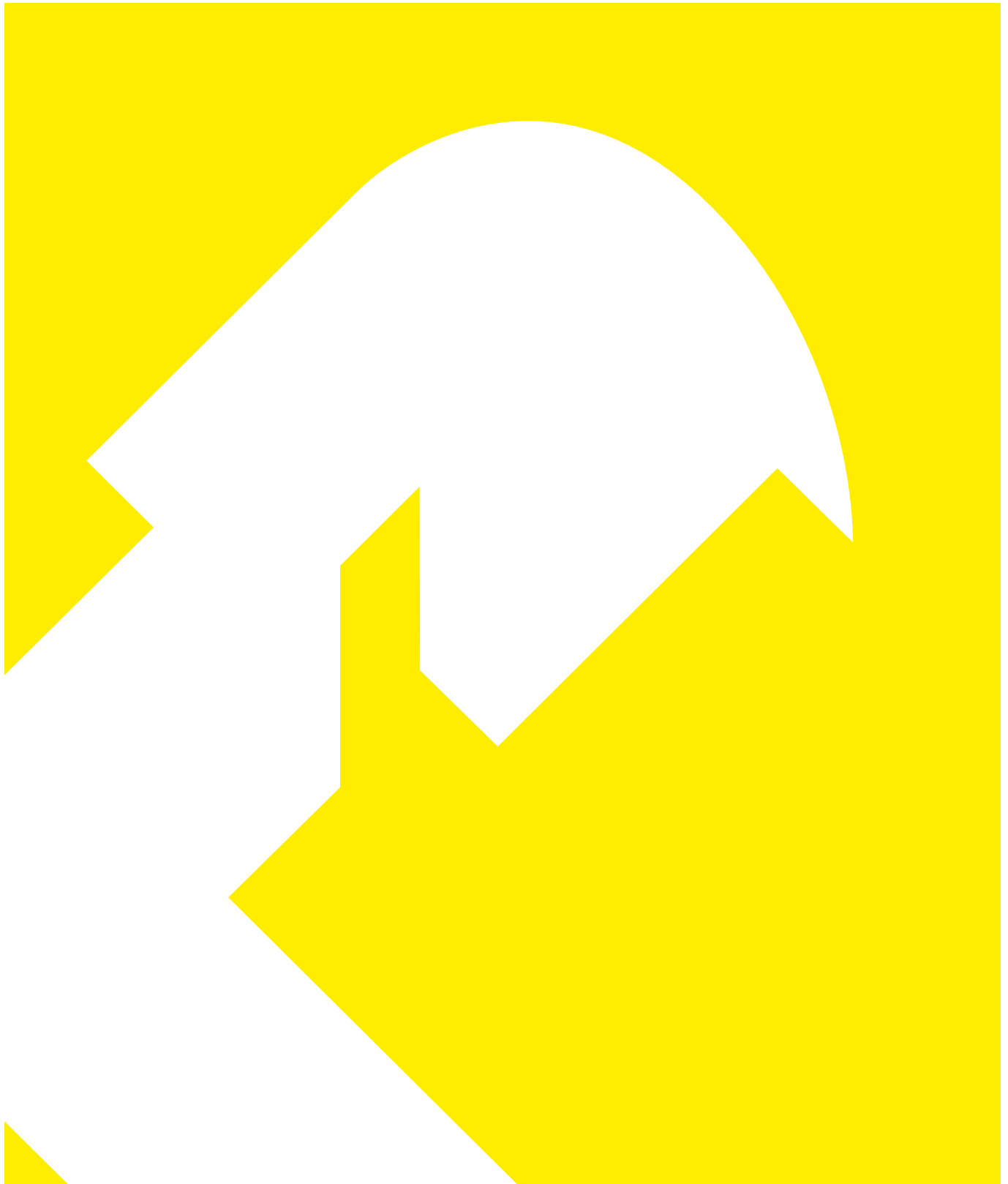
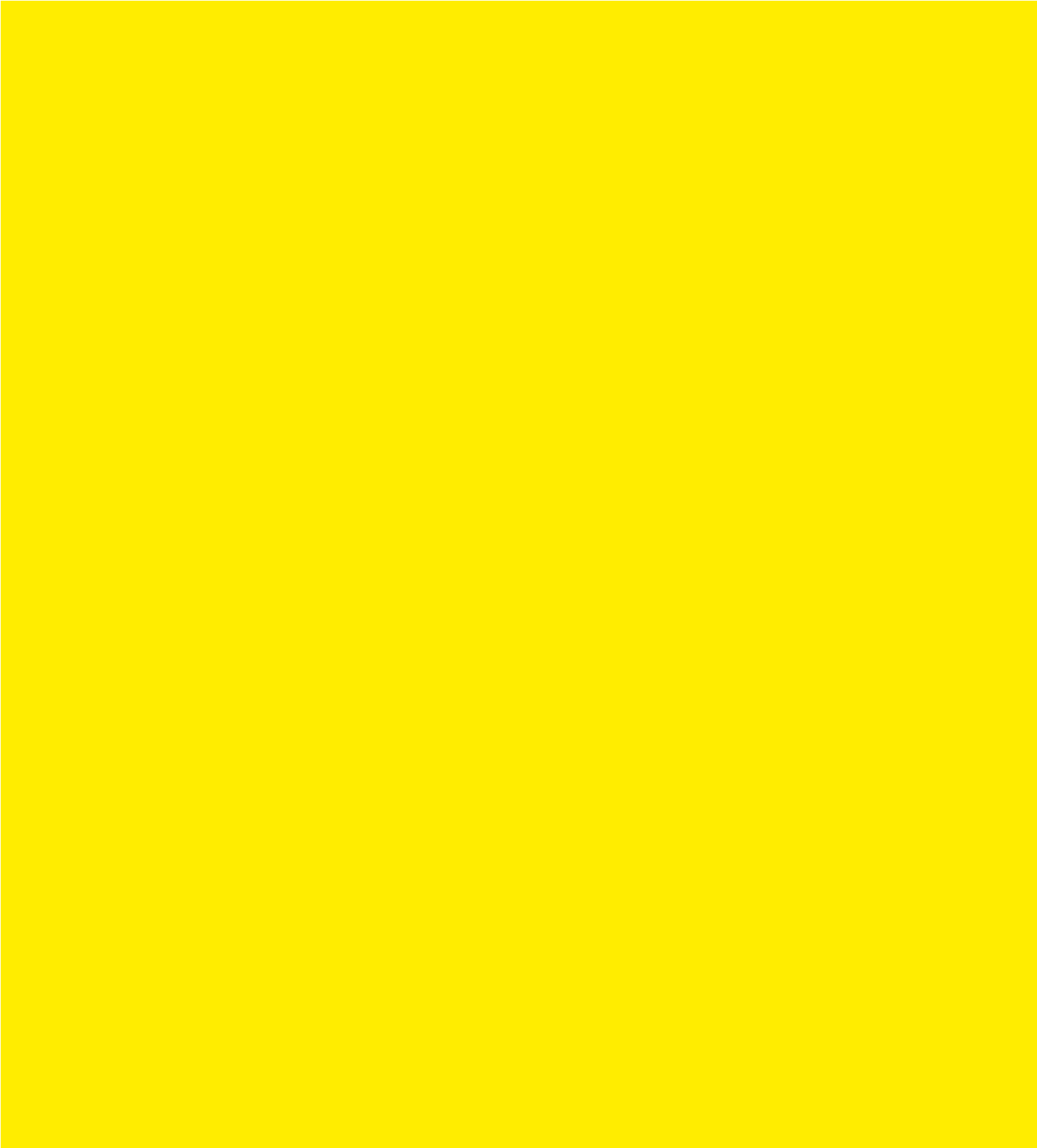


Annual Report 2023

Consolidated Financial Statement





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Report of the Supervisory Board

Ladies and Gentlemen,

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at Raiffeisen Bank Hungary. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity, as well as on the direction of the bank's business and risk strategies. The Supervisory Board also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies. In course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives from supervisory authorities on topical issues.

Moreover, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Supervisory Board maintained close contact with the Chairman and members of the Management Board. The Management Board was available when required for bilateral or multilateral discussions with members of the Supervisory Board, where applicable with the involvement of experts on matters being addressed.

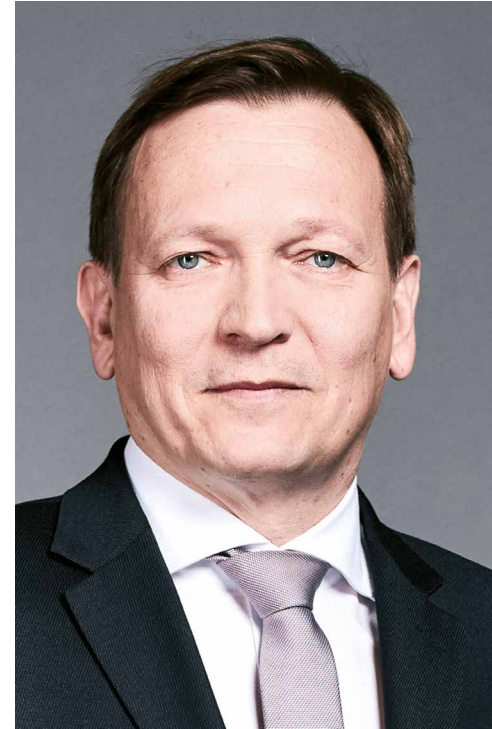
The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Supervisory Board passed resolutions after fully considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction.

I would like to take this opportunity to sincerely thank the Management Board and all employees of Raiffeisen Bank Hungary for their unwavering efforts, and also our customers for their continued trust.

On behalf of the Supervisory Board



Andreas Gschwenter
Chairman of the Supervisory Board





Foreword of the Chief Executive Officer

Ladies and Gentlemen,

I am pleased to inform you that Raiffeisen Bank Zrt. once again closed the 2023 business year with an outstanding profit. The bank's market position is strong and stable.

The retail business achieved outstanding results: by the end of 2023, the number of active retail private individuals (Mass) customers was 10% higher and the number of customers in the premium banking segment was 11% higher than at the end of 2022. Revenues developed as planned, and among the leading competitors, Raiffeisen Bank's NPS (Net Promoter Score) indicator was among the best. (2023 H2 NPS: 21). The business segment continued its successful business activity in retail lending also.

Investor activity and appetite among customers remained high in 2023. Interest and demand for investment funds remained outstanding, while demand for government securities did not change significantly, regardless of changes in the market interest rate environment.

The Group's Corporate and Investment Banking business segment maintained its dominant role in the commercial banking market, further increased its loan portfolio, with its 8-10% market share it is one of the dominant market player in the mid and large corporate segment, it belongs to the leading banks in export finance and treasury services as well.

Raiffeisen Private Banking also had an extremely successful year in 2023. Thanks to the honorable trust of its clients, the assets entrusted to its management reached HUF 1,001 billion by the end of the year, which represents an increase of 22% in a single year. This growth further strengthens the Group's market position.

Assets in the financial institutions area continued to increase significantly throughout 2023, maintaining a moderate risk profile and a low capital requirement character. The risk cost of the area is extremely moderate, with a cost-to-income ratio at record lows.

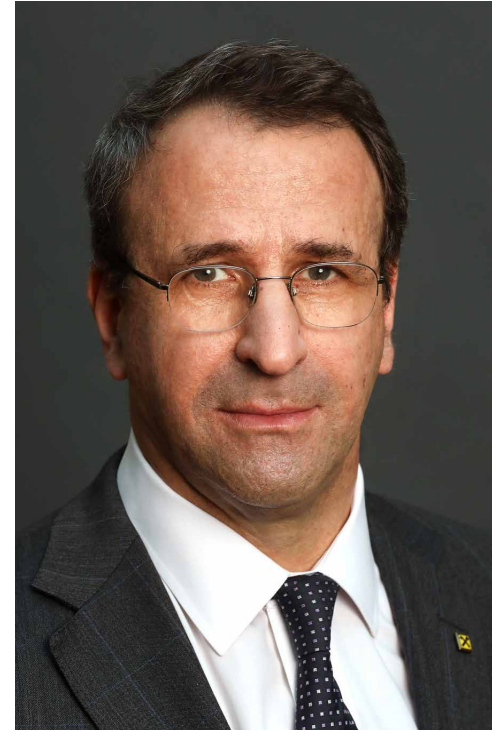
Raiffeisen Bank continued digital developments on several platforms. The focus of our digital strategy is still the continuous expansion of the functions of the myRaiffeisen mobile application and the range of products that can be ordered online. Thanks to the developments, the number of both online account openings and online loan applications has increased significantly. We support the use of banking services provided to the corporate and municipal clientele with the continuous development of digital channels, the operation of an instant payment system and the creation of payment options supplemented with QR codes and "payment requests".

