,865	50,512	-1,016	-18,926	-19,942	39,615
Investment in debt securities	0	0	0	0	0	0	0
Total financial assets at amortised cost	**12,647**	**37,865**	**50,512**	**-1,016**	**-18,926**	**-19,942**	**39,615**
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	0	0	0	0	0	0	0
Investment in debt securities	0	0	0	0	0	0	0
Total financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	55	35	90	0	-2	-2	82
Investment in debt securities	0	0	0	0	0	0	0
Total financial assets at fair value through profit and loss	**55**	**35**	**90**	**0**	**-2**	**-2**	**82**
Loan commitments and financial guarantees given	713	458	1,171	0	-260	-260	307
Total	**13,415**	**38,358**	**51,773**	**-1,016**	**-19,188**	**-20,204**	**40,004**

31.12.2017	**Gross carrying amount/nominal value of restructured assets**			**Accumulated impairment, total amount of negative fair value change due to change in credit risk and provisions**			
(HUF million)	**Hereof: restructured performing**	**Hereof: restructured non-performing**	**Total**	**Hereof: restructured performing**	**Hereof: restructured non-performing**	**Total**	**Collaterals and financial guarantees received**
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	21,729	50,831	72,560	-891	-22,174	-23,065	55,157
Investment in debt securities	0	0	0	0	0	0	0
Total financial assets at amortised cost	**21,729**	**50,831**	**72,560**	**-891**	**-22,174**	**-23,065**	**55,157**
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	0	0	0	0	0	0	0
Investment in debt securities	0	0	0	0	0	0	0
Total financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	0	0	0	0	0	0	0
Investment in debt securities	0	0	0	0	0	0	0
Total financial assets at fair value through profit and loss	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loan commitments and financial guarantees given	2,344	650	2,994	-14	-649	-663	512
Total	**24,073**	**51,481**	**75,554**	**-905**	**-22,823**	**-23,728**	**55,669**

Balances of renegotiated loans decreased significantly from 2017 to 2018 primarily due to the measures taken in order to reduce non-performing loans in the non-retail segment, e.g. partial write-offs, outside-bank loan conversions and other recoveries.

Write-off of loans

Loans (and related loss allowances) are typically written off partially or in full when there are no realistic prospects of recovering principal amount and, in case of collateralised loans, when cash inflows from foreclosure of the collateral were received and no further recovery is expected.

Collaterals

According to the credit policy of the Group, the repayment capabilities of the borrower are taken into account in the course of lending instead of excessively relying on collaterals.

Depending on the credit standing of the customer and on product type, certain facilities may be uncollateralised. Nevertheless, collaterals are important factors in credit risk mitigation.

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) and complies with all of the following requirements:

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

The allocated Weighted Collateral Value (WCV) is the discounted market value of the collaterals, reduced by prior ranking liens, capped at the contractually pledged amount, applying a discount for currency mismatch, and limited by the amount of the covered contractual exposure.

The major types of collaterals accepted are as follows: mortgage on property, cash deposits, securities, pledge on machinery, pledge on inventories, commodities, sureties and guarantees and other comfort factors.

Collateral and Risk Process Management Division of Credit Risk Management Department is responsible for the processes related to collaterals (valuation and regular revaluation, real estate on-site visits, checking physical existence, monitoring of coverage requirements, etc.).

Fair value of collaterals – represented by WCV capped at the value of the receivables – are presented in the following tables by type of collaterals:

31.12.2018						
(HUF million)	**Placements with banks**	**Loans and advances to clients**	**Other receivables**	**Loan commitments and financial guarantees given**	**Derivative assets**	**Total collateral**
Cash deposits	**0**	**22,849**	**0**	**10,631**	**293**	**33,773**
Debt securities issued by	**0**	**13,141**	**0**	**826**	**0**	**13,967**
Government	0	2,199	0	34	0	2,233
Companies	0	2,830	0	64	0	2,894
Others	0	8,112	0	728	0	8,840
Shares	**0**	**7,280**	**0**	**631**	**0**	**7,911**
Mortgage on	**0**	**336,355**	**0**	**12,226**	**0**	**348,581**
Residential real estate	0	185,377	0	1,170	0	186,547
Commercial real estate	0	126,341	0	5,384	0	131,725
Other	0	24,637	0	5,672	0	30,309
Guarantees from	**0**	**114,253**	**0**	**32,434**	**0**	**146,687**
Government	0	26,892	0	13,003	0	39,895
Banks	0	45,914	0	19,431	0	106,792
Other collateral	**0**	**78,952**	**0**	**11,651**	**0**	**49,156**
Total collateral	**0**	**531,383**	**0**	**68,399**	**293**	**600,075**

31.12.2017						
(HUF million)	**Placements with banks**	**Loans and advances to clients**	**Other receivables**	**Loan commitments and financial guarantees given**	**Derivative assets**	**Total collateral**
Cash deposits	**0**	**24,309**	**0**	**13,348**	**973**	**38,630**
Debt securities issued by	**0**	**9,709**	**1,508**	**598**	**0**	**11,815**
Government	0	955	1,508	57	0	2,520
Companies	0	2,870	0	128	0	2,998
Others	0	5,884	0	413	0	6,297
Shares	**0**	**2,405**	**0**	**1,560**	**120**	**4,085**
Mortgage on	**0**	**267,222**	**0**	**14,168**	**0**	**281,390**
Residential real estate	0	164,802	0	1,215	0	166,017
Commercial real estate	0	77,328	0	6,606	0	83,934
Other	0	25,092	0	6,347	0	31,439
Guarantees from	**239**	**31,228**	**0**	**15,575**	**0**	**47,042**
Government	239	24,220	0	11,579	0	36,038
Banks	0	7,008	0	3,996	0	11,004
Other collateral	**0**	**81,627**	**0**	**7,585**	**0**	**89,212**
Total collateral	**239**	**416,500**	**1,508**	**52,834**	**1,093**	**472,174**

Fair values of collaterals at the reporting dates by categories of exposures are presented in the tables below:

31.12.2018 (HUF million)	Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Placements with banks	0	0	0	0	0	0
Loans and advances to clients	411,587	68,488	26,636	17,742	6,930	531,383
Other receivables	0	0	0	0	0	0
Loan commitments and financial guarantees given	56,366	11,691	342	0		68,399
Derivative assets					293	293
Total	**467,953**	**80,179**	**26,978**	**17,742**	**7,223**	**600,075**

31.12.2017 (HUF million)	Financial assets at amortised cost Individually impaired	Collectively impaired	Past due but not impaired	Neither past due nor impaired	Total
Placements with banks	0	0	0	239	**239**
Loans and advances to clients	67,124	332,089	19	17,267	**416,499**
Other receivables	0	0	0	1,509	**1,509**
Loan commitments and financial guarantees given	1,770	12,945	0	38,120	**52,835**
Derivative assets	0	0	0	1,093	**1,093**
Total	**68,894**	**345,034**	**19**	**58,228**	**472,175**

Assets obtained by taking possession of collateral

The following table shows the carrying amounts of assets obtained by the Group by taking possession of collaterals or by other foreclosure measures:

(HUF million)	12.31.2018	12.31.2017
Property and equipment	1,182	1,262
Other	14	14
Total assets obtained	**1,196**	**1,276**

Concentrations

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:

31.12.2018 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Other receivables	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	178,802	0	0	1,647	6,273
Domestic trade	0	163,524	0	0	174	102,468
Other, mainly service industries	0	124,739	0	0	109	43,934
Finance	283,852	74,411	287,752	0	18,728	116,474
Central Bank	189,353	14	0	0	5,883	0
Public administration	0	7,887	420,376	0	0	658
Mining	0	27,552	0	0	7	2,836
Manufacturing	0	132,996	0	0	794	100,281
Agriculture	0	22,027	0	0	6	2,119
Transportation, communication	0	89,213	0	0	4,244	27,011
Construction	0	12,671	0	0	13	100,545
Energy	0	20,585	0	0	7	38,564
Infrastructure	0	1,329	0	0	0	1,155
Private households	0	266,264	0	0	20	19,992
Total	**473,205**	**1,122,014**	**708,128**	**0**	**31,632**	**562,310**

31.12.2017 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Other receivables	Derivative assets	Loan commitments and financial guarantees given
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	5,158	24,289	118,581
Central Bank	11,307	0	0	0	586	0
Public administration	0	5,955	426,494	1,630	0	1,126
Mining	0	9,466	0	0	0	71
Manufacturing	0	129,600	1,772	1	709	62,742
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
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	**227,251**	**954,069**	**659,057**	**7,178**	**32,240**	**566,762**

With regards to concentrations a more significant change from 2017 to 2018 occurred in loans and receivables to customers in the financial sector, attributable to a few larger placements primarily with lease companies.

(6.3) 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 where separate VaR limits are assigned to the different risk types: interest rate risk of the trading book, interest rate risk of the banking book, equity price risk of the trading book, volatility risk and the risk relating to the Group's foreign currency open position. Additionally, credit spread risk between bonds and money market products is indicated as an individual risk factor in the reports as well.

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

The Group developed new stress tests that are also regularly presented to the Management.

The Group manages its market risk exposure separately between trading and non-trading portfolios.

Trading portfolio includes positions arising from market-making, proprietary position-taking and other positions so designated by the Group that are valued based on mark-to-market pricing method. Trading activities include transactions with debt and equity securities, foreign currencies and derivative financial instruments.

Non-trading portfolio (banking book) includes 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 products in the banking book with no maturity, which was integrated also into the risk reports.

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 banking book's 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 a daily basis.

The Group's interest-bearing financial instruments per interest type at the reporting dates are as follows:

Financial instruments with fixed interest rates

(HUF million)	31.12.2018	31.12.2017
Financial assets	1,169,715	897,160
Financial liabilities	312,298	348,851
Total	**857,417**	**548,309**

Financial instruments with variable interest rates

	31.12.2018		31.12.2017	
(HUF million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities
HUF	682,984	1,195,441	750,272	1,011,433
CHF	6,925	11,328	26,620	6,113
EUR	341,304	436,863	365,149	336,239
USD	29,335	106,639	6,180	130,412
Other currencies	10,765	14,185	2,880	17,085
Total	**1,071,313**	**1,764,456**	**1,151,101**	**1,501,282**

Interest-bearing financial instruments

Changes in 2018 can be broken down as follows:

- a decrease of HUF 14 billion was observed in the stock of fixed-rate loans and other receivables;
- fixed-rate instruments within placements with banks and other financial institutions increased by HUF 172 billion;
- fixed-rate deposits placed with NBH increased by HUF 130 billion;
- fixed-rate investment debt securities decreased by HUF 19 billion, thereof a HUF 39 billion decrease was observed in government bond portfolio and a HUF 17 billion decrease in treasury bill portfolio whereas the stock of other bonds increased by HUF 36 billion;
- within fixed-rate financial liabilities, loans taken out from NBH decreased by HUF 62 billion while fixed rate deposits from other customers increased by HUF 39 billion.

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

The Group uses derivatives designated in qualifying hedge relationships to hedge the fair value of certain fixed interest rate loans, fixed interest rate deposits and fixed interest rate issued and purchased bonds. The Group also has contracts to manage its exposure to interest rate risk which are not designated in qualifying hedge relationships.

The Group presents interests on derivative financial instruments – regardless of whether they are used for trading or for risk management purposes – in *'Net interest income'*. The Group presents gains and losses on fair valuation (excluding accrued interest) in case of derivatives *not* involved in hedge accounting in the profit or loss line item *'Net trading income and fair value result'* and in case of derivatives involved in hedge accounting in the profit or loss line item *'Net gains/losses from hedge accounting'*.

For risk management purposes the Group uses cross currency interest rate swaps involved in portfolio cash flow hedge accounting, where the hedged portfolio is a group of foreign currency loans and Hungarian 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 Hungarian forint exchange rate.

Information about the cash flow hedging instruments is included in note (10) *Net gains/losses from hedge accounting.*

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 the entire open position into account.

The Group's financial position in foreign currencies at the reporting dates is presented in the tables below:

31.12.2018 **(HUF million)**	**HUF**	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash, cash balances at central banks and other demand deposits	127,588	796	13,357	10,223	4,766	156,730
Financial assets held for trading except for derivatives	15,491	0	737	79	0	16,307
Non-trading financial assets mandatorily at fair value through profit or loss	7,691	0	0	0	0	7,691
Financial assets designated at fair value through profit or loss	24,212	0	0	0	0	24,212
Financial assets at fair value through other comprehensive income	262,347	0	177,800	11,359	16,819	468,325
Financial assets at amortised cost	949,111	6,988	588,485	118,976	8,534	1,672,094
Financial assets except for derivatives	**1,386,440**	**7,784**	**780,379**	**140,637**	**30,119**	**2,345,359**
Financial liabilities held for trading except for derivatives	1,406	0	0	0	0	1,406
Financial liabilities measured at amortised cost	1,335,530	11,399	578,114	213,016	19,849	2,157,908
Financial liabilities except for derivatives	**1,336,936**	**11,399**	**578,114**	**213,016**	**19,849**	**2,159,314**
Net open position on balance sheet	**49,504**	**-3,615**	**202,265**	**-72,379**	**10,270**	**186,045**
Net derivative and spot instruments (-/+: short / long position)	**141,325**	**4,031**	**-194,988**	**72,344**	**-11,590**	**11,122**
Total open foreign currency position (net)	**190,829**	**416**	**7,277**	**-35**	**-1,320**	**197,167**

31.12.2017 **(HUF million)**	**HUF**	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash, cash balances at central banks and other demand deposits	60,540	1,052	10,156	3,536	4,780	80,064
Financial assets held for trading except for derivatives	35,410	0	439	123	0	35,972
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss	30,239	0	27,382	5,725	0	63,346
Financial assets at fair value through other comprehensive income	194,700	0	162,447	535	16,424	374,106
Financial assets at amortised cost	951,258	30,050	497,281	81,629	187	1,560,405
Financial assets except for derivatives	**1,272,147**	**31,102**	**697,705**	**91,548**	**21,391**	**2,113,893**
Financial liabilities held for trading except for derivatives	1,595	0	0	0	0	1,595
Financial liabilities measured at amortised cost	1,223,002	9,785	475,848	189,248	21,169	1,919,052
Financial liabilities except for derivatives	**1,224,597**	**9,785**	**475,848**	**189,248**	**21,169**	**1,920,647**
Net open position on balance sheet	**47,550**	**21,317**	**221,857**	**-97,700**	**222**	**193,246**
Net derivative and spot instruments (-/+: short / long position)	**140,469**	**-20,854**	**-222,338**	**111,788**	**-14,306**	**-5,241**
Total open foreign currency position (net)	**188,019**	**463**	**-481**	**14,088**	**-14,084**	**188,005**

The Group has an overall low level of exposure to foreign currency risk at the end of both 2018 and 2017. USD open position decreased to minimal compared to previous year.

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 foreign currency options are handled within VaR calculations. For greek values (gamma and vega) additional limits are defined and monitored on daily basis.

Exposure to other price risk – trading book

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

The Group's exposure to other price risk only arises from exposures to exchange traded equity instruments. 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-days holding period in case of trading book and a 250-days holding period in case of banking book. 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. Considering the trading book products, they can be divided into three basic risk factors – foreign currency, interest rate and price – and risks are grouped 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 a 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 on a daily basis on fundamentals separately and on their entire group as well. Diversification effect is not taken into consideration by the Group in case of Economic Capital calculations.

A summary of the VaR positions representing the market risk exposure of the Group's trading and banking book is presented in the tables below:

(HUF million)		**31.12.2018**		
Trading book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	110	109	3	467
Interest rate risk	342	332	160	662
Share and commodity price risk	14	10	0	113
Total risk	380	280	147	489
Banking book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	0	0	0	0
Interest rate risk	1,417	1,233	293	3,667
Total risk	1,417	1,233	293	3,667

(HUF million)		**31.12.2017**		
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
Share and commodity 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

Gap report

Besides measuring VaR, interest rate risk is also estimated by using classical means of principal and interest maturity analysis. In the gap report, the assets and liabilities are shown in different repricing categories according to the expected repricing dates.

Repricing of assets or liabilities occurs when:

- they fall due;
- part of the principal is repaid according to the contract;
- the interest is repriced in accordance with the contract, based on a reference rate;
- the assets or liabilities are repaid 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 repricing category is called a 'gap'. The gap in a particular category is positive when interest rate risk of assets exceed that of liabilities, and negative in the opposite case. For the different repricing categories, interest rate sensitivities, i.e. 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. BPV limits which were approved by RBI are assigned for the repricing categories by currency.

