Raiffeisen BANK

Raiffeisen Bank Zrt.
Consolidated Financial Statements
31st December 2019

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I. Primary financial statements

A. Consolidated statement of profit or loss

(HUF million)	Notes	2019	2018
Interest income calculated with the effective interest method	(7, 11)	47,757	43,206
Other interest income	(7, 11)	26,892	23,140
Interest expenses	(7, 11, 25)	-33,243	-24,300
Net interest income	**(7, 11)**	**41,406**	**42,046**
Dividend income		12	44
Fee and commission income	(8)	71,525	63,261
Fee and commission expenses	(8)	-21,594	-19,305
Net fee and commission income	**(8)**	**49,931**	**43,956**
Net trading income and fair value result	(9, 11)	-62	3,788
Net gains/losses from hedge accounting	(10, 11)	18	33
Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss	(11)	597	369
Other operating income	(12)	1,672	2,858
Other operating expenses	(12)	-17,948	-16,705
Staff expenses	(15)	-26,779	-25,435
Other administrative expenses	(16)	-18,078	-19,332
Depreciation and amortisation	(24)	-7,650	-6,362
Other result	(13, 14)	-302	-454
Levies and special governmental measures	(17)	-5,442	-4,976
Impairment losses on financial assets	(6, 11)	7,584	7,768
Profit before tax from continuing operations		24,959	27,598
Tax expense or (-) income related to profit or loss from continuing operations	(18)	-4,128	-3,542
Profit after tax from continuing operations		**20,831**	**24,056**
Profit for the year		**20,831**	**24,056**

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 23.04.2020.

B. Consolidated statement of profit or loss and other comprehensive income

(HUF million)	Notes	2019	2018
Profit for the year		**20,831**	**24,056**
Other comprehensive income	**(38)**	**5,091**	**-1,961**
Items that will not be reclassified to profit or loss	**(38)**	**297**	**133**
Fair value changes of equity instruments measured at fair value through other comprehensive income	(38)	329	143
Income tax relating to items that will not be reclassified to profit or loss	(18, 38)	-32	-10
Items that may be reclassified to profit or loss	**(38)**	**4,794**	**-2,094**
Foreign currency translation		91	-124
Cash flow hedges (effective portion)	**(10, 38)**	**944**	**-405**
Valuation gains or (-) losses taken to equity	(10, 38)	790	-511
Transferred to profit or loss	(10, 38)	154	106
Debt instruments at fair value through other comprehensive income	**(38)**	**4,224**	**-1,760**
Valuation gains or (-) losses taken to equity	(38)	4,362	-1,842
Transferred to profit or loss	(38)	-138	82
Income tax relating to items that may be reclassified to profit or (-) loss	(18, 38)	-465	195
Total comprehensive income for the year	**(38)**	**25,922**	**22,095**

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 23.04.2020.

C. Consolidated statement of financial position

(HUF million)	Notes	31.12.2019	31.12.2018
Cash, cash balances at central banks and other demand deposits	(6, 19, 46)	126,155	156,730
Financial assets held for trading	(6, 20, 42, 46)	58,360	47,938
Non-trading financial assets mandatorily at fair value through profit or loss	(6, 20, 42, 46)	33,996	7,691
Financial assets designated-at fair value through profit or loss	(6, 20, 42)	20,237	24,212
Financial assets at fair value through other comprehensive income	(6, 22, 23, 42, 46)	524,922	468,325
Financial assets at amortised cost	(6, 21, 42, 46)	1,788,860	1,672,094
Derivatives – Hedge accounting	(10, 42, 46)	6,021	2,657
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-619	0
Current tax assets	(18)	326	542
Non-current assets classified as held for sale	(34)	0	7,724
Investments in subsidaries, joint ventures and associates	(44)	0	31
Property and equipment	(24)	17,116	6,788
Intangible assets	(24)	18,548	16,615
Deferred tax assets	(18)	1,575	1,972
Other assets	(26)	3,047	3,938
Total assets		**2,598,544**	**2,417,257**
Financial liabilities held for trading	(6, 27, 28, 42, 46)	27,705	28,424
Financial liabilities measured at amortised cost	(6, 25, 28, 29, 30, 31, 42, 46)	2,298,996	2,157,908
Derivatives – Hedge accounting	(10, 42, 46)	11,569	4,029
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	2,014	-522
Current tax liabilities	(18)	636	4
Liabilities included in disposal groups classified as held for sale	(34)	0	130
Provisions	(6, 33)	10,782	7,994
Deferred tax liabilities	(18)	3	2
Other liabilities	(32)	6,923	7,246
Total liabilities		**2,358,628**	**2,205,215**
Share capital	(6, 35)	50,000	50,000
Share premium	(6, 36)	113,445	113,445
Equity instruments issued other than share capital	(37)	31,445	0
Accumulated other comprehensive income	(6, 38)	6,779	1,688
Retained earnings	(6, 40)	7,533	15,030
Other reserves	(6, 39)	9,883	7,823
Profit or loss	(6)	20,831	24,056
Total equity		**239,916**	**212,042**
Total liabilities and total equity		**2,598,544**	**2,417,257**

Ágnes Tölgyes
Cheif Financial Officer

Tibor Gáspár
Head of Accounting

Date: 23.04.2020.

D. Consolidated statement of changes in equity

Sources of equity changes	Share capital	Share premium	Equity instruments issued other than capital	Other comprehensive income not to be reclassified: Fair value changes of equity instruments measured at fair value through OCI*	Other comprehensive income to be reclassified: Cash flow hedges [effective portion]	Other comprehensive income to be reclassified: Debt instruments at fair value through OCI*	Other comprehensive income to be reclassified: Foreign currency translation	Retained earnings	Other reserves	Total
	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance [current period]	**50,000**	**113,445**	**0**	**292**	**-1,070**	**2,590**	**-124**	**39,086**	**7,823**	**212,042**
Profit or (-) loss	0	0	0	0	0	0	0	20,831	0	**20,831**
Other comprehensive income	0	0	0	297	859	3,844	91	0	0	**5,091**
Total comprehensive income for the year	**0**	**0**	**0**	**297**	**859**	**3,844**	**91**	**20,831**	**0**	**25,922**
Issuance of other equity instruments	0	0	31,445	0	0	0	0	0	0	**31,445**
Dividends	0	0	0	0	0	0	0	-29,425	0	**-29,425**
Total contributions and distributions	**0**	**0**	**31,445**	**0**	**0**	**0**	**0**	**-29,425**	**0**	**2,020**
Other equity transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Transfers among components of equity	0	0	0	0	0	0	0	-2,060	2,060	**0**
Other increase or (-) decrease in equity	0	0	0	0	0	0	0	-68	0	**-68**
Total other equity transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2,128**	**2,060**	**-68**
Closing balance [current period]	**50,000**	**113,445**	**31,445**	**589**	**-211**	**6,434**	**-33**	**28,364**	**9,883**	**239,916**

*OCI: Other Comprehensive Income

Date: 23.04.2020.

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	(35)	(36)	(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**

*OCI: Other Comprehensive Income

Date: 23.04.2019.

E. Consolidated statement of cash flows

(HUF million)	Notes	2019	2018
Profit or loss for the period		**20,831**	**24,056**
Cash flows from operating activites			
Adjustments for:			
Depreciation and amortisation	(24)	7,650	6,362
Net impairment loss on non-financial assets	(13)	46	101
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(11)	-11,290	-7,627
Net interest income	(11)	-41,406	-42,045
hereof: amortization, accruals and unwinding		17,337	12,595
Net gains or (-) losses from derecognition of non-financial assets	(12)	-9	-18
Other		-1,652	163
Income tax expense	(18)	4,128	3,542
		-42,533	**-39,522**
Changes in operating assets and liabilities:			
Change in financial assets held for trading	(20)	-10,241	17,666
Change in non-trading financial assets mandatorily at fair value through profit or loss	(20)	-26,311	-7,691
Change in financial assets designated at fair value through profit or loss	(20)	0	4,234
Change in financial assets at fair value through other comprehensive income	(22)	-54,577	-95,951
Change in financial assets at amortised cost	(22)	-143,569	-94,208
Change in derivatives (assets) – Hedge accounting	(10)	-2,219	-523
Change in other assets	(26, 34)	845	-690
Change in financial liabilities held for trading	(27)	-1,944	-4,431
Change in financial liabilities measured at amortised cost	(29)	143,920	244,433
Change in derivatives (liabillities) – Hedge accounting	(10)	7,114	568
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	3,155	-607
Change in other liabilities, provisions and liabilities held for sale	(32, 33, 34)	2,464	-3,608
		-81,363	**59,192**
Interest received	(7, 11)	85,052	66,346
Interest paid	(7, 11)	-26,309	-24,300
Dividend received		12	44
Income tax paid	(18)	-3,379	-4,141
Net cash from operating activities		**-47,689**	**81,675**
Cash flows from investing activities			
Purchases of securities	(20, 22)	0	-28,811
Disposals of securities	(20, 22)	25,538	53,899
Purchases of investment in subsidaries, joint ventures and associates	(44)	0	-31
Sale of investment in subsidaries, joint ventures and associates	(44)	7,841	0
Purchases of other equity investments	(44)	-54	0
Disposals of other equity investments	(44)	0	213
Purchases of property and equipment	(24)	-4,296	-7,340
Disposals of property and equipment	(24)	30	5,072
Purchases of intangible assets	(24)	-5,732	-5,601
Disposals of intangible assets	(24)	0	14
Net cash from investing activities		**23,327**	**17,415**
Cash flows from financing activities			
Issuance and repurchase of issued debt securities	(30)	-441	-1,025
Repayment of issued debt securities at maturity	(30)	-7,463	-4,552
Issuance of Additional Tier 1 Capital (AT1)	(37)	31,445	
Payment of lease liabilities	(25)	-1,516	
Dividend paid	(35)	-29,425	-17,640
Net cash used in financing activites		**-7,400**	**-23,217**
Net increase/decrease of cash, cash balances at central banks and other demand deposits		**-31,762**	**75,873**

(HUF million)	Notes	2019	2018
Cash, cash balances at central banks and other demand deposits at 1 January		**156,730**	**80,064**
Net effect of exhange rate changes		1,187	793
Cash, cash balances at central banks and other demand deposits at 31 December	**(19)**	**126,155**	**156,730**

Date: 23.04.2020.

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 2019 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*.

From October 2019 the Bank is controlled by Raiffeisen CEE Region Holding GmbH after fromer owner Raiffeisen-RBHU Holding GmbH has merged into Raiffeisen CEE Region Holding GmbH. The formal legal procedure to incorporate the new owner in Hungary is in progress. The ultimate parent of the Group remained 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 utca 38.).

(2) Basis of preparation

(2.1) Statement of compliance

The Group elected – in accordance with related legislation – to apply international accounting standards also for the purposes of preparing separate financial statements of the Bank in accordance with section 177 (55) of Hungarian Accounting Law (hereinafter 'HAL'). 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 on 23 April 2020.

(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*, the determination of fair value described in *Note 42 Determination of fair value* and the significant estimation uncertainties due to Covid-19 described in *Note 48 Events after the reporting date*.

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 and its subsidiaries' functional currency. Except as indicated, financial information is presented in Hungarian Forints rounded to the nearest million.

(3) Changes in accounting policies

(3.1) *IFRS 16 Leases*

The Group applies 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

The Group leases out vehicles, real estate and equipment that are classified as financial leases. The transition to IFRS 16 did not have an impact on the classification of those leases where the Group acts as a lessor.

Transition

The Group applies IFRS 16 from 1 January 2019 and chose 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 apllies the practical expedients on those leases where the underlying asset is a low-value asset.
- The Group does not include initial direct costs in the carrying amounts of right-of-use assets at the date of transition.

The effect of transition on the financial statements

The Group presented in its financial statements as of 31 December 2018 the following balances for rental fees payable arising from non-cancellable operating leases in accordance with IAS 17:

(HUF million)	**31.12.2018.**
Less than 1 year	3,187
Between 1 and 5 years	6,266
More than 5 years	3,832
Total	**13,285**

The HUF 13,285 million of expected rental payments disclosed in the 31.12.2018 financial statements differs from the lease liabilities recognised on transition. The difference is caused amongst others by the fact that rental payment disclosed in accordance with IAS 17 contain VAT and lease liabilities recognised under IFRS 16 does not contain short-term leases and leases of low-value assets. The table below details the difference in quantitative terms.

On the 1st of January 2019, the Group recognised right-of-use assets and leasing liabilities amounting to HUF 9,549 million. The first time adoption of IFRS 16 Leases did not have significant affect the retained earnings. The wheighted average incremental borrowing rate used by the Group in discounting lease liabilities was 3,03 %.

(HUF million)	
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	**13,285**
Discounted using the incremental borrowing rate at 1 January 2019	**6,880**
Finance lease liabilities recognised as at 31 December 2018	693
Recognition exemption	
short term leases	-1,374
leases of low-value assets	-61
Extension and termination options reasonably certain to be exercised	4,104
Variable lease payments based on an index or rate	0
Residual value guarantees	0
Lease liabilities recognised at January 2019	**10,242**

(3.2) *Other amendments to standards and interpretations*

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.

(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 in the consolidated financial statements, 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 statements of these investment funds are not included in these consolidated financial statements, except when the Group controls the investment funds. Information about the Group's funds management activities is set out in *Note 44*.

iv. Control

There is only one basis for consolidation, namely control. Control exists if an investor has all three of the following elements: (a) 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 long-term 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 executed 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 equity investments measured at fair value through other comprehensive income, 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): the contractual terms of the leasehold are taken into account,
- equipment: 3-7 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. The 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

On transition to IFRS 16 the Group applied the modified retrospective approach, accordingly comparative information was not restated and it is continued to be presented in accordance with IAS 17 and IFRIC 4. The IAS 17 and IFRIC 4 accounting policies are disclosed separately.

Accounting policy applicable from 1 Janury 2019

At inception of a contract, the Group in accordance with IFRS 16 assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into (or modified) on or after 1 January 2019.

The Group applies the practical expedients allowed by IFRS 16 to short-term leases and to leases where the underlying asset is a low-value asset. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group acting as a lessee

For contracts that contain in addition to one lease component one or more lease or non-lease components the Group as a lesse allocates consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components.

The Group as a lesse recognises a right-of-use asset and a lease liability at the commencement date of the lease term.

The right-of-use asset is initially recognised at cost, which comprises the initially recognised amount of the lease liability, any lease payments made at or before the commencement date of the lease term minus any lease incentives received, the Group's initial direct costs incurred and an estimate of costs to dismantle the underlying asset and to restore the underlying asset to the condition required by the terms and conditions of the lease.

The Group as a lesse subsequently measures the right-of-use asset applying the cost model less any accumulated depreciation and any accumulated impairment losses and adjusted for any reassessment of the lease liability.

The Group as a lesse measures the lease liability at the commencement date of the lease term at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the incremental borrowing rate of the lessee, which is a base rate derived from interest rate swap curves in the currency of the respective lease contracts increased with a margin derived from unsecured and liquid (traded) bonds of European Groups published by Bloomberg.

At the commencement date of the lease term the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under a residual value guarantee;
- the exercise price under a purchase option if the lessee is reasonably certain to exercise that option; and
- penalties for early termination of a lease if the lease term reflects the exercise of an early termination option by the lessee.

The lease liability is subsequently measured at amortised cost using the effective interest method.

The lease liabilities are remeasured when there is a change in future lease payments. It can arise from a change in an index or rate used for determining the lease payments, from a change in the estimate of the amount expected to be payable under a residual value guarantee, from the Group's changing its assessment of whether it will exercise a purchase, extension or termination option or from the revision of fixed lease payment.

The Group records the amount of remeasurement of the lease liability as an adjustment to the carrying amount of the right-of-use asset. In case the carrying amount of the right-of-use asset has been reduced to zero and further reduction shall be made due to the remeasurement of the lease liability, the remaining reduction is recorded in profit or loss.

The Group presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Financial liabilities measured at amortised cost' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to apply the requirements of the standrard to short-term leases and to leases where the underlying asset is a low-value asset. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group acting as a lessor

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. A lease is a finance lease, when the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. A lease is an operating lease when the lease does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset. The assessment of the leases is made at the date of the inception, remeasurement is only made in case of modification of the lease.

To the net investment in a lease the derecognition and impairment requirements of IFRS 9 standard are applied.

Accounting policy applicable before 1 Janury 2019

In 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 the purchase price against its claim 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.

An associate is an entity over which the Group has significant influence without having control. The Group had such interests neither in 2019 nor in 2018.