Raiffeisen Bank in Hungary is well capitalized, the Russian-Ukrainian military conflict has no direct impact on its operations, as all subsidiary banks within the RBI group are fully self-financing.

Best regards,



Zolnai György



Overview of the 2023 business year

(1) Macroeconomic environment in 2023

In 2023 the interest rates peaked in both advanced and developed economies. The ECB raised its benchmark interest rate to 4% and the Fed to 5.5%, from where they could start cutting back later this year once the inflationary environment normalized. Growth in the euro area has slowed down significantly. After last year's 3.4% growth, the GDP grew by only 0.5% last year, which could be followed by a similar expansion in 2024 before economic activity returns to its long-term average, which is at least three or four times higher. In the US, GDP grew by 2.5% from 1.9% in 2022, but this year and next year the market expects to lag behind. Inflation peaked together with interest rates, closing last year at 2.9% in the euro area and 3.4% in the United States.

The biggest risks to growth are uncertainty about wage inflation developments in the euro area, a weak external environment and the unchanged geopolitical situation, while in the United States the uncertain outcome of the 2024 presidential election, which could lead to a resurgence of protectionist attitudes worldwide. The market expects both euro area and the central banks of United States to reach their medium-term inflation target of 2% in a sustainable manner during 2025. Based on the state of interbank market pricing at the beginning of 2024, key interest rates could be cut by 25 basis points six times this year. While this could still give the dollar an interest rate advantage of 1.5 percentage points in the short term, EUR/USD exchange rate could rise further in the upcoming quarters as specific risks in the euro area and its neighbouring regions gradually price out and the dollar's role as a safe-haven currency diminishes.

(1.1) Hungarian economy

The performance of the Hungarian economy deteriorated significantly in 2023. The Group estimates that GDP volume may have declined by 0.5% compared to 2022 but this could be followed by a growth of 3% this year and 4% in 2025. On the expenditure side, consumption and investment have also been very subdued in recent quarters, a swift recovery is expected this year as a result of improving earnings in real terms and a pick-up in investment. Inflation peaked. Year-on-year inflation rate closed last year at 5.5%, resulting in an average of 17.6%, which is even higher than in 2022 but this is expected to moderate to 4.3% this year, 3.5% next year and from 2026 to 3% in line with the target of NBH.

Although fiscal deficit may have decreased slightly last year compared to the previous year but will eventually be higher than planned at the beginning or mid of this year. Nevertheless, the adjustment may continue, albeit at a slower pace, this year and next year. The labour market is stable. Employment is rising and the unemployment rate remains close to record lows with no big divergence expected in 2024. Interest rates either in the Hungarian interbank market did not rise further last year. The effective interest rate raised to 18% in autumn 2022, started to decline gradually in May 2023 and ended the year at 10.75%, with further significant normalisation expected this year.

According to our forecast, the NBH may reduce interest rates faster in the first half of the year but at a more cautious pace in the second half of the year, bringing the effective interest rate to 5.5% by the end of 2024, which may fall further to 4.5% in 2025. Meanwhile, EUR/HUF exchange rate is likely to remain in a broader trading range, but certainly around a lower equilibrium level than seen in 2022, very similar to 2023. The main risks continue to relate to the normalisation of the interest rate environment, fiscal consolidation and improvements in external balances, or more precisely, to delays in them.

(1.2) The Banking sector

In the first three quarters of 2023, according to data of NBH the banking sector recorded a HUF 1,591 billion profit after taxation on consolidated level. The net interest income was 39% higher than in 2022, while fee and commission income increased to a lower extent, by 19%.

Operating expenses increased by 18% compared to the same period of last year. In the first three quarters of 2023, net loss allowance and risk provision decreased significantly, to a lower level than one fifth of previous year's amount, contributing significantly to the increase of the banking sector's results.

The sector's net assets were HUF 89,411 billion, which represents an 8% increase compared to the same period of 2022. Corporate loans increased by 3% and retail loans by 8% compared to last year. The balance of deposits from customers also increased, the total balance of deposits from retail and non-financial companies increased by 3% compared to the same period of last year.

The ratio of non-performing loans decreased slightly from 3.4% to 2.7% compared to the same period of last year. The cost-to-income ratio (CIR) was 52.4% in the first three quarters of 2023, which is slightly better than the last year's 59.8%. The RoE and RoA ratios were also improved, increasing to 22.7% (from 10.1%) and 2.4% (from 0.9%), respectively. The liquidity status and capital adequacy of the sector are appropriate.

(*For the source of data please see <https://statisztika.mnb.hu/publikacios-temak/felugyeleti-statisztikak/penz--es-hitelpia-ci-szervezetek/hitelintezeti-aktualis-publikaciok> page published by the NBH.)

(2) Presentation of the business segments' performance

(2.1) Corporate and Investment Banking business segment

The Group's Corporate and Investment Banking business segment maintained its dominant role in the commercial banking market, further increased its loan portfolio, with its 8-10% market share it is one of the dominant market player in the mid and large corporate segment, it belongs to the leading banks in export finance and treasury services as well.

The largest portion of the Group's green assets arise from its project financing and syndication activity, which is an important pillar of the ESG strategy of the entire banking group. In line with this, in 2023 the majority of newly disbursed project loans are green loans, both in the property and non-property categories.

The expansion of the loan portfolio was achieved with a conservative business policy and risk-taking. Overall, the loan portfolio remained of excellent quality.

In 2023, the Group's trade, export and agricultural finance area continued to achieve excellent performance, despite unfavourable market conditions, both internal and external. The Group participated in Eximbank's Baross Gábor Loan Scheme starting at the beginning of the year, in terms of working capital and investment loans as well. Although the program was practically used up in the first half of the year, the Group provided overall a larger portfolio of interest subsidized loans refinanced by Eximbank to its partners in 2023 than in the previous year.

Agriculture also experienced serious market turbulence in the first half of the year (falling prices of cereal products, the entry of Ukrainian imports into the EU market, declining investment appetite, etc.), but nevertheless it was managed to keep the Group's credit exposure at its previous level. The Group also successfully participated in HDB's agricultural and food industry loan programs.

In the accreditive segment, the growth of previous years' in stock and revenue continued. Although the Group was also affected by the significant decline in the construction industry in 2023, which accounts for the majority of turnover from accreditive transactions (cancellation/postponement of large state investments, significant decrease in housing construction demand, etc.), it can report increasing revenues on a year-on-year basis for the time being, partly through new customer acquisitions.

Only the factoring segment faced a slightly decreasing turnover and revenue compared to the same period of the previous year, which was due to the high interest rate level in the case of HUF balances, which make up the bulk of turnover. It is hoped that the interest rate reduction cycle started by the NBH and the increase in domestic demand associated with the decline in inflation will provide a more favourable opportunity for the factor area as well from 2024 onwards.

Important part of the Group's client service model is the financing of municipalities, entities owned by municipalities, non-profit companies, associations, condominiums and other communities. It provides a full range of advanced financial services to its clients and securely handles deposits placed with the Group. Services focus on managing clients' investments and providing investment, development and project loans to municipalities, associations and condominiums. In the latter activities, ESG aspects and sustainable financing come to the fore, so the Group strives to ensure that as much of the newly disbursed loans as possible are green loans.

The Group supports the use of banking services provided to corporate and municipal customers by continuously developing digital channels, operating an instant payment system and developing payment options supplemented with QR codes and 'payment requests'. Digital developments ensure efficient customer service and facilitate the use of ASP services by local municipalities.

The Financial Institutions and Custody segment, similarly to previous years, dynamically increased its loan and deposit balances in 2023 as well and was also successful in increasing transaction volumes and widening the product range, along with the increase of the customer base, and it significantly increased the custody portfolio despite increasing competition.

The Group's cash, foreign exchange and capital market department – according to the statistics of the National Bank of Hungary – made the largest foreign exchange amongst banks in Hungary also in 2023 and was again the biggest player in the derivative section of Budapest Stock Exchange. The Raiffeisen Bank was the 7th biggest primary government securities distributor in 2023.

(2.2) Retail clients

Previous economic challenges (rising inflation, high volatility in the foreign exchange market, utility protection sanctions, etc.) continued to have an impact in the second half of 2023, bringing several challenges to the retail segment. Nevertheless, the business segment achieved outstanding results in the second half of the year: by the end of 2023, the number of active retail private individuals (Mass) customers was 10% higher and the number of customers in the premium banking segment was 11% higher than at the end of 2022. Revenues developed as planned, and among the leading competitors, Raiffeisen Bank's NPS (Net Promoter Score) indicator was among the best. (2023 H2 NPS: 21).

The high acquisition results are partly due to external market conditions, partly due to successful marketing campaigns and continuous improvement of services. In 2023 the Group also placed great emphasis on marketing activities through various channels supporting customer acquisition. Among these, it is worth highlighting the bank account opening promotions, customer referral programs, as well as special promotions for Yelloo accounts aimed at young people (14-25 years). In this semester, the retail business has already contributed to the realization of the Group's customer acquisition efforts with 6 successful campaigns. The focus remains on educational campaigns that help customers use their accounts and digital services more actively. The Group's Loyalty Program has also become increasingly popular, allowing existing customers to receive numerous discounts from commercial and service partners.

In 2023, retail clients continued to focus on various investment product schemes, as interest in other savings options remained stagnant due to the low interest rate environment.

The Group continued to develop digitally on several platforms in order to provide customers with a modern, high-quality customer experience in managing their everyday finances. Our digital strategy continues to focus on the continuous expansion of the functions of the myRaiffeisen mobile application and the range of products available online. Thanks to the developments, both the number of online account openings and online loan applications has increased significantly.

Investor activity and appetite among customers remained high in 2023. Interest and demand for investment funds remained outstanding, while demand for government securities did not change significantly, regardless of changes in the market interest rate environment.

The business segment continued its successful business activity in retail lending. Besides this, demand for residential mortgages declined significantly during the year, with minimal recovery only seen at the end of the year, while demand for personal loans was balanced in 2023. Sales of baby loans declined significantly in the first quarter due to increased (frontloaded) applications in December 2022 and could not return to previous levels also in the rest of the year. The adverse changes in macroeconomic conditions have already had a strong impact, mainly due to high interest rates and significantly declining real wages. There was a positive turn in the last quarter, partly supported by the introduction of a voluntary interest rate cap on home loans.

Despite all external constraints in lending, serving customer needs where security and predictability are the main considerations remains a key objective. Another main strategic focus is digitalization, where the use of a fully online application process is becoming increasingly popular in connection with personal loans, and existing customers can even apply for bank overdraft and credit cards online. The Group's goal is to make this way of application available to further products and the widest possible range of customers in the near future.

Overall, continuous improvement of customer experience in retail lending remains a priority goal, in which digitalization plays a key role. The Group is confident that lending may strengthen again in the period ahead as external conditions improve, supported by the slowly but steadily easing interest rate environment.

The Group's market share in retail loans remained unchanged, standing at 5.6% at the end of December 2023.

(2.3) Private Banking Clients

The aim of Raiffeisen Private Banking is to preserve, increase and pass on from generation to generation the family wealth of its high-net-worth clients. The Group provides, with the help of the professional work of its experienced advisors safety, comfort, discretion and customized individual solutions to its clients.

Raiffeisen Private Banking also had an extremely successful year in 2023. Thanks to the honourable trust of its clients, the assets entrusted to its management reached HUF 1,001 billion by the end of the year, which represents an increase of 22% in a single year. This growth further strengthens the Group's market position.

Creating and maintaining the satisfaction of key private customers is inconceivable without personalized solutions and the highest standards of service. Accordingly, Raiffeisen Private Banking continued to invest substantial amounts in 2023 in introducing new products and services, as well as in developing the knowledge base of IT systems and banking advisors.

Recently, digitalization has gained special focus, so not only customers can manage their finances smoothly and independently, but employees can also be available at access points far from their workplace. During 2023, there was a strong focus on reducing administrative burdens, therefore the Group significantly reduced its use of paper and the number of documents to be signed.

We are pleased that the year also offered an opportunity for the renovation of the branches in Nyíregyháza and Óbuda, as a result of which the Group is now able to welcome its customers with a renewed, high-quality, fresh appearance and new location.

(2.4) Financial Institutions

The financial institutions segment is of strategic priority for the Group, which continues to grow dynamically, thanks to its comprehensive and unique customer service model, a wide range of products and continuous innovation.

The key target group of the business segment remains domestic insurance companies, investment fund managers, funds, as well as domestic and international financial institutions and investment service providers, which are supported by new, innovative solutions and products to serve their clients at a high level, fast and securely. In addition to the above, the domestic and international banking relationships were in focus as well along with – considering the Group's strategy, furthermore adhering to strict compliance principles – international payment service providers and Raiffeisen Bank Zrt.'s contracted currency exchange brokers.