Gap reports are presented in below tables:

(HUF thousand)		31.12.2018		
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-50	-555	1	48
3 months to 6 months	-1,467	1,372	0	-184
6 months to 1 year	-415	567	0	13
1 year to 2 years	457	7	0	-11
2 years to 3 years	18	2	0	-3
3 years to 5 years	663	0	0	-4
5 years to 7 years	263	0	0	0
7 years to 10 years	-117	-11	0	0
10 years to 15 years	82	0	0	0
15 years to 20 years	41	0	0	0
Over 20 years	0	0	0	0
Banking book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	1,802	-1,849	-59	-286
3 months to 6 months	-10,986	-166	-12	763
6 months to 1 year	1,307	1,382	-1	230
1 year to 2 years	-3,822	1,296	-12	-375
2 years to 3 years	-1,413	1,910	-6	174
3 years to 5 years	-11,488	9,213	11	369
5 years to 7 years	-8,325	2,863	12	129
7 years to 10 years	-353	2,186	8	0
10 years to 15 years	-1,673	5	36	0
15 years to 20 years	-438	0	-40	0
Over 20 years	-38	0	0	0

(HUF thousand)		31.12.2017		
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less than 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 than 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

(6.4) Liquidity risk

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

Managing 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 a 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 beside the legal regulations regarding liquidity requirements. Liquidity management procedures, tasks, responsibilities, reports and instructions for the limit systems are all governed in Management directives.

Liquidity management is one of the main tasks of the Asset Liability Committee (ALCO). ALCO is responsible for asset and liability management, liquidity risk management and setting local limit system according to (or sometimes stricter than) the limits determined by RBI Liquidity Risk Management. 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 Group on a daily basis in order to monitor group wide liquidity risk.

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

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

The following table shows the undiscounted cash flows from the Group's non-derivative financial liabilities, loan commitments and 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 the understanding of the timing of the cash flows. The gross nominal outflow disclosed in the following tables is the remaining contractual, undiscounted cash flow from the Group's non-derivative financial liabilities, loan commitments and the issued financial guarantees. The disclosure for derivatives shows a gross inflow and outflow amount for derivatives.

31.12.2018			Timing of contractual cash flows			
(HUF million)	Carrying amount	Contractual cash flows	3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities						
Deposits	2,138,104	**2,158,326**	1,812,855	71,948	183,957	89,566
Short positions	1,406	**1,406**	1,406	0	0	0
Debt securities issued	12,137	**12,836**	0	7,373	4,976	487
Other financial liabilities	7,667	**7,667**	7,631	36	0	0
Financial guarantees given	95,163	**95,163**	4,602	15,550	31,479	43,532
Loan commitments	336,629	**336,629**	36,725	52,610	9,090	238,204
Total liabilities	**2,591,106**	**2,612,027**	**1,863,219**	**147,517**	**229,502**	**371,789**
Derivative instruments		**-40,845**	-7,057	-9,561	-17,209	-7,018
Derivative instruments - Trading		**-33,322**	**-6,952**	**-8,909**	**-11,822**	**-5,639**
Cash outflow		**-124,301**	-33,783	-37,107	-46,278	-7,133
Cash inflow		**90,979**	26,831	28,198	34,456	1,494
Derivative instruments - Hedge accounting		**-7,523**	**-105**	**-652**	**-5,387**	**-1,379**
Cash outflow		**-11,687**	-105	-652	-9,551	-1,379
Cash inflow		**4,164**	0	0	4,164	0
Total derivative instruments		**-40,845**	**-7,057**	**-9,561**	**-17,209**	**-7,018**

31.12.2017			Timing of contractual cash flows			
(HUF million)	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**more than 5 years**
Liabilities						
Deposits	1,896,639	**1,921,156**	1,569,703	86,667	163,029	101,757
Short positions	1,596	**1,596**	1,596	0	0	0
Debt securities issued	17,714	**19,147**	0	4,680	13,405	1,062
Other financial liabilities	4,699	**4,996**	4,969	27	0	0
Financial guarantees given	82,272	**82,272**	6,156	8,302	31,295	36,514
Loan commitments	353,033	**353,033**	30,365	54,969	4,602	263,097
Total liabilities	**2,355,953**	**2,382,200**	**1,612,789**	**154,645**	**212,331**	**402,430**
Derivative instruments						
Derivative instruments - Trading		**-59,275**	**-5,976**	**-35,053**	**-14,419**	**-3,827**
Cash outflow		**-183,983**	-34,419	-59,296	-86,137	-4,131
Cash inflow		**124,708**	28,443	24,243	71,718	304
Derivative instruments - Hedge accounting		**-3,465**	**-19**	**-198**	**-1,960**	**-1,288**
Cash outflow		**-23,884**	-19	-198	-22,379	-1,288
Cash inflow		**20,419**	0	0	20,419	0
Total derivative instruments		**-62,740**	**-5,995**	**-35,251**	**-16,379**	**-5,115**

The Group allocates Economic Capital monthly to the illiquid positions in the trading book. The development of this Economic Capital is shown in the table below:

2018		2017	
Date	HUF million	Date	HUF million
31.01.2018	119	31.01.2017	95
28.02.2018	119	28.02.2017	55
29.03.2018	146	31.03.2017	61
27.04.2018	152	28.04.2017	74
31.05.2018	44	31.05.2017	67
29.06.2018	55	30.06.2017	64
31.07.2018	63	31.07.2017	63
31.08.2018	64	31.08.2017	39
28.09.2018	52	29.09.2017	41
31.10.2018	51	31.10.2017	49
30.11.2018	54	30.11.2017	47
28.12.2018	19	29.12.2017	106

(6.5) *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 centralised 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 to identify risks across all departments: key risk indicators; scenarios; control and risk self-assessment; loss data collection and external databases.

The processes above are used to help identify risks early and are needed to reduce the occurrence 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 supplementary information (e.g. key risk indicators, status of risk mitigation plans), quarterly reports are created by Operational Risk Controlling.

Operational Risk Controlling gets strong management support. Operational risk issues and possible mitigation measures are discussed quarterly at the Operational Risk and Fraud Committee meetings where the Chief Executive Officer, the Chief Risk Officer, the Chief Operations Officer, the Retail Banking Board member and other members of the Committee (mainly heads of departments) are attended and decide on the priority of risk mitigation plans. RBI CRO receives information about the most relevant Operational Risk issues through the CRO meeting.

(6.6) *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 Group 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 introduction of Basel III advanced approach were as follows:

- reduction of own funds with the negative difference between loss allowances and provisions for credit losses and expected loss;
- addition of the positive difference between loss allowances and provisions for credit losses and expected loss up to 0.6 % of risk-weighted exposure amount to tier 2 capital (under IRB approach);
- own funds should cover the capital requirement of credit, market and operational risk.

A Group's own funds can be split into two tiers:

- tier 1 capital (T1),
    - common tier 1 capital (CET1) which includes common tier 1 capital instruments (share capital, share premium, retained earnings, accumulated other comprehensive income, other reserves) and the related deductions, namely deductions related to intangible assets, goodwill, deferred tax assets, IRB shortfall of credit risk adjustment to expected loss, deductions due to securitization positions, and other deduction due to exceeding limits.
    - additional tier 1 capital (AT1): which includes capital instruments eligible as additional tier1 capital.
- tier 2 capital (T-2), which includes subordinated loans and the excess of loss allowances and provisions for credit losses over expected losses in case of loan portfolios for which the Basel III IRB method is applied.

There are also restrictions on the amount of surplus of loss allowances and provisions for credit losses over expected losses that may be included as part of tier 2 capital. Other deductions from own funds include the book value of qualifying interests in other financial institutions.

Banking operations are categorised as either trading book or banking book transactions. 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, the Basel II/III capital requirement also introduced a new requirement in respect of operational risk.

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 important. The Group recognises the need to maintain a balance between the higher returns that might be possible with higher gearing and the advantages and security from a sound capital position.

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

Regulatory capital requirement

The Group's policy is to maintain the capital adequacy continuously above the required level and take any necessary actions on time. The Group applies regulatory capital (Basel III Pillar 1) as well as economic capital (Basel III Pillar 2, ICAAP) for calculating capital adequacy. The Group started a gradual transition to calculating capital requirements for credit risk via the Internal Rating Based (IRB) approach, first introducing the Foundation Internal Ratings Based (F-IRB) approach for its non-retail portfolio on 1 December 2008. Starting from July 2010 and April 2012, capital requirement for exposures to individuals and Micro-SME customers respectively are measured by advanced IRB (A-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.

The Group reflected the total equity change due to 2018 IFRS 9 transition in its regulatory capital requirement calculation which resulted in an effect of HUF 1,291 million to tier 1 capital.

Capital adequacy

(HUF million)	**2018**	**2017**
Share capital	50,000	50,000
Capital reserve	113,445	113,445
Retained earnings	37,000	32,011
Accumulated other comprehensive income	1,687	3,649
Funds for general banking risk	7,823	5,522
Adjustments to CET1 due to prudential filters	-2,389	-1,007
(-) Goodwill	-1,035	-1,035
(-) Other intangible assets	-15,554	-13,688
(-) IRB shortfall of credit risk adjustments to expected losses	-1,971	-1,294
Common Equity Tier 1 Capital	**189,006**	**187,603**
IRB Excess of loss allowances and provisions over expected losses	2,115	4,442
Equity instruments classified as subordinated loans	45,011	43,420
Tier 2 Capital	**47,126**	**47,862**
Total regulatory capital	**236,132**	**235,465**
Capital requirement	**96,177**	**82,616**
Solvency ratio (%)	**19.64%**	**22.80%**

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by the aim to ensure sufficient capital to cover possible risks in order to guarantee continuous safe banking operation (going concern principle) as well as to cover occasionally high losses eventually to be incurred in extreme market circumstances, and secondarily, to optimise return on equity of the Group.

In order to quantify the risks, the Group calculates capital both required by regulation and required economically and optimization is based on economic capital requirements.

The process of allocating capital to specific operations and activities is undertaken by Credit Risk Control and ICAAP Coordination Unit of IRD, which is subject to review by the Group's Management. An additional tool for optimal capital allocation is the application of risk and equity cost based pricing.

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

(7) Interest income calculated with the effective interest method, other interest income and interest expenses

(HUF million)	2018	2017
Interest income calculated with the effective interest method	**43,206**	**48,171**
Other interest income	**23,140**	**26,973**
Financial assets held for trading	**18,582**	**22,440**
Debt securities	604	595
Derivatives – Held for trading	10,950	12,882
Derivatives – Held for risk management (not in hedge accounting)	7,028	8,963
Financial assets designated at fair value through profit or loss	**2,429**	**3,311**
Debt securities	2,429	3,311
Non-trading financial assets mandatorily at fair value through profit or loss	**359**	**0**
Loans and advances	359	0
Derivatives – Hedge accounting, interest rate risk	**1,614**	**1,087**
Other	**156**	**135**
Interest income total	**66,346**	**75,144**
Interest expense calculated with the effective interest method	**-8,490**	**-12,487**
Other interest expenses	**-15,810**	**-19,995**
Financial liabilities held for trading	**-13,688**	**-18,755**
Derivatives – Held for trading	-9,438	-11,366
Derivatives – Held for risk management (not in hedge accounting)	-4,250	-7,389
Derivatives – Hedge accounting, interest rate risk	**-2,105**	**-1,229**
Other	**-17**	**-11**
Interest expense total	**-24,300**	**-32,482**
Net interest income	**42,046**	**42,662**

Net interest expense of the Group is slightly, by HUF 616 million lower than in previous year.

The decrease can be partially explained by the decrease in net interest on transactions accounted for using the effective interest method (a decrease of HUF 968 million), as net interest income calculated on loans to customers using the effective interest method decreased. This was slightly compensated by net interest income on interbank transactions. Interest income on bonds measured at fair value through other comprehensive income increased, while interest expense on issued debt securities decreased.

Net interest income decreased by interest recognised on investment debt securities designated at fair value through profit or loss (HUF -882 million). Net interest income increased by the net interest income on derivatives (a decrease of HUF 1,128 million), which is mainly attributable to interest on cross-currency interest rate swaps and interest on matured non-interest-arbitrage transactions.

(HUF million)	2018	2017
Interest income calculated with the effective interest method	**43,206**	**48,171**
Financial assets at fair value through other comprehensive income	**4,907**	**3,552**
Debt securities	4,907	3,552
Financial assets at amortised cost	**38,299**	**44,619**
Debt securities	4,324	4,962
Loans and advances	33,957	39,563
Other assets	18	94
Interest expense calculated with the effective interest method	**-8,490**	**-12,487**
Financial liabilities at amortised cost	**-8,490**	**-12,487**
Deposits	-5,142	-7,924
Subordinated liabilities	-2,602	-3,395
Debt securities issued	-746	-1,168
Net interest income calculated with the effective interest method	**34,716**	**35,684**

(8) Net fee and commission income

The following table presents the net fee and commission income on financial instruments of the Group not measured at fair value through profit or loss:

(HUF million)	2018	2017
Fee and commission income		
Securities	3,700	5,130
Corporate finance	60	16
Fee based advisory	4	3
Asset management	30	22
Custody	606	599
Central administrative services for collective investment	2,011	1,655
Payment services	31,830	29,637
Services as an agent	212	299
Loan servicing activities	216	682
Loan commitments given	3	0
Financial guarantees given	1,947	1,814
Loans granted	177	241
Foreign exchange	20,574	19,479
Other	1,891	2,008
Total fee and commission income	**63,261**	**61,585**
Fee and commission expense		
Securities	-633	-338
Clearing and settlement	-58	-59
Custody	-563	-547
Payment services	-3,823	-3,666
Loan servicing activities	-595	-938
Financial guarantees received	-819	-672
Services of agents	-19	-22
Foreign exchange	-10,423	-10,267
Other	-2,372	-2,992
Total fee and commission expense	**-19,305**	**-19,501**
Net income from commissions and fees	**43,956**	**42,084**

(HUF million)	2018	2017
Fee and commission income		
Financial assets at amortised cost	63,261	61,585
Total fee and commission income	**63,261**	**61,585**
Fee and commission expense		
Financial liabilities at amortised cost	-19,305	-19,501
Total fee and commission expense	**-19,305**	**-19,501**
Net income from commissions and fees	**43,956**	**42,084**

The Group's *net* fee and commission income increased by HUF 1,872 million compared to previous year. This is mainly attributable to the increase in fee and commission income, thereof to the significant increase in transaction fees and margin income from (foreign exchange) transactions and to the increase in fee income related to investment management activities, whereas commission income from securities broker- and dealership was lower than in 2017, as both commissions from security purchase and sale transactions effected on behalf of clients and commissions from dealing with investment fund units decreased. Commission and fee expense was slightly lower than in previous year.

(9) Net trading income and fair value result

Gains and losses from financial assets and liabilities held for trading

(HUF million)	2018	2017
Derivative instruments	**6,965**	**-2,523**
Derivatives held for trading	1,690	-14
Derivatives held for risk management purposes, without hedge accounting	5,275	-2,509
Equity instruments	-77	-117
Debt securities	-1,051	-527
Other financial liabilities	810	-931
Gains or (-) losses on financial assets and liabilities held for trading, net	**6,647**	**-4,098**

The greatest change was observed in the valuation result of derivatives concluded for economic hedging purposes (the line item 'Derivatives held for risk management purposes, without hedge accounting'). The reason for this was that in 2018 interest rate swap transactions concluded with NBH resulted in a gain of HUF 5,844 million whereas the same resulted in a loss of HUF 787 million in 2017.

Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

(HUF million)	2018	2017
Loans and advances	180	0
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**180**	**0**

Gains or losses on financial assets and liabilities designated at fair value through profit or loss

(HUF million)	2018	2017
Loans and advances	75	944
Debt securities	-2,437	-1,665
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-2,362**	**-721**

Within losses on debt securities, realised losses and unrealised negative valuation results on government bonds amounted to HUF 2,411 million whereas the same type of loss amounted to HUF 1,691 million in 2017.

(10) Gains and losses from hedge accounting

The following table presents the net fair valuation gains or losses arising from derivatives involved in hedge accounting and the related hedged items:

(HUF million)	2018	2017
Fair value changes of the hedging instrument (including effects of discontinuation)	-108	-1,624
Fair value changes of the hedged item attributable to the hedged risk	365	1,543
Ineffectiveness in profit or loss from cash flow hedges	-224	304
hereof : existing hedges	-118	409
discontinued hedges	-106	-105
Gains and losses from hedge accounting, net	**33**	**223**

Net gain arising from the fair valuation of interest rate swaps and cross-currency interest rate swaps hedging purchased bonds amounted to HUF 780 million in 2018 (in 2017 HUF 886 million loss). Interest rate swaps hedging received deposit portfolio generated a fair valuation loss of HUF 477 million in 2018 (in 2017 HUF 31 million loss).Net fair value gain on interest rate swaps hedging loan receivables amounted to HUF 176 million in 2018 (in 2017 HUF 262 million loss).Net fair value loss on interest rate swaps designated as hedging instruments for debt securities issued amounted to HUF 573 million in 2018 (in 2017 HUF 488 million loss).

In 2018, net result arising from fair value adjustments amounted to

- HUF -710 million (in 2017 HUF 858 million) on hedged purchased bonds;
- HUF 607 million (in 2017 HUF -84 million) on hedged received deposit portfolio;
- HUF -91 million (in 2017 HUF 227 million) on hedged loan receivables; and
- HUF 544 million in 2017 HUF 524 million) on hedged debt securities issued.