Non-trading equity instruments over which the Group has neither joint 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*

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 – then 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*

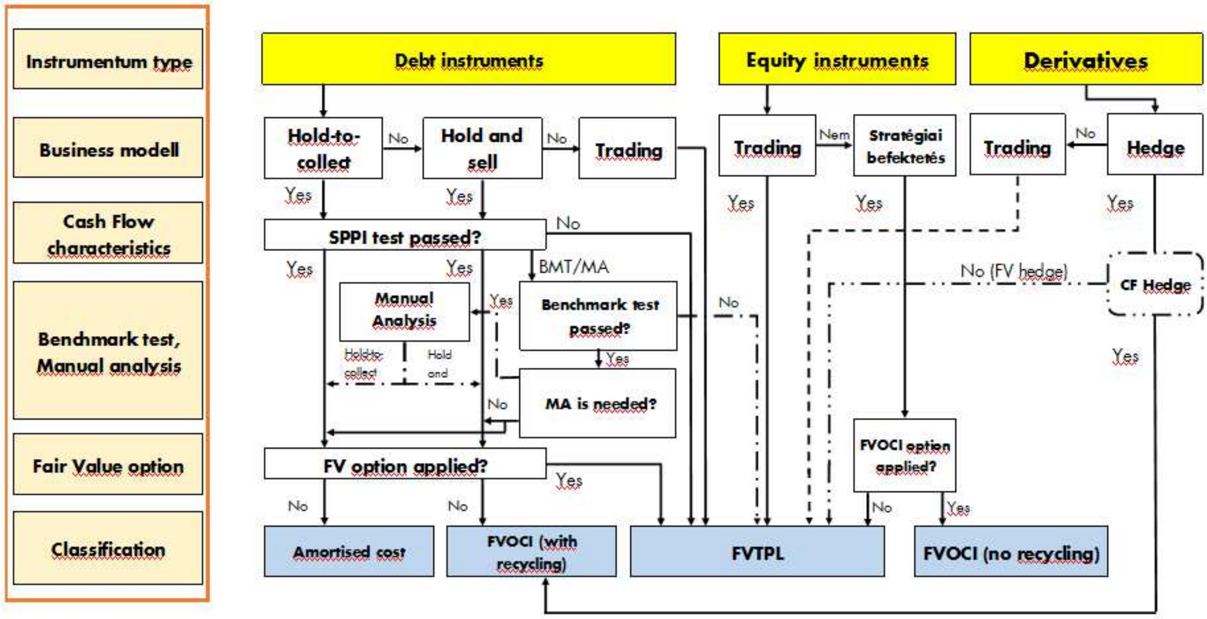
i. Classification and measurement of financial

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

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

- determination of the business model,
- analysis of the 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's carrying amount 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 these 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 hedging instruments.

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. wether 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 features 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 – denoted by 'BMT' in the above figure) and qualitative (Manual Analysis – denoted by 'MA' in the above figure) 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. The analysis of contractual cash flow characteristics of contracts not clasterised is performed individually.

In 2019, the Group identified the following three 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 the Hungarian government instead of the borrower over a certain period. The other shared characteristic is that the contractual interest reprices with a pre-determined frequency (the 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 the Government Debt Management Agency ('GDMA'). In the formula determining contractual interest, the GDMA average yields are multiplied by 1.3 and a risk premium is added 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 the 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.

Childbirth incentive loan

The childbirth incentive loan is part of the Hungarian Government's Family Protection Action Plan. The program started in July 2019 and will end in December 2022.

The program offers a state subsidized personal loan up to 10 million HUF to married couples with the condition that they bear at least one child within 5 years. Further state support is granted to an early redemption of the loan after the second child (30% capital repayment) and the third newly born child (full capital repayment). The loan is interest free for the customers who pay only the capital and the guarantee fee. The interest subsidy is equal to 130% of the weighted average of 5 year government bond yields observed on auctions regularly published by GDMA in the preceding 3 months plus 2%. In case of breaching the conditions, the customer shall pay back the interest subsidy within 120 days and the loan becomes interest bearing with an interest rate equal to 130% of the weighted average of 5 year government bond yields observed on auctions regularly published by GDMA in the preceding 3 months plus 5%. The Group regards the multiplier applied to GDMA average yields as a leverage factor inconsistent with a basic lending agreement and thus the contractual cash flows of childbirth incentive loans are deemed not to solely represent payments of principal and interest on principal outstanding

Classification

At amortised cost

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.

At fair value through other comprehensive income

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.

At fair value through profit and loss

All other financial assets – ie. not at amortised cost or at fair value through other comprehensive income – 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 liabilities

The Group measures financial liablities, except for financial guarantees and loan commitments, at amortised cost or at fair value through profit or loss.

At fair value through profit and loss

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.

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

At amortised cost

Financial liabilities at amortised cost are subsequently measured at amortised cost using effective interest method.

iii. Reclassifications

The Group reclassifies a financial asset, when and only when it 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.

(4.11.3) *Derivatives*

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 applies IAS 39 to the accounting for designated hedging relationships.

The Group holds structured issued bonds that contain both a liability component and an embedded derivative whose values are interdependent. 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 embedded in financial assets that are in the scope of IFRS 9 are never separated. In this case the entire hybrid instrument is assessed for classification as part of the SPPI test.

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*

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. Hedge accounting is applied on micro and on macro (portfolio) level as well. Under the latter case, a portfolio of (modelled) current account balances and a portfolio of fixed rate loans are designated as hedged items.

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*

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.

The measure for significant portfolio deterioration was determined on the basis of the PD estimated for the remaining maturity of a financial asset at the date of disbursement divided by the current PD for the remaining maturity, disaggregated into products of the retail portfolio.

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,
- in accordance with IFRSs and the parent bank's policies, those transactions that are in line with other holistic criteria, where the Group identifies significantly increased credit risk since disbursement that cannot be captured with the help of other Stage 2 indicators.

  The Group applies the holistic criterion defined in a policy for those non-retail real estate financing transactions where the risk of non-repayment could significantely increase if both of the following conditions are met:
  - the current yields are lower than the long term average,
  - the financing involves significant baloon (>50%).

  The Group reviews on a yearly basis and at the individual level whether the above conditions are met and in case the long term yields fall below the yield of a transaction then that transaction is reclassified to Stage 1.

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 transaction or client rating is unrated.

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.

Due to the new deifinition of default introduced in november 2019 the materiality thresholds were revised: a material payment delay arises if the overdue amount reaches HUF 150,000 (previous: HUF 75,000) and the ratio of the overdue amount to the total on-balance outstanding amount due from the same client reaches 1% (previous: 2.5% of total 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 the Group considers a debt instrument arising from a financing agreement as defaulted in accordance with the new definition of default introduced in November 2019, in line with the definition of credit-impaired, when one or more of the following critera are met:

Quantitative criteria

If the financial asset is in a material payment delay for more than 90 days compared to the contractual payment obligation arising from the financing agreement.

A payment delay is considered material, if the delay related to the financing agreement reaches the the HUF equivalent of EUR 100 and 1% compared to the total (delayed and non-delayed) exposure from the transactions (in case of microcompanies total exposure from the same client).

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;
- the Group sold the receivable due to its high credit risk,
- terminating the financing agreement with immediate effect;
- restructuring the obligation due to financial difficulties;
- envisaging expected credit losses due to oher reasons,
- there is a cross-default, i.e. another transaction of a client or an other client's default causes default of a certain transaction.

An asset is no longer considered defaulted when the criteria of default have not met for 3 months, or in case of restructured loans for 1 year, and the client fulfils all other conditions to be classified out of the 'defaulted' category.

The Group considers every credit-impaired (see the definition above) transaction defaulted and classifies it to Stage 3 for the purposes of impairment and provisioning. The criteria above are applied to all retail debt instruments of the Group.

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 which is an appropriate approximation of effective interest rate;
- financial guarantees: market interest rate which is an appropriate approximation of effective interest rate; lease receivables: interest rate implicit in the lease

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.

(4.11.6) *Write-off of financial assets*

i. Write-off of financial assets

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, 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 these cases, partial write-off is applied to the extent of the existing loss allowance. 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

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*

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. If the Group retains substantially all the risks and rewards, 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 *Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss' '* 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

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 significantly differ from the contractual cash flows of the original financial asset, 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:
  - o change of currency, when the contract does not allow draw-downs in multiple currencies;
  - o the financial instrument changes;
  - o addition or elimination of a parameter that violates the SPPI test,
- quantitative criteria:
  - o 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);
  - o 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 do not differ significantly from the cash flows prior to 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 to the modification is recognised as a modification gain or loss in the statement of profit or loss. If the modification was carried out in relation to the financial difficulties of the client, the modification gain or loss is presented in the statement of comprehensive income in the line item *'Impairment losses on financial assets'*. In other cases, the modification gain or loss is presented in the statement of comprehensive income in the line item '*Other result*'.

Any fees taken into accounting in determining the fair value of the new financial asset and any reimbursed transaction costs incurred during the modification adjust the amortised cost of the modified financial asset. Other transaction costs are recognised as part of the gain or loss on the derecognition.

Financial liabilities

The Group derecognises the financial liability, if its terms are modified and the 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 do 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 the 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.

(4.11.9) *Offsetting of financial assets and financial liabilities*

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*

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 provision.

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

(4.15) *Interest income and interest expense*

Interest income on financial instruments, calculated using the effective interest method are presented in the line item '*Interest income calculated with the effective interest method*', negative interest on demand deposits at the National Bank of Hungary and on financial liabilities is presented in the line item *'Other interest income'* and interest on financial liabilities as well as negative interest on financial assets is presented in the line item '*Interest expenses*' in the statement of profit or loss. 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 presented in '*Other interest income*' and '*Interest expenses*'. Interest income for loans measured at fair value through profit or loss is presented in '*Other interest income*' and interest expense for deposits measured at fiar value through profit or loss is presented 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. The calculation contains all paid or received amounts which are 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

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 and Stage 2), the base for effective interest calculation reverts to the gross carrying amount. For POCI financial assets, the interest income is calculated by applying 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 economic substance and establishes legally enforceable rights and obligations.

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 either on its own or together with other readily available resources

(which means that the service is capable of being distinct); and
- the service 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 Group's objective of allocating the transaction price is to allocate the transaction price to each performance obligation in an amount 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 Group 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.

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 and expense*

Other operating income and expense comprises realised gains and losses on disposal of inventory, intangible assets, and property and equipment and sundry items that cannot be classified elsewhere.

(4.19) *Dividend income*

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

(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.

(4.23) *Additional Tier 1 Capital*

The Bank presents, in accordance with IAS 32.16, bonds issued that do not include contractual obligation to deliver a fix or determinable number of currency units, as equity instruments in its financial statements.

In the case such bonds are denominated in foreign currency, as non-monetary items, they are translated into the functional currency, in accordance with IAS 21.23 b), at the exchange rate prevailing at the date of the transaction (historical exchange rate).

(4.24) *Government grants*

Governmant grants are specific resources that relate to operating activities of the Group and are transfered by the state (government and its agancies) in return for compliance with certian conditions. These can be in several forms, such as grants related to assets, grants related to income, forgiveable loans, and low-interest loans.

The government grants are recognised by the Group only when there is reasonable assurance that the Bank will comply with the conditions attaching to them, and that the grants will be received.

The government grants are initially recognised at fair value according to IAS 20 standard. According to the income approach the Group records these grants in profit or loss over the period when the costs/expenses which are intended to be compensated by the grant are recognised.

The government grants related to assets are presented, applying the method of gross presentation, as deferred income and is proportionately recognised to profit or loss over the life of the asset thereby reducing depreciation charge for the period.

(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 2019 and the Group did not opt for earlier application.

Amendments to the Conceptual Framework for Financial Reporting (effective date: 1 January 2020)

The revised Conceptual Framework includes amended definitions of assets and liabilities as well as new guidance on measurement, derecognition, presentation and disclosure. The Conceptual Framework was not amended to the extent originally planned at the time when the project started in 2014. Instead, International Accounting Standards Board (IASB) focused on topics not yet covered or showing obvious shortcomings to deal with. The European Union endorsed the revisions to the Conceptual Framework.

Amendments to IFRS9, IAS 39 and IFRS 7 (Reference rate reform; effective date: 1 January 2020)

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBORs (interbank offer rates) with alternative nearly risk-free rates. The Group's financial instruments are not significantly exposed to interbank reference rates (IBOR) that would be replaced or reformed as a result of this market-wide initiative.

The amendments predominantly relate to certain reliefs from the hedge accounting rules and are mandatory for each hedging relationship affected by the reference rate reform. In addition, specific disclosures are required as to what extent hedging relationships of an entity are affected by the amendments.

The amendments are to be applied for reporting periods beginning on or after 1 January 2020. Early application is permitted. The amendments have not been adopted by the EU to date. It is the Group's expectation that the IBOR reform will not have any significant operational, risk management and accounting effect on its business.

Amendments to IAS 1 and IAS 8 (Definition of Material; effective date 1 January 2020)

The International Accounting Standards Board (IASB) issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' in order to align the definition of material applied in the Conceptual Framework and the standards themselves. The amendment is not expected to affect the Group's financial statements.

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

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, the 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.

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.

31.12.2019 (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	98,634	0	0	0	0	0	0	**98,634**
Placements with banks	27,521	0	0	0	0	381,186	0	**408,707**
Loans and advances to clients	0	0	33,996	0	0	1,228,996	0	**1,262,992**
Investment in debt securities	0	24,858	0	20,237	523,355	178,678	0	**747,128**
Equity instruments**	0	2,834	0	0	1,567	0	0	**4,401**
Loan commitments and financial guarantees	0	0	0	0	0	0	6,218	**6,218**
Derivative assets	0	30,668	0	0	0	0	0	**30,668**
Total	**126,155**	**58,360**	**33,996**	**20,237**	**524,922**	**1,788,860**	**6,218**	**2,558,748**

*This balance sheet line item contains receivables due from HNB amounting to HUF 3,452 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 *(33) Provisions*.

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

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**
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 *(33) 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.

	31.12.2019									
	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
Placements with banks										
Minimal risk	1,141	0	0	0	0	0	0	0	0	**1,141**
Excellent credit standing	136,730	0	0	0	0	0	0	0	0	**136,730**
Very good credit standing	74,924	0	0	0	0	0	0	0	0	**74,924**
Good credit standing	2	0	0	0	0	0	0	0	0	**2**
Average credit standing	660	0	0	0	0	0	0	0	0	**660**
Acceptable credit standing	195,198	0	0	0	0	0	0	0	0	**195,198**
Weak credit standing	59	0	0	0	0	0	0	0	0	**59**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	16	0	0	0	0	0	0	0	0	**16**
Gross carrying amount	**408,730**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**408,730**
Loss allowance	-23	0	0	0	0	0	0	0	0	**-23**
Carrying amount	**408,707**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**408,707**
Loans and advances to clients										
Minimal risk	48,188	4,572	0	0	0	0	0	0	2,212	**54,972**
Excellent credit standing	47,718	4,854	0	0	0	0	0	0	1,179	**53,751**
Very good credit standing	289,398	49,838	0	66	0	0	0	0	2,040	**341,342**
Good credit standing	181,271	21,986	1	427	0	0	0	0	1,107	**204,792**
Average credit standing	219,317	27,860	2	991	0	0	0	0	890	**249,060**
Acceptable credit	213,415	18,854	15	497	0	0	0	0	367	**233,148**

(HUF million)	31.12.2019 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
standing										
Weak credit standing	39,945	7,897	51	75	0	0	0	0	92	**48,060**
Very weak credit standing	5,637	5,588	0	29	0	0	0	0	47	**11,301**
Doubtful / high default risk	2,857	3,873	1	0	0	0	0	0	0	**6,731**
Default	32	0	56,087	6,223	0	0	0	0	78	**62,420**
Unrated	7,813	573	18	0	0	0	0	0	25,984	**34,388**
Gross carrying amount	**1,055,591**	**145,895**	**56,175**	**8,308**	**0**	**0**	**0**	**0**	**33,996**	**1,299,965**
Loss allowance	-2,156	-5,904	-25,873	-3,041	0	0	0	0	0	**-36,974**
Carrying amount	**1,053,435**	**139,991**	**30,302**	**5,267**	**0**	**0**	**0**	**0**	**33,996**	**1,262,991**
Investment in debt securities										
Minimal risk	60,014	0	0	0	47,075	0	0	0	0	**107,089**
Excellent credit standing	0	0	0	0	113,903	0	0	0	0	**113,903**
Very good credit standing	0	0	0	0	118,072	0	0	0	73	**118,145**
Good credit standing	0	0	0	0	14,229	0	0	0	0	**14,229**
Average credit standing	0	0	0	0	3,249	0	0	0	0	**3,249**
Acceptable credit standing	118,676	0	0	0	226,876	0	0	0	45,022	**390,574**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**
Gross carrying amount	**178,690**	**0**	**0**	**0**	**523,404**	**0**	**0**	**0**	**45,095**	**747,189**