Since 2021, the Group's financial institutions business segment has successfully affected the professional coordination of payment service providers (PSPs) within the banking group and implemented the strategy for this market segment.

Assets in the financial institutions area continued to increase significantly throughout 2023, maintaining a moderate risk profile and a low capital requirement character. Despite market turbulence and regulatory changes, deposits remained at their previous high levels. In addition to interest income, the increase in fee and commission income also contributed to the significant above-plan results. The business segment continues to be characterised by a stable stock of liabilities and long-term, reliable customer relationships. The risk cost of the area is extremely moderate, with a cost-to-income ratio at record lows.

With the support of strengthened group-wide management at its headquarters in Vienna and through the Vienna parent bank's direct relationships with central securities depositories in Central and Eastern Europe, the Group provides priority custody services for the management of clients' investments directed to this region.

In 2023, the Group's custody department continued its successful operations, significantly increasing both the number of its domestic clients and its custody portfolio despite the changing market and regulatory environment and increasing competition.

Clear positive feedback from both customers and the profession proves that the Group is one of the strongest brands in the regional financial and capital markets, as well as in serving financial institutions.

The reports on the business activities of the subsidiaries can be read on the website www.raiffeisen.hu, in the Consolidated Business Report.

(3) Corporate Governance Statement

Responsible corporate governance is a fundamental tool of the foremost goals of the Group, the precondition of long-term value creation. The duty of corporate governance is to create an appropriate balance, operating order amongst owners, client, employees, business partners and the wider public. The Raiffeisen Bank Zrt. fully complies with relevant legislations and HNB's instructions and recommendations. The Group's organisational setup and operating conditions are included in Article of Association and in the Organisational and Operational Policy both accepted by the sole shareholder. The Group continuously revises and improves its corporate governance practice.

(4) Use of financial instruments

The Group prepares its financial statements in accordance with the requirements of IFRS.

In accordance with the requirements of IFRSs and Accounting Law the Group shall from 2018 on – in accordance with IFRS9 – classify its financial assets as measured at amortised cost, measured at fair value through other comprehensive income, or measured at fair value through profit or loss:

- based on the Group's business model to manage the financial assets;
- and the contractual cash flow characteristics of the financial assets.

A financial asset shall be measured at amortised cost, if both of the below 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; 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.

A financial asset shall be measured at fair value through other comprehensive income if both of the below 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; 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.

A financial asset shall be measured at fair value through profit or loss, except when in accordance with the above it is measured at amortised cost or at fair value through other comprehensive income.

The Group can at initial recognition irrevocably elect to present the subsequent changes in the fair value of certain equity instruments, that otherwise would be measured at fair value through profit or loss, in other comprehensive income.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Group shall classify all financial liabilities as measured at amortised cost, except for those cases described in the standards in detail, in which cases they shall be treated as financial liabilities measured at fair value through profit or loss.

The accounting policy of the Group and a number of disclosures requires the determination of fair value of financial assets and liabilities. Fair value is determined for measurement and/or disclosure purposes based on the below methods.

All financial instruments are initially recognised at fair value plus directly attributable transaction costs (except for financial instruments measured at fair value through profit or loss in which case transaction costs are charged directly to profit or loss). The fair value is the price that the Group would receive in case of selling an asset or the Group would have to pay in case of transferring a liability in an orderly transaction between market participants at the measurement date.

Subsequent to initial recognition the basis of determining fair value of financial instruments quoted in active markets is the bid price in case of assets and the ask price in case of liabilities. If observable price is not available, fair value is determined using valuation techniques that rely on observable market data. The method may be comparison with similar instruments for which there is an observable quoted market price, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair value of financial instruments may be determined using techniques based entirely or partly on assumptions that are not underpinned by actual market transactions or observable market data.

The Group designed the following methodology to determine fair value:

a) derivative transactions:

- Fair value of foreign currency forward and futures transactions is the difference between the forward exchange rate, determined for the maturity of the transaction and prevailing at the valuation date, and the strike price, discounted from date of maturity to valuation date.
- Fair value of cross currency swaps is the difference between the forward exchange rate, determined for the maturity of the transaction and prevailing at the valuation date, and the strike price, discounted from date of maturity to valuation date. Yield curves used for the purpose of the valuation incorporate current market interest premium.
- Fair value of interest rate swaps and forward rate agreements (FRA) is the net present value of the expected future cash flows discounted to the valuation date.
- Fair value of plain vanilla and exotic foreign currency options is determined using the modified Black-Scholes model. In case of exotic options for which no closed formula exist, values are determined using iterative techniques.
- Fair value of cross currency interest rate swaps is the net present value of the expected future cash flows of the instrument discounted to the valuation date, where we incorporate into the yield curve used for the purpose of the valuation the interest rate premium (basis swap spread) representative to the market of those instruments (including also country risk premium).
- Fair value of stock and index futures is determined based on the difference of the quoted price and the strike price.

b) securities:

Fair value of securities measured at fair value through profit or loss or at fair value through other comprehensive income is determined using market prices available in Bloomberg information system. It is the stock exchange closing price in case of securities where it is available. In case of securities where stock exchange price is not available, the fair value is the net present value of the expected future cash flows of the security discounted to the valuation date.

c) loans:

Loans are basically measured at amortised cost which equals 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 expected credit loss allowance recorded.

To hedge the fair value changes of certain loans with fixed interest rate the Group entered into interest rate swaps. Such loans hedged with IRS transactions are measured in the financial statements at amortised cost adjusted for fair value changes attributable to the hedged risk.

d) deposits:

The Group measures its deposits at amortised cost. Certain structured deposits contain embedded derivatives which are separated from the deposits by the Group. The Group measures the embedded derivatives at fair values with its changes recognised in profit or loss.

The Group involves certain deposits with fixed interest rate in hedge accounting. The fair value of those deposits is determined by calculating the net present value of expected future cash flows discounted to the reporting date.

e) bonds issued:

Non-structured self-issued bonds are measured at amortised cost and thus they are not revalued, except for bonds involved in hedge accounting. In such cases only interest rate risk is hedged not credit risk.

Fair value of hedge-accounted issued bonds with fixed interest rate is the present value of future cash flows, whereas in case of structured instruments the Group values the embedded derivative which is separated from the host contract.

Hedge accounting

The Group designated certain derivative instruments held for risk management purposes as hedging instruments designated in hedge accounting. At inception of the hedge the Group formally documents the relationship between the hedging instrument(s) and the hedged item(s), the risk management objectives and hedging strategy followed by entering into the transaction and the method used for measuring hedge effectiveness. The Group evaluates at inception of the hedging relationship and continuously thereafter whether the hedging instrument will be highly effective in offsetting the fair value changes of the hedged item attributable to the hedged risk over the entire term of the hedging instrument and whether the actual results fall within the 80-125 percent range.

(5) Basic principles of risk management and hedging policy

In the Raiffeisen Bank operates an independent, from business functions entirely separated risk management under the supervision of deputy CEO responsible for risk management. The credit risk assessment and management of clients is a task assigned to the Credit Risk Department and Retail and SME Risk Management Department, the analysis of market, operational and fraud risks and compliance with Basel III regulations, capital adequacy calculations, developing credit risk models at the portfolio level is the task assigned to Integrated Credit Risk Department.

(5.1) Credit risk management

Risk and credit assessment of non-retail clients is based on individual analysis and rating, typically with quarterly financial monitoring and yearly limit review. In retail and micro enterprise financing there is an automated scorecard-based assessment. Constraints of financing are represented by the desired balance of business and risk factors as determined by the owner and the management of the Group, the act on financial institutions and other legislations and the framework defined by the Group's Credit Policy.

The economic crisis due to coronavirus pandemic did not cause in 2021 a systematic and mass increase in the balance of non-performing loans, only a few clients became non-performing, amongst them some with relatively higher exposure. Thus, non-performing rate for corporates was about 2%, for retail it stabilised at about 5%, remaining below the mid-term strategic plan. This healthy level was also facilitated by measures for clearance of non-performing portfolio continuing in 2021 along with the application of standard workout methods. In 2022, the Group still did not experience any systematic portfolio deterioration in the corporate segment, the NPE ratio remained at the previous low level, moreover further decreased in the retail segment to a level of around 4%, while in case of the entire banking portfolio, also taking into account credit risk bearing banking book securities, it was only 1.9%.

This stable/slightly positive trend has been maintained in the first half of 2023, with no meaningful inflows into the non-performing portfolio and individual sporadic cases are counterbalanced by recoveries and returns, with the NPE ratio across the entire bank portfolio, taking into account credit risk bearing banking book securities, declining to 1.7% by the end of 2023.

At the same time, current low default probabilities are expected to rise in the future. This is mainly due to the deterioration of the business environment, supply chain problems, energy crisis, the high inflation environment, the narrowing of the demand and investment side and negative developments in the real estate market, therefore the Group has carried out strengthened and

intensive monitoring activities related to these dimensions since October 2021 supplemented with portfolio stress testing. The Group pays particular attention to analysing the expected direct and indirect impacts of increased geopolitical risks.

In retail segment, the portfolio remains stable with low default rates, however the Group is prepared to manage the risks mainly arising from inflation, increase of energy prices and changes in the interest rate environment.

Payment moratorium: Participation in the payment moratorium, in accordance with the relevant guidance of EBA, did not automatically trigger default and payment difficulty in 2020 and thus the Group pays particular attention to identifying debtors presumably facing payment difficulties also during the term of the moratorium. In relation to clients opting in to moratorium 2 starting in 2021, then 3 and 4 and in relation to clients opting-in to agricultural moratorium in the second half of 2022, the Group made in case of corporates an extraordinary individual risk review to recognise worsening risk profiles and to determine defaults and eventually necessary restructuring. As a result of the assessments, it identified a few new restructured portfolios with a relatively low exposure.

The small portfolio that still participated in the moratorium 4 will resume its repayments in accordance with the relevant new loan schedule at the end of 2023. The Group assessed clients entering into moratorium 2 also in the retail segment. Clients in case of whom the Group identified financial difficulties, were reclassified to non-performing status. If the client had no financial difficulties but has been in moratorium for more than 9 months, was reclassified to Stage 2 and there is a close monitoring in place regarding the problems and financial difficulties of clients opting out of moratorium 2. The Group repeated the procedures for assessing clients' financial situation at the start of moratorium 3 and 4 and in justified cases, if information about the clients' deteriorated financial situation became known since then, it reclassified them to default, i.e., to Stage 3.

The payment moratorium ended at the end of 2023, but this did not result in a noticeable deterioration in the credit quality of the portfolio.

The risk management procedures of the Group operate in accordance with the requirements of Basel III and IFRS9. Base data necessary to sophisticatedly measure risks are contained in structured form in a modern data warehouse. From May 2012 the capital requirement of the whole banking portfolio (corporate, retail and SME) is quantified using the advanced, internal rating based (IRB) methodology. During 2017 the municipality portfolio was returned to the standard methodology. The Group started the same transformation in 2018 regarding financing the top segment of individuals which was completed in the last quarter of 2019.

Capital requirement of baby loans, private banking and employee loans, as well as in retail segment the capital requirement of products in crisis guarantee schemes related microsegment is calculated using the standard methodology.

Measuring and reporting risks is performed on a monthly and quarterly basis in compliance with the Group's and regulator's requirements. The Group uses the results of risk models widely in pricing, in determining credit decisions and strategic directions, thereby ensuring long-term capital adequacy, building up an profitable portfolio that is stable also in respect of risks and the efficient usage of capital available.

The Group reacted also in its credit policy to the changes caused by coronavirus and the changes caused by the following energy crisis, rising inflation and interest rate environment: in judging riskiness of industries, besides higher granularity, the volume/probability of short-term effects and expected mid-term prospect also plays a particular role. Financing activity targets industries with better conditions and clients with stronger resilience, whereas the more vulnerable part of the portfolio requires a more cautious approach. In respect of the latter the Group acted with particular care also during determining impairment and besides revisions of parameters and macro variables of the impairment models carried out taking a conservative approach, it recognised additional impairment if necessary.

In 2023, in the corporate segment, the most important risks covered by additional impairment model are the risk around yields in the real estate market, refinancing risk induced by high interest rate environment, the drastic increase in energy prices and inflation however, besides these, the crisis of supply chains and labour market difficulties are also considered as additional risk factors. The Group continuously revises and if justified adjusts the adequate level of related reserves.

During 2023, the Group developed its methodology for assessing sustainability-related transition risks, primarily environmental risks, as part of the corporate lending process, which will be applied to its corporate portfolio from the first quarter of 2024.