Cash flow hedges

The Group has applied cash flow hedge accounting since December 2012, using interest rate swaps and cross currency interest rate swaps to hedge interest rate risk and foreign currency risk arising from loan portfolio denominated in foreign currency and received deposit portfolio denominated in HUF.

The following table presents the main characteristics of derivative financial instruments for which the Group applies cash flow hedge accounting:

31.12.2018	Maturity			
(HUF million)	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	0	2,000	107,444	9,000
Average fixed interest rate	-	0.17%	0.66%	1.42%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	0	13,679	0
Average HUF/EUR exchange rate	-	-	322.39	-

31.12.2017	Maturity			
(HUF million)	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	0	0	78,103	18,203
Average fixed interest rate	-	-	0.58%	0.68%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	0	8,805	0
Average HUF/EUR exchange rate	-	-	312.15	-

In case of CCIRS contracts open in 2017 and 2018 the Group exchanges floating interest cash flows linked to BUBOR fixing to floating interest cash flows linked to EURIBOR fixing both repricing with a frequency of less than one year.

The following table presents amounts related to hedging instruments and hedge ineffectiveness in designated cash flow hedge relationships:

31.12.2018 (HUF million)	Notional amount	Carrying amount Assets	Carrying amount Liabilities	Changes in fair value in 2018 used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	118,444	561	930	-765	-783	15	0
Interest rate risk hedge total	**118,444**	**561**	**930**	**-765**	**-783**	**15**	**0**
Interest rate risk / Currency risk							
HUF/EUR Cross currency interest rate swaps (CCIRS)	13,679	40	426	139	272	-133	106
Interest rate risk / Currency risk hedge total	**13,679**	**40**	**426**	**139**	**272**	**-133**	**106**
Portfolio cash flow hedges total	**132,123**	**601**	**1,356**	**-626**	**-511**	**-118**	**106**

Derivatives designated as hedging instruments in cash flow hedge relationships are presented in the statement of financial position line item *'Derivatives – Hedge accounting'* amongst assets if their fair value is positive and in line item *'Derivatives – Hedge accounting'* amongst liabilities if their fair value is negative.

Both hedge ineffectiveness recognised in profit or loss during the existence of the designated hedge relationships and amounts recycled from other comprehensive income to profit or loss upon or after discontinuation of the hedge relationship are presented in the statement of comprehensive income line item *'Net gains/losses from hedge accounting'*.

Amounts in the current period related to hedged items designated in cash flow hedge relationships are presented below:

(HUF million)	Changes in fair value used for calculating hedge ineffectiveness in 2018	Cash flow hedge reserve – existing hedges 31.12.2018	Cash flow hedge reserve – discontinued hedges* 31.12.2018
Interest rate risk			
Loans	-508	-441	0
Deposits	-270	-213	0
Interest rate risk hedge total	**-778**	**-654**	**0**
Interest rate risk/Currency risk			
Loans	1	1	1
Deposits	278	-193	-224
Interest rate risk/Currency risk hedge total	**279**	**-192**	**-223**
Hedged items in cash flow hedges total	**-499**	**-846**	**-223**

*Amounts presented here arise from discontinued hedge relationships where the hedged cash flows are expected to occur. These amounts are recognised to profit or loss as the hedged cash flows affect profit or loss or when it becomes known that the hedged cash flows are no longer expected to occur (when the Group reclassifies the entire amount from equity to profit or loss).

The Group designates loan receivables and deposits received, denominated in HUF or in EUR, bearing fixed interest rate, having yearly or less than yearly payment frequencies as hedged items.

Loan receivables designated as hedged items in cash flow hedge relationships are presented in the statement of financial position line item *'Financial assets at amortised cost'*, and received deposits so designated are presented in the statement of financial position line item *'Financial liabilities at amortised cost'*.

Comparative information under IAS 39

The following table shows notional amounts and carrying amounts as at 31.12.2017 of derivatives designated as hedging instruments in cash flow hedge relationships:

31.12.2017		**Carrying amount**	
(HUF million)	**Notional amount**	**Assets**	**Liabilities**
Portfolio cash flow hedges			
Interest rate risk			
Interest rate swaps (IRS)	96,306	790	495
Interest rate risk hedge total	**96,306**	**790**	**495**
Interest rate risk / Currency risk			
HUF/EUR Cross currency interest rate swaps (CCIRS)	8,805	25	534
Interest rate risk / Currency risk hedge total	**8,805**	**25**	**534**
Portfolio cash flow hedges total	**105,111**	**815**	**1,029**

In 2018, a loss of HUF 405 million was recognised in other comprehensive income relating to the effective portion of fair value changes of cash flow hedging instruments, relating to both existing and discontinued hedge relationships (in 2017 a loss of HUF 25 million). In 2018 HUF 106 million loss was reclassified to profit or loss in relation to discontinued hedge relationships which amount was presented by the Group in profit or loss line item *'Net gains/losses from hedge accounting'*. In the same line item, a loss of HUF 119 million was recognised for 2018 due to cash flow hedge ineffectiveness (in 2017 a gain of HUF 476 million).

Fair value hedges

The following table presents the main characteristics of derivative financial instruments for which the Group applies fair value hedge accounting:

31.12.2018	**Maturity**			
(HUF million)	**0-3 months**	**3-12 months**	**1-5 years**	**over 5 years**
Interest rate risk				
Interest rate swaps (IRS) hedging purchased bonds				
Nominal	0	5,000	65,895	82,566
Average fixed interest rate	-	1.14%	1.43%	1.49%
Interest rate swaps (IRS) hedging loans				
Nominal	0	20,418	58,960	7,046
Average fixed interest rate	-	0.46%	0.51%	0.96%
Interest rate swaps (IRS) hedging issued bonds				
Nominal	964	5,908	4,109	301
Average fixed interest rate	0.99%	3.82%	5.74%	6.04%
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	0	0	163,413	0
Average fixed interest rate	-	-	0.87%	-
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds				
Nominal	0	0	16,847	0
Average CZK/EUR exchange rate	-	-	25.69	-

31.12.2017	Maturity			
(HUF million)	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased bonds				
Nominal	0	0	49,179	24,820
Average fixed interest rate	-	-	0.98%	1.63%
Interest rate swaps (IRS) hedging loans				
Nominal	0	21	54,010	6,450
Average fixed interest rate	-	1.65%	0.39%	1.06%
Interest rate swaps (IRS) hedging deposits				
Nominal	0	1,100	0	0
Average fixed interest rate	-	2.58%	-	-
Interest rate swaps (IRS) hedging issued bonds				
Nominal	0	620	10.840	597
Average fixed interest rate	-	1.11%	3.76%	6.19%
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	0	0	26,000	0
Average fixed interest rate	-	-	0.56%	-
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds				
Nominal	0	0	16,388	0
Average CZK/EUR exchange rate	-	-	25.78	-

In case of CCIRS contracts open in 2017 and 2018, the Group exchanges floating interest cash flows linked to PRIBOR fixing to floating interest cash flows linked to EURIBOR fixing both repricing with a frequency of less than one year.

The following table presents amounts related to hedging instruments and hedge ineffectiveness:

31.12.2018 (HUF million)	Nominal	Carrying amount Assets	Carrying amount Liabilities	Changes in fair value in 2018 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased bonds	153,461	329	1,517	707	55
Interest rate swaps (IRS) hedging loans	86,424	23	405	176	85
Interest rate swaps (IRS) hedging deposits	0	0	0	-14	1
Interest rate swaps (IRS) hedging issued bonds	11,282	740	0	-573	-29
Interest rate risk hedge total	**251,167**	**1,092**	**1,922**	**296**	**112**
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds	16,847	64	0	74	16
Interest rate risk / Currency risk hedge total	**16,847**	**64**	**0**	**74**	**16**
Micro fair value hedges total	**268,014**	**1,156**	**1,922**	**370**	**128**
Portfolio fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging deposit portfolios	163,413	900	751	-478	129
Interest rate risk hedge total	**163,413**	**900**	**751**	**-478**	**129**
Portfolio fair value hedges total	**163,413**	**900**	**751**	**-478**	**129**
Hedging instruments in fair value hedges total	**431,427**	**2,056**	**2,673**	**-108**	**257**

Derivatives designated as hedging instruments in fair value hedge relationships are presented in the statement of financial position line item *'Derivatives – Hedge accounting'* amongst assets if their fair value is positive and in line item *'Derivatives – Hedge accounting'* amongst liabilities if their fair value is negative.

Ineffectiveness recognised in profit or loss during the existence of the designated hedge relationships is presented in the statement of comprehensive income line item *'Net gains/losses from hedge accounting'*.

Amounts in the current period related to hedged items designated in fair value hedge relationships are presented below:

31.12.2018 (HUF million)	Carrying amount: Assets	Carrying amount: Liabilities	Fair value adjustments to the carrying amounts of hedged items due to hedge accounting*: Assets: existing hedges	Assets: discontinued hedges	Liabilities: existing hedges	Liabilities: discontinued hedges	Changes in fair value in 2018 used for calculating hedge ineffectiveness
Purchased bonds	161,417	0	-1,895	0	0	0	-710
Loans	64,535	0	229	3	0	0	-91
Deposits	0	0	0	0	0	0	15
Issued bonds	0	10,963	0	0	501	0	544
Deposit portfolio	0	113,437	0	0	-522	0	607
Hedged items in fair value hedges total	**225,952**	**124,400**	**-1,666**	**3**	**-21**	**0**	**365**

*The Group begins to amortise fair value adjustments to the carrying amounts of hedged items to profit or loss from the date when the hedged items cease to be adjusted for changes in their fair values attributable to the risk being hedged, i.e. from the date when the hedge relationship is discontinued.

Carrying amounts of purchased bonds designated as hedged items in fair value hedge relationships are included in the statement of financial position line item *'Financial assets at fair value through other comprehensive income'*, carrying amounts of loan receivables so designated are included in the statement of financial position line item *'Financial assets at amortised cost'*, whereas carrying amounts of deposits and bonds issued so designated are included in the statement of financial position line item *'Financial liabilities at amortised cost'*.

Adjustments to the carrying amount of hedged deposit portfolio for changes in its fair value attributable to the hedged risk – excluding accrued interest – is presented separately in the statement of financial position, in line item *'Fair value changes of the hedged items in portfolio hedge of interest rate risk'*.

Comparative information under IAS 39

The following table shows notional amounts and carrying amounts (fair values) as at 31.12.2017 of derivatives designated as hedging instruments in fair value hedge relationships:

31.12.2017 (HUF million)	Nominal	Carrying amount: Assets	Carrying amount: Liabilities
Micro fair value hedges			
Interest rate risk			
Interest rate swaps (IRS) hedging purchased bonds	73,999	261	1,720
Interest rate swaps (IRS) hedging loans	60,481	134	671
Interest rate swaps (IRS) hedging deposits	1,100	27	0
Interest rate swaps (IRS) hedging issued bonds	12,057	1,324	0
Interest rate risk hedge total	**147,637**	**1,746**	**2,391**
Interest rate risk / Currency risk			
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds	16,388	0	104
Interest rate risk / Currency risk hedge total	**16,388**	**0**	**104**
Micro fair value hedges total	**164,025**	**1,746**	**2,495**
Portfolio fair value hedges			
Interest rate risk			
Interest rate swaps (IRS) hedging deposit portfolios	26,000	47	6
Interest rate risk hedge total	**26,000**	**47**	**6**
Portfolio fair value hedges total	**26,000**	**47**	**6**
Hedging instruments in fair value hedges total	**190,025**	**1,793**	**2,501**

In 2018 gain on fair value changes of hedged items in designated in fair value hedging relationships attributable to the hedged risk amounted to HUF 281 million (2017 HUF 1,573 million gain) which is presented in the statement of comprehensive income line item *'Net gains/losses from hedge accounting'*.

The Group recognised a loss of HUF 108 million in 2018 in relation to derivatives designated as hedging instruments in fair value hedges (2017 a loss of 1,625 million), presented in the statement of comprehensive income line item *'Net gains/losses from hedge accounting'*.

(11) Net gains/losses on financial instruments

The following table summarises the net gains and losses on financial instruments presented in previous notes.

(HUF million)	2018	2017
Financial instruments held for trading	**11,541**	**-414**
Net interest income	4,894	3,684
Realised and unrealised gains and losses	6,647	-4,098
Net gains and losses from hedge accounting	**-458**	**81**
Net interest income	-491	-142
Realised and unrealised gains and losses	33	223
Non-trading financial instruments mandatorily at fair value through profit or loss	**539**	**0**
Net interest income	359	0
Realised and unrealised gains and losses	180	0
Financial instruments designated at fair value through profit or loss	**67**	**2,590**
Net interest income	2,429	3,311
Realised and unrealised gains and losses	-2,362	-721
Financial instruments at fair value through other comprehensive income	**5,331**	**3,379**
Net interest income	4,907	3,552
Impairment	-42	8
Realised and unrealised gains and losses	424	-173
Financial instruments at amortised cost	**37,069**	**48,319**
Net interest income	29,809	32,133
Impairment loss	7,668	16,170
Realised and unrealised gains and losses	-408	16
Net gains or losses on financial instruments	**54,089**	**53,955**

(12) Other operating income and expenses

(HUF million)	2018	2017
Gains/(losses) on disposal of intangibles, property and equipment	18	129
Gains/(losses) on disposal of inventory	202	140
Operational fees	0	109
Income related to damages	46	5
Rental income from investment property	226	0
Professional fees	143	71
Income from accounting services	38	60
Income related to energy trading	1,782	2,164
Income from other non-banking activities	299	502
Other	104	305
Other operating income total	**2,858**	**3,485**
Transaction fee and other taxes	-16,369	-15,340
Expenses related to damages	-86	-57
Expert fees	-50	0
Other provisions	58	-114
Expenses from other non-banking activities	-25	-311
Other expenses	-233	-161
Other operating expenses total	**-16,705**	**-15,983**

From the HUF 627 million decrease in other operating income the largest portion is explained by the decrease of income related to energy trading (HUF 382 million), whereas the increase in other operating expenses was mainly caused by a HUF 1,255 million increase in transaction fees.

(13) Impairment of non-financial assets

Development of impairment of non-financial assets:

(HUF million)	Opening 01.01.2018	Additions	Reversals	Closing 31.12.2018
Impairment or (-) reversal of impairment on other non-financial assets	**-88**	**-101**	**71**	**-118**
Other	-88	-101	71	-118
Impairment on non-financial assets total	**-88**	**-101**	**71**	**-118**

(14) Other result

(HUF million)	2018	2017
Modification gains or losses, net	-353	0
Impairment on non-financial assets	-101	-79
Other result	**-454**	**-79**

The above line 'Modification gains or losses, net' includes profit or loss effect of contract modifications which did not result in derecognition of the modified financial assets.

(15) Staff expenses

(HUF million)	2018	2017
Salaries	-19,814	-18,454
Social security constributions	-4,570	-4,720
Other employee benefits	-1,051	-694
Total	**-25,435**	**-23,868**

	2018		2017	
(HUF million)	Headcount (person)	Salaries	Headcount (person)	Salaries
Full time	2,334	-18,759	2,266	-17,619
Part time	211	-1,016	175	-821
Pensioners	7	-39	7	-14
Other	0	0	0	0
Total	**2,552**	**-19,814**	**2,448***	**-18,454**

*The cause for modifying 2017 headcount data was that in previous year headcount data of a subsidiary with larger number of personnel was not consolidated.

(16) Other administrative expenses

(HUF million)	2018	2017
Office space expenses rental, maintenance, other	-7,837	-8,150
IT cost	-3,028	-3,912
Legal, advisory and consulting expenses	-2,654	-2,618
Advertising, PR and promotional expenses	-1,735	-1,629
Deposit insurance fees	-1,208	-1,769
Communication expenses	-1,371	-1,324
Office supplies	-275	-344
Car expenses	-255	-239
Security expenses	-138	-145
Travelling expenses	-156	-148
Training expenses for staff	-182	-191
Sundry administrative expenses	-494	-496
Total	**-19,332**	**-20,965**

HUF 1,634 million decrease in other administrative expenses was mainly caused by decrease in IT costs by HUF 866 million and decrease in deposit insurance fees by HUF 560 million.

(17) Bank tax and other special levies

(HUF million)	2018	2017
Surtax of financial institutions and surtax of credit institutions	-4,045	-3,937
Resolution Funs	-931	-721
Bank tax and other special levies	**-4,976**	**-4,658**

Surtax of financial institutions is levied on the modified total assets as at the end of the second preceding tax year. Accordingly, the tax base of surtax of financial institutions payable for 2018 and 2017 is not based on IFRS financial statements but on annual reports prepared in accordance with the Hungarian Accounting Law. Tax rate is 0.15% for the portion of tax base not exceeding HUF 50 billion and 0.21% for the exceeding portion. While calculating the modified total assets, certain interbank loans and deposits and certain debt instruments issued by financial institutions are deductible.