	31.12.2019									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income					
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Financial assets at fair value through profit and loss**	**Total**
Loss allowance	-12	0	0	0	-49	0	0	0	0	**-61**
Carrying amount	**178,678**	**0**	**0**	**0**	**523,355**	**0**	**0**	**0**	**45,095**	**747,128**
Loan commitments and financial guarantees										
Minimal risk	9,810	5,461	1	0						**15,272**
Excellent credit standing	85,140	530	7	0						**85,677**
Very good credit standing	178,521	6,116	44	0						**184,681**
Good credit standing	53,724	2,231	10	0						**55,965**
Average credit standing	153,789	4,189	8	0						**157,986**
Acceptable credit standing	92,773	3,167	7	0						**95,947**
Weak credit standing	13,782	1,737	1	0						**15,520**
Very weak credit standing	719	1,428	1	0						**2,148**
Doubtful / high default risk	160	64	0	0						**224**
Default	0	0	25,424	0						**25,424**
Unrated	2,740	970	0	0						**3,710**
Gross amount	**591,158**	**25,893**	**25,503**	**0**	**0**	**0**	**0**	**0**	**0**	**642,554**
Carrying amount (provision)	-294	-147	-5,777	0	0	0	0	0	0	**-6,218**
Derivative assets										
Minimal risk									0	**0**
Excellent credit standing									18,219	**18,219**
Very good credit standing									1,510	**1,510**
Good credit standing									1,699	**1,699**
Average credit standing									5,158	**5,158**

(HUF million)	31.12.2019									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income					
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Acceptable credit standing									3,879	**3,879**
Weak credit standing									107	**107**
Very weak credit standing									1	**1**
Doubtful / high default risk									0	**0**
Default									81	**81**
Unrated									14	**14**
Carrying amount									**30,668**	**30,668**

(HUF million)	31.12.2018									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income					
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Placements with banks										
Minimal risk	1,925	0	0	0	0	0	0	0	0	**1,925**
Excellent credit standing	154,279	61,735	0	0	0	0	0	0	0	**216,014**
Very good credit standing	35,014	30,134	0	0	0	0	0	0	0	**65,148**
Good credit standing	160	0	0	0	0	0	0	0	0	**160**
Average credit standing	304	0	0	0	0	0	0	0	0	**304**
Acceptable credit standing	189,653	0	0	0	0	0	0	0	0	**189,653**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**

	31.12.2018									
	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**
Gross carrying amount	**381,335**	**91,869**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**473,204**
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**
Loans and advances to clients										
Minimal risk	35,374	2,555	0	0	0	0	0	0	864	**38,793**
Excellent credit standing	68,689	4,143	0	6	0	0	0	0	1,410	**74,248**
Very good credit standing	208,019	33,029	0	15	0	0	0	0	1,459	**242,522**
Good credit standing	123,556	11,630	0	49	0	0	0	0	932	**136,167**
Average credit standing	219,450	39,040	0	68	0	0	0	0	1,470	**260,028**
Acceptable credit standing	165,925	37,111	0	27	0	0	0	0	1,201	**204,264**
Weak credit standing	39,217	32,554	0	15	0	0	0	0	129	**71,915**
Very weak credit standing	10,085	7,663	0	12	0	0	0	0	157	**17,917**
Doubtful / high default risk	720	4,700	0	23	0	0	0	0	12	**5,455**
Default	9	388	54,876	8,450	0	0	0	0	57	**63,780**
Unrated	5,682	1,027	216	0	0	0	0	0	0	**6,925**
Gross carrying amount	**876,726**	**173,840**	**55,092**	**8,665**	**0**	**0**	**0**	**0**	**7,691**	**1,122,014**
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**
Investment in debt securities										
Minimal risk	60,011	0	0	0	46,354	0	0	0	0	**106,365**
Excellent credit standing	0	0	0	0	128,611	0	0	0	0	**128,611**
Very good credit standing	0	0	0	0	65,916	3,230	0	0	449	**69,595**
Good credit standing	0	0	0	0	0	0	0	0	0	**0**
Average credit standing	0	0	0	0	0	0	0	0	0	**0**
Acceptable credit standing	141,867	0	0	0	223,068	0	0	0	38,623	**403,558**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**

	31.12.2018									
	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**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	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**
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**
Loan commitments and financial guarantees										
Minimal risk	19,460	979	0	0						**20,439**
Excellent credit standing	73,686	1,812	0	0						**75,498**
Very good credit standing	176,521	4,426	0	0						**180,947**
Good credit standing	51,661	8,691	0	0						**60,352**
Average credit standing	89,491	9,639	0	0						**99,130**
Acceptable credit standing	72,740	22,509	0	0						**95,249**
Weak credit standing	11,335	13,250	0	0						**24,585**
Very weak credit standing	833	293	0	0						**1,126**
Doubtful / high default risk	122	324	0	0						**446**
Default	0	0	1,686	0						**1,686**
Unrated	1,234	859	761	0						**2,854**
Gross amount	**497,083**	**62,782**	**2,447**	**0**	**0**	**0**	**0**	**0**	**0**	**562,312**
Carrying amount (provision)	-235	-268	-1,982	0	0	0	0	0	0	**-2,485**
Derivative assets										
Minimal risk									0	**0**
Excellent credit standing									17,151	**17,151**
Very good credit standing									1,265	**1,265**
Good credit standing									165	**165**
Average credit standing									6,293	**6,293**

	31.12.2018									
	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
Acceptable credit standing									6,622	**6,622**
Weak credit standing									109	**109**
Very weak credit standing									0	**0**
Doubtful / high default risk									0	**0**
Default									1	**1**
Unrated									25	**25**
Carrying amount									**31,631**	**31,631**

The following table shows the credit quality of the Group's exposures according to sectors:

	31.12.2019								
	Financial assets at amortized cost				Financial assets at fair value through other compehensive income				
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to bank and clients									
Non-retail									
Central bank	178,590	0	0	0	0	0	0	0	**178,590**
Sovereign	7,997	0	0	0	-5	0	0	0	**7,992**
Credit institution	224,390	0	0	0	-23	0	0	0	**224,367**
Finanacial corporate	33,274	80	171	0	-34	0	-167	0	**33,324**
Large corporate	765,719	68,219	35,467	0	-701	-719	-10,407	0	**857,578**
Small -and medium enterprises	36,469	4,510	638	0	-25	-53	-407	0	**41,132**
Retail	0	0	0	0	0	0	0	0	**0**
Private Individuals	187,755	70,534	17,436	8,308	-1,115	-4,926	-13,232	-3,041	**261,719**
hereof: mortgage	122,981	65,161	13,742	8,286	-337	-4,215	-9,983	-3,025	**192,610**
Micro	30,127	2,554	2,464	0	-276	-207	-1,660	0	**33,002**
Carrying amount	**1,464,321**	**145,897**	**56,176**	**8,308**	**-2,179**	**-5,905**	**-25,873**	**-3,041**	**1,637,704**

	31.12.2018								
	Financial assets at amortized cost				Financial assets at fair value through other compehensive income				
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to bank and clients									
Non-retail									
Central bank	189,367	0	0	0	0	0	0	0	**189,367**
Sovereign	8,590	0	0	0	-11	0	0	0	**8,579**
Credit institution	187,661	91,869	0	0	-6	-3	0	0	**279,521**
Finanacial corporate	12,945	7,410	8,955	0	-5	-3	-4,380	0	**24,922**
Large corporate	637,057	112,581	22,256	0	-795	-1,037	-15,850	0	**754,212**
Small -and medium enterprises	28,252	5,435	574	0	-33	-47	-427	0	**33,754**
Retail	0	0	0	0	0	0	0	0	**0**
Private Individuals	169,638	42,939	21,664	8,665	-751	-5,611	-17,367	-4,032	**215,145**
hereof: mortgage	127,717	35,073	15,072	8,649	-401	-4,596	-10,997	-4,019	**166,498**
Micro	24,551	5,475	1,643	0	-135	-509	-1,434	0	**29,591**
Carrying amount	**1,258,061**	**265,709**	**55,092**	**8,665**	**-1,736**	**-7,210**	**-39,458**	**-4,032**	**1,535,091**

Information about the Group's loan portfolio

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

As part of its monetary policy instruments, on 1st 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.

At 2019 year-end the balance of FGS refinancing was HUF 74,988 million (2018: the Group had refinancing balance of HUF 73,767 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 2019, exposures towards credit institutions decreased significantly due to a few repayments of individually significant amounts (2019: HUF 409 billion; 2018: HUF 473 billion). There was a change in the credit risk categorisation due to the change in Raiffeisen Group's credit rating.

In 2019, besides the significant increase of the portfolio in the corporate segment (2019: HUF 921.5 billion; 2018: HUF 816.9 billion), the balance of non-performing corporate loans increased compared to last year (2019: HUF 36.2 billion; 2018: HUF 31.8 billion). The primary cause for this was that one large client's exposure held by one of the Group's subsidiaries became non-performing.

In spite of the increase, a comprehensive strategy regarding non-performing portfolio is implemented: 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.

Along with the decrease of the default portfolio, the Stage 2 corporate portfolio decreased as well due to changes in the exposures to a few large clients and change in the macroparameters used in staging.

In 2019 there was a significant portolio increase in the retail and micro-enterprises segment (2019: HUF 369.8 billion; 2018: HUF 296 billion). In the retail segment, due to the market activity, both the mortgage loan portfolio and the uncollateralised loan portfolio increased, from the uncollateralised portfolio receiveables from loans disbursed under the childbirth incentive loan program, which are mandatorily measured at fair value through profit or loss, reached HUF 25 billion by the end of the year. In the retail segment the Stage 2 portfolio increased significantly in 2019 due to qualitative criteria, primarily due exposures classified to Stage 2 based on expert judgement. Along with this the non-performing portfolio decreased in 2019 (2019: HUF 26.2 billion, 2018: HUF 31.9 billion).

In retail segment the unrated (uncategorized) exposure(2019: HUF 29 billion; 2018: HUF 2.4 billion) is mainly related to childbirth incentive loans.

Receivables due from municipalities and fiscal institutions continued to increase in 2019 (2019: HUF 8.6 billion; 2018: HUF 7.8 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, in case of non-retail segments the calculation of lifetime probality of default uses 12 months expected probality of default in accordance with Article 178 CRR, cleared from the conservative margin as a starting point. (In line with the definition of default in Article 178 CRR every financial asset that is credit-impaired under IFRS 9 is condisered to be in default, and every defaulted financial asset is considered credit-impaired).

In retail segments probality of deafult is calculated over the lifetime of the instrument, with modeling the probality of monthly marginal default and repayments. In case of negative account balances the Group records impairment for the total receivable, therefore both the PD and LGD is 100%.

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	0.01%	0.30%
Excellent credit standing	0.06%	0.32%
Very good credit standing	0.15%	0.39%
Good credit standing	0.33%	0.86%
Average credit standing	0.74%	1.57%
Acceptable credit standing	0.78%	3.33%
Weak credit standing	4.80%	6.64%
Very weak credit standing	10.94%	12.92%
Doubtful / high default risk	22.55%	36.76%
Unrated		5.21%

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.

In order to determine the LGD parameters the RBI modelling collects data from the members of the Group, which is sent individually to the center database by the entities. Thereafter, the central modelling calculates the LGD based on the data received and country-specific information so, that it matches the lending information of the various entitites.

Macroeconomic forecasts were also incorporated into LGDs based on own estimations. 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. The model is validated by the IRB. Generally, for the purpose of calculating impairment the Bank uses loss given default determined in accordance with CRR, cleared from conservative factors. In cases of negative account balances the LGD is 100%.

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. This process is the same as the process described at the modelling of LGD parameters, i.e. various entities send data to the central database, afterwards the central modelling calculates the EAD using those and other country-specific information so that it matches the lending information of the various entitites.

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	2020	2021	2022
	Optimistic	3.30%	3.80%	4.10%
	Base	2.80%	3.20%	3.60%
	Pessimistic	0.20%	0.10%	1.00%
Unemployment rate	**Scenario**	**2020**	**2021**	**2022**
	Optimistic	2.80%	2.70%	2.70%
	Base	3.60%	3.70%	3.50%
	Pessimistic	5.70%	6.20%	5.60%
Long-term (10 years) government bond yields	**Scenario**	**2020**	**2021**	**2022**
	Optimistic	1.90%	1.80%	2.80%
	Base	2.60%	2.70%	3.00%
	Pessimistic	5.10%	5.60%	5.50%
Inflation rate	**Scenario**	**2020**	**2021**	**2022**
	Optimistic	4.60%	5.30%	5.20%
	Base	2.50%	2.80%	3.10%
	Pessimistic	1.00%	1.00%	1.60%

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.

Sensitivity analysis

The table below presents the expected credit loss (impairment and provisions) for Stage 1 and Stage 2 exposures, amounts weighted across scenarios (25/50/25%) and the total amounts for each scenario:

31.12.2019 (HUF million)	Weighted (25/50/25%)	100% Optimistic	100% Base	100% Pessimistic
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	8,587	6,853	8,705	10,084

31.12.2018 (HUF million)	Weighted (25/50/25%)	100% Optimistic	100% Base	100% Pessimistic
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	9,512	7,481	9,340	11,886

The table below presents an analysis of the performing exposures - if all exposures were classified to Stage 1 (12-months default rate calculated), by how much the expected credit loss (impairment and provisions) calculated for performing exposures would change:

31.12.2019 (HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 1	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	8,587	3,834	-4,751

31.12.2018 (HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 1	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	9,512	4,127	-5,383

The table below presents an analysis of the performing exposures - if all exposures were classified to Stage 2 (lifetime default rate calculated), by how much the expected credit loss (impairment and provisions) calculated for performing exposures would change:

31.12.2019 (HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 2	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	8,587	19,893	11,309

31.12.2018 (HUF million)	Weighted (25/50/25%)	100% of performing exposures in Stage 2	Staging effect
Impairment on debt instruments and provisions for loan commitments and financial guarantee contracts, in total	9,512	24,467	14,957

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 01.01.2019	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 adjustments	Closing balance 01.01.2019	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss
Debt instruments										
Placements with banks	6	88	-4	-69	0	0	0	2	23	0
Loans and advances to clients	1,730	1,220	-329	-445	0	-36	0	16	2,156	34
Investment in debt securities	58	30	-14	-13	0	0	0	0	61	0
Stage 1 total	**1,794**	**1,338**	**-347**	**-527**	**0**	**-36**	**0**	**18**	**2,240**	**34**
Placements with banks	3	0	0	-3	0	0	0	0	0	0
Loans and advances to clients	7,207	1,393	-1,952	1,121	0	-1,853	-28	15	5,904	1
Investment in debt securities	5	0	0	-5	0	0	0	0	0	0
of which: non-performing	1,605	21	-55	-1,025	0	0	0	-546	0	0
Stage 2 total	**7,215**	**1,393**	**-1,952**	**1,113**	**0**	**-1,853**	**-28**	**15**	**5,903**	**1**
Placements with banks	0	0	0	0	0	0	0	0	0	0
Loans and advances to clients	39,458	3,590	-24,032	3,828	0	4,111	-1,219	138	25,873	2
Investment in debt securities	0	0	0	0	0	0	0	0	0	0
of which: collectively assessed impairment	19,023	380	-8,006	41	0	4,111	-413	-36	15,100	0
of which: individually assessed impairment	20,435	3,210	-16,026	3,787	0	0	-806	174	10,774	0
Stage 3 total	**39,458**	**3,590**	**-24,032**	**3,828**	**0**	**4,111**	**-1,219**	**138**	**25,874**	**2**
Placements with banks	0	0	0	0	0	0	0	0	0	0
Loans and advances to clients	4,032	5	-4,153	2,994	0	160	-12	15	3,041	0
Investment in debt securities	0	0	0	0	0	0	0	0	0	0
of which: collectively assessed allowances	4,032	5	-4,153	2,994	0	160	-12	15	3,041	0
of which: individually assessed allowances	0	0	0	0	0	0	0	0	0	0
POCI total	**4,032**	**5**	**-4,153**	**2,994**	**0**	**160**	**-12**	**15**	**3,041**	**0**
Total allowance for debt instruments	**52,499**	**6,326**	**-30,484**	**7,408**	**0**	**2,382**	**-1,259**	**186**	**37,058**	**37**
Commitments and financial guarantees given										
Stage 1	234	344	-288	9	0	-5	0	1	295	0
Stage 2	268	155	-240	50	0	-85	0	1	149	0
Stage 3	1,983	4,479	-698	-60	0	52	0	21	5,777	0
Total provisions on commitments and financial guarantees given	**2,485**	**4,978**	**-1,226**	**-1**	**0**	**-38**	**0**	**23**	**6,221**	**0**

(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										
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 effect of the change in the definition of default on the expected credit loss in 2019 is shown in the column „Changes due to update in the methodology for estimation (net)”.

The total of this year’s movements in expected credit losses include – within changes due to change in credit risk – the adjustments to the net exposure of credit-impaired (Stage 3) exposures arising from the net inerest calculation, which is not presented in ’Impairment losses on financial assets’ but affects interest (2019: HUF 6,335 milliion, 2018: HUF 8,441 million). Besides the above, the profit or loss item ’Impairment losses on financial assets’ includes amounts from derecognising sold and written-off exposures (2019: HUF 14,405 million, 2018: HUF 14,813 million) including individual large corporate exposures and retail packages, as well as recoveries from purchased or originated credit-impaired financial instruments (2019: HUF 3,755 million, 2018: HUF 3,807 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 11,051 million (2018: HUF 27,904 million).