In the retail segment, the measurement of climate change and physical risks related to extreme climate events, as well as the quantification of the negative effects to mortgage collateral exposed to them, have been developed by the Group and incorporated into the impairment calculation during 2023.

In the retail segment in March 2020 the Group identified increased risks based on the industry classification of the client's employer, building categories of high/medium/low risk based on expected economic downturn and in November 2020 decided to apply portfolio level management adjustments, so-called overlays to appropriately represent also these risks in impairment calculation.

Accordingly, it recognised additional impairment losses on the riskiest clients participating in the moratorium, which was revised at each extension of the moratorium. At the end of June 2023, the management corrections affecting the moratorium were phased out 6 months after the end of the general payment moratorium, as the transactions concerned will be evaluated in normal monitoring processes and are again subject to days past due calculations, thus not carrying additional risks. During 2021 and 2022, the Group fully examined changes in the income situation of customers in order to anticipate potential problems.

Due to the impact of energy market risks and increasing liquidity and profitability difficulties, the Group made portfolio-level management adjustments in both the micro and small enterprise segments several times during 2022. In 2023 it continued to closely monitor the transactions concerned but did not see any reason to phase out the adjustments as a consequence of persistent inflationary pressures and the economic downturn. As a result of monitoring, the scope of transactions concerned was redefined and expanded with sole entrepreneurs financed in the retail segment and companies operating in risky industries and their employees.

(5.2) Operational risk management

All organisational units participate actively in managing and as necessary decreasing the level of operational risk (department, region, subsidiary). The Group makes significant efforts to improve the risk management organisation and increase risk awareness, which includes identifying, collecting, assessing, reporting, monitoring and also managing operational risks threatening to achieve the Group's business goals. The main tools used to identify risks are collection of loss data, risk indicators, scenario analyses and risk self-assessments. In course of this work the root causes of all identified operational risk events are explored and used up in decisions on process improvements.

In order to further strengthen the operational risk management activity, the Group implemented those standards that comply with the requirements imposed by the advanced measurement method.

The Group continues to efficiently operate the operational risk framework AMA (Advanced Measurement Approach) introduced in 2016.

(5.3) Market and liquidity risk management

Market and liquidity risk is managed within the Group at a number of levels using advanced methods and infrastructure, monitoring is performed independently of business functions. Measuring and reporting risks is done on a daily/weekly/monthly and quarterly basis in compliance with the requirements of the Group and the regulator. Grouping, measuring, managing of risks and building economic capital is done in the framework of the Group's ICAAP processes.

Measuring and controlling the risks is effected through complex risk, position, stop loss and VaR limit systems, the methodology of which is in accordance with the requirements of the Parent Bank and the regulator. Management of market and liquidity risks related to banking activity covers the following areas: trading book and banking book interest rate risk; the Group's liquidity risk also from going concern and stress point of view; the risk arising from illiquidity of market positions; share price risk, foreign currency risk, risk inherent in option trading, counterparty risk of OTC derivative transactions.

In addition to that, this function of the Group ensures the independent pricing of various financial instruments in accordance with regulation required by the Parent Bank and by IFRS 9. In addition to this, Market Risk function is responsible for controlling the market-conformity of capital and money market transactions.

(5.4) Fraud risk management

Fraud risk is a dominant element of operational risks. In order to increase the efficiency of fraud risk management, the Group centralised during 2014 the credit fraud risk management in the Integrated Risk Management Department, in the current Fraud Risk Controlling Group. As a continuation of the integration, between 2015 and 2017 non-credit fraud risk management was also performed by the Integrated Risk Management Department and since end of 2017 non-credit fraud risk management has been assigned to the newly formed Banking Security Department.

Since 2019, non-credit fraud risk management function involves banking card fraud management and charge-back administration tasks and the Group's fraud transaction monitoring system is also managed and supervised by this function. Credit fraud management function pays particular attention to every credit fraud event, the experiences of which are in all cases incorporated into the base or monitoring processes of financing activity and into the training materials.

(6) Environmental protection

The certification of Environment-focused Management System in accordance with ISO 14001:2015 standard introduced in 2023 was also successfully performed at the sites of Raiffeisen Bank Zrt. on 09.10.2023.

The replacement of mechanical equipment at the branch offices and the mechanical engineering and lighting investments also increasing energy efficiency of (LED-isation) were implemented at 8 locations in connection with branch office redesign in 2023.

The Group has fully secured the electricity supply of the AGORA headquarters in 2023 using green electricity. As expected, the solar park installed on the RBSC building provided approximately a quarter (23.38%) of RBSC's annual electricity demand. Based on this excellent experience, we plan to expand the number of existing solar panels by 2024, increasing the current number by nearly 40%. Using the experience of RBSC's photovoltaic system, branch offices have been identified where the technical capabilities allow the installation of additional photovoltaic systems. For a total of 27 locations obtaining conceptual permits from landlords is in progress.

The 'greening' of the Group's car fleet continued with the purchase of 6 new plug-in hybrid (PHEV) vehicles and a total of 13 full hybrid (HEV) vehicles in 2023. The 'green' vehicle fleet is planned to be further expanded in 2024 with new full electric vehicles (EVs), using the support available under the tender 'RRF-10.10.1-24 Support for the procurement of road electric vehicles for enterprises' in 2024.

(7) Employment policy

Our planet, the biodiversity and the quality of our life is largely impacted by the natural factors making up the biological system. The business activity of the financial sector has a significant impact on the environment and on the society. However, this is a two-way relationship, the finance sector itself is also affected by environmental and social factors. The two most significant environmental effects of these times are climate change and biodiversity loss.

ESG (environmental, social and governance) is a framework that helps stakeholders understand how an organization manages risks and utilises opportunities related to ESG factors.

(7.1) Governance and strategy

Corporate governance

The Group has established its sustainability (ESG) governance framework and responsibilities, headed by a Sustainability Council chaired by the Group's Management Board. The Strategy and Corporate Governance Department (SCO) is responsible for coordinating key ESG aspects and factors, while operational tasks remain below functional departments (functional agents). The Group employs a number of ESG experts, including the Strategy, Business, Risk Management, Procurement and Legal departments, who ensure the Group's ESG compliance and sustainable operations. The Group pays special attention to knowledge sharing both internally and externally, providing the latest information on the legal and environmental background of ESG factors. The Group pays special attention to data management and ESG processes, with special regard to the increasing data needs of ESG analyses and to serve the risk management and business goals of the organization.

In addition to the above-mentioned points, the Group has also implemented an environmental management system in accordance with ISO 14001:2015 in order to ensure the sustainable operation of the organization.

Internal ESG-related regulations are approved by Raiffeisen Bank International (RBI) and implemented through business units at the level of the relevant subsidiary. Internal ESG policies include: the ESG Risk Framework Policy, sectoral policy policies (e.g. oil and gas, steel, renewable energy, etc.), group ESG and Sustainability Guidelines and ESG loan disbursement process rules.

RBI is a signatory to the UN Principles for Responsible Banking and is committed to operating transparently and actively creating value with stakeholders.

Strategy

The Group's mission and strategy is deeply incorporated into the operation of Raiffeisen Group, backed up by its professional background and center of excellence. For the Group, sustainability is a fundamental value and a measure of corporate success. The Group takes ESG factors into account in establishing its business strategy in relation to both its own operation and its lending activity.

The Group offers numerous sustainable financing and investment products and its everyday operation is conducted in line with an approach focusing on energy efficiency and climate protection. The sustainability strategy lies on two main pillars:

- (a) analysing and assessing the environment, monitoring and developing the banking activity, and
- (b) the business approach taken in the areas of portfolio strategies and financing activities

a) Analysing our environment

The Group currently prepares two comprehensive analysis per year, namely one climate horizon analysis and one GAP analysis.

The climate horizon analysis is an analysis aiming at identification of the Group's short-term (0-3 years), mid-term (4-10 years) and long-term (over 10 years) vulnerabilities and opportunities in the area of climate protection.

Vulnerability describes the exposure/expected negative effects related to the physical and transition risks effecting corporates whereas opportunities focus on the identification of economic factors of the transition in the changing environment.

The Group prepares GAP analysis and action plan from time to time, in order to manage the green directives of European Central Bank / National Bank of Hungary. The purpose of the assessment is the review of compliance with green directives along four segments (business model and strategy, risk management, disclosure, internal governance) and describing the actual processes in order to comply with recommendations and to manage identified deficiencies.

b) Portfolio strategies and business approach

The Group has formulated a Climate & Environment Business Strategy that integrates climate & environment risk into major strategic processes aiming to:

- aligning the accounting balance sheet with climate goals of the Paris Treaty;
- supporting clients in their climate and environmental transition; and
- supporting sustainable financial transformation.

The Group implemented portfolio strategies in course of its lending activity that are in line with the economic transition, namely: restrictive, transformative and supportive approach.

Supportive approach: support companies and projects that are 'best-in-class' already in terms of sustainability.

Transformative approach: (1) transformative: in implementation – support companies on their way to reduce their carbon footprint and mitigate their negative impacts and promote their positive impacts to the environment and society; (2) transformative: in planning – support companies to design their plans to reduce their carbon footprint and mitigate their negative impacts and promote their positive impacts to the environment and society.

Restrictive approach: focus is on negative filtering i.e., the identification of companies and project that are not preferred. The lending directives do not incentivize lending to such companies and projects, unless the partner presents its plans supporting its significant and measurable commitment to transition.

(7.2) Sustainable banking

As already described in point 9.1 the Bank introduced its portfolio strategies applicable to its lending activities that are in line with economic transition (restrictive, transformative, supportive) and its comprehensive business approach which ensures transition of Raiffeisen Group and the stakeholders through knowledge sharing and responsible corporate governance.

The Group is active in the market of green lending and green investments which was rewarded in 2022 by the National Bank of Hungary with prizes 'Green Bank of the Year 2022' and 'Green Asset Manager of the Year 2022':

- strong position in the area of corporate green financing which supports fundraising through green bonds;
- significant expertise in the area of advisory services related to green bonds – the Group supported 4 green financing projects as an advisor; and
- introduced and offers to clients 5 ESG funds of funds that only invest in securities the issuers of which are qualified sustainable.

The Group formed the Framework for Sustainability Bond ('Framework') which forms part of the comprehensive sustainability strategy, placing strong focus on assets making positive environmental and social impact, in order to support the transition towards a more sustainable future. The Framework is in line with ICMA (i) Green Bond Principles and (ii) Social Bond Principles and (iii) Sustainability Bond Principles. The first tranche under the Framework was issued in July 2022 in the amount of USD 50 million. The Group undertook to comply with ICMA requirements related to (1) usage of funds (2) evaluating and selecting the project, (3) handling of funds and (4) reporting. Allocation and evaluation tasks are supervised by the Group's Sustainability Bond Committee.

The ESG loan disbursement process relating to corporate loans were worked out in 2023 and its implementation is expected in the first quarter of 2024. ESG-based lending:

- Incorporates the function of ESG expert (as first line of defense) in order to analyze critical factors/transactions and their harmony with the directives, especially with the exclusion directives of the group (e.g. tobacco products, gambling, nuclear energy, etc.;
- manages the compliance of industry-specific credit assessment criteria with sector-specific directives;
- assesses compliance with the sustainable product frameworks, conditions and features;
- ensures the assessment and management of potential credit risk arising from sustainability features of corporate clients and industries relating to transition (increasing business model risks arising from greenhouse gas emission and regulatory, technological and demand aspects).

The Group launched in 2023 its ESG data warehouse for the transaction ESG flagging in all segments (large corporate, medium-sized corporate, small and micro-sized corporate, retail), using four frameworks (EU taxonomy decree, RBI Green and Social, National Bank of Hungary green and EBRD). During 2023, the Group made a significant step forward in the area of information systems servicing the management of ESG data and supporting the above mentioned lending and designation processes.

(7.3) Risk management and measurement

Main focus points of risk management:

- defining and identifying ESG risk,
- identifying vulnerable industries,
- portfolio monitoring,
- assessing ESG risk and business model in relation to loan disbursement processes,
- analysing client risk,
- valuing collaterals.

Defining and identifying ESG risk

The Group introduced ESG Framework to define and identify environmental, social and governance risks. The document is a basis for widening ESG-based knowledge. In addition, climate horizon analysis helps in identifying climate and environmental risks on the short, mid and long run.

Identifying vulnerable industries

The second focus points of risk management and measurement means the identification of industries with high environmental risks. To do this, the Group prepares a climate horizon analysis with a strategic methodology and will perform ESG-based industry risk modelling.

Portfolio monitoring

The Group actively manages its portfolio by using the governance and assessment tools made available by RBI, considering existing sector-specific directives (e.g. oil, gas industry, steel, coal etc.). ESG rating score serves as an input to monthly portfolio reports.