Surtax of credit institutions is levied on profit before tax with a tax rate being 30%. However, tax regulations connect surtax of credit institutions with the surtax of financial institutions payable for a given year such that the two surtaxes together result in an aggregate tax payable on the modified total assets as at the end of the second preceding tax year. As a consequence, the Group does not regard surtax for credit institutions as an income tax.
The amount of surtax of credit institutions payable decreases the amount of surtax of financial institutions and is capped at that amount.

In accordance with the Act on Resolution the Group pays a yearly membership fee to the Resolution Fund the calculation methodology of which is transparent and uniform across the European Union and is established by European Commission Regulation. According to the regulation, yearly membership fees payable by the institutions are calculated by NBH acting in its resolution capacity. NBH notifies the institutions of the fee payable until 1 May of each year. Yearly fees payable by the institutions shall be determined so that the value of Resolution Fund's assets until 31 December 2024 – spread evenly over that period – reaches at least 1% of the portion of insured deposits not exceeding the EUR 100,000 indemnification threshold, placed with credit institutions licensed in Hungary (target level).
The Group qualifies as an institution obliged to pay a risk based fee. Risk based fees are calculated so that the yearly target value, reduced by the fixed fees payable by limited activity investment undertakings and by the progressive fixed fees, is allocated amongst the institutions obliged to pay a risk based fee in proportion of their fee base adjusted by a risk adjustment multiplier.

(18) Income tax

Income tax expense recognised to profit or loss

(HUF million)	2018	2017
Current tax expense	**4,394**	**2,894***
Corporate income tax	1,379	194
Local business tax	2,640	2,353*
Innovation contribution	375	347
Deferred tax expense/-income	**-852**	**-1,325**
Origination and reversal of temporary differences	315	-661
Tax effect of the recognition of previously unrecognised tax losses	-1,167	-664
Income tax expense	**3,542**	**1,569**

Corporate income tax is 9% of the tax base, local business tax is 2% of the tax base and innovation contribution is 0.3% of the tax base in both 2018 and 2017.

In calculating corporate income tax base for 2018 a tax base increasing item of HUF 1,461 million was taken into account due to the transition to IFRS 9, a significant part of which arose from the transition to a different impairment methodology.

*Amount of income tax for 2017 changed as HUF 32 million was reclassified to the line item 'Bank tax and other special levies' because it related to the surtax of financial institutions. In addition, the amount of local business tax increased as HUF 8 million tax surplus was reclassified.

Reconciliation of effective tax rate

	2018		2017	
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		27,598		32,079
Expected tax rate calculated with Group's applicable tax rate	9,00%	2,484	9,00%	2,887
Tax effect of tax base adjusting items	**-7,30%**	**-2,014**	**-7,86%**	**-2,522**
Tax effects related to tax losses:				
- usage of previously not recognised tax losses	-4,48%	-1,236	-5,20%	-1,669
- recognition of previously unrecognised tax losses	-4,23%	-1,167	-2,07%	-664
Non-deductible expenses	1,18%	326	0,46%	147
Non-deductible impairment, provisions	0,26%	73	-0,80%	-258
Tax exempt income	-0,16%	-43	-0,10%	-31
Other	0,12%	33	-0,15%	-47
Not recognised income tax asset or liability	-1,12%	-310	0,02%	8
Corporate income tax reclaimable due to Supreme Court Act	0,00%	0	-4,81%	-1,543
Effect of consolidation	1,33%	367	0,11%	34
Other income taxes – local business tax, innovation contribution	10,92%	3,015	8,43%	2,705
Adjustments related to prior periods	0,00%	0	0,00%	0
Income tax expense total	**12,83%**	**3,542**	**4,89%**	**1,569**

Line item 'usage of previously not recognised tax losses' contains utilisation of tax losses in current year's corporate income tax for which no deferred tax asset was recognised in previous years.

The Group presents in the line item *'Corporate income tax reclaimable due to Supreme Court Act'* tax effect of corporate income tax overpayment the amount of which was established in 2015. The total remaining amount of that corporate income tax overpayment was utilised while determining 2017 corporate income tax base. As these amounts affected previous year's current income tax expense but were unrelated to previous year's profit before tax, they are presented as a reconciling item in the effective tax rate reconciliation.

Background for corporate income tax reclaimable due to Supreme Court Act:

The Parliament of Hungary promulgated an act on 6 October 2014 relating to unilateral foreign exchange and interest settlements which supplemented the act on certain issues related to the Supreme Court's corresponding decision. As a consequence of these – amongst others – Corporate Income Tax Act was modified effective from 31 December 2014. The laws were applicable to foreign currency denominated and foreign currency based consumer loans and, in respect of unilateral increase of interest, to HUF denominated loans and finance leases and to loans and finance leases affected by final settlement or purchased by National Asset Management Ltd.

According to the law, applying currency gap (bid and ask exchange rates) was unfair in case of foreign currency denominated and foreign currency based consumer loans and thus the Group had to settle with the borrowers. The methodology to be used for the purpose of the settlement was established by NBH in a regulation.

Due to the settlement, a tax overpayment of the Group was established with respect to tax years 2008-2014 which was regarded as a corporate income tax overpayment and was recognised as current income tax receivable, decreasing income tax expense in the year of establishment (in 2015).

Income taxes recognised in other comprehensive income

	2018			2017		
(HUF million)	**Before tax**	**Tax expense/ benefit**	**After tax**	**Before tax**	**Tax expense/ benefit**	**After tax**
Items that will not be reclassified to profit or loss						
Changes in fair value reserve (equity instruments)	143	-10	133	140	-13	127
Items that will not be reclassified to profit or loss – total	**143**	**-10**	**133**	**140**	**-13**	**127**
Items that the Group reclassified or will reclassify to profit or loss						
Changes in hedge reserve						
Effective portion of fair value changes	-511	30	-481	67	69	136
Net amount reclassified to profit or loss	106	6	112	-92	0	-92
Change in fair value reserve (debt instruments)						
Changes in fair value	-1,842	152	-1,690	0	0	0
Net amount reclassified to profit or loss	82	7	89	0	0	0
Change in fair value reserve (available-for-sale financial assets)						
Changes in fair value	0	0	0	1,234	-414	820
Net amount reclassified to profit or loss	0	0	0	63	0	63
Foreign currency translation reserve for foreign operations	0	-124	-124	0	0	0
Items that the Group reclassified or will reclassify to profit or loss – total	**-2,165**	**71**	**-2,094**	**1,272**	**-345**	**927**
Total	**-2,022**	**61**	**-1,961**	**1,412**	**-358**	**1,054**

Movements in deferred tax balances

(HUF million)	Net balance 01.01.2018	Effects of initial application of IFRS 9	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31.12.2018		
					Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	-76	0	71	0	-5	0	-5
Investment securities – available for sale	0	0	0	0	0	0	0
Investment securities – at fair value through other comprehensive income	-430	0	0	148	-282	0	-282
Debt instruments – credit risk component	0	0	0	0	0	0	0
Derivatives*	69	0	0	37	106	106	0
Loss allowances for expected credit losses	694	0	-395	0	299	299	0
Tax losses carried forward	664	0	1,167	0	1,831	1,831	0
Loss allowances for trade receivables	10	0	11	0	21	21	0
Other assets and liabilities	1	0	-1	0	0	0	0
Net deferred tax asset/liability before offsetting					**1,970**	**2,257**	**-287**
Offsetting						-285	285
Tax assets/Tax liabilities	**932**	**0**	**853**	**185**	**1,970**	**1,972**	**-2**

(HUF million)	Net balance 01.01.2017	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31.12.2017		
				Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	0	-76	0	-76	0	-76
Investment securities – available for sale	-3	0	-427	-430	0	-430
Derivatives*	0	0	69	69	69	0
Loss allowances for incurred credit losses	0	694	0	694	694	0
Tax losses carried forward	0	664	0	664	664	0
Loss allowances for trade receivables	-32	42	0	10	10	0
Other assets and liabilities	0	1	0	1	1	0
Net deferred tax asset/liability before offsetting				**932**	**1,438**	**-506**
Offsetting					-145	145
Tax assets/Tax liabilities	**-35**	**1 325**	**-358**	**932**	**1 293**	**-361**

*Derivatives are presented net

In 2018 HUF 1,972 million (2017: HUF 1,293 million) deferred tax asset was recognised which comprises of the following items:

- HUF 317 million (2017: HUF 629 million) was recognised due to temporary differences which modify the tax base and are expected to reverse in the future;

- HUF 1,831 million (2017: HUF 664 million) was recognised for the balances of tax losses carried forward from previous years which are expected to be utilised by the Group;
- HUF -176 million, which was recognised due to fair values of available-for-sale financial assets and cash flow hedging instruments recognised in other comprehensive income.

In 2018 HUF 2 million deferred tax liability was recognised for fair values of available-for-sale financial assets recognised in other comprehensive income. In 2018 a lower deferred tax liability was recognised compared to 2017 as a significant portion of deferred tax assets and deferred tax liabilities related to corporate income tax was presented net.

In 2017 HUF 361 million deferred tax liability was recognised for the fair values of available-for-sale financial assets and cash flow hedging instruments, recognised in other comprehensive income.

In 2018 the Group has a tax loss of HUF 163,186 million (2017: HUF 196,501 million) which is not expected to be utilised against future taxable income. Tax losses originated before 1 January 2015 can be utilised in tax year 2025 the latest and tax losses originated after 1 January 2015 can be utilised in the next 5 years following their origination.

(19) Cash, cash balances at central banks and other demand deposits

(HUF million)	31.12.2018 HUF	31.12.2018 Foreign currency	31.12.2018 Total	31.12.2017 HUF	31.12.2017 Foreign currency	31.12.2017 Total
Cash and cheques	82,291	9,576	91,867	40,358	9,648	50,006
National Bank of Hungary	39,845	0	39,845	17,625	0	17,625
Other banks	5,452	19,566	25,018	2,557	9,876	12,433
Total	**127,588**	**29,142**	**156,730**	**60,540**	**19,524**	**80,064**

Current account with National Bank of Hungary (NBH) contains the mandatory reserves. The Group is obliged to place 1% mandatory reserve with NBH after certain deposits received (2017: 1%). The average balance of mandatory reserve was HUF 16,904 million in 2018 (2017: HUF 14,367 million). The reserve requirement can also be fulfilled by the Group with holding government bonds in its portfolio.

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

Financial assets held for trading

31.12.2018 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount
Derivative instruments	**388**	**0**	**31,243**	**31,631**
Interest rate	-18	0	19,206	19,188
Equity	0	0	24	24
Currency	406	0	12,012	12,418
Other	0	0	1	1
Equity instruments	**1,451**	**0**	**-4**	**1,447**
Debt securities	**14,773**	**83**	**4**	**14,860**
Government bonds and treasury bills	14,324	82	5	14,411
Bank bonds	449	1	-1	449
Financial assets held for trading total	**16,612**	**83**	**31,243**	**47,938**

31.12.2017 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount
Derivative instruments	**450**	**0**	**29,182**	**29,632**
Interest rate	0	0	23,285	23,285
Equity	0	0	94	94
Currency	450	0	5,803	6,253
Other	0	0	0	0
Equity instruments	**918**	**0**	**-5**	**913**
Debt securities	**34,584**	**483**	**-7**	**35,059**
Government bonds and treasury bills	34,304	482	-7	34,779
Bank bonds	280	1	0	280
Financial assets held for trading total	**35,952**	**483**	**29,170**	**65,604**

The Monetary Council decided on 21 November 2017 to introduce further non-conventional vehicles from January 2018. One of these vehicles is the general, unconditional monetary policy interest rate swap (MIRS). The aim of introducing that vehicle was that the loose monetary conditions also prevail on the longer-term section of the yield curve and to increase the proportion of loans with longer fixed interest periods.

Banks could apply for 5 and 10-year MIRSs introduced as general monetary policy vehicle, at tenders written by NBH, in proportion of their total assets. A difference compared to previous IRS programs of the central bank was that MIRS is unconditional. The Group utilised the amount allocated. The application of the vehicle made it possible for the Group to strengthen its fixed interest rate lending.

MIRS was concluded with the banks on terms announced by NBH which were more favourable than current market conditions. Initial fair values of those derivatives were estimated using discounting based on yield curves built from quoted market prices of IRS transactions with various terms, available at the date of announcement of the tenders. On initial recognition, the Group recognised the difference between the fair value and the transaction price in profit or loss.

During 2018 the Group concluded MIRS interest rate swaps in a nominal amount of HUF 95,136 the carrying amount of which was HUF 3,517 million asset and HUF 145 million liability as at 31.12.2018. Fair valuation result recognised in relation to MIRSs amounted to HUF 4,135 million and was presented in the statement of comprehensive income line item *'Net trading income and fair value result'*.

Non-trading financial assets mandatorily at fair value through profit or loss

31.12.2018 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Negative fair value changes due to changes in credit risk – non performing exposures
Loans and advances	**7,545**	**32**	**114**	**7,691**	**-154**
Non-trading financial assets mandatorily at fair value through profit or loss total	**7,545**	**32**	**114**	**7,691**	**-154**

At 31 December 2018 the Group presents loans under non-trading loans and advances mandatorily measured at fair value through profit or loss, the contractual cash flows of which are not solely payments of principal and interest on the principal amount outstanding (see note (46) in the section describing transition to IFRS 9 for more details). At 31 December 2017 non-trading loans and advances mandatorily measured at fair value through profit or loss amounted to 0.

Increase of loans mandatorily measured at fair value through profit or loss during 2018 was primarily attributable to the acquisition of the Aegon portfolio, amounting to HUF 1.6 billion.

Financial assets designated at fair value through profit or loss

31.12.2018 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Accumulated negative fair value change from change in credit risk (non-performing assets)
Debt securities	**24,964**	**660**	**-1,412**	**24,212**	**0**
Government bonds and treasury bills	24,964	660	-1,412	24,212	0
Corporate and other bonds	0	0	0	0	0
Loans and advances	**0**	**0**	**0**	**0**	**0**
Financial assets designated at fair value through profit or loss	**24,964**	**660**	**-1,412**	**24,212**	**0**

31.12.2017 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Accumulated negative fair value change from change in credit risk (non-performing assets)
Debt securities	**59,977**	**1,536**	**-2,401**	**59,112**	**0**
Government bonds and treasury bills	58,345	1,521	-2,527	57,339	0
Corporate and other bonds	1,632	15	126	1,773	0
Loans and advances	**2,929**	**0**	**1,305**	**4,234**	**0**
Financial assets designated at fair value through profit or loss	**62,906**	**1,536**	**-1,096**	**63,346**	**0**

There was a decrease in the portfolio of financial assets designated at fair value through profit or loss compared to prior year which is primarily attributable to government and corporate bonds matured or sold during 2018.

(21) Placements with banks

	31.12.2018					31.12.2017				
	Less than 1 year		Over 1 year			Less than 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
National Bank of Hungary	112,538	36,970	0	0	149,508	11,307	0	0	0	11,307
Other Banks	58,589	185,185	0	15,059	258,833	38,181	166,503	0	11,260	215,944
Impairment losses	-2	-3	0	4	9	0	0	0	0	0
Placements with banks total	**171,125**	**222,152**	**0**	**15,063**	**408,332**	**49,488**	**166,503**	**0**	**11,260**	**227,251**

Placements with banks are included in the statement of financial position line item *'Financial assets at amortised cost'*.

Receivables due from National Bank of Hungary included in 2017 call deposits backing derivatives, while in 2018 also 1-day placements were included in the NBH balance. Other placements with banks increased by HUF 42,867 during 2018 compared to prior year.

(22) Investment securities not measured at fair value through profit or loss

This note presents securities listed on stock markets and *not* measured at fair value through profit or loss. Securities measured at fair value through profit or loss (FVTPL) are detailed in note *(20) Financial assets at fair value through profit or loss,* while unlisted securities are detailed under note *(23) Investments in unlisted securities.*

HUF 202 million from securities listed on stock markets and not measured at FVTPL is included in the statement of financial position line item *'Financial assets at amortised costs'*, and HUF 468 million from them is included in the statement of financial position line item *'Financial assets at fair value through other comprehensive income'.*

The Group pledged securities amounting to HUF 1,636 million as collateral for its liabilities in 2018 (2017: HUF 380 million).

In 2018 the Group recognised HUF 1,699 million gain in other comprehensive income in relation to securities measured at fair value through other comprehensive income (2017: HUF 1,374 million) and reclassified HUF 82 million loss from other comprehensive income to profit or loss (2017: HUF 63 million loss).

In 2018 an additional limit was approved for securities due to which both bank and government bond portfolios increased significantly.