Contract modifications and expected credit losses

In 2019, 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 3,510 million (2018: HUF 2,503 million) before the modifications and the related net modification loss amounted to HUF 8 million (2018: 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 31.12.2019 and as at 31.12.2018 are presented in the following tables:

31.12.2019	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			Collaterals and financial guarantees received
(HUF million)	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	7,287	21,378	28,665	-703	-14,383	-15,086	10,969
Investment in debt securities	0	0	0	0	0	0	0
Total financial assets at amortised cost	**7,287**	**21,378**	**28,665**	**-703**	**-14,383**	**-15,086**	**10,969**
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 compehensive income	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Placements with banks	0	0	0	0	0	0	0
Loans and advances to clients	0	2	2	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**	**2**	**2**	**0**	**0**	**0**	**0**
Commitments and financial guarantees given (Stage 3)	1,000	525	1,525	-3	-409	-412	110
Total	**8,287**	**21,905**	**30,192**	**-706**	**-14,792**	**-15,498**	**11,079**

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			Collaterals and financial guarantees received
(HUF million)	Hereof: restructured performing	Hereof: restructured non-performing	Total	Hereof: restructured performing	Hereof: restructured non-performing	Total	
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**

The balance of renegotiated loans decreased significantly from 2018 to 2019 mainly because of the steps to reduce the non-performing portfolio in the non-retail segment, such as loan refinancing by other banks and other recoveries and in retail segment partly because of portfolio cleaning, partly because of cured exposures due to the new default definition.

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 further recovery from the loan is realistically no longer 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.).

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

31.12.2019 (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**	**15,180**	**0**	**10,690**	**1,176**	**27,046**
Debt securities issued by	**0**	**94,996**	**0**	**1,384**	**0**	**96,380**
Government	0	1,105	0	38	0	1,143
Companies	0	84,155	0	713	0	84,868
Others	0	9,736	0	633	0	10,369
Shares	**0**	**8,489**	**0**	**220**	**298**	**9,007**
Mortgage on	**0**	**334,042**	**0**	**23,767**	**0**	**357,809**
Residential real estate	0	172,810	0	1,426	0	174,236
Commercial real estate	0	133,849	0	13,990	0	147,839
Other	0	27,383	0	8,351	0	35,734
Guarantees from	**0**	**146,115**	**0**	**20,518**	**0**	**166,633**
Government	0	42,287	0	0	0	42,287
Banks	0	103,828	0	20,518	0	124,346
Other collateral	**0**	**87,307**	**0**	**28,900**	**0**	**116,207**
Total collateral	**0**	**686,129**	**0**	**85,479**	**1,474**	**773,082**

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**	**72,807**	**0**	**32,434**	**0**	**105,241**
Government	0	26,892	0	13,003	0	39,895
Banks	0	45,915	0	19,431	0	65,346
Other collateral	**0**	**78,952**	**0**	**11,651**	**0**	**90,604**
Total collateral	**0**	**531,383**	**0**	**68,399**	**293**	**600,076**

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

31.12.2019	**Financial assets at amortised cost**				**Financial assets at fair value through profit and loss**	
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**		**Total**
Placements with banks	0	0	0	0	0	0
Loans and advances to clients	549,076	95,938	6,597	4,756	29,761	686,128
Other receivables	0	0	0	0	0	0
Loan commitments and financial guarantees given	80,165	5,104	211	0		85,480
Derivative assets					1,474	1,474
Total	**629,241**	**101,042**	**6,808**	**4,756**	**31,235**	**773,082**

31.12.2018	**Financial assets at amortised cost**				**Financial assets at fair value through profit and loss**	
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**		**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**

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)	**12.31.2019**	**12.31.2018**
Property and equipment	626	1,182
Other	12	14
Total assets obtained	**638**	**1,196**

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	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	170,427	142	1,740	9,319
Domestic trade	0	141,639	0	150	99,987
Other, mainly service industries	0	138,263	0	205	53,680
Finance	230,140	136,864	331,193	22,216	160,348
Central Bank	178,590	0	0	2,752	0
Public administration	0	8,651	407,258	0	180
Mining	0	1,178	0	39	1,204
Manufacturing	0	232,704	8,596	185	108,189
Agriculture	0	30,016	0	7	4,199
Transportation, communication	0	85,121	0	3,123	66,756
Construction	0	14,716	0	240	115,825
Energy	0	3,916	0	0	382
Infrastructure	0	1,833	0	0	2,415
Private households	0	334,639	0	11	20,070
Total	**408,730**	**1,299,967**	**747,189**	**30,668**	**642,554**

31.12.2018 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	178,802	0	1,647	6,273
Domestic trade	0	163,524	0	174	102,468
Other, mainly service industries	0	124,739	0	109	43,934
Finance	283,851	74,411	287,752	18,727	116,476
Central Bank	189,353	14	0	5,883	0
Public administration	0	7,887	420,377	0	658
Mining	0	27,552	0	7	2,836
Manufacturing	0	132,996	0	794	100,281
Agriculture	0	22,027	0	6	2,119
Transportation, communication	0	89,213	0	4,244	27,011
Construction	0	12,671	0	13	100,545
Energy	0	20,585	0	7	38,564
Infrastructure	0	1,329	0	0	1,155
Private households	0	266,264	0	20	19,992
Total	**473,204**	**1,122,014**	**708,129**	**31,631**	**562,312**

With regards to concentrations, a more significant change from 2018 to 2019 occurred in loans and receivables to customers in the financial and manufacturing sector, attributable to a few larger placements.

(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:

Interst bearing financial instruments

Financial instruments with fixed interest rates

(HUF million)	31.12.2019	31.12.2018
Financial assets	1,218,690	1,169,715
Financial liabilities	218,177	312,298
Total	**1,000,513**	**857,417**

Financial instruments with variable interest rates

	31.12.2019		31.12.2018	
(HUF million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities
HUF	667,652	1,344,888	682,984	1,195,441
CHF	5,875	12,144	6,925	11,328
EUR	451,406	504,636	341,304	436,863
USD	51,057	113,855	29,335	106,639
Other currencies	11,676	13,998	10,765	14,185
Total	**1,187,666**	**1,989,521**	**1,071,313**	**1,764,456**

Changes in 2019 can be broken down as follows:

- an increase of HUF 49 billion was observed in the fixed-rate financial assets (genuine repurchase agreements: HUF 83 billion, customer loans: HUF 75 billion, securities: HUF 74 billion, placements with bank: HUF -195 billion);
- fixed-rate liabilities decreased by HUF 94 billion (customer deposits: HUF -57 billion, deposits with banks: HUF -17 billion);
- variable-rate assets increased by HUF 116 billion (customer loans: HUF 107 billion);
- variable-rate liabilities increase by HUF 225 billion (customer deposits: HUF 171 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:

31.12.2019 **(HUF million)**	**HUF**	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash, cash balances at central banks and other demand deposits	96,542	864	16,750	6,957	5,042	126,155
Financial assets held for trading except for derivatives	27,615	0	35	43	0	27,693
Non-trading financial assets mandatorily at fair value through profit or loss	33,996	0	0	0	0	33,996
Financial assets designated at fair value through profit or loss	20,237	0	0	0	0	20,237
Financial assets at fair value through other comprehensive income	310,087	0	177,903	18,882	18,050	524,922
Financial assets at amortised cost	1,059,102	6,016	637,685	76,912	9,145	1,788,860
Financial assets except for derivatives	**1,547,579**	**6,880**	**832,373**	**102,794**	**32,237**	**2,521,863**
Financial liabilities held for trading except for derivatives	37	0	0	0	0	37
Financial liabilities measured at amortised cost	1,476,197	12,191	635,041	158,113	17,454	2,298,996
Financial liabilities except for derivatives	**1,476,234**	**12,191**	**635,041**	**158,113**	**17,454**	**2,299,033**
Net open position on balance sheet	**71,345**	**-5,311**	**197,332**	**-55,319**	**14,783**	**222,830**
Net derivative and spot instruments (-/+: short / long position)	**150,225**	**5,727**	**-198,222**	**56,194**	**-13,793**	**131**
Total open foreign currency position (net)	**221,570**	**416**	**-890**	**875**	**990**	**222,961**

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**

The Group has an overall low level of exposure to foreign currency risk at the end of both 2019 and 2018 EUR 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)		**31.12.2019**		
Trading book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	15	136	4	419
Interest rate risk	102	100	39	406
Share and commodity price risk	12	10	0	88
Total risk	117	212	68	480
Banking book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	0	0	0	0
Interest rate risk	1,121	759	406	1,925
Total risk	1,121	759	406	1,925

(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

The significant difference in the banking book IR VaR maximum between 2018 and 2019 was driven by an outstanding event. In 2018 may for one week the VaR calculated for the actual Banking Book portfolio increased significantly because of the yield environment uptrend which is an important input for the VaR modelling.

Gap and BPVreport

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.

BPV reports are presented in the below tables:

(HUF thousand)		31.12.2019		
Trading book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-134	-134	-5	-97
3 months to 6 months	513	-443	1	-40
6 months to 1 year	-3,453	2,769	0	427
1 year to 2 years	372	34	0	-6
2 years to 3 years	-1,242	0	0	-7
3 years to 5 years	913	0	0	-7
5 years to 7 years	-1,138	-1	0	0
7 years to 10 years	-167	-3	0	0
10 years to 15 years	3	0	0	0
15 years to 20 years	-6	0	0	0
Over 20 years	0	0	0	0
Banking book	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-2,955	-956	-49	-255
3 months to 6 months	-1,691	-645	-6	-650
6 months to 1 year	1,654	3,416	-16	428
1 year to 2 years	-348	1,049	0	151
2 years to 3 years	-11,064	-6,268	-1	14
3 years to 5 years	-6,008	2,946	-2	862
5 years to 7 years	-12,786	-527	4	24
7 years to 10 years	3,760	438	-38	0
10 years to 15 years	-2,044	4	-63	0
15 years to 20 years	-222	0	-70	0
Over 20 years	-51	0	0	0

(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

(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 Group does not use stand-by loan commitments for liquidity management purposes, sufficient level of liquidity reserve is available without such commitments.

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.

31.12.2019				**Timing of contractual cash flows**			
(HUF million)	**Notes**	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**more than 5 years**
Assets							
Cash	(6, 19)	98,634	**98,634**	98,634	0	0	0
Placements with banks	(6, 19)	27,521	**27,521**	27,521	0	0	0
Loans and advances	(6, 20, 21, 42)	1,644,178	**1,812,467**	524,511	264,389	717,202	306,365
Investment in debt securities	(6, 20, 21, 22, 23, 42)	747,127	**776,280**	48,908	188,170	446,797	92,405
Total assets		**2,517,460**	**2,714,902**	**699,574**	**452,559**	**1,163,999**	**398,770**
Derivative instruments							
Derivative instruments - Trading	**(20, 42)**		**16,077**	**6,338**	**2,259**	**3,257**	**4,223**
Outflow			**-162,945**	-1,556	-18,556	-63,000	-79,833
Inflow			**179,022**	7,894	20,815	66,257	84,056
Derivative instruments - Hedge accounting	**(10, 42)**		**2,946**	**144**	**24**	**2,289**	**489**
Outflow			**-1,757**	144	24	-2,414	489
Inflow			**4,703**	0	0	4,703	0
Total derivative instruments			**19,023**	**6,482**	**2,283**	**5,546**	**4,712**

31.12.2019				**Timing of contractual cash flows**			
(HUF million)	**Notes**	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**more than 5 years**
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	2,278,526	**2,282,413**	1,951,339	61,295	235,473	34,306
Short positions	(6, 27, 28, 42)	37	**37**	37	0	0	0
Debt securities issued	(6, 28, 30)	4,646	**4,860**	3,835	80	945	0
Other financial liabilities	(5, 32)	15,824	**16,887**	7,734	1,349	4,826	2,978
Financial guarantees given		146,001	**146,001**	146,001	0	0	0
Loan commitments		388,883	**388,883**	388,883	0	0	0
Total liabilities		**2,833,917**	**2,839,081**	**2,497,829**	**62,724**	**241,244**	**37,284**
Derivative instruments			**0**	0	0	0	0
Derivative instruments - Trading	**(27, 42)**		**-26,262**	**-6,525**	**-5,293**	**-10,128**	**-4,316**
Outflow			**-69,017**	-7,135	-7,242	-46,141	-8,499
Inflow			**42,755**	610	1,949	36,013	4,183
Derivative instruments - Hedge accounting	**(10, 42)**		**-14,069**	**-311**	**-734**	**-8,610**	**-4,414**
Outflow			**-34,207**	-294	-734	-12,772	-20,407
Inflow			**20,138**	-17	0	4,162	15,993
Total derivative instruments			**-40,331**	**-6,836**	**-6,027**	**-18,738**	**-8,730**

31.12.2018 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows 3 months or less	3-12 months	1-5 years	more than 5 years
Assets							
Cash	(6, 19)	91,867	**91,867**	91,867	0	0	0
Placements with banks	(6, 19)	64,863	**64,863**	64,863	0	0	0
Loans and advances	(6, 20, 21, 42)	1,477,919	**1,660,721**	592,260	254,588	542,532	271,341
Investment in debt securities	(6, 20, 21, 22, 23, 42)	708,064	**737,196**	3,914	69,137	529,216	134,929
Total assets		**2,342,713**	**2,554,647**	**752,904**	**323,725**	**1,071,748**	**406,270**
Derivative instruments							
Derivative instruments - Trading	**(20, 42)**		**-5,705**	**4,928**	**-6,916**	**-5,992**	**2,275**
Outflow			**-144,699**	-12,300	-17,378	-36,796	-78,225
Inflow			**138,994**	17,228	10,462	30,804	80,500
Derivative instruments - Hedge accounting	**(10, 42)**		**6,473**	**-20**	**144**	**6,265**	**84**
Outflow			**-25,530**	-18	101	-25,697	84
Inflow			**32,003**	-2	43	31,962	0
Total derivative instruments			**768**	**4,908**	**-6,772**	**273**	**2,359**

31.12.2018				**Timing of contractual cash flows**			
(HUF million)	**Notes**	**Carrying amount**	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**more than 5 years**
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	2,138,104	**2,158,326**	1,812,855	71,948	183,957	89,566
Short positions	(6, 27, 28, 42)	1,406	**1,406**	1,406	0	0	0
Debt securities issued	(6, 28, 30)	12,137	**12,836**	0	7,373	4,976	487
Other financial liabilities	(5, 32)	7,667	**7,667**	7,631	36	0	0
Financial guarantees given		95,163	**95,163**	95,163	0	0	0
Loan commitments		336,629	**336,629**	336,629	0	0	0
Total liabilities		**2,591,106**	**2,612,026**	**2,253,683**	**79,357**	**188,933**	**90,053**
Derivative instruments			**-40,845**	-7,057	-9,561	-17,209	-7,018
Derivative instruments - Trading	**(27, 42)**		**-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	**(10, 42)**		**-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**

The Group changed the analysis into cash-flow time buckets of Financial guarantees given and Loan commitments compared to its 2018 consolidated financial statements. When contractual obligations are fulfilled, the specified amounts become callable and thus the timing of the earliest possible call falls into the time bucket 3 months or less.

The following table sets out the carrying amounts of assets and liabilities that are expected to be recovered or settled within one year or over one year.