Assessing ESG risk and business model in relation to loan disbursement processes

During the loan disbursement process the main goal of risk management is managing credit risk arising from sustainability features of corporate clients and industries relating to transition (higher business risk arising from greenhouse gas emission and regulatory, technological and demand aspects). ESG risk assessment can be considered as a second line of defense, behind business assessment and can be applied for each credit risk bearing product for which credit assessment is necessary. ESG risk management focuses on credit prospects relating to transition whereas potential physical risks are taken into account in collateral valuation.

Analysing client risk

ESG rating is an assessment (qualitative and/or quantitative), which measures long-term commitment of an organisation to sustainability through the three main factors of ESG. In addition, ESG rating gives an insight into the entity's exposure to transition risks. The Group's responsible client clustering concept relies on ESG-based client score which is fine-tuned by expert judgments reflected in ESG Final Customer Score for the corporate portfolio.

Methodology and steps of scoring are as follows:

- (1) ESG industry-based score measures ESG risks at the industry level, supplemented by the integrated country risk factor;

- (2) Expert judgement adjusts this through answering and assessing a number of ESG questions;
- (3) The final ESG client score varies among industries, within an approved interval the higher edge of which denotes the 'best' and the lower edge the 'worst' assessment within the given class.

Valuing collaterals

Climate change and ESG awareness increasingly impacts the valuation and revaluation of loan collaterals, especially in case of property.

The most important factors affecting the valuation are expected costs, expected income, yield expectations of the investors and liquidity aspects. The Group gathers information from clients to identify and evaluate ESG related risks in course of valuation of property collateral. Besides valuation, these newly introduced areas are for more accurately approach and assess the general exposure to climate change risks.

The Group strives to assess and reduce its carbon footprint. For this purpose in 2022 the Group assessed its scope 1 and 2 and in 2023 the limited scope 3 carbon values (excluding financed emission). Portfolio measurement tools (e.g. calculating Scope 3 financed part) are currently under development and this project is managed by RBI.

The Group does not have science based targets on branch level yet, however science based targets of the RBI serve as guideline and basis for future targets and methodology (please find science based targets here: (<https://www.rbinternational.com/en/raiffeisen/sustainability-esg/responsible-banking/science-based-target.html>)).

(7.4) Reporting

Since 2017, the Raiffeisen Group has published its Sustainability Report every year, which is based on the current state of science and international standards. The Group collects, monitors and reports non-financial information through its ESG Cockpit system to support RBI in preparing its Sustainability Report.

In addition to the group report, the Group prepares voluntary non-financial (ESG) reporting and a mandatory corporate governance report within the framework of the annual report.

The Group is subject to the CSRD and EU Taxonomy Regulations (and their respective delegated regulations) and will include non-financial information in its annual report from 2025 onwards (the first reporting period will be financial year 2024).

(8) Employment policy

The Group is one of the leading employers in the financial sector: at the end of December 2023 the average statistical number was 3,000. It is especially important for the Group to carry out its activities as a fair and correct employer, on the one hand fully considering and complying with the prescriptions of the Hungarian Labour Code, on the other hand ensuring favorable work and career opportunities and continuous professional development and development as a leader to its employees.

Recruitment and selection is done centrally, in course of the activity of HR, paying attention to the core principles of inclusive culture and taking care that diversity be a part of the daily selection practice. The Group's selection practice is focused on trained and qualified workforce, however at the same time it provides an opportunity also to graduates for intensive professional development.

The Group pays attention to and strives for ensuring for its employees fair and competitive income compared to Hungarian labour market. Fringe benefits, within the framework of Cafeteria system, provide a choice for the colleagues to select from a wide range of benefit most fitting their personal needs.

All employees are covered by the performance development process operated by the Group, which provides a framework for clear goal setting, constructive feedback and well-grounded performance evaluations. Performance-dependent financial and moral rewards incentivise the colleagues to achieve outstanding performance.

The Group has a complex training and development activity, which is focused, besides developing professional knowledge and skills, on programmes to improve personal, managerial, language and IT skills. At the end of the year, the Group's employees spent an average of 5.68 days on training and development events and programs, without e-learning 1.19 days. The continuous development of employees' digital skills has a major role in the training and development portfolio, that is supported with the annual Digital Learning Week event starting from 2021 together with the numerous professional trainings. The Group supports the colleagues in successful and effective coping with everyday performance challenges and stress situations with community building and employee well-being programmes.

The Group operates a comprehensive and conscious succession planning practice, the goal of which on the one hand is the retention of managers and employees working in key professional roles, on the other hand the succession planning and development.

Workplace Council operates within the organisational framework of the Group, ensuring consideration of employee interests.

With the introduction of the flexible working framework in 2020, the Group organised, except for the critical business areas, the employees' working from home, which, subsequent to the pandemic, as a new standard will remain an integral part of the operation and will continue to be operated in a framework and construction based on the field of work.

(9) Compliance activity

In accordance with the regulations and the requirements of NBH the Group operates for exploring and managing compliance risks – as part of the internal defense lines – an independent organizational unit who performs the following functions:

- Controlling the compliance with ethical rules, issuing guidance on related questions, performing investigations of notices
- Ensuring compliance with regulations on conflicts of interest and the control of that
- Organizing and operating anti-corruption measures within the group
- Fighting against money-laundering and financing international terrorism, as well as organizing, governing and co-ordinating the compliance with international sanctioning measures within the group, operating relating monitoring system; operating a notification and control system, liaison with the competent authority.
- Ensuring and controlling the compliance with regulations regarding segregation of financing and investment services, restricting the flow of information, prohibition of insider trading and market manipulation and employee trading, and liaison with the competent authority.
- Ensuring and controlling compliance with regulations on investment related services (e.g. Bszt.), performing defensive task related to client assets.

The organizational location of the compliance function and its scope of activities are in all respects in accordance with relevant regulations, with HNB guideline on the system of lines of defense and the underlying EBA (GL44) guideline.

(10) Research and development

The Group performs R+D activity during application development related to financial services, as well as in the implementation of business and risk management modelling.

Shareholder

Raiffeisen-RBHU Holding GmbH 100%

Board of Directors

Chairman

Andreas Gschwenter
Raiffeisen Bank International AG

Members

Zolnai György
(member of the board, CEO),
Raiffeisen Bank Zrt.

Elena Filipidescu
(member of the board),
Raiffeisen Bank International AG

Kementzey Ferenc
(member of the board deputy CEO
responsible for corporate, markets
and investments division),
Raiffeisen Bank Zrt.

Petro Merkulov
(member of the board),
Raiffeisen Bank International AG

Daniel Rath
(member of the board),
Raiffeisen Bank International AG

Hannes Andreas Cizek
(member of the board),
Raiffeisen Bank International AG
(till 30.04.2024).

Audit Comittee

Chairman

Georg Feldscher
Raiffeisen Bank International AG

Members

Igaz Katalin

dr. Tóthné dr. Szabó Mercedes
Raiffeisen Bank Zrt.

Raiffeisen Bank International at a glance

RBI regards Austria, where it is a leading corporate and investment bank, as well as Central and Eastern Europe (CEE) as its home market. Subsidiary banks cover 12 markets in the region. In addition, the Group includes numerous other financial service providers active in areas such as leasing, asset management and M&A.

In total, around 45,000 RBI employees serve 18.6 million customers from more than 1,500 business outlets, the vast majority of which are in CEE. The regional Raiffeisen banks hold approximately 61.17 per cent of RBI's shares. The remaining shares are held in free float.

Management of Raiffeisen Bank Zrt.



Zolnai György
CEO, member of the board



Kementzey Ferenc
member of the board



Željko Obradović
member of the board



Kelemen Bálint
member of the board
from 18.09.2023.



Radovan Dunajsky
member of the board



Ralf Cymanek
member of the board
till 06.05.2023.



Bányai Ervin
member of the board
till 08.12.2023.



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Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Raiffeisen Bank Zrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Raiffeisen Bank Zrt. (the „Group”) for the year 2023 included in the digital files 5493001U1K6M7JOL5W45-2023-12-31-en.zip¹, which comprise the consolidated statement of financial position as at December 31, 2023 – which shows a total assets of mHUF 4.432.055–, and the related consolidated statement of profit or loss, consolidated statement of comprehensive income – which shows a net profit for the year of mHUF 116.599 –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including material accounting policy information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS”), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act”) relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Group in compliance with the relevant effective Hungarian regulations and the “Rules of conduct (ethical rules) of the auditor profession and the disciplinary process” of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

¹ Digital identification of 5493001U1K6M7JOL5W45-2023-12-31-en.zip consolidated financial statements with SHA 256 HASH algorithm: 8B62D135667CAE38B7DBAA1AE07F84BB0467D002C2D352C178DABAAD056BDE57

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

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
<i>Expected credit losses on loans to customers at amortized cost</i>	
<p>(See notes 6. to the consolidated financial statements for the details)</p> <p>As at December 31, 2023 the Group shows loans to customers at amortised cost in the amount of HUF 1,599,486 million (gross: HUF 1,666,002 million), in connection with HUF 66,516 million loss allowance on loans) has been recognized.</p> <p>The determination of expected credit losses is based on a large extent on the professional judgment of management and the use of subjective assumptions, both in the application of portfolio-level collective impairment models and in the determination of individual credit losses.</p> <p>The most significant assumptions applied in provisioning calculation are the followings:</p> <ul style="list-style-type: none"> - Identification of significant increase in credit risk - IFRS9 credit risk staging methodology and application - probability of default - loss given default - estimation of future cash-flows expected to be realized. <p>The current economic macro environment and volatile energy prices resulted in an increase in the</p>	<p>The relevant audit procedures performed by us included the followings:</p> <ul style="list-style-type: none"> - evaluating the design and implementation of internal controls relating to monitoring of loans and approval of impairment, - test of staging through portfolio-level analysis and the staging methodology applied by the model, - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable - robust challenge of management estimates related to the loan impairment, - assess the collective model methodology and testing the calculations in terms of risk parameters (probability of default - PD, loss given default - LGD, expected credit loss - ECL, macroeconomic factors) applied by the collective models by involving of experts, recalculation of impairment, - evaluating specific loan impairments by selecting a random sample based on risk profiles, and for the individually impaired loans the review of consideration and valuation of

<p>uncertainty of assumptions. The various debtor protection measures made it difficult to assess and monitor the financial situation of the clients, which required a higher level of estimation on the part of the Group when calculating the ECL.</p> <p>Based on the significance of the above described circumstances the calculation of expected credit loss of loans assessed on portfolio-level and in the determination of individual credit losses was identified as a key audit matter.</p>	<p>collaterals and estimates of expected future cash-flows,</p> <ul style="list-style-type: none"> - comprehensive analysis of loan portfolio, - assessing the requirement for additional allowances considering the ECL models, particularly in light of the extreme volatility in economic scenarios caused by the current economic macro environment and volatile energy prices, - assessing the adequacy of the disclosures in the consolidated financial statements.
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Other Information

Other information comprises the information included in the Responsible Corporate Governance Statement and the consolidated business report of the Group for 2023, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled "*Opinion*" does not apply to the other information.

Our responsibility in connection with our audit of the consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report.

In fulfilling this obligation, for the purpose of formulating our opinion on the consolidated business report we considered Commission Regulation (EU) 2019/815 of 17 December 2018 ("ESEF Regulation") as other regulation stipulating additional requirements pertaining to consolidated business reports.

In our opinion, the consolidated business report of the Group for 2023 corresponds to the consolidated financial statements of the Group for 2023 and the relevant provisions of the Accounting Act and other relevant regulation listed above in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with EU IFRSs and for the preparation of the consolidated financial statements in accordance with provisions of the Accounting Act relevant to entities preparing consolidated financial statements in accordance with EU IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's

report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of Raiffeisen Bank Zrt. by the Resolution of the Shareholder on May 14, 2021 and our uninterrupted engagement has lasted for 3 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Raiffeisen Bank Zrt., which we issued on March 22, 2024 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to Raiffeisen Bank Zrt. and its controlled undertakings and which have not been disclosed in the consolidated financial statements.

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

Report on compliance of the presentation of consolidated financial statements with the requirements set out in the regulation on the single electronic reporting format

We have undertaken a reasonable assurance engagement on compliance of the presentation of consolidated financial statements of the Group included in the digital files 5493001U1K6M7JOL5W45-2023-12-31-en.zip („ESEF format consolidated financial statements”) with the requirements set out in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format. („ESEF Regulation”).

Responsibilities of Management and Those Charged with Governance for the ESEF format consolidated financial statements

The management is responsible for the presentation of ESEF format consolidated financial statements in accordance with the ESEF Regulation. This responsibility includes:

- the preparation of the consolidated financial statements in XHTML format; and
- the design, implementation and maintenance of internal controls relevant to the application of the ESEF Regulation.