Investment securities measured at amortised cost

31.12.2018 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	145,477	1,844	0	-5,455	-6	141,860
Bank bonds	60,000	11	0	0	-5	60,006
Investments in securities not at amortised cost total	**205,477**	**1,855**	**0**	**-5,455**	**-11**	**201,866**

Comparative information under IAS 39

31.12.2017 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	133,844	1,791	0	-3,584	0	132,051
Bank bonds	60,000	3	0	0	0	60,003
Investments in securities held to maturity total	**193,844**	**1,794**	**0**	**-3,584**	**0**	**192,054**

Investment securities measured at fair value through other comprehensive income

31.12.2018 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments	**902**	**0**	**294**	**0**	**0**	**1,197**
Shares in limited liability companies	50	0	-16	0	0	35
Shares in companies limited by shares	413	0	283	0	0	696
Investment fund units	439	0	27	0	0	466
Debt securities	**467,669**	**3,037**	**-3,174**	**6,702**	**-51**	**467,127**
Government bonds and treasury bills	241,907	2,606	-1,956	6,582	-12	239,875
Bank bonds	225,762	431	1,218	120	-39	227,252
Financial assets at fair value through other comprehensive income total	**468,571**	**3,037**	**-3,468**	**6,702**	**-51**	**468,324**

Comparative information under IAS 39

31.12.2017 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments	**1,083**	**0**	**189**	**0**	**0**	**1,272**
Shares in limited liability companies	49	0	-16	0	0	33
Shares in companies limited by shares	382	0	172	0	0	554
Investment fund units	652	0	33	0	0	685
Debt securities	**370,810**	**4,161**	**5,652**	**-7,789**	**0**	**372,834**
Government bonds and treasury bills	201,639	3,928	4,505	-7,746	0	202,326
Bank bonds	169,171	233	1,147	-43	0	170,508
Available for sale securities total	**371,893**	**4,161**	**5,841**	**-7,789**	**0**	**374,106**

The Group elected to measure its other, non-controlling interests at fair value through other comprehensive income and as a consequence it never recognises changes in their fair values in profit or loss. The reason for this election is that these interests do not serve the Group's profit generation but the performance of various banking services (e.g. credit card business, payment transaction services, etc.).

In 2017 and 2018 changes in these equity instruments solely resulted from changes in fair values. No purchase or sale of such instruments occurred.

(23) Investments in unlisted securities

(HUF million)	Ownership interest % 31.12.2018	Ownership interest % 31.12.2017	Carrying amount 31.12.2018	Carrying amount 31.12.2017
RC Gazdasági és Adótanácsadó Zrt.	20,00%	20,00%	3	4
Garantiqa Hitelgarancia Zrt.	0,19%	0,19%	15	15
SWIFT	0,02%	0,02%	28	13
VISA Inc C.	0,03%	0,03%	678	535
CF Pharma Gyógyszergyártó Kft.	13,19%	13,19%	1	15
Pannon Lúd Mezőgazdasági és Szolgáltató Kft.	0,89%	0,89%	5	5
RAJNA investment units	-	-	467	685
Investments in unlisted securities total			**1,197**	**1,272**

Unlisted investment securities are included in the statement of financial position line item *'Financial assets at fair value through other comprehensive income'*. Changes in their carrying amounts were attributable to fair value changes in both years.

(24) Property and equipment, intangible assets and goodwill

	Cost					Accumulated depreciation/amortization					Carrying amount
(HUF million)	01.01.2018	Additions	Disposals	Reclassifications	31.12.2018	01.01.2018	Additions	Disposals	Reclassifications	31.12.2018	12.31.2018
Property and equipment											
Property	10,741	2,911	-362	0	13,290	-7,233	-978	-2,180	0	-10,391	2,899
Equipment	27,895	4,429	-3,511	-12,785	16,028	-16,866	-1,607	999	5,335	-12,139	3,889
Property and equipment total	**38,636**	**7,340**	**-3,873**	**-12,785**	**29,318**	**-24,099**	**-2,585**	**-1,181**	**5,335**	**-22,530**	**6,788**
Intangible assets											
Acquired software	44,075	5,601	-420	-9	49,247	-30,483	-3,746	419	0	-33,810	15,437
Other intangible assets	1,798	0	-37	0	1,761	-575	-31	23	0	-583	1,178
Intangible assets total	**45,873**	**5,601**	**-457**	**-9**	**51,008**	**-31,058**	**-3,777**	**442**	**0**	**-34,393**	**16,615**

	Cost					Accumulated depreciation/amortization					Carrying amount
(HUF million)	01.01.2017	Additions	Disposals	Reclassifications	31.12.2017	01.01.2017	Additions	Disposals	Reclassifications	31.12.2017	31.12.2017
Property, plant and equipment											
Property	10,813	227	-299	0	10,741	-6,816	-712	296	0	-7,233	3,508
Equipment	27,778	1,019	-902	0	27,895	-15,907	-1,454	495	0	-16,866	11,029
Property, plant and equipment total	**38,591**	**1,246**	**-1,201**	**0**	**38,636**	**-22,723**	**-2,166**	**791**	**0**	**-24,099**	**14,537***
Intangible assets											
Acquired software	40,703	4,545	-1,173	0	44,075	-27,981	-3,639	1,137	0	-30,483	13,592
Other intangible assets	2,019	0	-221	0	1,798	-642	-49	116	0	-575	1,223
Intangible assets total	**42,722**	**4,545**	**-1,394**	**0**	**45,873**	**-28,623**	**-3,688**	**1,253**	**0**	**-31,058**	**14,815***

* In 2017, HUF 60 million was reclassified from property and equipment to intangibles as it relates to rights related to property.

The Group recognised expenses amounting to HUF 744 million in the carrying amount of intangible assets, in course of developing intangible assets (2017: HUF 354 million).

The amount of goodwill in the Group's books was HUF 1,048 million in both 2017 and 2018. Thereof a goodwill amounting to HUF 1,023 million related to Raiffeisen Befektetési Alapkezelő Zrt., HUF 13 million to Raiffeisen Autó Lízing Kft., and HUF 12 million to SCT Kárász utca Kft.

There were no additions to goodwill and no impairment was recognised for goodwill in 2017 and 2018.

(25) Finance leases

As part of its financing activity the Group concludes finance lease transactions as lessor. The Group's gross investment in leases and net present value of minimum lease payments receivable, per remaining maturity, is as follows:

(HUF million)	31.12.2018 Less than 1 year	31.12.2018 Between 1 and 5 years	31.12.2018 More than 5 years	31.12.2018 Total	31.12.2017 Less than 1 year	31.12.2017 Between 1 and 5 years	31.12.2017 More than 5 years	31.12.2017 Total
Gross investment in the lease	16,965	46,316	6,440	69,721	13,551	37,622	7,864	59,037
Unearned finance income	1,439	2,571	615	4,625	1,174	2,377	772	4,323
Net present value of minimum lease payments receivable	**15,526**	**43,745**	**5,825**	**65,096**	**12,377**	**35,245**	**7,092**	**54,714**
Loss allowance for uncollectible minimum lease payments	231	119	6	356	265	37	0	302
Carrying amount of finance lease receivables	**15,295**	**43,626**	**5,819**	**64,740**	**12,112**	**35,208**	**7,092**	**54,412**

New transactions concluded by the Group in 2018 amounted to HUF 24,829 million (2017: HUF 20,145 million).

The Group recognised no contingent rent income as finance income in 2018 (2017: HUF 0).Unguaranteed residual values amounted to HUF 9,205 million (2017: HUF 5,416 million).

Loss allowances for uncollectible minimum lease payments amounted to HUF 356 million as at 31 December 2018 (2017: HUF 302 million). Original terms of the contracts vary between 1 and 34 years. The contracts bear fixed and variable interest rates with interest linked to BUBOR, CHFLIBOR, EURIBOR. There are no guaranteed residual values.

(26) Operating leases

Operating leases, the Group as lessee

Rental fees payable arising from non-cancellable operating lease contracts:

(HUF million)	31.12.2018	31.12.2017
Less than 1 year	3,187	3,091
Between 1 and 5 years	6,266	11,105
More than 5 years	3,832	405
Total	**13,285**	**14,601**

The Group leases property as operating lease. The related rental contracts qualify as operating leases as the risks incidental to the ownership of the properties are not transferred to the Group. The Group does not have any sale-and-leaseback transactions.

A significant portion of the contracts has a term of 3 to 5 years with an extension option covering 3 or 5 years. In case of operating lease contracts with a term shorter than that an extension option covering 1 or 2 years is included.

Contracts with indefinite term have a notice period of 1 year.

Group companies will move to a new headquarter from 1 January 2020 and thus the existing contracts for headquarter lease were noticed effective from 31.12.2019. Accordingly, rental fees were presented in 2018 only in relation to 1 year. Rental fees to be payable in relation to the new headquarter are not shown in the above table as they are future commitments.

The Group recognised operating lease expense of HUF 721 million in 2018 (2017: HUF 6,364 million). Operating lease expenses decreased significantly compared to 2017 as the Group acquired Késmárk street 11-13 Kft. in 2018, the company from which it leases one of its headquarters and the related rental fees were eliminated on consolidation.

(27) Other assets

(HUF million)	31.12.2018	31.12.2017
Prepayments and accrued income	2,419	1,474
Materials and inventories	204	193
Inventories and properties obtained by taking possession of collaterals	1,196	1,276
Tax receivables	109	248
Other assets	10	276
Other assets total	**3,938**	**3,467**
thereof: loss allowance	-118	-87

A significant portion of other assets comprises of prepayments and accrued income and assets obtained by taking possession of collaterals in both 2017 and 2018. During the two years only prepayments and accrued income changed significantly, of which prepaid expenses increased to 2018 by a larger amount. Loss allowances presented relate to properties obtained by taking possession of collaterals.

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

31.12.2018 **(HUF million)**	**Cost**	**Accrued interest**	**Unrealised gain/loss**	**Carrying amount**
Derivative instruments held for trading	**502**	**0**	**26,516**	**27,018**
Interest rate	0	0	14,295	14,295
Equity	0	0	70	70
Foreign currency	502	0	12,151	12,653
Derivative instruments total	**502**	**0**	**26,516**	**27,018**
Short positions	1,406	0	0	1,406
Short positions total	**1,406**	**0**	**0**	**1,406**
Total financial liabilities at fair value through profit or loss	**1,908**	**0**	**26,516**	**28,424**

31.12.2017 **(HUF million)**	**Cost**	**Accrued interest**	**Unrealised gain/loss**	**Carrying amount**
Derivative instruments held for trading	**822**	**0**	**30,437**	**31,259**
Interest rate	0	0	22,638	22,637
Equity	0	0	81	81
Foreign currency	822	0	7,718	8,541
Derivative instruments total	**822**	**0**	**30,437**	**31,259**
Short positions	1,596	0	0	1,596
Short positions total	**1,596**	**0**	**0**	**1,596**
Total financial liabilities at fair value through profit or loss	**2,418**	**0**	**30,437**	**32,855**

The Group uses other derivatives not designated in qualifying hedge relationships to manage its foreign currency, interest rate and equity price risk exposures. The instruments applied are interest rate swaps, cross-currency interest rate swaps, forwards, futures and options. The fair value of these instruments is shown in the table above. Derivatives held for trading purposes are also included in the table above.

The Group presents the above financial liabilities at fair value through profit or loss in the statement of financial position line item *'Financial liabilities held for trading'*.

(29) Reconciliation between classes of financial liabilities and statement of financial position line items

The following table reconciles classes of financial liabilities defined for disclosure purposes with the statement of financial position line items:

31.12.2018 (HUF million)	Financial liabilities held for trading	Financial liabilities designation at fair value through profit or loss	Financial liabilities at amortised cost	Total
Deposits from banks	0	0	270,900	**270,900**
Deposits from customers	0	0	1,821,822	**1,821,822**
Subordinated liabilities	0	0	45,382	**45,382**
Debt securities issued	0	0	12,137	**12,137**
Derivative liabilities	27,018	0	0	**27,018**
Short positions	1,406	0	0	**1,406**
Other financial liabilities	0	0	7,667	**7,667**
Total	**28,424**	**0**	**2,157,908**	**2,186,332**

(30) Deposits from banks and deposits from customers

Deposits from banks

	31.12.2018					31.12.2017				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	4,584	5,355	85,009	154,222	249,170	7,480	3,960	82,772	145,763	239,975
Non resident	15,862	6	0	5,862	21,730	34,022	274	0	7,622	41,918
Deposits from banks total	**20,446**	**5,361**	**85,009**	**160,084**	**270,900**	**41,502**	**4,234**	**82,772**	**153,385**	**281,893**

Deposits from customers

	31.12.2018					31.12.2017				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	1,174,510	559,336	5,139	1,036	1,740,021	1,047,775	451,240	7,336	1,348	1,507,699
Non resident	38,241	43,329	1	230	81,801	25,166	37,906	1	193	63,266
Deposits from customers total	**1,212,751**	**602,665**	**5,140**	**1,266**	**1,821,822**	**1,072,941**	**489,146**	**7,337**	**1,541**	**1,570,965**

Deposits from customers and deposits from banks are included in the statement of financial position line item *'Financial liabilities at amortised cost'*.

A significant increase in deposits from customers was experienced in both corporate and retail segment.

Deposits insured by National Deposit Insurance Fund (indemnified amount) was HUF 695 billion at the end of 2018.

(31) Debt securities issued

(HUF million)	31.12.2018 Par value	31.12.2018 Carrying amount	31.12.2017 Par value	31.12.2017 Carrying amount
Measured at amortised cost	**10,958**	**12,137**	**15,779**	**17,714**
fix	10,185	11,335	13,957	15,857
indexed	0	0	847	856
floating	773	802	975	1,001
Total debt securities issued	**10,958**	**12,137**	**15,779**	**17,714**

Debt securities issued are included in the statement of financial position line item *'Financial liabilities at amortised cost'*.

Debt securities insured by National Deposit Insurance Fund (indemnified amount) was HUF 1.8 billion at the end of 2018.

(32) Subordinated liabilities

31.12.2018						
Lender	**Borrowed on**	**Amount in original currency (million)**	**Currency**	**Interest rate**	**Maturity**	**Carrying amount (HUF million)**
Raiffeisen Bank International AG	29.12.2017	41	EUR	5,83%	31.12.2024	12,993
Raiffeisen Bank International AG	29.12.2017	30	EUR	5,83%	31.12.2024	9,645
Raiffeisen Bank International AG	29.12.2017	25	EUR	5,68%	31.12.2024	8,107
Raiffeisen Bank International AG	29.12.2017	25	EUR	5,68%	31.12.2024	8,107
Raiffeisen Bank International AG	29.12.2017	20	EUR	5,69%	31.12.2024	6,530
Subordinated liabilities total		**141**				**45,382**

31.12.2017						
Lender	**Borrowed on**	**Amount in original currency (million)**	**Currency**	**Interest rate**	**Maturity**	**Carrying amount (HUF million)**
Raiffeisen Bank International AG	29.12.2017	41	EUR	5,50%	31.12.2024	12,531
Raiffeisen Bank International AG	29.12.2017	30	EUR	5,56%	31.12.2024	9,309
Raiffeisen Bank International AG	29.12.2017	25	EUR	5,35%	31.12.2024	7,821
Raiffeisen Bank International AG	29.12.2017	25	EUR	5,35%	31.12.2024	7,821
Raiffeisen Bank International AG	29.12.2017	20	EUR	5,42%	31.12.2024	6,299
Subordinated liabilities total		**141**				**43,781**

Subordinated liabilities are included in the statement of financial position line item *'Financial liabilities at amortised cost'*.

These borrowings are direct, unconditional and unsecured liabilities of the Group which are subordinated to liabilities due to other depositors or lenders of the Group.

(33) Other liabilities

(HUF million)	31.12.2018	31.12.2017
Deferred income and accrued expenses	3,601	6,498
Tax liabilities	3,378	2,955
Sundry liabilities	267	296
Other liabilities total	**7,246**	**9,749**

The two predominant items within other liabilities are accruals and tax liabilities. Whereas the latter did not change significantly compared to 2017, the decrease of accruals balances was significant. This is mainly attributable to the decrease in accrued costs and expenses, however accruals related to loan commitments also decreased slightly.

Line item 'sundry liabilities' includes the initial valuation differences of IRS transactions concluded with NBH which decreased compared to 2017.

(34) Provisions

The following table details provisions other than those set up for expected credit losses:

(HUF million)	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Restructuring	Pending legal issues and tax litigation	Other commitments and guarantees given measured under IAS 37 and guarantees given measured under IFRS 4	Other provisions	Total provisions
Opening balance 01.01.2018	**0**	**43**	**2,754**	**891**	**0**	**2,384**	**6,072**
Additions, including increases in existing provisions	0	0	176	168	0	5,876	6,220
(-) Amounts used	0	-43	-2,754	0	0	-3,411	-6,208
(-) Unused amounts reversed during the period	0	0	0	-248	0	-245	-503
Other movements	0	0	0	0	0	-72	-72
Closing balance 31.12.2018	**0**	**0**	**176**	**801**	**0**	**4,532**	**5,509**

Changes in restructuring provisions were attributable to the Group's divisions' moving into a common headquarter. In accordance with the long-term strategic objectives of the Group to increase efficiency, the Group's management decided to move its governance and central divisions into a common headquarter. The Group set up a provision for future losses from onerous lease contract in relation to the notice of the existing headquarter lease contract in the amount of HUF 2,693 million in 2017. That provisions was entirely used in May 2018 against actual payments of HUF 3,455 million.