31.12.2019 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	58,360	32,515	25,845
Non-trading financial assets mandatorily at fair value through profit or loss	33,996	1,680	32,317
Financial assets designated at fair value through profit or loss	20,237	537	19,700
Financial assets at fair value through other comprehensive income	524,922	136,173	388,749
Financial assets at amortised cost	1,788,860	798,499	990,360
Derivatives – Hedge accounting	6,021	350	5,671
Deferred tax assets	1,575	0	1,575
Other assets	3,047	3,047	0
Total assets	**2,437,018**	**972,801**	**1,464,217**
Financial liabilities held for trading	27,705	12,234	15,471
Financial liabilities designated at fair value through profit or loss	0	0	0
Financial liabilities measured at amortised cost	2,298,996	2,022,834	276,161
Derivatives – Hedge accounting	11,569	386	11,184
Provisions	10,782	10,783	0
Deferred tax liabilities	3	0	3
Other liabilities	6,923	6,923	0
Total liabilities	**2,355,978**	**2,053,160**	**302,819**

31.12.2018 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	47,938	20,868	27,070
Non-trading financial assets mandatorily at fair value through profit or loss	7,691	1,542	6,149
Financial assets designated at fair value through profit or loss	24,212	3,831	20,381
Financial assets at fair value through other comprehensive income	468,325	29,004	439,321
Financial assets at amortised cost	1,672,094	792,922	879,172
Derivatives – Hedge accounting	2,657	266	2,391
Deferred tax assets	1,972	0	1,972
Other assets	3,938	3,938	0
Total assets	**2,228,827**	**852,371**	**1,376,546**
Liabilities			
Financial liabilities held for trading	28,424	13,723	14,701
Financial liabilities designated at fair value through profit or loss	0	0	0
Financial liabilities measured at amortised cost	2,157,908	1,896,316	261,592
Derivatives – Hedge accounting	4,029	106	3,923
Provisions	7,994	7,994	0
Deferred tax liabilities	2	0	2
Other liabilities	7,246	7,246	0
Total liabilities	**2,205,603**	**1,925,385**	**280,218**

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:

2019		2018	
Date	**HUF million**	**Date**	**HUF million**
31.01.2019	58	31.01.2018	119
28.02.2019	36	28.02.2018	119
29.03.2019	57	29.03.2018	146
30.04.2019	55	27.04.2018	152
31.05.2019	120	31.05.2018	44
29.06.2019	47	29.06.2018	55
31.07.2019	169	31.07.2018	63
31.08.2019	108	31.08.2018	64
30.09.2019	132	28.09.2018	52
31.10.2019	122	31.10.2018	51
30.11.2019	155	30.11.2018	54
31.12.2019	115	28.12.2018	19

(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 30th 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 1st 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 Group 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)	2019	2018
Share capital	50,000	50,000
Capital reserve	113,445	113,445
Retained earnings	26,314	37,000
Accumulated other comprehensive income	6,770	1,687
Funds for general banking risk	9,883	7,823
Adjustments to CET1 due to prudential filters	-2,821	-2,389
(-) Goodwill	-1,035	-1,035
(-) Other intangible assets	-17,472	-15,554
(-) IRB shortfall of credit risk adjustments to expected losses	-1,575	-1,971
Common Equity Tier 1 Capital	**183,509**	**189,006**
Capital instruments eligible as AT1 Capital	31,445	0
Additional Tier 1 Capital (AT1)	**31,445**	**0**
IRB Excess of loss allowances and provisions over expected losses	2,787	2,115
Equity instruments classified as subordinated loans	46,273	45,011
Tier 2 Capital	**49,060**	**47,126**
Total regulatory capital	**264,014**	**236,132**
Capital requirement	**100,085**	**96,177**
Solvency ratio (%)	**21.10%**	**19.64%**

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)	2019	2018
Interest income calculated with the effective interest method	**47,757**	**43,206**
Other interest income	**26,892**	**23,140**
Financial assets held for trading	**21,345**	**18,582**
Debt securities	420	604
Derivatives – Held for trading	13,850	10,950
Derivatives – Held for risk management (not in hedge accounting)	7,075	7,028
Financial assets designated at fair value through profit or loss	**1,216**	**2,429**
Debt securities	1,216	2,429
Non-trading financial assets mandatorily at fair value through profit or loss	**815**	**359**
Loans and advances	815	359
Derivatives – Hedge accounting, interest rate risk	**3,344**	**1,614**
Other	**172**	**156**
Interest income total	**74,649**	**66,346**
Interest expense calculated with the effective interest method	**-11,921**	**-8,490**
Other interest expenses	**-21,322**	**-15,810**
Financial liabilities held for trading	**-17,109**	**-13,688**
Derivatives – Held for trading	-11,840	-9,438
Derivatives – Held for risk management (not in hedge accounting)	-5,269	-4,250
Derivatives – Hedge accounting, interest rate risk	**-4,065**	**-2,105**
Other	**-148**	**-17**
Interest expense total	**-33,243**	**-24,300**
Net interest income	**41,406**	**42,046**

Net interest expense of the Group is slightly, by HUF 640 million lower than in the previous year.

The interest income calculated with the effective interest method increased significantly (HUF 4,551 million increase), mainly due to increase in interest income from customer loans which compensated by far the decrease in interest income from interbank exposures. Several held to maturity securities matured in 2019, this way the Group realised less interest income than previuos year from them.

The interest expense calculated with the effective interest method also increased significantly in 2019 (HUF 3,431 million increase in expenses). The main reason is that the Group paid HUF 4,507 million for break cost related to early repayment of its subordinated liability.

The interest income from securities measured at fair value through other comprehensive income also increased (HUF 1,521 million increase in interest income).

The net interest income was decreased by the net interest income from derivatives (HUF 659 million decrease in net interest income). Although the net interest income from matured non-interest-arbitrage transaction was positive, net interest income was negative on both interest rate swaps and cross-currency interest rate swaps.

The Group realised lower interest from securities designated at fair value through profit or loss, since several securities matured in 2019 (HUF 1,213 million decrease in interest).

At the same time, there was a HUF 456 million increase in interest from loans mandatorily measured at fair value through profit or loss, due to disbursements of childbirth incentive loans during 2019.

The net interest income from derivatives in cash flow and fair value hedging decreased (HUF 230 million interest decrease).

(HUF million)	2019	2018
Interest income calculated with the effective interest method	**47,757**	**43,206**
Financial assets at fair value through other comprehensive income	**6,428**	**4,907**
Debt securities	6,428	4,907
Financial assets at amortised cost	**41,329**	**38,299**
Debt securities	3,720	4,324
Loans and advances	37,603	33,957
Other assets	6	18
Interest expense calculated with the effective interest method	**-11,921**	**-8,490**
Financial liabilities at amortised cost	**-11,921**	**-8,490**
Deposits	-4,231	-5,142
Subordinated liabilities	-7,165	-2,602
Debt securities issued	-525	-746
Net interest income calculated with the effective interest method	**35,836**	**34,716**

(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**	**2018**
Fee and commission income		
IFRS15 revenues		
Security issuance fees and transfer comissions	4,555	3,700
Corporate finance	134	60
Fee based advisory	28	4
Asset management	16	30
Custody	685	606
Central administrative services for collective investment	2,176	2,011
Payment services	34,696	31,830
Services as an agent	88	212
Outsourced currency exchange activity	12,903	10892
Fees included in foreign exchange conversions and other transactions	11,434	9,682
Other	1,875	1,891
Total IFRS15 revenues	**68,590**	**60,918**
IFRS9 revenues		
Loan servicing activities	633	216
Loan commitments given	15	3
Financial guarantees given	1,984	1,947
Loans granted	303	177
Total IFRS9 revenues	**2,935**	**2,343**
Total fee and commission income	**71,525**	**63,261**
Fee and commission expense		
Securities	-613	-633
Clearing and settlement	-69	-58
Custody	-570	-563
Payment services	-3,685	-3,823
Loan servicing activities	-550	-595
Loan commitments received	-1	0
Financial guarantees received	-897	-819
Services of agents	-50	-19
Outsourced currency exchange activity	-12,494	-10,423
Other	-2,665	-2,372
Total fee and commission expense	**-21,594**	**-19,305**
Net income from commissions and fees	**49,931**	**43,956**

(HUF million)	**2018**	**2018**
Fee and commission income		
Financial assets at amortised cost	71,525	63,261
Total fee and commission income	**71,525**	**63,261**
Fee and commission expense		
Financial liabilities at amortised cost	-21,594	-19,305
Total fee and commission expense	**-21,594**	**-19,305**
Net income from commissions and fees	**49,931**	**43,956**

The net fee and comission income increased by HUF 5,975 million compared to previous year, mainly due to the increase in payment transaction fees and the increase in margins from foreign exchange conversions.

- Within payment transaction fees the decrease in account maintenance fees was by far compensated by the the outstanding increase in transaction commissions and credit card fees.
- The fees included in forign exchange conversions and other securities transactions increased by HUF 1,752 million. Of these, the Group realised exceptional profit on individually priced fixings and also on conversions

at Direktnet. It should be noted that fee result embedded in securities transactions exceeded that of prvious year.

- In Hungary only credit institutions are authorised to perform currency exchange operations. The Group performs currency exchange for its clients (also) through currency brokers. Given that the Group would incur various types of expenditures if it performed currency exchange on its own, profit or loss on currency exchange operations are presented gross: fee income includes fees charged to the clients that are built into the transactions and other fees collected from currency brokers, whereas fee expense includes results of currency exchange deals credited to the currency brokers. In 2019 the number of currency brokers engaged by the Group increased and as a consequence the Group recorded significantly higher fee income and fee expense compared to the previous year.

The fee income realised from securities trading on behalf of clients contributed to the higher level of net fee and comission income. The lending activitiy also contributed more significantly to the increase in net fee income of the Group.

(9) Net trading income and fair value result

Gains and losses from financial assets and liabilities held for trading

(HUF million)	2019	2018
Derivative instruments	**-2,395**	**6,965**
Derivatives held for trading	2,480	1,690
Derivatives held for risk management purposes, without hedge accounting	-4,875	5,275
Equity instruments	27	-77
Debt securities	-40	-1,051
Other financial liabilities	1,573	810
Gains or (-) losses on financial assets and liabilities held for trading, net	**-835**	**6,647**

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 2019 interest rate swap transactions concluded with NBH resulted in a loss of HUF 6,217 million whereas the same resulted in a gain of HUF 5.844 million in 2018.

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

(HUF million)	2019	2018
Loans and advances	648	180
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**648**	**180**

In 2019 the revaluation result of childbirth incentive loan (babaváró hitelek) increased the gains or losses on non-trading financial assates mandatorily measured at fair value through profit or loss with HUF 412 million.

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

(HUF million)	2019	2018
Loans and advances	0	75
Debt securities	-202	-2,437
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-202**	**-2,362**

The significant change in the gains or losses on financial assets and liabilities designated at fair value through profit or loss was due to the reduction in the amount of financial instruments designated at fair value through profit or loss.

Within losses on the debt intruments, realised losses and unrealised negative revalutaion results on government bonds amounted to HUF 199 million in 2019, whereas the same type of loss amounted to HUF 2,411 million in 2018.

(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)	2019	2018
Fair value changes of the hedging instrument (including effects of discontinuation)	-2,412	-108
Fair value changes of the hedged item attributable to the hedged risk	2,374	365
Ineffectiveness in profit or loss from cash flow hedges	56	-224
hereof : existing hedges	*210*	*-118*
discontinued hedges	*-154*	*-106*
Gains and losses from hedge accounting, net	**18**	**33**

Net loss arising from the fair valuation of interest rate swaps and cross-currency interest rate swaps hedging purchased bonds amounted to HUF 4,580 million in 2019 (in 2018 HUF 780 million gain). Interest rate swaps hedging received deposit portfolio generated a fair valuation gain of HUF 2,753 million in 2019 (in 2018 HUF 477 million loss). Net fair value loss on interest rate swaps hedging loan receivables amounted to HUF 828 million in 2019 (in 2018 HUF 176 million gain). Net fair value loss on interest rate swaps designated as hedging instruments for debt securities issued amounted to HUF 356 million in 2019 (in 2018 HUF 573 million loss). Related to the interest swaps hedging loan portfolio started in 2019, HUF 599 million gain was recognised in the *"Gains and losses from hedge accounting"*.

In 2019, net result arising from fair value adjustments amounted to:

- HUF 4,490 million (in 2018 HUF -710 million) on hedged purchased bonds;
- HUF 607 million (in 2018 HUF 607 million) on hedged received deposit portfolio;
- HUF -91 million (in 2018 HUF -91 million) on hedged loan receivables; and
- HUF 544 million in 2018 HUF 544 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:

31.12.2019	**Maturity**			
(HUF million)	**0-3 months**	**3-12 months**	**1-5 years**	**over 5 years**
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	16,526	8,788	181,064	6,000
Average fixed interest rate	-0.36%	0.19%	0.63%	1.20%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	0	8,826	0
Average HUF/EUR exchange rate	-	-	331.98	-

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	-

In case of CCIRS contracts 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:

31.12.2019 (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)	212,378	1,273	696	829	700	139	32
Interest rate risk hedge total	**212,378**	**1,273**	**696**	**829**	**700**	**139**	**32**
Interest rate risk / Currency risk							
HUF/EUR Cross currency interest rate swaps (CCIRS)	8,826	35	262	160	90	71	122
Interest rate risk / Currency risk hedge total	**8,826**	**35**	**262**	**160**	**90**	**71**	**122**
Portfolio cash flow hedges total	**221,204**	**1,308**	**958**	**989**	**790**	**210**	**154**

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 2019	Cash flow hedge reserve existing hedges 31.12.2019	Cash flow hedge reserve discontinued hedges* 31.12.2019
Interest rate risk			
Loans	1,036	443	0
Deposits	-181	-423	-7
Interest rate risk hedge total	**855**	**20**	**-7**
Interest rate risk/Currency risk			
Loans	0	1	1
Deposits	92	-112	-113
Interest rate risk/Currency risk hedge total	**92**	**-111**	**-112**
Hedged items in cash flow hedges total	**947**	**-91**	**-119**

(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 variable 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'*.

In 2019, HUF 944 million gain (in 2018: HUF 405 million loss) was recognised in other comprehensive income relating to the effective portion of fair value changes of hedging instruments designated in cash-flow hedging relationships existing at 31.12.2019 or discontinued earlier. These amounts include reclassifications between other comprehensive income and profit or loss arising from the systematic amortisation of hedge reserves to profit or loss, relating to cash-flow hedging relationships discontinued before 2019 or 2018. In 2019 HUF 154 million loss (in 2018 HUF 106 million loss) was reclassified to profit or loss relating to discontinued cash-flow hedging relationships and the Group presented these amounts within Net gains/losses from hedge accounting. During 2019 HUF 210 million gain (in 2018 HUF 119 million loss) was recognised in the same line relating to the ineffectiveness of hedging instruments designated in cash-flow hedging relationships existing at 31.12.2019.

Fair value hedges

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

31.12.2019	**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	12,594	135,807	79,494
Average fixed interest rate	-	0.65%	1.59%	1.17%
Interest rate swaps (IRS) hedging loans				
Nominal	2,400	2,692	76,298	23,968
Average fixed interest rate	0.69%	0.00%	0.54%	0.99%
Interest rate swaps (IRS) hedging issued bonds				
Nominal	3,621	0	628	0
Average fixed interest rate	5.07%	-	6.19%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	0	37,330	218,828	0
Average fixed interest rate	-	0.69%	0.82%	-
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	0	2,350	16,940	19,140
Average fixed interest rate	-	0.55%	1.22%	1.89%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds				
Nominal	0	0	0	16,256
Average CZK/EUR exchange rate	-	-	-	25.82

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	-

In case of CCIRS, 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:

31.12.2019		**Carrying amount**		**Changes in fair value in 2019 used for calculating hedge ineffectiveness**	**Hedge ineffectiveness recognised in profit or loss**
(HUF million)	**Nominal**	**Assets**	**Liabilities**		
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased bonds	227,895	326	6,562	-4,466	-54
Interest rate swaps (IRS) hedging loans	105,358	18	1,250	-828	-144
Interest rate swaps (IRS) hedging deposits	4,249	316	0	-356	-12
Interest rate risk hedge total	**337,502**	**660**	**7,812**	**-5,650**	**-210**
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds	16,256	0	357	-114	-36
Interest rate risk / Currency risk hedge total	**16,256**	**0**	**357**	**-114**	**-36**
Micro fair value hedges total	**353,758**	**660**	**8,169**	**-5,764**	**-246**
Portfolio fair value hedges					
Interest rate risk	256,158	3,963	709	2,753	228
Interest rate swaps (IRS) hedging deposit portfolios	38,430	90	1,733	599	-20
Interest rate risk hedge total	**294,588**	**4,053**	**2,442**	**3,352**	**208**
Portfolio fair value hedges total	**294,588**	**4,053**	**2,442**	**3,352**	**208**
Hedging instruments in fair value hedges total	**648,346**	**4,713**	**10,611**	**-2,412**	**-38**

31.12.2018		**Carrying amount**		**Changes in fair value in 2018 used for calculating hedge ineffectiveness**	**Hedge ineffectiveness recognised in profit or loss**
(HUF million)	**Nominal**	**Assets**	**Liabilities**		
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:

31.12.2019	Carrying amount		Fair value adjustments to the carrying amounts of hedged items due to its fair value changes attributable to the hedged risk*				Changes in fair value in 2019 used for calculating
			Assets		Liabilities		
(HUF million)	Assets	Liabilities	existing hedges	discontinued hedges	existing hedges	discontinued hedges	hedge ineffectiveness
Purchased bonds	244,490	0	4,936	0	0	0	4,489
Loans	81,188	0	911	1	0	0	684
Deposits	0	4,573	0	0	154	0	344
Issued bonds	0	204,728	0	0	2,014	0	-2,524
Deposit portfolio	35,334	0	-619	0	0	0	-619
Hedged items in fair value hedges total	**361,012**	**209,301**	**5,228**	**1**	**2,168**	**0**	**2,374**

31.12.2018	Carrying amount		Fair value adjustments to the carrying amounts of hedged items due to its fair value changes attributable to the hedged risk*				Changes in fair value in 2018 used for calculating
			Assets		Liabilities		
(HUF million)	Assets	Liabilities	existing hedges	discontinued hedges	existing hedges	discontinued hedges	hedge ineffectiveness
Purchased bonds	161,417	0	-1,895	0	0	0	-710
Loans	64,535	0	229	3	0	0	-91
Issued bonds	0	0	0	0	0	0	15
Deposits	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 loan and deposit portfolios for changes in their fair values attributable to the hedged risk – excluding accrued interests – are 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'*, regardless of their sign,the loan portfolio related items are always on the asset side while the fair value of the deposit portfolio are always on the liability side.