Those charged with governance are responsible for overseeing the Group's financial reporting process, including compliance with the ESEF Regulation.

Our responsibility and summary of the work performed

Our responsibility is to express an opinion on whether, in all material respects, the presentation of ESEF format consolidated financial statements complies with the ESEF Regulation, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the Hungarian National Standard on Assurance Engagements (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000).

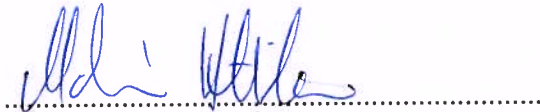
A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the ESEF Regulation. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulations, whether due to fraud or error. Our reasonable assurance engagement included obtaining an understanding of the internal controls relevant for the application of the ESEF Regulation and checking the appropriateness of Group's use of the XHTML format.

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

Opinion

In our opinion, the ESEF format consolidated financial statements of the „Group” for the year ended December 31, 2023 included in the digital file 5493001U1K6M7JOL5W45-2023-12-31-en.zip, is presented, in all material respects, in compliance with the requirements of the ESEF Regulation.

Budapest, March 25, 2024



Molnár Attila
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

Registration number of statutory registered auditor: 007379

I. Primary financial statements

A. Consolidated statement of profit or loss

(HUF million)	Notes	2023	2022
Interest income calculated with the effective interest method	(7, 11)	358,864	211,421
Other interest income	(7, 11)	244,368	139,549
Interest expenses	(7, 11, 25)	-402,576	-211,964
Net interest income	(7, 11)	200,656	139,006
Dividend income		465	383
Fee and commission income	(8)	114,193	103,661
Fee and commission expenses	(8)	-32,673	-30,321
Net fee and commission income	(8)	81,520	73,340
Net trading income and fair value result	(9, 11)	-12,975	511
Net gains/losses from hedge accounting	(10, 11)	-1,508	-1,780
Net gains/losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss	(11)	-2,881	271
Other operating income	(12)	1,967	1,083
Other operating expenses	(12)	-29,417	-24,431
Staff expenses	(15)	-42,698	-33,955
Other administrative expenses	(16)	-25,913	-23,228
Depreciation and amortisation	(24)	-12,843	-11,283
Other result	(13, 14)	-5,087	-6,229
Bank tax and other special levies	(17)	-35,956	-25,146
Impairment losses	(6, 11)	986	-7,701
Profit before tax from continuing operations		116,316	80,841
Tax expense or (-) income related to profit or loss from continuing operations	(18)	-13,057	-8,726
Profit after tax from continuing operations		103,259	72,115
Profit for the year		103,259	72,115

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

(HUF million)	Notes	2023	2022
Profit for the year		103,259	72,115
Other comprehensive income	(38)	13,340	6,473
Items that will not be reclassified to profit or loss	(38)	4	34
Fair value changes of equity instruments measured at fair value through other comprehensive income	(38)	4	35
Income tax relating to items that will not be reclassified to profit or loss	(18, 38)	0	-1
Items that may be reclassified to profit or loss	(38)	13,336	6,439
Foreign currency translation		0	-19
Cash flow hedges (effective portion)	(10, 38)	10,549	11,219
Valuation gains or (-) losses taken to equity	(10, 38)	10,792	10,388
Transferred to profit or loss	(10, 38)	-243	831
Debt instruments at fair value through other comprehensive income	(38)	4,106	-4,122
Valuation gains or (-) losses taken to equity	(38)	2,072	-3,840
Transferred to profit or loss	(38)	2,034	-282
Income tax relating to items that may be reclassified to profit or (-) loss	(18, 38)	-1,319	-639
Total comprehensive income for the year	(38)	116,599	78,588

C. Consolidated statement of financial position

(HUF million)	Notes	31.12.2023	31.12.2022
Cash, cash balances at central banks and other demand deposits	(6, 19, 46)	927,845	784,913
Financial assets held for trading	(6, 20, 42, 46)	97,809	183,111
Non-trading financial assets mandatorily at fair value through profit or loss	(6, 20, 42, 46)	165,041	126,416
Financial assets designated at fair value through profit or loss	(6, 20, 42)	0	0
Financial assets at fair value through other comprehensive income	(6, 22, 23, 42, 46)	365,884	305,850
Financial assets at amortised cost	(6, 21, 42, 46)	2,693,484	2,680,830
Derivatives – Hedge accounting	(10, 42, 46)	119,623	191,077
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-11,289	-24,300
Current tax assets	(18)	108	1,095
Investments in subsidiaries, joint ventures and associates	(44)	8	8
Property and equipment	(24)	38,707	35,950
Intangible assets	(24)	23,639	22,607
Deferred tax assets	(18)	1,841	5,101
Other assets	(26)	9,355	8,324
Total assets		4,432,055	4,320,982
Financial liabilities held for trading	(6, 27, 28, 42, 46)	93,665	145,730
Financial liabilities measured at amortised cost	(6, 25, 28, 29, 30, 31, 42, 46)	3,781,372	3,726,217
Derivatives – Hedge accounting	(10, 42, 46)	126,808	242,488
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-64,919	-177,653
Current tax liabilities	(18)	3,745	5,704
Provisions	(6, 33)	16,831	11,526
Deferred tax liabilities	(18)	11	8
Other liabilities	(32)	11,814	12,176
Total liabilities		3,969,327	3,966,196
Share capital	(6, 35)	50,000	50,000
Share premium	(6, 36)	113,445	113,445
Equity instruments issued other than share capital	(37)	46,979	31,445
Accumulated other comprehensive income	(6, 38)	22,193	8,853
Retained earnings	(6, 40)	94,709	56,713
Other reserves	(6, 39)	32,143	22,215
Profit or loss	(6)	103,259	72,115
Total equity		462,728	354,786
Total liabilities and total equity		4,432,055	4,320,982

D. Consolidated statement of changes in equity

Sources of equity changes	Share capital	Share premium	AT1 instruments issued	Other comprehensive income not to be reclassified to profit or loss	Other comprehensive income that may 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]	Debt instruments at fair value through OCI*	Foreign currency translation			
Notes	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance as at 1 January 2023	50,000	113,445	31,445	31	10,754	-1,932	0	128,828	22,215	354,786
Profit or (-) loss	0	0	0	0	0	0	0	103,259	0	103,259
Other comprehensive income	0	0	0	4	9,600	3,736	0	0	0	13,340
Total comprehensive income for the year	0	0	0	4	9,600	3,736	0	103,259	0	116,599
Issuance of other equity instruments	0	0	15,534	0	0	0	0	0	0	15,534
Settled payments on equity instrument	0	0	0	0	0	0	0	-24,213	0	-24,213
Total contributions and distributions	0	0	15,534	0	0	0	0	-24,213	0	-8,679
Transfers among components of equity	0	0	0	0	0	0	0	-9,928	9,928	0
Other increase or (-) decrease in equity	0	0	0	0	0	0	0	22	0	22
Total other equity transactions	0	0	0	0	0	0	0	-9,906	9,928	22
Closing balance as at 31 December 2023	50,000	113,445	46,979	35	20,354	1,804	0	197,968	32,143	462,728

Sources of equity changes	Share capital	Share premium	AT1 instruments issued	Other comprehensive income not to be reclassified to profit or loss	Other comprehensive income that may 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]	Debt instruments at fair value through OCI*	Foreign currency translation			
Notes	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance as at 1 January 2022	50,000	113,445	31,445	-3	545	1,819	19	67,420	14,992	279,682
Profit or (-) loss	0	0	0	0	0	0	0	72,115	0	72,115
Other comprehensive income	0	0	0	34	10,209	-3,751	-19	0	0	6,473
Total comprehensive income for the year	0	0	0	34	10,209	-3,751	-19	72,115	0	78,588
Issuance of other equity instruments	0	0	0	0	0	0	0	0	0	0
Settled payments on equity instrument	0	0	0	0	0	0	0	-3,527	0	-3,527
Total contributions and distributions	0	0	0	0	0	0	0	-3,527	0	-3,527
Transfers among components of equity	0	0	0	0	0	0	0	-7,223	7,223	0
Other increase or (-) decrease in equity	0	0	0	0	0	0	0	43	0	43
Total other equity transactions	0	0	0	0	0	0	0	-7,180	7,223	43
Closing balance as at 31 December 2022	50,000	113,445	31,445	31	10,754	-1,932	0	128,828	22,215	354,786

*OCI (Other Comprehensive Income)

E. Consolidated statement of cash flows

(HUF million)	Notes	2023	2022
Profit or loss for the period		103,259	72,115
Cash flows from operating activities			
Adjustments for:			
Depreciation and amortisation	(24)	12,843	11,283
Net impairment loss on non-financial assets	(13)	32	2
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(11)	-4,107	6,227
Net interest income	(11)	-200,656	-139,006
hereof: amortization, accruals and unwinding		31,905	-741
Net gains or (-) losses from derecognition of non-financial assets	(12)	-14	-16
Other		-30,092	8,051
Income tax expense	(18)	13,057	8,726
		-208,937	-104,733
Changes in operating assets and liabilities:			
Change in financial assets held for trading	(20)	-62,624	-51,738
Change in non-trading financial assets mandatorily at fair value through profit or loss	(20)	-38,485	-27,625
Change in financial assets at fair value through other comprehensive income	(22)	-56,047	40,826
Change in financial assets at amortised cost	(22)	299,724	208,643
Change in derivatives (assets) – Hedge accounting	(10)	204,591	-64,381
Change in other assets	(26, 34)	6,748	2,116
Change in financial liabilities held for trading	(27)	82,743	75,195
Change in financial liabilities measured at amortised cost	(29)	55,569	74,810
Change in derivatives (liabilities) – Hedge accounting	(10)	-269,168	90,081
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	99,724	-108,402
Change in other liabilities, provisions and liabilities held for sale	(32, 33, 34)	4,942	7,171
		327,717	246,696
Interest received	(7, 11)	607,124	272,043
Interest paid	(7, 11)	-374,563	-133,779
Dividend received		465	383
Income tax paid	(18)	-12,085	-7,951
Net cash generated from (+) / used in (-) operating activities		442,980	344,774
Cash flows from investing activities			
Purchase of securities	(20, 22)	-328,803	-253,135
Disposals of securities	(20, 22)	73,349	9,319
Purchase of equity investments		-5	-450
Disposals of other equity investments	(44)	5	463
Purchases of property and equipment	(24)	-6,648	-6,274
Disposals of property and equipment	(24)	1,520	1,744
Purchases of intangible assets	(24)	-6,777	-6,619
Net cash generated from (+) / used in (-) investing activities		-267,359	-254,952
Cash flows from financing activities			
Issuance and repurchase of issued debt securities	(30)	196	199,118
Repayment of issued debt securities at maturity	(30)	-142	0
Issuance of Additional Tier 1 Capital (AT1)		15,534	0
Payment of lease liabilities	(25)	-4,423	-2,800
Dividend paid	(35)	-24,213	-3,527
Net cash generated from (+) / used in (-) financing activities		-13,048	192,791
Net increase/decrease of cash, cash balances at central banks and other demand deposits		162,573	282,613
Cash, cash balances at central banks and other demand deposits as at 1 January		784,913	482,489
Net effect of exchange rate changes		-19,641	19,811
Cash, cash balances at central banks and other demand deposits as at 31 December	(19)	927,845	784,913

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 1133 Budapest, Váci Street 116-118.

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 (NBH) 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 2023 comprise the Bank and its subsidiaries (together referred to as the 'Group'). For further information on consolidated subsidiaries please see Note 44 Investments in subsidiaries. The website of the financial statements can be found at: <https://www.raiffeisen.hu/raiffeisen-csoport/sajtoszoba/penzugyi-adatok>.

The Bank is controlled by Raiffeisen CEE Region Holding GmbH. The ultimate parent of the Group is Raiffeisen Bank International A.G. (RBI).

Zeljko Obradovic Chief Financial Officer (availability: 1133 Budapest, Váci Street 116-118.) 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, availability: 1133 Budapest, Váci Street 116-118.).

(2) Basis of preparation

The consolidated financial statements of the Group were prepared on a going concern basis.

(2.1) Statement of compliance

As of the financial year starting from 1 January 2017, Raiffeisen Bank Zrt. – in line with the Act of Credit Institutions and Financial Enterprises – decided 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 the European Union.

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

Due to the technical limitations inherent to the block-tagging of the consolidated financial statements according to the European single electronic format, the content of certain tags of the notes may not be rendered identically to the accompanying consolidated financial statements.

These financial statements were authorised by the Board for issue on 25 March 2024.