Significant increase in other provisions is attributable to changes in provisions for employee bonuses.

(35) Assets and liabilities held for sale and discontinued operations

The Group had no assets or liabilities held for sale in 2017, however, at the end of 2018 assets and liabilities of EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft. were reclassified to assets and liabilities held for sale as the Group entered into negotiations in 2018 regarding the sale of that subsidiary.

Profit or loss from discontinued operations

Discontinued operation is a part of the Group either sold or classified as held for sale. The Group did not have discontinued operation in 2018.

(36) Share capital

Shareholder structure of the Group was as follows as at 31.12.2018 and 31.12.2017:

	31.12.2018			
Shareholder	**Type of share**	**Number of shares**	**Par value**	**Total (HUF million)**
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Raiffeisen-RBHU Holding GmbH	Preference share	0	0	0
Total		**5,000,009**		**50,000**

	31.12.2017			
Shareholder	**Type of share**	**Number of shares**	**Par value**	**Total (HUF million)**
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Raiffeisen-RBHU Holding GmbH	Preference share	0	0	0
Total		**5,000,009**		**50,000**

The authorised, issued and paid share capital of the Group consists of ordinary shares with a par value of HUF 10,000. Share capital did not change in the periods presented in these financial statements.

The Group had no treasury shares as at 31 December 2018 and 31 December 2017.

Whereas no dividend was paid from the profit for 2016, from 2017 profit HUF 17,640 million dividend was paid. The Group plans to pay out from its 2018 profit HUF 28,800 million as dividend, see note *(48) Events after the reporting date*.

(37) Share premium

Amounts contributed to the Group by the shareholder, after deduction of transaction costs, increases share premium. As a significant amount of share premium was accumulated in course of previous years' capital contributions, while the balance of retained earnings was negative, the shareholder decided to transfer share capital amounting to HUF 176,649 million to retained earnings. For this transaction the Group received NBH's approval in April 2017. There has been no change in share premium after that re-appropriation.

(38) Accumulated other comprehensive income

Accumulated other comprehensive income includes accumulated net fair value changes of investments measured at fair value through other comprehensive income.

In case of debt securities, unrealised fair value is included in this statement of financial position line item until derecognition of the debt securities or until they become impaired; after that gain or loss on derecognition is recognised to profit or loss.

In case of equity instruments measured at fair value through other comprehensive income any gain or loss on derecognition is directly realised in equity, on line item retained earnings (a reclassification between accumulated other comprehensive income and retained earnings).

In addition to the above, accumulated other comprehensive income also contains the effective portion of fair value changes of hedging instruments designated in cash flow hedges and deferred tax related to the above items.

(39) Other reserves

The Group includes in Other reserves the general reserve set up in accordance with Act CCXXVII of 2013, chapter 38 section 83 and Act CLXXVIII of 2015 section 40. According to these prescriptions a credit institution shall transfer 10% of its net profit for the period to general reserve. As a re-appropriation within equity (between retained earnings and other reserves) the Group set up general reserve amounting to HUF 2,301 million in 2018 (2017: HUF 2,854 million).

(40) Retained earnings

Includes undistributed profit or loss of the current and previous periods.

(41) Contingent liabilities and commitments

The Group has commitments to grant loans as it provides current account facilities and other loan facilities for its client.

The Group also provides guarantees and accreditives to its clients whereby it guarantees that clients fulfil their obligations towards third parties.

The following table contains the contractual amounts of contingent liabilities and commitments per categories. The amounts presented in the table below show the total amount committed in case of loan commitments. In case of guarantees and other commitments the amounts show the maximum amount of loss that would be recognised by the Group on the reporting date when the parties did not fulfil contractual obligations.

31.12.2018	**Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model**					
	Nominal			**Provision**		
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Loan commitments	295,611	33,251	454	201	244	357
Financial guarantees given	86,508	3,947	0	19	8	0
Other guarantees and commitments	114,963	25,585	1,993	15	16	1,625
Total	**497,082**	**62,783**	**2,447**	**235**	**268**	**1,982**

31.12.2017* (HUF million)	**Nominal**	**Provision***
Loan commitments	360,833	859
Financial guarantees given	119,317	48
Other guarantees and commitments	78,884	1,715
Total	**559,034**	**2,622**

*The similar table disclosed in 2017 financial statements also included provisions for litigations which is disclosed in these financial statements under the note on provisions.

Contingent liabilities and commitments bear off-balance sheet credit risk as only the related fees, commissions and provisions for future expected losses are included in the statement of financial position until fulfilment or expiry of such obligations. A significant number of such off-balance sheet items expire without utilising them fully or partially. As a consequence the above amounts do not represent future expected cash flows.

The Group has commitments arising from lease contracts in relation to its two existing headquarters in Budapest in the amount of HUF 996 million at the end of 2018, relating to 2019 (2017: HUF 1,397 million).

(42) Determination of fair value

In order to determine fair values of financial assets and liabilities for which no observable market prices are available, it is necessary to apply valuation techniques in accordance with the accounting policies. In case of financial instruments traded less frequently and whose prices are less transparent, fair value is less objective and determining it requires judgement to various extents depending on liquidity, concentration, uncertainties in market variables, pricing assumptions and other risks relating to the specific instrument. Please see the below section *'Valuation of financial instruments'*.

Critical judgements in applying the Group's accounting policies

The following are critical judgements made in applying the Group's accounting policies:

Valuation of financial instruments, fair value hierarchy

A The Group's accounting policy on fair value measurements is discussed in Note *(4.10) Determination of fair value.*

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 are based on directly or indirectly observable information, however, the relation of them to the market pricing of the financial asset or liability is more indirect. These may be the following:

a) quoted prices for similar assets or liabilities in active market;
b) quoted prices for identical or similar assets or liabilities in markets that are not active and this does not represents reliably the assessment of market participant at the valuation date;
c) 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;
d) indirectly observable inputs which can be derived from and confirmed by the observable inputs.

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

The following table analyses financial instruments measured at fair value on the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised based on the inputs used in the valuation. If fair values are determined with valuation techniques using unobservable inputs, the fair values include any deferred differences between the transaction price and fair value on initial recognition.

Fair value hierarchy: financial instruments measured at fair value

31.12.2018	Fair value hierarchy			Fair value changes during the period		Accumulated fair value change before tax		
(HUF million)	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value								
Financial assets held for trading total	**16,307**	**31,631**	**0**	**2,389**	**0**	**0**	**31,593**	**0**
Derivative instruments	0	31,631	0	2,389	0	0	31,593	0
Equity instruments	1,447	0	0	0	0	-4	0	0
Debt securities	14,860	0	0	0	0	4	0	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**0**	**7,691**	**0**	**112**	**0**	**0**	**112**
Equity instruments	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
Loans and advances	0	0	7,691	0	112	0	0	112
Financial assets designated at fair value through profit or loss total	**24,212**	**0**	**0**	**0**	**0**	**-1,412**	**0**	**0**
Debt securities	24,212	0	0	0	0	-1,412	0	0
Loans and advances	0	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income total	**467,127**	**1,145**	**53**	**0**	**0**	**-3,570**	**311**	**0**
Equity instruments	0	1,145	53	0	0	0	311	0
Debt securities	467,127	0	0	0	0	-3,570	0	0
Derivatives designated as hedging instruments	**0**	**2,657**	**0**	**76**	**0**	**0**	**2,638**	**0**
Financial assets at fair value total	**507,646**	**35,433**	**7,744**	**2,465**	**112**	**-4,982**	**34,542**	**112**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**28,424**	**0**	**-3,910**	**0**	**0**	**26,528**	**0**
Derivatives	0	27,018	0	-3,910	0	0	26,528	0
Short positions	0	1,406	0	0	0	0	0	0
Derivatives designated as hedging instruments	**0**	**4,029**	**0**	**621**	**0**	**0**	**4,030**	**0**
Financial liabilities at fair value total	**0**	**32,453**	**0**	**-3,289**	**0**	**0**	**30,558**	**0**

31.12.2017	Fair value hierarchy			Fair value changes during the period		Accumulated fair value change before tax		
(HUF million)	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value								
Financial assets held for trading total	**35,972**	**29,632**	**0**	**6,889**	**0**	**-12**	**29,182**	**0**
Derivative instruments	0	29,632	0	6,889	0	0	29,182	0
Equity instruments	913	0	0	0	0	-5	0	0
Debt securities	35,059	0	0	0	0	-7	0	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Equity instruments	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0	0	0
Financial assets designated at fair value through profit or loss total	**59,112**	**4,234**	**0**	**-945**	**0**	**-2,401**	**1,305**	**0**
Debt securities	59,112	0	0	0	0	-2,401	0	0
Loans and advances	0	4,234	0	-945	0	0	1,305	0
Financial assets at fair value through other comprehensive income total	**372,834**	**1,220**	**52**	**0**	**0**	**5,651**	**199**	**0**
Equity instruments	0	1,220	52	0	0	0	199	0
Debt securities	372,834	0	0	0	0	5,651	0	0
Derivatives designated as hedging instruments	**0**	**2,608**	**0**	**20**	**0**	**0**	**2,561**	**0**
Financial assets at fair value total	**467,918**	**37,694**	**52**	**5,964**	**0**	**3,238**	**33,247**	**0**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**32,855**	**0**	**5,422**	**0**	**0**	**30,438**	**0**
Derivatives	0	31,259	0	5,422	0	0	30,438	0
Short positions	0	1,596	0	0	0	0	0	0
Derivatives designated as hedging instruments	**0**	**3,530**	**0**	**-1,545**	**0**	**0**	**3,409**	**0**
Financial liabilities at fair value total	**0**	**36,385**	**0**	**3,877**	**0**	**0**	**33,847**	**0**

Fair value hierarchy: financial instruments measured at amortised cost

31.12.2018 (HUF million)	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	201,866	206,243	206,243	0	0
Loans and advances	1,470,228	1,514,362	0	0	1,514,362
Financial assets at amortised cost total	**1,672,094**	**1,720,605**	**206,243**	**0**	**1,514,362**
Financial liabilities at amortised cost					
Deposits	2,138,104	2,153,219	0	0	2,153,219
Debt securities issued	12,137	12,535	0	12,535	0
Other financial liabilities	7,667	7,667	0	0	7,667
Financial liabilities at amortised cost total	**2,157,908**	**2,173,421**	**0**	**12,535**	**2,160,886**

31.12.2017 (HUF million)	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	192,053	203,086	203,086	0	0
Loans and advances	1,368,351	1,392,873	0	0	1,392,873
Financial assets at amortised cost total	**1,560,404**	**1,595,959**	**203,086**	**0**	**1,392,873**
Financial liabilities at amortised cost					
Deposits	1,896,639	1,895,679	0	0	1,895,679
Debt securities issued	17,714	18,323	0	18,323	0
Other financial liabilities	4,699	4,699	0	0	4,699
Financial liabilities at amortised cost total	**1,919,052**	**1,918,701**	**0**	**18,323**	**1,900,378**

*In 2107 financial statements 'Loans and advances' and 'Deposits' were categorised into level 2 in fair value hierarchy by error. This was revised in 2018 and they are presented in the above table containing 2017 information correctly, i.e. in level 3.

Assumptions made in estimating the fair value of financial instruments

A number of financial instruments are not traded on active markets and thus fair values are based on estimations made using net present value calculations of other valuation techniques which are significantly influenced by assumptions made regarding estimated future cash flows and discount rates. In many cases it would not be possible to immediately realise the fair value due to the size of the portfolio.

Assumption made and estimation techniques used in calculating fair values of financial insturments are as follows:

i. Cash, cash balances at central banks and other demand deposits (level 1)

Due to their short term nature, the carrying amounts of Cash, cash balances at central banks and other demand deposits are a reasonable approximation of their fair value.

ii. Loans and advances to customers (level 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 values of loans and advances in Stage 1 and Stage 2 credit risk categories are calculated centrally by the parent company using discounted cash flow method and, if relevant, taking behavioural option models and financial option pricing models into account.

The Group uses discounted cash flow method also used for calculating fair values of Stage 3 (credit-impaired) loans and advances. For these transactions fair value is calculated as the present value of the expected recoveries (distressed cash flows) estimated by the expected loss/provisions modelling system, discounted with risk free rates plus liquidity premium.

These items are included in lines 'Loans and advances' in the tables presenting fair value hierarchy.

iii. Investments in securities (level 1 and level 2)

Quoted market prices are used for exchange-traded securities and listed debt instruments. The fair values of Hungarian government bonds and corporate bonds classified as held for trading, designated at fair value through profit and measured at fair value through other comprehensive income are measured based on market 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 available from OTC markets is used; otherwise the fair value is the present value of the discounted contractual cash flows at the valuation date.

These items are included in lines 'Equity instruments' and 'Debt securities' in the tables presenting fair value hierarchy.

iv. Investments in unlisted securities (level 2 and level 3)

These instruments are not quoted on markets. Besides market information, the Group uses other assumptions to value those instruments.

For instruments valued at level 3 of the fair value hierarchy, fair values are calculated using dividend discount models.

These items are included in lines 'Equity instruments' in the tables presenting fair value hierarchy.

v. Derivative instruments (level 1 and level 2)

Fair value of exchange-traded derivatives is the quoted price.

Fair value of interest rate swaps and forward rate agreements is determined by discounting the forecasted future cash flows. In doing so, the Group applies the market rates applicable for the remaining maturity of the financial instruments.

The Group determines fair values of cross currency swaps using discounted cash flow method (calculated by front-office system). Basis swap spreads representative to the markets of those instruments also including country risk premiums are incorporated into yield curves used for the purpose of the valuation.

The fair values of forward exchange transactions are computed on the basis of current forward rates. Fair values of plain vanilla and exotic currency options are calculated with modified Black-Scholes model. In case of exotic options the fair value of which cannot be estimated with a closed formula, fair values are calculated using iteration techniques.

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

The aim of calculating CVA/DVA (Credit Value Adjustment/Debit Value Adjustment) according to IFRS 13 is to quantify the risk of possible losses arising from counterparty defaults in case of the Group's derivative exposures. The varying parameter in the model is the possible future change in the counterparty's probability of default and not the changes in market variables. The calculation process is as follows: expected future exposures are estimated on mark-to-market basis for specific future dates, these are multiplied with default probabilities and then aggregated, and finally the result is adjusted with a recovery rate.

vi. Bank deposits, deposits from customers (level 3)

Fair value of deposits from banks and deposits from customers are determined using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

According to IFRS 13 standard the Group takes its own credit risk into account as follows: the Group discounts future cash flows of the deposits by using discount factors that are shifted by the liquidity premium applicable for the dates of cash flows determined for each currency. The level of liquidity 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).

These items are included in lines 'Deposits' in the tables presenting fair value hierarchy.

vii. Debt securities issued, subordinated liabilities (level 2 and level 3)

Fair value of debt securities issued is determined by the Group 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.

According to IFRS 13 standard, own credit risk is quantified as follows: depending on the currency, the future cash flows of the bond are discounted by using EUR or HUF zero coupon swap yield curve shifted by liquidity premium applicable on the valuation date.

Fair values of fixed rate debt securities issued and designated in hedge relationships are calculated as the present value of future cash flows while in case of structured instruments the Group values and separates the embedded derivative from the host contract.

Non-structured debt instruments issued are measured at amortised cost and thus they are not revalued except for cases when they are designated as hedged items in fair value hedges. In these cases only interest rate risk and not the credit risk is hedged.

Fair value – Level 3 disclosures

The following table reconciles opening and closing balances of fair values calculated based on level 3 inputs in case of relevant financial instruments, i.e. for those measured at fair value:

(HUF million)	Opening balance 01.01.2018	Exchange differences	Origina-tions/ pur-chases	Settlements	Gains/losses in profit or loss	Hereof: un-realised gains/losses	Gains/losses in other com-prehensive income	Closing bal-ance 31.12.2018
Non-trading financial assets manda-torily at fair value through profit or loss								
Loans and advances	9,279	0	1,497	-3,240	155	34	0	7,691
Non-trading financial assets manda-torily at fair value through profit or loss total	**9,279**	**0**	**1,497**	**-3,240**	**155**	**34**	**0**	**7,691**
Financial assets at fair value through other comprehensive income								
Equity instruments	51*	0	0	0	0	0	1	52
Financial assets at fair value through other comprehensive income total	**51**	**0**	**0**	**0**	**0**	**0**	**1**	**52**

(HUF million)	Opening balance 01.01.2017	Exchange differences	Origina-tions/ pur-chases	Settlements	Gains/losses in profit or loss	Hereof: un-realised gains/losses	Gains/losses in other com-prehensive income	Closing bal-ance 31.12.2017
Non-trading financial assets manda-torily at fair value through profit or loss								
Loans and advances	0	0	0	0	0	0	0	0
Non-trading financial assets manda-torily at fair value through profit or loss total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial assets at fair value through other comprehensive income								
Equity instruments	49	3	0	0	0	0	0	52*
Financial assets at fair value through other comprehensive income total	**49**	**3**	**0**	**0**	**0**	**0**	**0**	**52**

*The difference between the closing balance of 2017 and the opening balance of 2018 is the result of transition to IFRS 9, see more details in Note 46.