In 2019 gain on fair value changes of hedged items in designated in fair value hedging relationships attributable to the hedged risk amounted to HUF 2,374 million (in 2018 HUF 281 million) which is presented in the statement of comprehensive income line item *'Net gains/losses from hedge accounting'*.

The Group recognised a loss of HUF 2,412 million in 2019 in relation to derivatives designated as hedging instruments in fair value hedges (in 2018 a loss of 108 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)	Note	2019	2018
Financial instruments held for trading		**3,400**	**11,541**
Net interest income	(7)	4,235	4,894
Realised and unrealised gains and losses	(9)	-835	6,647
Net gains and losses from hedge accounting		**-703**	**-458**
Net interest income	(7)	-721	-491
Realised and unrealised gains and losses	(10)	18	33
Non-trading financial instruments mandatorily at fair value through profit or loss		**1,463**	**539**
Net interest income	(7)	815	359
Realised and unrealised gains and losses	(9)	648	180
Financial instruments designated at fair value through profit or loss		**1,014**	**67**
Net interest income	(7)	1,216	2,429
Realised and unrealised gains and losses	(9)	-202	-2,362
Financial instruments at fair value through other comprehensive income		**7,042**	**5,331**
Net interest income	(7)	6,428	4,907
Impairment	(6)	2	-42
Realised and unrealised gains and losses		614	424
Financial instruments at amortised cost		**40,669**	**37,053**
Net interest income	(7)	29,408	29,793
Impairment loss	(6)	11,288	7,668
Realised and unrealised gains and losses		-27	-408
Net gains or losses on financial instruments		**52,885**	**54,073**

(12) Other operating income and expenses

(HUF million)	2019	2018
Gain on disposal of intangibles, property and equipment	9	18
Gain on disposal of inventory	273	202
Operational fees	0	0
Income related to damages	42	46
Rental income from investment property	0	226
Professional fees	161	143
Income from accounting services	63	38
Income related to energy trading	651	1,782
Income from other non-banking activities	160	299
Other	313	104
Other operating income total	**1,672**	**2,858**
Transaction fee and other taxes	-17,135	-16,369
Expenses related to damages	-56	-86
Expert fees	-43	-50
Other provisions	-385	58
Expenses from other non-banking activities	-59	-25
Other expenses	-270	-233
Other operating expenses total	**-17,948**	**-16,705**

From the HUF 1,186 million decrease in other operating income the largest portion is explained by the HUF 382 million decrese in income from energy services. The increase in other operating expenses is due to increase of HUF 766 million in trancation fee and HUF 443 million in other provisions.

(13) Impairment of non-financial assets

Development of impairment of non-financial assets:

(HUF million)	Opening 01.01.2019	Additions	Reversals	Closing 31.12.2019
Impairment or (-) reversal of impairment on other non-financial assets	**-118**	**-46**	**119**	**-45**
Other	-118	-46	119	-45
Impairment on non-financial assets total	**-118**	**-46**	**119**	**-45**

(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)	2019	2018
Modification gains or losses, net	-9	-353
Impairment on non-financial assets	-46	-101
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-247	0
Other result	**-302**	**-454**

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)	2019	2018
Salaries	-20,973	-19,814
Social security constributions	-4,559	-4,570
Other employee benefits	-1,246	-1,051
Total	**-26,778**	**-25,435**

	2019		2018	
(HUF million)	Headcount (person)	Salaries	Headcount (person)	Salaries
Full time	2,504	-19,922	2,334	-18,759
Part time	228	-1,046	211	-1,016
Pensioners	10	-5	7	-39
Total	**2,742**	**-20,973**	**2,552**	**-19,814**

(16) Other administrative expenses

(HUF million)	2018	2018
Office space expenses rental, maintenance, other	-3,733	-7,837
IT cost	-3,703	-3,028
Legal, advisory and consulting expenses	-3,457	-2,654
Advertising, PR and promotional expenses	-2,373	-1,735
Deposit insurance fees	-1,323	-1,208
Communication expenses	-1,533	-1,371
Office supplies	-286	-275
Car expenses	-307	-255
Security expenses	-148	-138
Travelling expenses	-166	-156
Training expenses for staff	-294	-182
Sundry administrative expenses	-756	-494
Total	**-18,078**	**-19,332**

The changes in the structure of other administrative expenses can be explained as follows: The decrease in office space rental expenses is due to the transition to IFRS 16. The increase in IT costs is due to the increase of maintanence and suppport costs of more and more complex systems related to speed up the delivery of the project. One of the component for the increase in advisory and consulting costs is the cost realted to the moving to the new head office. The reason for the increase in advertisin, PR- and promotional expenses is the stronger marcating activity, more and longer campains at the online plaforms and at the television plaftorms as well.

(17) Bank tax and other special levies

(HUF million)	2019	2018
Surtax of financial institutions and surtax of credit institutions	-4,180	-4,045
Resolution Funs	-1,262	-931
Bank tax and other special levies	**-5,442**	**-4,976**

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 2019 is already based on the IFRS total assets while the surtax payable for 2018 is based on adjusted total asset derived from the balance sheet prepared in accordance with the Hungarian Accounting Law. Tax rate is 0.15% (2018: 0.15%) for the portion of tax base not exceeding HUF 50 billion and 0.20% (2018: 0.21%) for the exceeding portion. While calculating the modified total assets, certain inter-bank loans and deposits and certain debt instruments issued by financial institutions are deductible.

Surtax of credit institutions is levied on profit before tax at 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 1st May of each year. Yearly fees payable by the institutions shall be determined so that the value of Resolution Fund's assets until 31st 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)	2019	2018
Current tax expense	**4,228**	**4,394**
Corporate income tax	1,214	1,379
Local business tax	2,619	2,640
Innovation contribution	395	375
Deferred tax expense/-income	**-100**	**-852**
Origination and reversal of temporary differences	-117	315
Changes in the tax effect of tax losses	17	-1,167
Income tax expense	**4,128**	**3,542**

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 2019 and 2018. The tax base of corporate income tax differs from the tax base of local business tax and innovation contribution.

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. The Group pays the corporate income tax arising from the transition to IFRSs in equal instalments in the 3 years following transition.

Reconciliation of effective tax rate

	2019		2018	
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		24,959		27,598
Expected tax rate calculated with Group's applicable tax rate	9.00%	2,246	9,00%	2,484
Tax effect of tax base adjusting items	-4.84%	-1,208	-7,30%	-2,014
Tax effects related to tax losses:				
- usage of previously not recognised tax losses	-4.40%	-1,099	-4,48%	-1,236
- change in previously unrecognised tax losses	0.07%	17	-4,23%	-1,167
Other	-4.40%	-1,099	-4,48%	-1,236
Other income taxes – local business tax, innovation contribution	12.15%	3,033	10,92%	3,015
Income tax expense total	**16.54%**	**4,128**	**12,83%**	**3,542**

Income taxes recognised in other comprehensive income

(HUF million)	2019 Before tax	2019 Tax expense/ benefit	2019 After tax	2018 Before tax	2018 Tax expense/ benefit	2018 After tax
Items that will not be reclassified to profit or loss						
Changes in fair value reserve (equity instruments)	329	-32	297	143	-10	133
Items that will not be reclassified to profit or loss – total	**329**	**-32**	**297**	**143**	**-10**	**133**
Items that the Group reclassified or will reclassify to profit or loss						
Changes in hedge reserve						
Effective portion of fair value changes	790	-71	719	-511	30	-481
Net amount reclassified to profit or loss	154	-14	140	106	6	112
Change in fair value reserve (debt instruments)						
Changes in fair value	4,362	-393	3,969	-1,842	152	-1,690
Net amount reclassified to profit or loss	-138	-13	-125	82	7	89
Items that the Group reclassified or will reclassify to profit or loss – total	**5,168**	**-465**	**4,703**	**-2,165**	**195**	**-1,970**
Foreign currency translation reserve for foreign operations			91			-124
Total	**5,497**	**-497**	**5,091**	**-2,022**	**185**	**-1,961**

Movements in deferred tax balances

(HUF million)	Net balance 01.01.2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31.12.2019 Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	-5	42	0	37	37	0
Investment securities – at fair value through other comprehensive income	-282	0	-412	-694	0	-694
Derivatives*	106	0	-85	21	21	0
Loss allowances for expected credit losses	299	95	0	394	394	0
Tax losses carried forward	1,831	-17	0	1,814	1,814	0
Loss allowances for trade receivables	22	-22	0	0	0	0
Other assets and liabilities	-1	1	0	0	0	0
Net deferred tax asset/liability before offsetting				**1,572**	**2,266**	**-694**
Offsetting					-691	691
Tax assets/Tax liabilities	**1,970**	**99**	**-497**	**1,572**	**1,575**	**-3**

(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 – 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**

*Derivatives are presented net

In 2019 HUF 1,575 million (2018: HUF 1,972 million) deferred tax asset was recognised which comprises of the following items:

- HUF 432 million (2018: HUF 317 million) was recognised due to temporary differences which modify the tax base and are expected to reverse in the future;
- HUF 1,814 million (2018: HUF 1,831 million) was recognised for the balances of tax losses carried forward from previous years which are expected to be utilised by the Group;
- HUF -671 million (2018: 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 2019 HUF 3 million (2018: HUF 2 million) deferred tax liability was recognised for fair values of available-for-sale financial assets recognised in other comprehensive income.

Tax loss carry-forward for which no deferred tax asset has been recognised by maturity breakdown

Maturity	2019	2018
12.31.2020	21,856	21,856
12.31.2030	136,245	148,248
Total	**158,101**	**170,104**

The Group has HUF 158,101 million (2018: HUF 170,104 million) carry-forwards of unused tax losses at 31 December 2019 that are not expected to be utilised in the future, out of which HUF 21,856 million can be utilised in the tax year containing 31 December 2020 and HUF 136,245 million can be utilised in the tax year containing 31 December 2030 the latest. In accordance with the relevant tax legislation, tax losses carried forward can be utilised in the order of their origination, thus tax lossess carried forward that expire in 2030 should be utilised first. Tax losses carried forward from previous years can be utilised as tax base decreasing items up to 50 percent of the tax base calculated before such utilisation.

The Group currently prepares business plans for 3 years, based on which it recognised HUF 1,831 million deferred tax asset in respect of 2020 and 2021, for tax loss carry-forwards of HUF 40,693 million, as it is probable that in the next two years the Group will have sufficient taxable income against which those tax loss carry-forwards can be utilised.

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

	31.12.2019			31.12.20188		
(HUF million)	HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and cheques	87,532	11,102	98,634	82,291	9,576	91,867
National Bank of Hungary	3,452	0	3,452	39,845	0	39,845
Other banks	5,558	18,511	24,069	5,452	19,566	25,018
Total	**96,542**	**29,613**	**126,155**	**127,588**	**29,142**	**156,730**

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 (2018: 1%). The average balance of mandatory reserve was HUF 18,632 million in 2019 (2018: HUF 16,904 million), which is this low because the Group fulfils the remaining part of the mandatory reserving requirements by holding government bonds in its portfolio.

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

Financial assets held for trading

31.12.2019 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gains/losses	Carrying amount
Derivative instruments	**1,331,560**	**797**	**0**	**29,870**	**30,667**
Hereof economic hedge	*334,106*	*368*	*0*	*9,792*	*10,160*
Interest rate	433,655	0	0	19,063	19,063
Equity	0	0	0	41	41
Currency	897,905	797	0	10,766	11,563
Commodity	0	0	0	0	0
Other	0	0	0	0	0
Equity instruments		**2,671**	**0**	**163**	**2,834**
Debt securities		**24,684**	**139**	**36**	**24,859**
Government bonds and treasury bills		24,471	138	34	24,643
Corporate and other bonds		140	1	2	143
Bank bonds		73	0	0	73
Loans and advances		**0**	**0**	**0**	**0**
Financial instruments held for trading total	**1,331,560**	**28,152**	**139**	**30,069**	**58,360**

31.12.2018 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gains/losses	Carrying amount
Derivative instruments	**1,489,513**	**388**	**0**	**31,243**	**31,631**
Hereof economic hedge	*451,678*	*170*	*0*	*9,364*	*9,382*
Interest rate	623,074	-18	0	19,206	19,188
Equity	0	0	0	24	24
Currency	866,439	406	0	12,012	12,418
Commodity	0	0	0	0	0
Other	0	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
Corporate and other bonds		0	0	0	0
Bank bonds		449	1	-1	449
Loans and advances		**0**	**0**	**0**	**0**
Financial instruments held for trading total	**1,489,513**	**16,612**	**83**	**31,243**	**47,938**

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 million, in 2019 there were no new deals. As at 31.12.2019 the carrying amount of these swaps was HUF 164 million asset (HUF

3,517 million asset as at 31.12.2018) and HUF 2,056 million liability (HUF 145 million liability as at 31.12.2018). Fair valuation result recognised in relation to MIRSs amounted to HUF 5,480 million loss in 2019 (HUF 4,135 million gain in 2018) 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

31.12.2019 **(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	**33,200**	**26**	**770**	**33,996**	**-260**
Non-trading financial assets mandatorily at fair value through profit or loss total	**33,200**	**26**	**770**	**33,996**	**-260**

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**

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.

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. In the retail segment exposures in the uncollateralised product group increased significantly, within this the amount of childbirth incentive loans mandatorily measured at fair value through profit or loss reached HUF 25 billion by year-end.

Financial assets designated at fair value through profit or loss

31.12.2019 (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	**20,899**	**537**	**-1,199**	**20,237**	**0**
Government bonds and treasury bills	20,899	537	-1,199	20,237	0
Financial assets designated at fair value through profit or loss	**20,899**	**537**	**-1,199**	**20,237**	**0**

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
Financial assets designated at fair value through profit or loss	**24,964**	**660**	**-1,412**	**24,212**	**0**

The Bank uses interest rate swaps to manage foreign exchange and credit risk, which are measured at fair value through profit or loss. Some government bonds and treasury bills were designated at fair value through profit or loss to reduce the accounting mismatch associated with those interest rate swap transactions.

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 bonds matured during 2019.

(21) Placements with banks

	31.12.2019					31.12.2018				
	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	175,137	0	0	0	175,137	112,538	36,970	0	0	149,508
Other Banks	44,613	21,342	0	42,480	108,435	58,589	185,185	0	15,059	258,833
Impairment losses	0	-17	0	-4	-21	-2	-3	0	4	9
Placements with banks total	**219,750**	**21,325**	**0**	**42,476**	**283,551**	**171,125**	**222,152**	**0**	**15,063**	**408,332**

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 contains mostly 1-day placements and balance increase by HUF 24,602 million from 2018 to 2019. Other placements with banks decreased by HUF 124,781 million during 2019 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 179 million from securities listed on stock markets and not measured at fair value through profit or loss is included in the statement of financial position line item '*Financial assets at amortised costs*', and HUF 523 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 1,200 million as collateral for its liabilities in 2019 (2018: HUF 1,636 million).

In 2019, the Group recognised HUF 4,772 million gain in other comprehensive income in relation to securities measured at fair value through other comprehensive income (2018: HUF 1,728 million) and reclassified HUF 138 million loss from other comprehensive income to profit or loss (2018: HUF 82 million loss).

In 2019 the Group adopted an additional limit for the balance of bonds issued by banks measured at fair value through other comprehensive income, which resulted in an increase in their balance. To the contrary, the limit for government bonds was reduced therefore the balance slightly decreased.

The NBH launched the Bond Funding for Growth Scheme, under which corporate bonds were bought.

Investment securities measured at amortised cost

31.12.2019 (HUF million)	**Cost**	**Accrued interest**	**Unrealised gains/losses**	**Discount/ Premium**	**Loss allowance**	**Carrying amount**
Debt securities						
Government bonds and treasury bills	123,303	1,287	0	-5,914	-11	118,665
Bank bonds	60,000	14	0	0	-1	60,013
Investments in securities at amortised cost total	**183,303**	**1,301**	**0**	**-5,914**	**-12**	**178,678**

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 at amortised cost total	**205,477**	**1,855**	**0**	**-5,455**	**-11**	**201,866**

Investment securities measured at fair value through other comprehensive income

31.12.2019 **(HUF million)**	**Cost**	**Accrued interest**	**Unrealised gains/losses**	**Discount/ Premium**	**Loss allowance**	**Carrying amount**
Equity instruments	**977**	**0**	**622**	**0**	**0**	**1,567**
Shares in limited liability companies	51	0	16	0	0	35
Shares in companies limited by shares	433	0	576	0	0	1,009
Investment fund units	493	0	30	0	0	523
Debt securities	**516,179**	**2,881**	**12,004**	**-7,663**	**-49**	**523,354**
Government bonds and treasury bills	238,626	2,336	10,387	-7,648	-21	243,680
Corporate and other bonds	8,895	370	242	86	-9	9,586
Bank bonds	268,658	175	1,375	-101	-19	270,088
Financial assets at fair value through other comprehensive income total	**517,156**	**2,881**	**12,626**	**-7,663**	**-49**	**524,921**

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**

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 2018, changes in these equity instruments solely resulted from changes in fair values, in 2019 in addition to these further movements were due to sale of CF Pharma Gyógyszergyártó Kft.