(2.2) Basis of measurement

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

- 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,
- financial assets and liabilities designated in qualifying fair value hedge relationships are measured at amortised cost adjusted with fair value changes attributable to the hedged risk;
- all other financial assets and liabilities and all non-financial assets and liabilities are stated at amortised cost or – if applicable –, at cost less accumulated depreciation and/or 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 management aligns the selection, development, application and disclosure of critical accounting policies and accounting estimates with the Supervisory Board of the Bank.

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 pandemic described in note (6) Financial risk management.

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

Amendments to standards and interpretations first applied in 2023 had 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

The Group reports under equity instruments 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.

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 measured at fair value at the date of acquisition.

ii. Associates

An associate is an entity over which the Group has significant influence without having control. Associates are not consolidated. The Group had no such participations in 2023 and 2022.

iii. Non-trading equity instruments

Non-trading equity instruments representing investments in entities over which the Group has neither joint control nor significant influence are presented in 'Financial assets measured at fair value through other comprehensive income'. These equity instruments are not consolidated.

iv. 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.

v. 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 (45) Fund management activity.

vi. 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.

vii. 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. In line with the consolidated accounting policy, entities are not consolidated if they are exempted from consolidation based on that policy (e.g., due to immateriality).

(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 Hungarian Forint at exchange rates at that date as published by the 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 as part of the fair value measurement.

(4.5) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for the purpose of providing 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. In case of impairment testing, the recoverable amount is determined based on the replacement value.

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 considered,
- 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 proceeds 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 Group 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 properties is disclosed according to IAS 40. It is determined by independent experts and is reviewed quarterly. The fair value is supported by market evidence.

iii. Leased assets

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 lessee allocates consideration in the contract to each lease component on the basis of the relative standalone selling price of the lease component and the aggregate standalone selling price of the non-lease components.

The Group as a lessee 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 lessee 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 lessee 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 banks 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 of a purchase option if the lessee is reasonably certain to exercise that option; and
- penalties for early termination of the 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.

The Group applies IFRS 16 coronavirus pandemic related rent concessions amendment, which allows for the simplified accounting for rent concessions.

Short-term leases and leases of low-value assets

The Group has elected not to apply the requirements of the standard 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 the 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.

(4.7) Assets obtained against receivables

If the Group has mortgages registered on the collateralised property pledged as collateral, 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 procedure.

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) Cash and cash equivalents

Cash and cash equivalents include notes and cash 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 and are presented as 'Cash, cash balances at central banks and other demand deposits' in the statement of financial position.

Classification of the mandatory reserves as cash is explained in more detail in note (19) Cash, cash balances at central banks and other demand deposits.

(4.9) Determination of fair value

Several of the Group's accounting policies and a number of disclosures require the determination of fair value of 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 favourable market for the asset or liability.

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

The most favourable market is the market that maximises the amount that would be received for the sale of the asset or minimises the amount that would be paid for the transfer of the liability after considering transaction costs and shipping costs.

More information about the determination of fair value is in note (42) Determination of fair value.

(4.10) Financial instruments

(4.10.1) Recognition and initial measurement

For regular way purchases and sales of financial assets, the Group applies trade date accounting, i.e., recognition when the Group is committed to the purchase or sale 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.

All other financial asset and liability (including financial assets and liabilities measured at fair value through profit or loss) is recognised when the Group becomes party to the contractual provisions of the instrument e.g., 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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., 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 – e.g., 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 consider when pricing the asset or liability. In case of loans, the deferred difference is recognised using the effective interest rate while in case of derivatives the difference is recognised linearly.

(4.10.2) Classification and subsequent measurement

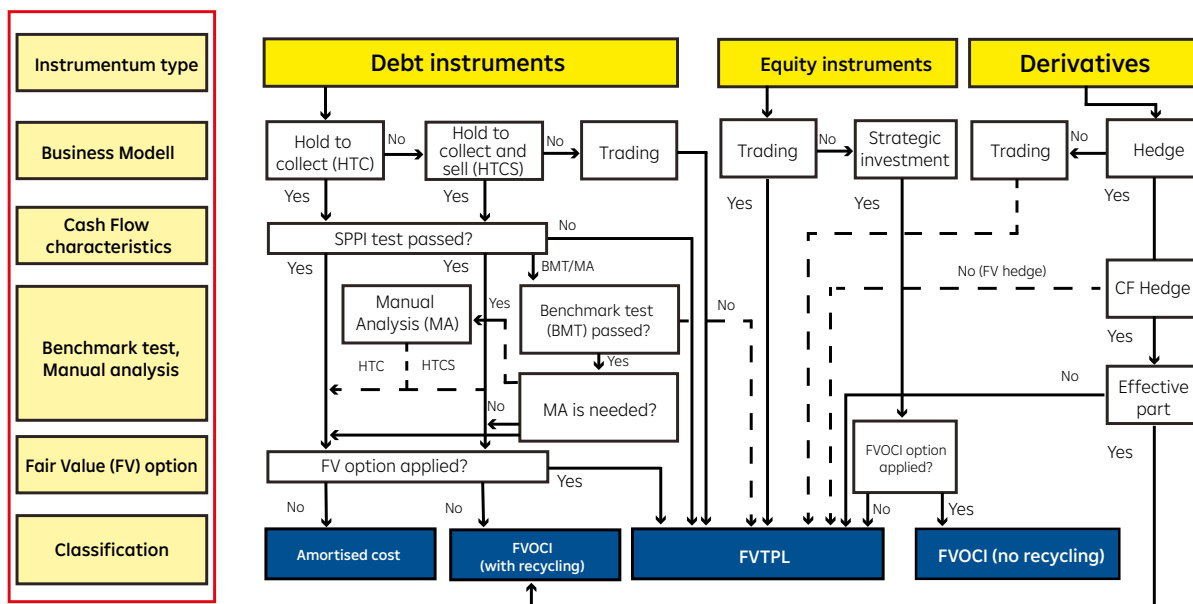
i. Classification and measurement of financial assets

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

The classification of a financial asset is based on a two-step methodology which defines the accounting valuation model for the instrument types:

- 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 level 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 – e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected,
- the frequency, value and timing of sales in prior periods, the reasons for such sales, and 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 to collect 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 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 portfolio. The Group considers the sale of less than 10% of the portfolio's carrying amount during a rolling 3-year period consistent with hold to collect business model. The Group considers the sale of an asset with maturity of less than 3 months can be deemed as close to maturity.

Hold to collect 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 objective is to realise short-term profits.
- Strategic investment portfolio: the goal is to hold long-term investments and collect cash flows (e.g., 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), i.e., whether they are consistent with the terms of a basic lending agreement. For this purpose, the principal is the fair value at initial recognition. The interest can only contain consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g., liquidity risk) and costs (e.g., administrative costs), as well as a profit margin. This involves the assessment whether the financial asset has contractual terms that might change the timing of contractual cash flows. In assessing this, the Group considers the following factors:

- conditional events that might 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 (e.g., non-performing financial assets that cannot be liquidated in case of non-performance), and
- contractual terms that modify the time value of money element – e.g., 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 clusterisation of financial assets. The analysis of contractual cash flow characteristics of contracts that cannot be clusterised is performed individually.

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 characteristic 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 was launched in July 2019 and was originally intended to end in December 2022, but it was extended until the end of 2024 before its termination.

The program offers a state subsidized personal loan up to HUF 10 million 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 ob-

served on auctions regularly published by GDMA in the preceding 3 months plus 2%. In case of breaching the contract, 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 4%. 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.

Accounting 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 to collect 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 not 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 – i.e., not measured 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 recognition 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 liabilities, 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 date of reclassification. The Group considers the first day of the quarter following the business model change as the reclassification date. The Group does not remeasure income, expense (including impairment losses or gains) and interest recognised previously.

The Group cannot reclassify a financial liability after initial recognition.

(4.10.3) 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 has 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 would 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. According to IAS 32.42 derivative assets and liabilities arising from different transactions are only offset in the statement of financial position 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. The netting agreements of Group can only be enforced under certain conditions, therefore financial assets and liabilities are presented gross in the statement of financial position.

Interest income and expense from IRS and CCIRS deals – irrespective whether derivatives are held for trading or held for risk management purposes – are recognised in line item 'Net interest income'.

Some derivative instruments such as FX swaps and FX forwards may have no contractually stipulated interest part, but a fair value that is influenced by interest rate movements (e.g., forward points based on interest rate differential). If such derivatives are used as economic hedges in order to hedge the interest rate risk of an underlying, the according implicit interest part may be presented 'Net interest income' to correctly reflect the business nature of the transaction of correcting the interest income/expense of the hedged underlying.

Changes in fair value less accrued interest and from 1 January 2023 on the implicit interest result of trading FX swaps and FX forwards are recognised in line item 'Net trading income and fair value result'.

(4.10.4) 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 undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedging relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

In order to mitigate the possible liquidity difficulties from the economic damages caused by the COVID-19 pandemic, the Government introduced a legislative repayment moratorium. In case of loans that are eligible for the repayment moratoria and are also designated as a hedged instruments, the Group manages the modified interest risk of the new cash flow profile with derivatives. The Group considers the changes in fair value arising from the modification of the cash flow profiles as a change in the hedging costs, consequently it has no effect on the retrospective effectiveness of the hedging relationships.

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 over its remaining term through a recalculated effective interest rate of the item.

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 both micro and on macro (portfolio) level as well. In 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 accumulated 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 part of the loss recognised 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'.

Sources of ineffectiveness

The Group has identified the following possible sources of ineffectiveness in both fair value and cash flow hedges:

- Hedging interest rate risk with swaps could cause a possible ineffectiveness due to the credit risk of the derivative counterparty which is not included in the hedged item. This risk is minimised by entering into hedging swaps only with high credit quality counterparties.
- Different amortisation profiles of hedged items and hedging instruments or different notionals.
- Discounting the hedged item and the hedging instrument with different yield curves when determining fair value.
- Ineffectiveness might arise due to different starting/maturity dates between the hedged items and the hedging instruments.

(4.10.5) Impairment of financial assets

The determination of expected credit losses requires accounting estimates that by 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. The Group recognises for these expected losses impairment loss allowance (in case of financial assets) or provision (in case of loan commitments or financial guarantee contracts) at each reporting date.

The Group does not recognise impairment for equity instruments.

Recognition of expected credit losses

For the purposes 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 recognition (Stage 1 classification)

For financial instruments classified to Stage 1, the recognition of 12 months expected credit loss is required, which is a portion of the lifetime expected credit loss, i.e., 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)

Financial instruments, the credit risk of which has significantly increased since initial recognition or other qualitative factors indicate significant risk.

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 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 classification only in case of investment grade rated government securities, for which the Group always recognises 12-month expected credit losses, even if their credit risk has 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), or Aaa and Baa3 (Moody's) ratings.

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:

Quantitative criteria

The Group applies quantitative criteria as primary indicators related to the significant 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) which is considered significant differs for each segment (by default it is 250% for non-retail segments but can decrease to a minimum of 150% for transactions with a maturity of over one year, in line with the requirements 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 at least 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 line with the provisions of IFRS and the instructions of the parent bank in case of contracts where the Group identifies significantly increased credit risk, which cannot be detected using other Stage 2 indicators, nor assessed with statistical models: in case of those clients where the post model adjustment described in Chapter 6.2 assumes a non-significant rating deterioration, the transfer to Stage 2 is automatic

The assessment of the significant increase of credit risk involves forward looking information and is carried out quarterly for each non-retail portfolio of the Group.

In case of retail (individuals and micro enterprises) portfolios, if the borrower meets one or more 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 is rated under the IRB methodology but falls to the unclassified category.

The assessment of the significant increase of credit risk involves forward looking information and is carried out monthly for each retail portfolio of the Group at the transaction level.

For the information related to the increase in credit risk due to COVID-19 please see note (6.2) Credit risk.

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 considers a debt instrument arising from a financing agreement defaulted if it meets one or more of the following criteria:

Quantitative criteria

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

A payment delay is considered material, if the overdue amount reaches HUF 180,000 and the ratio of the overdue amount to the total on-balance outstanding amount from the same client reaches 1%.

Qualitative criteria

It is expected that the borrower cannot fulfil 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 materiality limit of 1%,
- the Group suffers credit losses due to the client, or it sells the asset with losses due to financial difficulties and increased credit risk (typically these are not primary defaults),
- in case of financial institutions, the supervisory license is withdrawn,
- repayment moratoria 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 quantitative indicators, which examines the expected credit losses and expected recoveries of the client using financial indicators.

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

The criteria mentioned above are applied for all 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, expectations about losses are not justified and there are no valid concerns regarding the fulfilment of debt service 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.