Total gains and losses presented in the table above were recognised in profit or loss and in other comprehensive income as follows:

31.12.2018	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
(HUF million)	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt securities	Loans and advances
Total gains or losses in profit or loss:	**0**	**0**	**540**	**0**	**0**	**0**
Net trading income and fair value result	0	0	180	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**1**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**34**	**0**	**0**	**0**
Net trading income and fair value result	0	0	34	0	0	0

31.12.2017	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
(HUF million)	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt securities	Loans and advances
Total gains or losses in profit or loss:	**0**	**0**	**0**	**0**	**0**	**0**
Net trading income and fair value result	0	0	0	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**0**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**0**	**0**	**0**	**0**
Net trading income and fair value result	0	0	0	0	0	0

The following tables summarise significant inputs used in level 3 fair valuations in case of financial instruments measured at fair value and in case of financial instruments which are measured by the Group at amortised cost but for which fair values are disclosed:

Financial instruments measured at fair value:

31.12.2018 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**	**Range of unobservable inputs (weighted average))**	**Sensitivity of fair values to unobservable inputs**
Non-trading financial assets mandatorily at fair value through profit or loss					
Loans and advances	7,691	a)	b)	c)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	**7,691**				
Financial assets at fair value through other comprehensive income					
Equity instruments	53	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	**53**				

31.12.2017 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**	**Range of unobservable inputs (weighted average))**	**Sensitivity of fair values to unobservable inputs**
Non-trading financial assets mandatorily at fair value through profit or loss					
Loans and advances	0	0	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**				
Financial assets at fair value through other comprehensive income					
Equity instruments	52	e)	f)	g)	i)
Financial assets at fair value through other comprehensive income total	**52**				

Identifier	Description
a)	Performing loans: discounted cash flow, behavioural option pricing (where applicable), financial option pricing: Black-Scholes model (modified) (where applicable) Non-performing loans: discounted cash flow
b)	Performing loans: Retail: risk free yield curve is used for discounting Non-retail: risk free yield curve, financing curve (for liquidity costs), credit spreads (CDS curve) Non-performing loans: Retail: stressed CF (based on client specific BEEL) – estimated by workout/retail risk Non-retail: expected recovery – estimated by work-out
c)	Performing loans: Retail: risk free yields: 0.182624% - 3.09585% Non-retail: risk free yields: 0.182624% - 3,09585 financing curve (for liquidity costs): -0.101458% - +0.60903% for HUF financing costs at the date of valuation; -0.50726% - +2.57069% HUF financing costs at the date of issue credit spread (from CDS curve): +0.035955% - +46.276932% for CDSs at valuation date; +0% - +44.45546% for CDSs at the date of issue Non-performing loans: Retail: stressed CF (based on client specific BEEL) – estimated by workout/retail risk: 10% - 100% Non-retail: expected recovery – estimated by work-out: 10% - 100 %
d)	If the level of risk free yields, the level of financing curve and credit risk spreads increase, fair value decreases, if stressed cash flow increases and expected recovery rate increases, fair value also increases
e)	Dividend discounting model (DDM)
f)	Length of period with high growth rate Growth rate in terminal period Beta* in terminal period
g)	Length of period with high growth rate: 1-15 years Growth rate in terminal period: 0-5% Beta* in terminal period: 0.8-1.2
h)	As length of period with high growth rate increases fair value decreases With the increase of growth rate fair value increases Fair value increases with the decrease of the beta,
i)	As length of period with high growth rate increases fair value decreases With the increase of growth rate fair value increases, Increase in beta has negative impact on fair value,

*beta is a flexibility measure compared to the market, used for calculating cost of equity

Financial instruments at amortised cost:

31.12.2018 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**
Financial assets at amortised cost			
Debt securities	0		
Loans and advances	1,514,362	discounted CF	discount curve
Financial assets at amortised cost total	**1,514,362**		
Financial liabilities at amortised cost			
Deposits	2,153,219	discounted CF	discount curve
Debt securities issued	0		
Other financial liabilities	7,667	no valuation	not applicable
Financial liabilities at amortised cost total	**7,667**		

31.12.2017 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**
Financial assets at amortised cost			
Debt securities	0		
Loans and advances	1,392,873	discounted CF	discount curve
Financial assets at amortised cost total	**1,392,873**		
Financial liabilities at amortised cost			
Deposits	1,895,679	discounted CF	discount curve
Debt securities issued	0		
Other financial liabilities	4,699	no valuation	not applicable
Financial liabilities at amortised cost total	**4,699**		

(43) Related parties

The Group's related parties include the parent company, associates, joint ventures, key management personnel and their close family members 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

During the period, related parties had the following transactions with the Group:

Assets and liabilities against related parties

31.12.2018 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Financial assets					
Debt securities	16,129	0	0	0	0
Loans and advances	108,455	334	0	33	0
hereof: non-performing	*0*	*0*	*0*	*0*	*0*
Financial assets total	**124,584**	**334**	**0**	**33**	**0**
Financial liabilities					
Deposits	55,219	377	0	473	0
Financial liabilities total	**55,219**	**377**	**0**	**473**	**0**
Nominal value of loan commitments, financial guarantees given and other contingencies	23,669	196	0	5	0
Nominal value of derivatives	2,499,284	0	0	0	0
Accumulated impairment and negative fair value change from change in credit risk of non-performing assets	0	-140	0	0	0

12.31.2017 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Financial assets					
Loans and advances	89,044	715	0	8	0
hereof: non-performing	*0*	*5*	*0*	*0*	*0*
Financial assets total	**89,044**	**715**	**0**	**8**	**0**
Financial liabilities					
Deposits	65,979	5,629	0	217	0
Financial liabilities total	**65,979**	**5,629**	**0**	**217**	**0**
Nominal value of loan commitments, financial guarantees given and other contingencies	21,034	0	0	5	0
Nominal value of derivatives	1,729,608	13,979	0	0	0
Accumulated impairment and negative fair value change from change in credit risk of non-performing assets	0	-53	0	0	0

Income and expenses from transactions with related parties

2018 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Interest income	14,020	4	0	0	0
Interest expense	-10,238	-5	0	0	0
Fee and commission income	111	7	0	2	0
Fee and commission expense	-186	-6	0	0	0
Total	**3,707**	**0**	**0**	**2**	**0**

2017 (HUF million)	Entities having joint or significant control over the Bank or its parent	Subsidiaries	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Interest income	10,844	96	0	0	0
Interest expense	-13,439	0	0	0	0
Fee and commission income	108	16	0	2	0
Fee and commission expense	-138	0	0	0	0
Total	**-2,625**	**112**	**0**	**2**	**0**

The above transactions were conducted in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collaterals, as for third parties.

The remuneration of key management personnel amounted to HUF 829 million in 2018 (HUF 901 million in 2017).

(44) Investments in subsidiaries

The subsidiaries of the Bank and their activities are summarised in the following table:

Subsidiaries	Ownership interest	Ownership interest 31.12.2017	Residence of the Company	Brief description of activities
Raiffeisen Gazdasági Szolgáltató Zrt.	100,00%	100,00%	1054 Budapest. Akadémia u. 6.	Other professional, scientific and technical activities n.e.c.
Raiffeisen Corporate Lízing Zrt.	100,00%	100,00%	1054 Budapest. Akadémia u. 6.	Finance leasing
Raiffeisen Biztosításközvetítő Kft.	100,00%	100,00%	1054 Budapest. Akadémia u. 6.	Activities of insurance agents and brokers
SCT Kárász utca Ingatlankezelő Kft.	100,00%	100,00%	1054 Budapest. Akadémia u. 6.	Management of real estate on a fee or contract basis
Raiffeisen Befektetési Alapkezelő Zrt.	80,00%	80,00%	1054 Budapest. Akadémia u. 6.	Fund management activities
RB Szolgáltató Központ Kft.	100,00%	100,00%	4400 Nyíregyháza. Sóstói út 31/b	Other financial auxiliary activities
Raiffeisen Energiaszolgáltató Kft.	100,00%	100,00%	1158 Budapest. Késmárk utca 11-13.	Activities of holding companies
Késmárk utca 11-13, Kft.	100,00%	-	1158 Budapest. Késmárk utca 11-13.	Management of real estate on a fee or contract basis
Harmadik Vagyonkezelő Kft.	100,00%	-	1054 Budapest. Akadémia u. 6.	Activities of holding companies
EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft.	100,00%	100,00%	1158 Budapest. Késmárk utca 11-13.	Electricity production
Raiffeisen Autó Lízing Kft.	100,00%	100,00%	1054 Budapest. Akadémia u. 6.	Leasing of cars and light motor vehicles
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft.	100,00%	100,00%	1054 Budapest. Akadémia u. 6.	Real estate development
RB Kereskedőház Kereskedelmi Kft.	-	100,00%	1054 Budapest. Akadémia u. 6.	Wholesale of metals and metal ores
SCTB Ingatlanfejlesztő és Ingatlanhasznosító Kft.	-	100,00%	1054 Budapest. Akadémia u. 6.	Buying and selling of own real estate
SCTS Ingatlanfejlesztő és Ingatlanhasznosító Kft.	-	100,00%	1012 Budapest. Vérmező út 4.	Real estate development

The following table presents changes in the investments in unconsolidated related parties:

(HUF million)	Gross carrying amount 01.01.2018	Increase	Decrease	Gross carrying amount 31.12.2018	Loss allowance 01.01.2018	Increase	Decrease	Loss allowance 31.12.2018	Net carrying amount 01.01.2018	Net carrying amount 31.12.2018
Harmadik Vagyonkezelő Kft.	0	31	0	31	0	0	0	0	0	31
Total	**3,439**	**2,781**	**-1,597**	**4,623**	**-1,477**	**-3,191**	**2,370**	**-2,298**	**1,962**	**2,325**

The Bank purchased SCTS Ingatlanfejlesztő és Ingatlanhasznosító Kft. from Raiffeisen Gazdasági Szolgáltató Zrt. on 30 March 2017 and became the sole owner of the subsidiary.

SCTS Kft, SCTB Ingatlanfejlesztő és Ingatlanhasznosító Kft. and RB Kereskedőház Kereskedelmi Kft merged into SCT Kárász utca Ingatlanfejlesztő Kft. on 31 January 2018.

The Bank purchased Késmárk utca 11-13, Szolgáltató Kft. on 28 March 2018 and Harmadik Vagyonkezelő Kft. 16 October 2018 and became the sole owner of these companies. The Bank did not consolidate the latter company, considering that the company merged into SCT Kárász utca Ingatlanfejlesztő Kft. on 1 January 2019.

(45) Fund management activity

The Group manages zero closed-end (2017: 0) and 15 open-end (2017: 15) investment funds via Raiffeisen Befektetési Alapkezelő Zrt., a fully owned and consolidated subsidiary. As the funds are not controlled by the Group, they are not consolidated. For fund management services provided by the Group, funds pay certain fees and commissions that are reported as 'Net fee and commission income' (see Note 8).

The value and transactions with funds are detailed in the following table:

(HUF million)	2018	2017
Managed funds	**171,414**	**155,349**
Open-end funds	171,414	155,349
Closed-end funds	0	0
Net fee and commission income from funds	1,832	1,708
Deposits from funds	7,510	9,971
Interest income and expense on deposits from funds	-12	71

There were no fix term funds among open-end funds in the last two years.
Both term deposits and demand deposits are reported under Deposits from funds.
The Group realised more interest income than interest expense on deposits from funds. This is due to the Bank 'paying' negative interest after demand deposits in euro.

(46) The effects of transition to IFRS 9

This chapter presents the effects of the initial application of IFRS 9 on 1 January 2018 to the financial instruments reported in the financial statements on 31 December 2017.

(46.1) Classification of financial assets and liabilities at initial application of IFRS 9 on 1st January 2018

The following table details the measurement categories and carrying amounts of financial assets and liabilities of the Group in accordance with IAS 39 on 31 December 2017 and their measurement categories and carrying amounts in accordance with IFRS 9 on 1 January 2018, by classes of financial instruments:

(HUF million)	Notes	Classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets					
Cash, cash balances at central banks and other demand deposits		Loans and receivables	Amortised cost	80,064	80,064
Loans and advances	a)	Loans and receivables	Amortised cost	1,359,706	1,360,143
Loans and advances	a)	Loans and receivables	FVTPL (mandatory)	8,645	9,279
Debt securities	b)	Held to maturity (Amortised cost)	Amortised cost	187,110	187,107
Debt securities	b)	Held to maturity (Amortised cost)	FVOCI (mandatory)	4,943	4,951
Debt securities	c)	Available for sale	FVOCI (mandatory)	361,396	361,396
Debt securities	c)	Available for sale	Amortised cost	11,438	11,294
Equity instruments	d)	Available for sale	FVOCI (megjelölt)	1,272	1,271
Debt securities		FVTPL (mandatory)	FVTPL (mandatory)	35,059	35,059
Equity instruments		FVTPL (mandatory)	FVTPL (mandatory)	913	913
Derivatives – Not hedge-accounted		FVTPL (mandatory)	FVTPL (mandatory)	29,632	29,632
Derivatives – Hedge accounting*		FVTPL (mandatory)	FVTPL (mandatory)	2,608	2,608
Debt securities		FVTPL (designated)	FVTPL (designated)	59,112	59,112
Loans and advances		FVTPL (designated)	FVTPL (designated)	4,234	4,234
Other assets**		Loans and advances	Amortised cost	0	0
Financial assets total				**2,146,132**	**2,147,063**

*The fair value changes of the effective portion of a hedging instrument is recognised in other comprehensive income regardless of its applied measurement category (FVTPL, mandatory).

**The line 'Other assets' of the above table only shows financial assets from the 'Other assets' line of the statement of financial position, therefore the carrying amount under IAS 39 for 'Other assets' does not equal the amount with the same caption in the statement of financial position as at 31.12.2017.

Under IAS 39 the Group did not have non-trading financial assets mandatorily at fair value through profit or loss, so the table does not contain comparisions for this category.

Notes:

a. On initial application of IFRS 9 the Group performed the SPPI test for its loan portfolios. As a result the Group concluded that the contractual cash flows of the following portfolios do not represent solely payments of principal and interest, consequently these loans are measured at fair value through profit or loss: subsidised hosing loans (CSOK, Subsidised housing loas és HDB Loan programs (for more details, see Notes *(4.11.2) Classification and subsequent measurement*).

b. The Group classified its held to maturity securities under IAS 39 into two categories under IFRS 9 based on their business model. The determination of business model was based on circumstances existing at the initial application of IFRS 9, on 1 January 2018. Most of the portfolio continues to be kept until maturity and to collect contractual cash flows, therefore they are classified to the hold-to-collect business model and measured at amortised cost under IFRS 9. As a small part of the portfolio had to be sold in 2018 due to legal regulations, they were classified to the hold-and-sell business model and measured at fair value through other comprehensive income under IFRS 9.

c. The Group classified its available for sale debt instruments under IAS 39 into two categories under IFRS 9 based on their business model. Most of the portfolio is kept to both collect contractual cash flows and realise revenue from sale, therefore they are classified to the hold-and-sell business model and measured at fair value through other comprehensive income under IFRS 9. As under IFRS 9, financial instruments classified to the hold-and-sell business model can be designated in a fair-value hedging relationship, a small part of the portfolio is measured at amortised cost because the Group wants to hold them until maturity under IFRS 9.

d. The Group designated available for sale non-trading equity instruments under IAS 39 to be measured at fair value through other comprehensive income under IFRS 9.

(HUF million)	Notes	Classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial liabilities					
Deposits		Amortised cost	Amortised cost	1,852,858	1,852,858
Debt securities issued		Amortised cost	Amortised cost	17,714	17,714
Subordinated liabilities		Amortised cost	Amortised cost	43,781	43,781
Financial liabilities at amortised cost at 31.12.2017				**1,914,353**	**1,914,353**
Short positions		FVTPL (mandatory)	FVTPL (mandatory)	1,595	1,595
Derivatives – Not hedge-accounted		FVTPL (mandatory)	FVTPL (mandatory)	31,260	31,260
Financial liabilities held for trading at 31.12.2017				**32,855**	**32,855**
Derivatives – Hedge accounting*		FVTPL (mandatory)	FVTPL (mandatory)	3,530	3,530
Hedging derivatives at 31.12.2017				**3,530**	**3,530**
Other liabilities**		Amortised cost	Amortised cost	4,699	4,699
Provision on financial instruments		Amortised cost	Amortised cost	2,961	2,622
Financial liabities total				**1,958,398**	**1,958,059**

* The fair value changes of the effective portion of a hedging instrument is recognised in other comprehensive income regardless of its applied measurement category (FVTPL, mandatory).
** The line 'Other liabilities' in the table above only shows financial liabilities from the 'Other liabilities' line of the statement of financial position, therefore the carrying amount under IAS 39 for 'Other liabilities' does not equal the amount with the same caption in the statement of financial position for 31.12.2017.