(23) Investments in unlisted securities

(HUF million)	Ownership interest % 31.12.2018	Ownership interest % 31.12.2018	Carrying amount 31.12.2019	Carrying amount 31.12.2018
RC Gazdasági és Adótanácsadó Zrt.	20.00%	20.00%	6	3
Garantiqa Hitelgarancia Zrt.	0.19%	0.19%	15	15
SWIFT	0.02%	0.02%	30	28
VISA Inc C.	0.03%	0.03%	988	678
CF Pharma Gyógyszergyártó Kft.	0%	13.19%	0	1
Pannon Lúd Mezőgazdasági és Szolgáltató Kft.	0.89%	0.89%	5	5
RAJNA investment units	-	-	523	467
Investments in unlisted securities total			**1,567**	**1,197**

Unlisted investment securities are included in the statement of financial position line item *'Financial assets at fair value through other comprehensive income'*. In 2018, changes in these equity instruments solely resulted from changes in fair values. In 2019 in addition to these the sale of CF Pharma Gyógyszergyártó Kft is included in the movements.

(24) Property and equipment, intangible assets and goodwill

	Gross carrying amount							Accumulated depreciaton/amortization					Carrying amount
(HUF million)	**01.01.2019**	**Recognition of right-of-use asset on initial application of IFRS 16**	**Adjusted balance as at 01.01.2019**	**Additions**	**Disposals**	**Reclassifications**	**31.12.2019**	**01.01.2019**	**Additions**	**Disposals**	**Reclassifications**	**31.12.2019**	**31.12.2019**
Property, plant and equipment													
Property	10.700	9.549	20.249	1.899	0	-2	22.146	-7.801	-2.433	0	0	-10.234	11.912
Plant and equipment	16.028	0	16.028	3.039	-2.335	-1	16.731	-12.139	-1.418	2.029	1	-11.527	5.204
Property, plant and equipment total	**26.728**	**9.549**	**36.277**	**4.938**	**-2.335**	**-3**	**38.877**	**-19.940**	**-3.851**	**2.029**	**1**	**-21.761**	**17.116**
Intangible assets													
Aquired software	49.247	0	49.247	5.730	-175	2	54.804	-33.810	-3.773	175	0	-37.408	17.396
Internally developed software	0	0	0	0	0	0	0	0	0	0	0	0	0
Other intabgible assets	1.761	0	1.761	0	0	1	1.762	-583	-26	0	-1	-610	1.152
Intangible assets total	**51.008**	**0**	**51.008**	**5.730**	**-175**	**3**	**56.566**	**-34.393**	**-3.799**	**175**	**-1**	**-38.018**	**18.548**

	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	-2.952	0	10.700	-7.233	-978	411	0	-7.801	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**	**-6.463**	**-12.785**	**26.728**	**-24.099**	**-2.585**	**1.410**	**5.335**	**-19.940**	**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**

The Group recognised expenses amounting to HUF 968 million in the carrying amount of intangible assets, in course of developing intangible assets (2018: HUF 744 million).
Line item 'Property' includes HUF 8,635 million, line item 'Equipment' includes HUF 308 million right-of-use assets as at 31 December 2019.
The amount of goodwill in the Group's books was HUF 1,048 million in both 2018 and 2019. 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 2019 and 2018.

(25) Leases

The Group acting as a lessee (IFRS 16)

The Group leases properties, typically office premises and branches and vehicles. Property lease contracts usually have a 3 or 5 years rental term, in respect of which 3 or 5 years extension options were recorded. In case of contracts with shorter term, 1 or 2 years extension options were recorded. The contracts with indefinite term have a one-year notice period.

The Group is going to move into a new head office in 2020, therefore the existing head office rental contracts were terminated with effect from 31 December 2019. The Group classified the previous head office lease as short-term lease applying the practical expedient allowed by the standard on transition, thus no right-of-use asset and lease liability were recognised on transition in connection to that lease contract. The contract for new head office will be recorded during 2020 with the expected amount of HUF 16,267 million.

The vehicles have 6 years of rental term in all cases, extension options were not recorded in the contracts. The Group presented the vehicles as leases already under IAS 17, therefore right-of-use assets and lease liabilities were recored for them.

Furthermore the Group leases IT equipment, however they either qualify as short-term leases or the underleying asset is a low-value asset, thus the Group – based on its election – does not recognise right-of-use assets and lease liabilities for them.

The Group has no sale and leaseback arrangements.

Right-of-use assets

Right-of-use assets related to leased properties and vehicles are presented within property and equipment (see Note 24.):

	Gross carrying amount				Accumulated depreciaton/amortization				Carrying amount
(HUF million)	**01.01.2019**	**Additions**	**Disposals**	**31.12.2019**	**01.01.2019**	**Additions**	**Disposals**	**31.12.2019**	**31.12.2019**
Right-of-use asset									
Property	9,549	606	0	10,155	0	-1,520	0	-1,520	8,635
Vehicles	1,267	37	-865	439	-574	-135	578	-131	308
Right-of-use asset total	**10,816**	**643**	**-865**	**10,594**	**-574**	**-1,655**	**578**	**-1,651**	**8,943**

Lease libilities

The Group presents lease liabilities within „Financial liabilities measured at amortised cost”. The maturity analysis for lease liabilities at 31 December 2019 is as follows:

(HUF million)	**31.12.2019.**
Less than 1 year	1,539
Between 1 and 5 years	4,884
More than 5 years	2,827
Total	**9,250**

Amounts presented in the Statement of cash-flows

In 2019 the total cash outflows related to lease contracts amounted to HUF 1,800 million, that are presented within „Payment of lease liabilities” and „Interest paid”.

Amounts recognised in profit or loss

According to IFRS 16 the amounts recognised in profit or loss for 2019:

(HUF million)	31.12.2019.
Interest expense on lease liabilities	276
Expenses relating to short-term leases	1,374
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	61
Total	**1,711**

In 2019 the Group recognised expenses related to leases within the administrative expenses with the amount of HUF 1,711 million (2018: HUF 721 million).

The recognised expenes increased significantely compared to 2018, because the Bank acquired Késmárk utca 11-13. Kft. in 2018, from which it leased one of its head offices and the related rental fees were eliminated on consolidation in 2018. The property was sold, therefore it was leased from the new owner in 2019.

(26) Other assets

(HUF million)	31.12.2019	31.12.2018
Prepayments and accrued income	2,082	2,419
Materials and inventories	184	204
Inventories and properties obtained by taking possession of collaterals	638	1,196
Tax receivables	134	109
Other assets	9	10
Other assets total	**3,047**	**3,938**
thereof: loss allowance	-45	-118

A significant portion of other assets comprises of prepayments and accrued income and assets obtained by taking possession of collaterals in both 2019 and 2018. In both items larger movements were observable during the two year: on the one hand the balance of advances to suppliers partly compensated the decrease of HUF 486 million in deferred expenses. On the other hand by selling some properties the balance of inventories and properties obtained by taking possession of collaterals decreased. Loss allowances presented relate to properties obtained by taking possession of collaterals.

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

31.12.2019 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gain/loss	Book value
Derivative instruments held for trading	**1,233,640**	**325**	**0**	**27,343**	**27,668**
Hereof economic hedge	*254,985*	*-103*	*0*	*6,793*	*6,690*
Interest rate	413,530	0	0	15,647	15,647
Equity	1	0	0	223	223
FX	820,109	325	0	11,473	11,798
Total derivative instruments	**1,233,640**	**325**	**0**	**27,343**	**27,668**
Short positions		37	0	0	37
Total short positions		**37**	**0**	**0**	**37**
Total financial liabilities at fair value through profit/loss	**1,233,640**	**362**	**0**	**27,343**	**27,705**

31.12.2018 (HUF million)	Nominal value of derivatives	Cost	Accrued interest	Unrealised gain/loss	Book value
Derivative instruments held for trading	**1,473,324**	**502**	**0**	**26,516**	**27,018**
Hereof economic hedge	*357,001*	*114*	*0*	*5,129*	*5,243*
Interest rate	548,728	0	0	14,295	14,295
Equity	1	0	0	70	70
FX	924,595	502	0	12,151	12,653
Total derivative instruments	**1,473,324**	**502**	**0**	**26,516**	**27,018**
Short positions		1,406	0	0	1,406
Total short positions		**1,406**	**0**	**0**	**1,406**
Total financial liabilities at fair value through profit/loss	**1,473,324**	**1,908**	**0**	**26,516**	**28,424**

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'.*

(28) 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:

31.12.2019 (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	290,302	**290,302**
Deposits from customers	0	0	1,937,060	**1,937,060**
Subordinated liabilities	0	0	51,164	**51,164**
Debt securities issued	0	0	4,646	**4,646**
Derivative liabilities	27,668	0	0	**27,668**
Short positions	37	0	0	**37**
Other financial liabilities	0	0	15,824	**15,824**
Total	**27,705**	**0**	**2,298,996**	**2,326,701**

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**

(29) Deposits from banks and deposits from customers

Deposits from banks

(HUF million)	31.12.2019					31.12.2018				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	2,303	5,048	111,087	128,563	247,001	4,584	5,355	85,009	154,222	249,170
Non resident	38,245	349	0	4,707	43,301	15,862	6	0	5,862	21,730
Deposits from banks total	**40,548**	**5,397**	**111,087**	**133,270**	**290,302**	**20,446**	**5,361**	**85,009**	**160,084**	**270,900**

Deposits from customers

(HUF million)	31.12.2019					31.12.2018				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
	HUF	Foreign currency	HUF	Foreign cur-rency	Total	HUF	Foreign currency	HUF	Foreign cur-rency	Total
Resident	1,287,103	578,115	2,852	874	1,868,944	1,174,510	559,336	5,139	1,036	1,740,021
Non resident	27,984	38,726	0	1,406	68,116	38,241	43,329	1	230	81,801
Deposits from customers total	**1,315,087**	**616,841**	**2,852**	**2,280**	**1,937,060**	**1,212,751**	**602,665**	**5,140**	**1,266**	**1,821,822**

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 765 billion at the end of 2019 (2018: HUF 717 billion).

(30) Debt securities issued

(HUF million)	31.12.2019 Par value	31.12.2019 Carrying amount	31.12.2018 Par value	31.12.2018 Carrying amount
Measured at amortised cost	**4,132**	**4,646**	**10,958**	**12,137**
fix	4,052	4,573	10,185	11,335
floating	80	73	773	802
Total debt securities issued	**4,132**	**4,646**	**10,958**	**12,137**

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 77 million at the end of 2019 (2018: HUF 1,8 billion).

(31) Subordinated liabilities

31.12.2019 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	29.12.2017	22	EUR	5.69	31.12.2024	7,406
Raiffeisen Bank International AG	29.12.2017	45	EUR	5.83	31.12.2024	14,820
Raiffeisen Bank International AG	29.12.2017	28	EUR	5.68	31.12.2024	9,201
Raiffeisen Bank International AG	29.12.2017	28	EUR	5.68	31.12.2024	9,201
Raiffeisen Bank International AG	29.12.2017	32	EUR	5.83	31.12.2024	10,536
Subordinated liabilities total		**155**				**51,164**

31.12.2018 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	29.12.2017	20	EUR	5.69	31.12.2024	6,530
Raiffeisen Bank International AG	29.12.2017	41	EUR	5.83	31.12.2024	12,993
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	30	EUR	5.83	31.12.2024	9,645
Subordinated liabilities total		**141**				**45,382**

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.

The Bank signed a contract at 20 December 2019 with its parent bank to repay its subordinated liabilities and to re-issue them with new conditions, according to which during February-March of 2020 amounts of about EUR 140 million will be repayed and EUR 155 million will be re-disbursed with a maturity extended to 2027-2032 with interest rates between 2.88-3.13%. For information about the neccessary approval of NBH please see Note 48 Events after the reporting date.

(32) Other liabilities

(HUF million)	31.12.2019	31.12.2018
Deferred income and accrued expenses	3,546	3,601
Tax liabilities	2,762	3,378
Sundry liabilities	615	267
Other liabilities total	**6,923**	**7,246**

The two predominant items within other liabilities are accruals and tax liabilities. Whereas the formerr did not change significantly compared to 2018, the decrease of tax liabilities is higher.

(33) Provisions

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

(HUF million)	Other long term employee benefits	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2019	**0**	**176**	**801**	**4,532**	**5,509**
Additions, including increases in existing provisions	0	186	953	2,810	3,949
(-) Amounts used	0	-60	0	-4,063	-4,123
(-) Unused amounts reversed during the period	0	0	-530	-241	-771
Other movements	0	0	0	0	0
Closing balance 31.12.2019	**0**	**302**	**1,224**	**3,038**	**4,564**

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

The provision recorded for restructing increased by HUF 126 million in 2019, provision for legal issues increased by HUF 422 million.

Within other provisions HUF 1,534 million decrease was mailnly caused by the use of the provision related to the GVH penalty due to transaction fees. These transaction fees were repaid to the clients in August 2019.

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

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. On 28 May 2019 the company was sold to outside the Group the net result (HUF -247 million) from the transaction is presented within Other result in profit or loss.

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 2019.

(35) Share capital

Shareholder structure of the Group was as follows as at 31.12.2019 and 31.12.2018:

	31.12.2019			
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**

	31.12.2018			
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**

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 31December 2019 and 31December 2018.

In 2019, HUF 28,800 million dividend was paid from the profit for 2018. In addition, the Group paid further HUF 625 million dividend on the AT1 capital (see note *(37) Equity instruments issued other than share capital*). The Group pays no divident from its 2019 profit, see note *(48) Events after the reporting date.*

(36) 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.

(37) Equity instruments issued, other than share capital

31.12.2019 **Lender**	**Borrowed on**	**Amount in original currency (million)**	**Original currency**	**Interest rate**	**Maturity**	**Carrying amount (HUF million)**
Raiffeisen Bank International AG	13.03.2019	100	EUR	9.00%	Without maturity	31,445
Additional Tier1 loan total						**31,445**

The Management Board of the Bank decided on 4 March 2019 to privately issue bonds qualifying for subordinated additional tier 1 capital instrument according to Article 52 of Regulation (EU) No. 575/2013 (CRR) in the amount EUR 100 million.

The consideration for the 500 pieces of dematerialised bond with a nominal value of EUR 200,000 each was paid on 13 March 2019. The bonds are perpetual, carry variable interest, the amount of which is12-months EURIBOR plus 9%. The interest shall be paid in the currency of the bond on 30 May each year. Considering that the issued bond is perpetual and the bondholder is not entitled to redeem it, and the fact that any payments to be effected under the terms and conditions of the bonds, including any interests and any payments arising from any redemption or recall events specified in the contract are at the sole discretion of the Bank i.e. the Bank has no contractual obligation to effect those payments, the amount received from the issue is considered as equity and the interest paid on it is considered as dividend. The equity item is recognised in HUF in the books. The Bank is entitled to recall or repay in the events specified in the terms and conditions.

(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 general reserve is included under *'Other reserves'*, in accordance with Act CCXXVII of 2013, chapter 38 section 83. 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 2,060 million in 2019 (2018: HUF 2,301 million).

(40) Retained earnings

The line item *'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.

31.12.2019	**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	355,766	14,807	1,031	260	112	432
Financial guarantees given	121,263	3,104	868	18	21	487
Other guarantees and commitments	114,129	7,982	23,604	16	14	4,858
Total	**591,158**	**25,893**	**25,503**	**294**	**147**	**5,777**

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**

*Accumulated negative fair value changes attributable to changes in credit risk in case of non-performing commitments

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 1,638 million at the end of 2019, relating to 2020 (2018: HUF 996 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, fair value hierarchy'*.