Under IAS 39 the Group did not have financial liabilities designated at fair value through profit or loss, so the table does not contain comparisions for this category.

The table does not contain the fair value changes of instruments hedged in portfolio interest rate risk hedges, which relates to deposits measured at amortised cost.

(46.2) *Reconciliation of the carrying amounts under IAS 39 and IFRS 9*

The following tables show the reconciliation of the carrying amounts at 31 December 2017 under IAS 39 and at 1 January 2018 under IFRS 9, and how the transition to IFRS 9 modified retained earnings and accumulated other comprehensive income at 1 January 2018.

The Group presents items in the Reclassification column that changed both their classification and measurement in accordance with IFRS 9.

The Group presents valuation differences in column Remeasurement for items that did not change their classification.

Financial assets – Financial assets held for trading

(HUF million)	Carrying amount under IAS 39 31.12.2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 01.01.2018	Retained earnings 01.01.2018	Accumulated other comprehensive income 01.01.2018
Derivatives	29,632	0	0	29,632	0	0
Equity instruments	913	0	0	913	0	0
Debt instruments	35,059	0	0	35,059	0	0
Loans and advances	0	0	0	0	0	0
Financial instruments held for trading total	**65,604**	**0**	**0**	**65,604**	**0**	**0**

The carrying amount of financial instruments held for trading did not change as a result of the remeasurement and reclassification effects of the transition to IFRS 9.

Financial assets – Mandatorily at fair value through profit or loss

(HUF million)	Carrying amount under IAS 39 31.12.2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 01.01.2018	Retained earnings 01.01.2018	Accumulated other comprehensive income 01.01.2018
Equity instruments	0	0	0	0	0	0
Debt instruments	0	0	0	0	0	0
Loans and advances	0	8,645	634	9,279	634	0
Reclassification from Loans and advances category	*0*	*8,645*	*634*	*9,279*	*634*	*0*
Non-trading financial instruments mandatorily at fair value through profit or loss total	**0**	**8,645**	**634**	**9,279**	**634**	**0**

The HUF 8,645 million reclassified from the Loans and advances classification category of IAS 39 relates to loans detailed in Note 44.2a, as the Group concluded that the contractual cash flows do not only contain principal and interest on the principal amount outstanding.

Financial assets – Financial assets designated at fair value through profit or loss

(HUF million)	Carrying amount under IAS 39 31.12.2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 01.01.2018	Retained earnings 01.01.2018	Accumulated other comprehensive income 01.01.2018
Debt instruments	59,112	0	0	59,112	0	0
Loans and advances	4,234	0	0	4,234	0	0
Financial assets designated at fair value through profit or loss total	**63,346**	**0**	**0**	**63,346**	**0**	**0**

The carrying amount of financial assets designated at fair value through profit or loss did not change as a result of the remeasurement and reclassification effects of the transition to IFRS 9.

Financial assets – Financial assets at fair value through other comprehensive income

(HUF million)	Carrying amount under IAS 39 31.12.2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 01.01.2018	Retained earnings 01.01.2018	Accumulated other comprehensive income 01.01.2018
Equity instruments	**1,272**	**0**	**-1**	**1,271**	**0**	**-1**
Remeasurement	0	0	-1	0	0	-1
Debt securitites	**372,834**	**-6,495**	**7**	**366,346**	**-9**	**-2**
Reclassification from held-to-maturity	0	-6,495	7	0	0	7
Remeasurement	0	0	0	0	-9	-9
Financial assets at fair value through other comprehensive income total	**374,106**	**-6,495**	**6**	**367,617**	**-9**	**-3**

The HUF 6,495 million reclassified from the Available for sale classification category of IAS 39 relates to loans detailed in Note 44.2b and 44.2c, as the Group classified them to the hold and sell business model.

The Group designated available for sale non-trading equity instruments under IAS 39 to be measured at fair value through other comprehensive income under IFRS 9. As the Group changed the presentation of financial statements in 2018, these equity instruments are measured at fair value through other comprehensive income in the table above, and accordingly, no reclassification is recorded.

The revaluation difference between the carrying amount under IAS 39 and IFRS 9 is due to the impairment recognised for financial assets measured at fair value through other comprehensive income.

Financial assets – Financial assets at amortised cost

(HUF million)	Carrying amount under IAS 39 31.12.2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 01.01.2018	Retained earnings 01.01.2018	Accumulated other comprehensive income 01.01.2018
Debt securitites	**192,053**	**6,495**	**-147**	**198,401**	**-3**	**-144**
Reclassification to fair value through other comprehensive income category	0	6,495	-144	0	0	-144
Remeasurement	0	0	-3	0	-3	0
Loans and advances	**1,368,351**	**-8,645**	**437**	**1,360,143**	**437**	**0**
Reclassification to mandatorily at fair value through profit or loss category	0	-8,645	634	0	634	0
Remeasurement	0	0	-197	0	-197	0
Financial assets at amortised cost total	**1,560,405**	**-2,150**	**290**	**1,558,544**	**434**	**-144**

The HUF 8,645 million reclassified from the Loans and advances classification category of IAS 39 to the fair value through profit or loss measurement category of IFRS 9 relates to loans detailed in Note 44.2a, as the Group concluded that the contractual cash flows do not only contain principal and interest on the principal amount outstanding. The additional HUF 6,495 million reclassified from the Available for sale classification category of IAS 39 relates to loans detailed in Note 44.2b and 44.2c, as the Group classified them to the hold and sell business model.

The revaluation difference of HUF -200 million between the carrying amount under IAS 39 and IFRS 9 is due to the impairment recognised for financial assets measured at amortised cost.

Tables demonstrating the remeasurement and reclassification effect of the transition to IFRS 9 does not contain Cash, cash balances at central banks and other demand deposits as their carrying value did not change as a result of the remeasurement and reclassification effects of the transition to IFRS 9.

Financial liabilities – Held for trading

(HUF million)	Carrying amount under IAS 39 31.12.2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 01.01.2018	Retained earnings 01.01.2018	Accumulated other comprehensive income 01.01.2018
Derivatives	31,260	0	0	31,260	0	0
Deposits	0	0	0	0	0	0
Debt securities issued	0	0	0	0	0	0
Other financial liabilities	1,595	0	0	1,595	0	0
Financial liabilities measured at fair value through profit or loss total	**32,855**	**0**	**0**	**32,855**	**0**	**0**

Financial liabilities – Financial liabilities at amortised cost

(HUF million)	Carrying amount under IAS 39 31.12.2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 01.01.2018	Retained earnings 01.01.2018	Accumulated other comprehensive income 01.01.2018
Deposits	1,896,639	0	0	1,896,639	0	0
Debt securities issued	17,714	0	0	17,714	0	0
Other financial liabilities	4,699	0	0	4,699	0	0
Financial liabilities measured at amortised cost total	**1,919,052**	**0**	**0**	**1,919,052**	**0**	**0**

The carrying amount of financial liabilities did not change as a result of the remeasurement and reclassification effects of the transition to IFRS 9.
The Group did not have non-trading financial liabilities measured at fair value through profit or loss or financial liabilities designated at fair value through profit or loss.

(46.3) Reconciliation of impairment under IAS 39 / provisions under IAS 37 and impairment under IFRS 9

The following table shows the reconciliation of loss allowances recognised for financial assets under IAS 39 on 31 December 2017, provisions recognised on loan commitments, financial guarantees and other commitments under IAS 37 on 31 December 2017 and the expected credit losses of these instruments calculated under IFRS 9 on 1 January 2018:

(HUF million)	31.12.2017 (IAS 39 / IAS 37)	Reclassification	Remeasurement	Change of definition of gross carrying amount*	01.01.2018 (IFRS 9)
Financial assets at amortised cost	**53,518**	**-518**	**-496**	**9,752**	**62,256**
Debt securities	0	0	3	0	3
Loans and advances	53,518	-518	-499	9,752	62,253
Financial assets at fair value through other comprehensive income	**0**	**0**	**9**	**0**	**9**
Debt securities	0	0	9	0	9
Off-balance sheet items	**9,033**	**0**	**-339**	**0**	**8,694**
Loan commitments	1,559	0	-54	0	1,505
Financial guarantees given	1,401	0	-284	0	1,117
Other commitments	6,073	0	-1	0	6,072
Total	**62,551**	**-518**	**-826**	**9,752**	**70,959**

* Under IFRS 9, the impairment losses on the interest of credit-impaired assets are reported as part of the impairment losses in the net carrying amount. Under IAS 39, these items were recognised in the gross carrying amount. The positive impairment of assets purchased or originated credit impaired are recognised in the gross carrying amount in accordance with the accounting policy of the Group.

The new, expected credit loss-oriented impairment method of IFRS 9 required the recalculation of the incurred loss model of IAS 39 for financial assets at amortised cost, debt instruments at fair value through other comprehensive income and the provisions recognised for off-balance sheet items.

Amounts reported under Reclassification relate to loans that were measured at amortised cost under IAS 39 but are measured at fair value through profit or loss under IFRS 9 and for which the impairment requirements of IFRS 9 do not apply (HUF 518 million).

Amounts reported under Remeasurement represent the change in the models applied to determine loss allowance and impairment losses.

(46.4) Classification of financial assets and financial liabilities

The following tables show the reconciliation of financial instrument categories and the lines of the statement of financial position. As the comparative information have not been restated on initial application of IFRS 9, the columns of the table presenting information for 31 December 2017 use the classification categories of IAS 39.

	31.12.2018					
(HUF million)	Mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Measured at fair value through other comprehensive income – debt instruments	Measured at fair value through other comprehensive income – equity instruments	Measured at amortised cost	Carrying amount total
Cash, cash balances at central banks and other demand deposits	0	0	0	0	156,730	**156,730**
Financial assets held for trading	47,938	0	0	0	0	**47,938**
Non-trading financial assets mandatorily at fair value through profit or loss	7,691	0	0	0	0	**7,691**
Financial assets designated at fair value through profit or loss	0	24,212	0	0	0	**24,212**
Financial assets at fair value through other comprehensive income	0	0	467,128	1,197	0	**468,325**
Financial assets at amortised cost	0	0	0	0	1,672,094	**1,672,094**
Derivatives – Hedge accounting	2,657	0	0	0	0	**2,657**
Other assets*	0	0	0	0	0	**0**
Financial assets total	**58,286**	**24,212**	**467,128**	**1,197**	**1,828,824**	**2,379,647**
Financial liabilities held for trading	28,424	0	0	0	0	**28,424**
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0	**0**
Financial liabilities measured at amortised cost	0	0	0	0	2,157,908	**2,157,908**
Derivatives – Hedge accounting	4,029	0	0	0	0	**4,029**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-522	0	0	0	0	**-522**
Other liabilities*	0	0	0	0	0	**0**
Financial liabilities total	**31,931**	**0**	**0**	**0**	**2,157,908**	**2,189,839**

* The table above only shows financial assets in line 'Other assets' and financial liabilities in line 'Other liabilities', therefore the total carrying amounts for 'Other assets' and 'Other liabilities' in the above table do not equal the amounts with the same captions in the statement of financial position.

** Fair value changes of the hedged items in portfolio hedge of interest rate risk relate to deposits classified at amortised cost.

(HUF million)	31.12.2017 Held for trading and risk management purposes	Held to maturity	Loans and advances	Available for sale	Other at amortised cost	Carrying amount total
Cash, cash balances at central banks and other demand deposits	0	0	76,408	0	3,656	**80,064**
Financial assets held for trading	65,604	0	0	0	0	**65,604**
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	0	0	**0**
Financial assets designated-at fair value through profit or loss	59,112	0	4,234	0	0	**63,346**
Financial assets at fair value through other comprehensive income	0	0	0	374,106	0	**374,106**
Financial assets at amortised cost	0	192,053	1,358,310	0	10,042	**1,560,405**
Derivatives – Hedge accounting	2,608	0	0	0	0	**2,608**
Other assets*	0	0	0	0	0	**0**
Financial assets total	**127,324**	**192,053**	**1,438,952**	**374,106**	**13,698**	**2,146,133**
Financial liabilities held for trading	32,855	0	0	0	0	**32,855**
Financial liabilities designated at fair value through profit or loss	0	0	0	0	0	**0**
Financial liabilities measured at amortised cost	0	17,714	1,833,086	63,553	4,699	**1,919,052**
Derivatives – Hedge accounting	3,530	0	0	0	0	**3,530**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	84	0	0	**84**
Other liabilities*	0	0	0	0	0	**0**
Financial liabilities total	**36,385**	**17,714**	**1,833,170**	**63,553**	**4,699**	**1,955,521**

* The table above only shows financial assets in line 'Other assets' and financial liabilities in line 'Other liabilities', therefore the total carrying amount for 'Other assets' and 'Other liabilities' does not equal the amount with the same caption in the statement of financial position.

** Fair value changes of the hedged items in portfolio hedge of interest rate risk relate to deposits classified at amortised cost.

(47) Disclosures according to the Hungarian Accounting Law

i. Head of Accounting, Tibor Gáspár is responsible for the coordination and management of bookeeping services and he is also entitled to perform bookeeping services (registracion number: 168480, address: 2330 Dunaharaszti, Király út 38.).

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

iii. The Group, as a financial institution, is obliged by regulation to have its financial statements audited according to the Act C of 2000 on Accounting and the auditor is KPMG Hungária Kft. (registration number: 000202), the auditor in charge is Gábor Agócs (registration number: 005674). The audited consolidated annual financial statements of the Group is published by the Court of registration and also available at the wegsite of the Group at www. raif-feisen.hu.

Audit fees

The following net fees were charged by KPMG Hungária Kft. and KPMG tanácsadó Kft. in 2018 and 2017:

(HUF million)	2018	2017
Audit fees	77	63
Other assurance services	17	16
Fees for non-audit services	20	56
Total	**114**	**135**

iv. The proposal for dividend payment submitted by the management includes a dividend payment of HUF 28,800 million.

(HUF million)	31.12.2018	31.12.2017
Retained earning + Profit and loss after tax	39,086	33,572
Eligible dividend income	0	0
Sources available for dividend payment	**39,086**	**33,572**

Group did not account for any received dividends that were not recognised in the respective years' financial statements because they were decleared after those financial statements were authorised for issue but which – in accordance with section 114/A, paragraph 17 and section 39, paragraph 3a of Act C on Accounting – are eligible to increase the sources available for dividend payment.

(48) Events after the reporting date

Based on the owners' resolution of 29 April 2019, the owners decided to pay dividend of HUF 28,800 million, which will be settled in April 2019 (see Note 35 Share capital).

The payment of dividend results in a decrease of 176 basis points in the solvency rate, which does not threaten the operations of the Group.

The Board of Directors decided to issue private placement bonds that qualify as subordinated additional tier 1 equity instruments based on Article 52 of CRR Regulation (EU) No 575/2013 in the amount of EUR 100 million on 4 March 2019. The date of issue is 13 March 2019. According to estimations of the Group, including the above instrument in additional tier 1 capital, Tier1 and Pillar1 solvency ratios will increase by 2.62%.

(49) Abbreviations and terms used in the financial statements

AAC: At Amortised Cost

AFS: Available For Sale

ALCO: Asset and Liability Committee

BEEL: Best Estimate of Expected Loss

Beta: a flexibility measure compared to the market, used for calculating cost of equity

CCIRS: Cross Currency Interest Rate Swap

CF: Cash flow

CIRS: Cross Currency Interest Rate Swap

Default: non-performing

EAD: Exposure at Default

FRA: Forward Rate Agreement

FV: Fair Value

FVOCI: at Fair Value through Other Comprehensive Income

FVTPL: at Fair Value Through Profit and Loss

Gap: the difference between assets and liabilities in the same repricing category

GDMA: Government Debt Management Agency

Hold-and-sell: the model's objective is both collecting contractual cash flows and selling financial assets in the portfolio

Hold-to-collect: the model's objective is to hold financial assets to collect contractual cash flows

ICCAP: Internal Capital Adequacy Assesment Process

IFRS: International Financial Reporting Standards

IRB: Internal Rating Based Approach

IRS: Interest Rate Swap

HTM: Held To Maturity

L&R: Loans and Receivables

LGD: Loss Given Default

OCI: Other Ccomprehensive Income

PD: Probability of Default

PL: Profit and Loss

POCI: Purchased or Originated Credit Impaired

SPPI: Solely Payment of Principal and Interest

Stage 1: performing financial instruments where the credit risk has not increased significantly since initial recognicition

Stage 2: performing financial instruments with a deteriorating credit risk profile, where the credit risk has increased significantly since initial recognition

Stage 3: credit-impaired financial instruments

Trading: primary obejective is to realise short-term profits

VaR: Value at Risk