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

31.12.2019 (HUF million)	Fair value hierarchy Level 1	Level 2	Level 3	Fair value change during the period Level 2	Level 3	Accumulated fair value change before tax Level 1	Level 2	Level 3
Financial assets at fair value								
Financial assets held for trading total	**27,692**	**30,668**	**0**	**-1,565**	**0**	**199**	**30,028**	**0**
Derivative instruments	0	30,668	0	-1,565	0	0	30,028	0
Equity instruments	2,834	0	0	0	0	163	0	0
Debt securities	24,858	0	0	0	0	36	0	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**0**	**33,996**	**0**	**580**	**0**	**0**	**691**
Loans and advances	0	0	33,996	0	580	0	0	691
Financial assets designated at fair value through profit or loss total	**20,237**	**0**	**0**	**0**	**0**	**-1,199**	**0**	**0**
Debt securities	20,237	0	0	0	0	-1,199	0	0
Financial assets at fair value through other comprehensive income total	**492,982**	**31,884**	**56**	**0**	**0**	**11,411**	**1,198**	**18**
Equity instruments	0	1,512	56	0	0	0	604	18
Debt securities	492,982	30,372	0	0	0	11,411	594	0
Hedging derivative instruments	**0**	**6,021**	**0**	**3,371**	**0**	**0**	**6,009**	**0**
Financial assets at fair value total	**540,911**	**68,573**	**34,052**	**1,806**	**580**	**10,411**	**37,235**	**709**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**27,705**	**0**	**851**	**0**	**0**	**27,379**	**0**
Derivatives	0	27,668	0	851	0	0	27,379	0
Short positions	0	37	0	0	0	0	0	0
Hedging derivative instruments	**0**	**11,569**	**0**	**7,301**	**0**	**0**	**11,331**	**0**
Financial liabilities at fair value total	**0**	**39,274**	**0**	**8,152**	**0**	**0**	**38,710**	**0**

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**
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
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**

Fair value hierarchy: financial instruments measured at amortised cost

31.12.2019 (HUF million)	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	178,678	184,308	184,308	0	0
Loans and advances	1,541,341	1,632,121	0	0	1,632,121
Financial assets at amortised cost total	**1,720,019**	**1,816,429**	**184,308**	**0**	**1,632,121**
Financial liabilities at amortised cost					
Deposits	2,278,526	2,312,210	0	0	2,312,210
Debt securities issued	4,646	4,884	0	4,884	0
Other financial liabilities	7,353	7,353	0	0	7,353
Financial liabilities at amortised cost total	**2,290,525**	**2,324,447**	**0**	**4,884**	**2,319,563**

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**

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 and credit risk 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 01.01.2019	Originations/ purchases	Sales	Settlements	Gains/losses in profit or loss	Hereof: unrealised gains/losses	Gains/losses in other comprehensive income	Closing balance 31.12.2019
Non-trading financial assets mandatorily at fair value through profit or loss								
Loans and advances	7,691	0		-2,483	650	580	0	33,996
Non-trading financial assets mandatorily at fair value through profit or loss total	**7,691**	**0**		**-2,483**	**650**	**580**	**0**	**33,996**
Financial assets at fair value through other comprehensive income								
Equity instruments	52	1	-15	0	0	0	18	56
Financial assets at fair value through other comprehensive income total	**52**	**1**	**-15**	**0**	**0**	**0**	**18**	**56**

(HUF million)	Opening balance 01.01.2018	Originations/ purchases	Sales0	Settlements	Gains/losses in profit or loss	Hereof: unrealised gains/losses	Gains/losses in other comprehensive income	Closing balance 31.12.2018
Non-trading financial assets mandatorily at fair value through profit or loss								
Loans and advances	9,279	1,497	0	-3,240	155	34	0	7,691
Non-trading financial assets mandatorily at fair value through profit or loss total	**9,279**	**1,497**	**0**	**-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**

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

31.12.2019	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**	**1,464**	**0**	**0**	**0**
Net trading income and fair value result	0	0	648	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**18**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**1,395**	**0**	**0**	**0**
Net trading income and fair value result	0	0	580	0	0	0
Other interest income	0	0	815	0	0	0

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

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:

31.12.2019 **(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	33,996	a)	b)	c1)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	**33,996**				
Financial assets at fair value through other comprehensive income					
Equity instruments	56	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	**56**				

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)	c2)	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**				

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
c1)	Performing: Retail: risk-free curve for discounting: 0.1% - 3.2487% Non-retail: risk-free curve: 0.10% - 1.94 % funding curves (for liquidity costs): -0.1% - +0.61% for HUF funding costs at valuation; -0.50726% - +2.57069% for HUF funding costs at origination credit spread range (CDS curve): +0% - +60.8% for CDS at valuation; +0% - +44.46% for CDS at origination NPL: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100 %
c2)	Performing: Retail: risk-free curve for discounting: 0.182624% - 3.09585% Non-retail: risk-free curve: 0.182624% - 3.09585% funding curves (for liquidity costs): -0.101458% - +0.60903% for HUF funding costs at valuation; -0.50726% - +2.57069% for HUF funding costs at origination credit spread range (CDS curve): +0.035955% - +46.276932% for CDS at valuation; +0% - +44.45546% for CDS at origination NPL: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 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,

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

Financial instruments at amortised cost:

31.12.2019 **(HUF million)**	**Fair value at re-porting date**	**Valuation technique**	**Significant unobserva-ble inputs**
Financial assets at amortised cost			
Loans and advances	1,632,121	discounted CF	discount curve
Financial assets at amortised cost total	**1,632,121**		
Financial liabilities at amortised cost			
Deposits	2,312,210	discounted CF	discount curve
Other financial liabilities	7,353	no valuation	not applicable
Financial liabilities at amortised cost total	**2,319,563**		

31.12.2018 **(HUF million)**	**Fair value at re-porting date**	**Valuation technique**	**Significant unobserva-ble inputs**
Financial assets at amortised cost			
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
Other financial liabilities	7,667	no valuation	not applicable
Financial liabilities at amortised cost total	**2,160,886**		

(43) Related parties

The Group determines in accordance with IAS 24 whether a party qualifies as a party related to the Group. The Group's related parties include amongst others 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

31.12.2019 (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	14,944	0	0	0	0
Loans and advances	4,465	134	0	13	0
hereof: non-performing	*0*	*0*	*0*	*0*	*0*
Financial assets total	**19,409**	**134**	**0**	**13**	**0**
Financial liabilities					
Deposits	62,761	47	0	414	0
Financial liabilities total	**62,761**	**47**	**0**	**414**	**0**
Nominal value of loan commitments, financial guarantees given and other contingencies given	21,959	466	0	6	0
Nominal value of loan commitments, financial guarantees and other contingencies received	51,231	0	0	0	0
Nominal value of derivatives	2,415,453	0	0	0	0
Accumulated impairment and negative fair value change from change in credit risk of non-performing assets	0	0	0	0	0

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 given	23,669	196	0	5	0
Nominal value of loan commitments, financial guarantees and other contingencies received received	0	0	0	0	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	-58	0	0	0

Income and expenses from transactions with related parties

2019 (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	14,723	4	0	0	0
Interest expense	-19,876	0	0	0	0
Fee and commission income	182	2	0	3	0
Fee and commission expense	-206	0	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair vlue through profit and loss	110	0	0	0	0
Total	**-5,067**	**6**	**0**	**3**	**0**

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**

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 857 million in 2019 (HUF 829 million in 2018).

(44) Investments in subsidiaries

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

Subsidiaries	Ownership interest	Ownership interest 31.12.2018	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.	100,00%	100,00%	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%	100,00%	1158 Budapest. Késmárk utca 11-13.	Management of real estate on a fee or contract basis
Harmadik Vagyonkezelő Kft.	0,00%	100,00%	1054 Budapest. Akadémia u. 6.	Activities of holding companies
EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft.	0,00%	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

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

(HUF million)	Gross carrying amount 01.01.2019	Increase	Decrease	Gross carrying amount 31.12.2019	Impairment 01.01.2019	Increase	Decrease	Impairment 31.12.2019	Net carrying amount 01.01.2019	Net carrying amount 31.12.2019
Harmadik Vagyonkezelő Kft.	31	0	-31	0	0	0	0	0	31	0
Total	**31**	**0**	**-31**	**0**	**0**	**0**	**0**	**0**	**31**	**0**

(HUF million)	Gross carrying amount 01.01.2018	Increase	Decrease	Gross carrying amount 31.12.2018	Impairment 01.01.2018	Increase	Decrease	Impairment 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	**0**	**31**	**0**	**31**	**0**	**0**	**0**	**0**	**0**	**31**

SCTS Kft, SCTB Ingatlanfejlesztő és Ingatlanhasznosító Kft. and RB Kereskedőház Kereskedelmi Kft merged into SCT Kárász utca Ingatlanfejlesztő Kft. on 31st January 2018. The Bank effected a divestment through capital reduction in case of the company SCT Kárász utca Ingatlankezelő Kft., which was a registered by comercial court at 10 September 2018. The Bank purchased Késmárk utca 11-13. Kft. on 28 March 2018 and Harmadik Vagyonkezelő Kft. 16th 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 1st January 2019.

(45) Fund management activity

The Group manages zero closed-end (2018: 0) and 15 open-end (2018: 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)	2019	2018
Managed funds	**176,139**	**171,414**
Open-end funds	176,139	171,414
Closed-end funds	0	0
Net fee and commission income from funds	2,051	1,832
Deposits from funds	10,819	7,510
Interest income and expense on deposits from funds	9	12

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.
In 2019 and 2018, 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 EUR.

(46) Changes in the financing activities

The reconciliation between the changes in liabilities and the cash-flows arising from financing activities is detailed in the following table:

		Liabilities			Equity						
	Note	Debt securities	Sub-ordinated liabilities	Lease liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	Total
Restated balance at 1 January 2019		**12,137**	**45,382**	**10,242**	**50,000**	**113,445**	**0**	**39,086**	**9,511**	**0**	**279,803**
Changes from financing cash flows											
Proceeds from issue of debt securities	(30)	-441	0	0	0	0	0	0	0	0	**-441**
Repayment of debt securities at maturity	(30)	-7,141	0	0	0	0	0	0	0	0	**-7,141**
Proceeds from issue of Additional Tier 1 Capital (AT1)	(27)	0	0	0	0	0	31,445	0	0	0	**31,445**
Payment of lease liability	(25)	0	0	-1,516	0	0	0	0	0	0	**-1,516**
Dividends and coupon on equity instruments paid	(35)	0	0	0	0	0	625	-28,800	0	0	**-29,425**
Total changes from financing cash flows		**-7,582**	**0**	**-1,516**	**0**	**0**	**32,070**	**-28,800**	**0**	**0**	**-7,078**
The effect of changes in foreign exchange rates		**0**	**1,261**	**195**	**0**	**0**	**0**	**0**	**91**	**0**	**1,547**
Changes in fair value		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**5,497**	**0**	**5,497**
Other changes		**0**	**0**	**329**	**0**	**0**	**0**	**0**	**-497**	**0**	**-168**
Liability-related											
Interest expense	(7)	281	7,165	276	0	0	0	0	0	0	**7,722**
Interest paid	(7)	-190	-2,644	-276	0	0	0	0	0	0	**-3,110**
Total liability-related other changes		**91**	**4,521**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,612**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**0**	**18,703**	**2,060**	**0**	**20,763**
Balance at 31 December 2019		**4,646**	**51,164**	**9,250**	**50,000**	**113,445**	**32,070**	**23,282**	**16,662**	**0**	**304,976**

	Note	Liabilities		Equity						Total
		Debt securities	Sub-ordinated liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	
Balance at 1 January 2018		**17,714**	**43,781**	**50,000**	**113,445**	**0**	**33,572**	**9,171**	**0**	**267,683**
Changes from financing cash flows										
Proceeds from issue of debt securities	(30)	-1,025	0	0	0	0	0	0	0	**-1,025**
Repayment of debt securities at maturity	(30)	-4,552	0	0	0	0	0	0	0	**-4,552**
Dividends and coupon on equity instruments paid	(35)	0	0	0	0	0	-17,640	0	0	**-17,640**
Total changes from financing cash flows		**-5,577**	**0**	**0**	**0**	**0**	**-17,640**	**0**	**0**	**-23,217**
The effect of changes in foreign exchange rates		**0**	**1,592**	**0**	**0**	**0**	**0**	**-124**	**0**	**1,468**
Changes in fair value		**0**	**0**	**0**	**0**	**0**	**0**	**-2,022**	**0**	**-2,022**
Other changes		**0**	**0**	**0**	**0**	**0**	**0**	**185**	**0**	**185**
Liability-related										
Interest expense	(7)	497	2,602	0	0	0	0	0	0	**3,099**
Interest paid	(7)	-497	-2,593	0	0	0	0	0	0	**-3,090**
Total liability-related other changes		**0**	**9**	**0**	**0**	**0**	**0**	**0**	**0**	**9**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**23,154**	**2,301**	**0**	**25,455**
Balance at 31 December 2018		**12,137**	**45,382**	**50,000**	**113,445**	**0**	**39,086**	**9,511**	**0**	**269,561**

(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 utca 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 2019 and 2018:

(HUF million)	2019	2018
Audit fees	78	77
Other assurance services	6	17
Fees for non-audit services	59	20
Total	**143**	**114**

iv. The Bank's management board proposed to reserve the entire profit for the business year 2019 as retained earnings which is expected to be approved by the owner on 29 April 2020.

(HUF million)	31.12.2019	31.12.2018
Retained earning + Profit and loss after tax	28,364	39,086
Sources available for dividend payment	**28,364**	**39,086**

The 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

a) Effects of Covid-19 virus

The assessment of the expected economic effects of COVID-19 virus officially declared as a pandemic by the WHO on 11 March 2020 has begun, the Bank continuously monitors the developments and their impact on its financial position. The conditions of continuing the Bank's operation are secured and its liquidity and capital situation is stable.

Considering the situation emerged in connection with COVID-19 the Bank aims to act prudently and with due care in managing credit risk. It reviews and revises how its current customer base is affected and collects necessary information. Considering the emerged situation, RBI Group revisits its current lending policy. In 2020 the Bank expects a significant increase in impairment losses and risk costs compared to previous experience, in both retail and non-retail segments and within those segments especially in sectors economically affected by COVID-19. This basically reflects expectations about an unfavourable macroeconomic environment and increasing default rates as a consequence of that. The accurate quantification of financial effects arising from impairment has not yet been finished since no reliable estimation can be made lacking a complete set of data.

The Government of Hungary, with its Decree No. 47/2020 (III.18.), ordered a payment moratorium, with effect from

19 March 2020, for fulfilling principal, interest and fee payment obligations arising from disbursements already made under loan and finance lease agreements in force at 24:00 on 18 March 2020.

The payment moratorium lasts until 31 December 2020 (this can be prolonged by the government with a decree). The payment moratorium includes in its scope both retail debtors and non-retail debtors in Hungary. The debtors can decide to continue to make payments as originally specified in the contracts. Principal cannot be increased by the interest not paid during the period of the payment moratorium. Interest accreted in the period of the payment moratorium shall be paid after the maturity of the payment moratorium, in equal yearly instalments, together with repayments becoming due over the remaining maturity. Following the end of the payment moratorium, the term shall be extended in a way that amounts due to be repaid after the end of the payment moratorium do not exceed the instalments specified in the original contract. The Bank could realise a loss of HUF 1.4 billion – HUF 2.2 billion arising from such rescheduling of cash-flows, depending on the proportion of debtors having resort to the payment moratorium.

The liquidity buffer of the Bank continues to show a significant surplus and is stable. The payment moratorium may have an adverse effect on the Bank's liquidity on the long run, however this is counterbalanced by the existing liquidity buffers and potentially by other measures to be taken by NBH (amongst others its program announced on 23 March 2020, i.e. the repo-capability of corporate loans). On daily Contingency Committee meetings introduced in course of continuous monitoring and in order to facilitate fast reactions, members of the management board receives up-to-date information from the responsible departments and decides on the steps necessary.

On 2 April 2020 ALCO meeting, the Bank's actualised capital plan for the period 2020 was approved which already incorporates the Bank's estimation regarding the effects of the coronavirus. According to the actualised capital plan the Bank's capital situation is stable, the level of its capital buffer is expected to remain far above the regulatory capital requirements.

The Bank's management board proposed to reserve the entire profit for the business year 2019 as retained earnings which is expected to be approved by the owner on 29 April 2020. Postponing the payment of dividend is an important factor in the Bank's expectations about its continuous liquidity and capital adequacy.

No decision has been made on the interest on EUR 100 million bonds privately issued by the Bank in 2019 and qualifying as subordinated additional tier 1 capital instruments in accordance with Article 52 of Regulation 575/2013 (EU) CRR. That interest, which amounts to EUR 9 million and would be due on 30 May 2020, should be accounted for as dividend once payable.

b) Regulatory approval for subordinated liability

The NHB approved the request of the Bank for the early repayment of the EUR 140 million additional capital granted by Raiffeisen Bank International AG to the Bank. The repayment and the new disbursement was completed on 28 February 2020 and a further disbursement was effected on 27 March 2020 in the amount of EUR 15 million according to the contract signed in December 2019.

(49) Abbreviations and terms used in the financial statements

AAC: At Amortised Cost

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

BPV: Basis Point Values

CCIRS: Cross Currency Interest Rate Swap

CDS: Credit Default Swap

CF: Cash flow

CIRS: Cross Currency Interest Rate Swap

CRR:

Default: non-performing

EAD: Exposure at Default

FGS: Funding for Growth Scheme

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

GVH: Hungarian Competition Authority

HAL: Hungarian Accouning Law

Hold-and-sel: 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

IAS: International Accounting Standards

IASB: International Accounting Standards Board

ICCAP: Internal Capital Adequacy Assesment Process

IFRS: International Financial Reporting Standards

IRB: Internal Rating Based Approach

IRS: Interest Rate Swap

L&R: Loans and Receivables

LGD: Loss Given Default

MIRS: monetary policy interest rate swap

NBH: National Bank of Hungary

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