Participation in the legislative repayment moratorium due to the 2020 Covid-19 pandemic is not considered an automatic indicator for non-performance. For clients participating either in the repayment moratorium 2 introduced in 2021 (repayment moratorium 2 and repayment moratorium 3) or in the moratorium extension in 2022 (repayment moratorium 4) or in 2022 newly introduced moratorium for exposures from agricultural financing, as well as the SME benchmark interest rate stop (detailed in section 5.2), the Group assessed individually the possible worsened liquidity and financial position, and in such situations the clients affected by the moratoria were considered restructured and the Group performed an impairment test to detect the expected non-performance. In case of clients detected in the impairment test the Group performed a net present value calculation, and in case of such clients where the net present value of the expected future repayments did not cover the actual outstanding balance, default status was identified, and the client was transferred to Stage3. The tests described above were performed separately for clients participating in the moratoria (2, 3, 4 and agricultural) and the SME interest rate stop.

During the repayment moratoria, the DPD calculations have been suspended for the outstanding balances eligible for the moratoria.

In case of retail clients, the Group considers a debt instrument arising from a financing agreement as defaulted in line with the definition of credit-impaired, if it meets one or more of the following criteria:

Quantitative criteria

The financial asset is in a material, more than 90 days payment delinquency 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 HUF equivalent of EUR 100 and 1% compared to the total (delayed and non-delayed) exposure from the transaction (in case of micro enterprises the total exposure from the same client).

Qualitative criteria

It is expected that the borrower cannot fulfil its payment obligation, which indicates that the borrower is experiencing significant financial difficulties. In case of retail client the transaction 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 other reasons,
- there is a cross-default, i.e., another transaction of a client or another 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 at least 3 months, or in case of restructured loans for at least 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 calculates a present value for the reporting date. Then the calculated amount of expected credit losses is 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 recoveries from cash flows with the effective interest rate of the transactions. The experts provide estimates of expected recoveries at the client level in more scenarios and the probability-weighted averages of the cash flows from each recovery scenario is considered in the present value calculations.
- In case of Stage 3 retail loans, the expected credit loss is calculated based on 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 performs a chronological analysis and determines 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, the Group also uses expert estimations. 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. In the non-retail segment, 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 over a one year transitional period.

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. The weights of the scenarios (probability of the scenarios: 50% base, 25% optimistic, 25% pessimistic) remained the same in 2023.

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.

Forward looking information applied in estimating expected credit losses for the current year and for the comparative period is described in note (6.2) Credit risk.

Presentation of expected credit losses in the statement of financial position

The Group presents 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.

(4.10.6) 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 entirety, based on ongoing legal claim enforcement procedure or in lack of 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 gross receivable amount before write-off.

Forgiveness of receivables is also possible for non-individuals, and it qualifies as a derecognition event. Forgiveness 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 be written off, if the recoverable amount from the transaction does not cover collection costs and the claim was qualified as irrecoverable.

The write-off or forgiveness 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.

(4.10.7) 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, sale and repurchase transaction and securitisations.

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 similarly 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 line items 'Financial assets at amortised cost' or 'Financial liabilities measured at amortised cost' depending on 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 presented and measured in the statement of financial position among securities. The Group presents the obligations to transfer the securities among financial liabilities measured at amortised cost. The difference between the sale and repurchase consideration is recognised on an accrual basis over the term of the transaction and is included in other interest income or interest expense.

The Group securitizes certain financial instruments by classifying the related risks into portfolios. A securitisation is a transaction in which the credit risk associated with an exposure (or a group of exposures) is assigned to a series of tranches, and for which both of the following criteria is met: payments under the transaction are made in the context of the performance of the exposure or group of exposures, and the relative subordination of the series of tranches to each other determines the distribution of losses over the life of the transaction. Traditional securitisation allows a group of loans to be refinanced by converting them into a marketable securities. In this case, a true transfer of receivables takes place and the assets and risks are fully or partially derecognised from the balance sheet of the party initiating the securitisation. In case of synthetic securitisation, the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the Group.

On 23 December 2022, the Group concluded a portfolio guarantee contract. The synthetic transaction is split into senior, mezzanine and junior tranches. The credit risk of the mezzanine tranche is guaranteed by institutional investors, whereas the Bank retained the credit risk of the junior and senior tranches. As the Group retained the contractual rights to the cash flows arising from the loans and it retained all or substantially all risks and rewards from a portion of all loans concerned, under IFRS 9 the loans are not derecognised from the statement of financial position.

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

The result from derecognition of financial assets and liabilities is presented in 'Net trading income and fair value result' or 'Net gains/losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss' line items of the statement of profit or loss.

(4.10.8) 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. Based on this, 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 and liabilities not measured at fair value through profit or loss' in the statement of profit or loss.

The Group evaluates significance based on qualitative and quantitative criteria.

Qualitative criteria:

- change of currency, when the contract does not allow draw-downs in multiple currencies,
- the financial instrument changes (i.e., loan to bond or current account to term loan in case of restructuring),
- addition or elimination of a contractual term that violates the SPPI test.

Quantitative criteria:

- the cumulative average remaining term of the contract weighted with the cash flows changes by more than 2 years or 50% of the original term (considering the larger of the 2 criteria),
- the net present value of the modified contractual cash flows discounted using the original effective interest rate (or for floating rate instruments, using the actual 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 at least by EUR 100,000, in case of retail assets at least 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 profit and loss, in the line item 'Impairment losses'. In other cases, the modification gain or loss is presented in the statement of comprehensive income in the line item 'Other result'.

In case of contracts eligible for the repayment moratoria the difference between the net present value of the modified contractual cash flows discounted using the original effective interest rate (for floating rate instruments, using the actual effective interest rate) and the net present value of the original contractual cash flows discounted with the same interest rate did not exceed the 10% threshold, therefore it is considered as an insignificant renegotiation, consequently the Group presents the corresponding modification loss or gain in the statement of comprehensive income in the line item 'Other result', and the gross carrying amount was modified in the statement of financial position.

Any fees considered 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 on the date of modification. The difference between the carrying amount of the derecognised financial liability and the fair value of the new, modified financial liability is reported as 'Net gains/losses from derecognition of financial assets and liabilities 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 related to the modification are normally recognised in profit or loss, unless they are proven to be directly attributable to the newly recognised modified financial liability.

(4.10.9) 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.

(4.10.10) 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.

(4.11) 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.

(4.12) 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 loan commitments and certain issued guarantees, 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 which, in case of loan commitments and issued guarantees, could occur at any time up to the maturity date, while in case of pending legal cases it is expected to occur after the date of closing the legal case.

All contingent liabilities are included in the financial statements regardless of whether the outflow of economic resources arising from the fulfilment of the obligation is probable or not.

(4.13) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee 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 financial guarantee liability is subsequently measured at the higher of the provision for expected credit losses in line with the rules of IFRS 9 and the initially recognised amount less the accumulated revenue recorded in line with IFRS 15. The financial guarantees are presented under provisions.

Further details are set out in note (41) Contingent liabilities and commitments.

(4.14) Interest income and interest expense

Interest income and expense on financial instruments of the Group, 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 payable 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. Financial instruments measured at fair value through profit or loss held in the trading book and classified as held for trading, as well as derivative instruments designated for risk management purposes are exceptions to that and their interest income and interest expense are presented in 'Other interest income' and 'Interest expenses', respectively. Interest income for loans measured at fair value through profit or loss is also presented in 'Other interest income' and interest expense for deposits measured at fair 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 consequence, interest result from derivatives only contains realised and unrealised interest results.

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.

(4.15) 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 customers standard for its fee and commission income arising from its contracts with customers.

Fees for payment services and fees related to banking cards

Settlement service fees

The Group provides to its clients various services relating to account management. In course of account management, various related services can be used, for example initiating transfers, direct debits, standing orders, internet banking, providing or forwarding account information.

Fees related to the Group's continuous services are charged monthly in arrears. The fees charged are typically fixed monthly fees which were determined per customer group and per account package.

Transaction fees are typically charged by the Group at the time of the cash movement of the transaction or monthly in arrears. These fees are typically determined as a percentage, the volume depending on the transaction. One-off fees related to transactions are collected by the Group when the service is provided. These fees can be fixed fees or fees determined on a percentage basis.

Fees and fee packages are periodically revised, detailed information on which can be found in the current published list of terms and conditions.

Fees and commissions related to issued bank cards

The Group's services include issuing bank cards for its clients and other related activities. In providing those services, various types of commission income are realised in the settlement services related line items of fee and commission income, which are basically determined in relation to the issuance and are based on the bank card transactions.

A typical fee income is the yearly bank card usage fee, which depends on the type of the bank card. The yearly fees are typically charged in advance and accounted for over the reference period.

Fees related to services provided continuously are accounted for over the time period the service is provided. Transaction based fees related to issued bank cards are charged either when the transaction is affected or monthly in arrears. Transaction based fees are typically the following: ATM cash withdrawal and cash deposit fees, brokerage commissions. One-off fees can be card blocking fees and card replacement fees which typically fall into the category of fixed fees.

Fees and fee packages are periodically revised, detailed information on which can be found in the current published list of terms and conditions.

Currency conversion and other margin

The Group embeds a margin, a quasi transaction fee, in the transactions of clients involving currency conversion and in clients' other securities transactions. Although these margin amounts are accounted for as foreign exchange gain or loss at the time of effecting the transaction, the Group reclassifies them monthly to its commission income. Such margins can be charged in relation to spot and forward transfers, conversions, bank card and securities trading transactions, effected through various channels (Direkt-net, Elektra, branch office).

Fees charged for outsourced currency exchange activity

In Hungary, only credit institutions are allowed to engage in currency exchange activity. The Group does this type of activity for its clients also through currency exchange brokers. Given that if the Group did this activity directly on its own, it would incur certain expenditures, the profit realised on currency exchange activity is presented gross: fees embedded in transactions and charged in relation to the clients' currency exchanges and other fees collected from exchange brokers are presented as fee income, whereas the result of currency exchange deals credited to the exchange brokers are presented as fee expense. The fees are typically settled monthly.

Fees charged for transfers and issuance of securities

In course of its investment management services, the Group provides securities account management services for its clients. The Group charges fees for securities account management and related services. Securities account management fees are typically determined as a percentage of the stock of securities managed on the securities account over a certain period. It is settled in the reference period in arrears, quarterly or yearly.

Other fees and commissions can be charged in relation to securities transactions of the Group's clients, which are determined as a percentage of the transaction volume. These fees are typically accounted for in relation to effecting the transaction and in the current month.

Fee and commission income from fund management activity

The investment fund management fees and commissions and income from portfolio management activity provided for funds and insurers are presented under the Group's investment service-related income. These activities qualify for continuously provided services, the fees of which are typically accounted for monthly, the amount depending on the size of the managed portfolio.

Insurance premiums

The Group mediates insurance services for its clients. The Group passes through premiums collected from clients to the insurance companies. In case these premiums relate to credit products, they are presented net of interest income. Premiums not related to credit products are accounted for as commissions. Fees charged for mediating insurance services are also presented gross as fee and commission income for agency services.

As these services are provided continuously, the fees are typically accounted for monthly.

Other fee income, not explained before

The financial commissions not previously mentioned are presented among custodian, corporate finance, asset management and other fee income.

In cases when services are provided continuously (e.g., custody fees, fees for protecting credit collateral, safe fees) the practice is also to account for the fees over the reference period, typically monthly in arrears. The one-off fees and commissions are accounted for in the given period, typically at the time of provision of the service (e.g., advisory for corporate clients, providing information, other financial services related activities).

All significant services of the Group generating fee and commission income are detailed in note (8) Net fee and commission income.

Fee and commission income related to non-credit institution services

Items of fee income accounted for under IFRS 15 are also presented under Other operating income of the Group, however these are not connected to the Group's services as a credit institution, and as such are not part of the classical fee and commission income. Such can be typically: fees for expert and accounting services provided to subsidiaries, proceedings fees recovered, income from selling inventories, which are accounted for by the Bank monthly in case of services provided continuously and in other cases at the time of occurrence of the economic event.

The Group did not disclose the value of any open performance obligations on December 31 2022, as its contracts with customers generally have a fixed term that is less than one year, an open term with a cancellation period that is less than one year, or provisions that allow the Bank to recognize revenue at the amount it has the right to invoice.

The Group does not disclose the value of the outstanding performance obligations as at 31 December 2023 because the contracts with clients are fixed term contracts for less than one year, indefinite term contracts with a cancellation period of less than one year or have terms that allow the Group to recognise revenue in the amount it is entitled to invoice.

Amounts of fees are disclosed in note (12) Other operating income and expenses.

(4.16) Net trading income and fair value result

Net trading income comprises gains and 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.

(4.17) 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 all other gains and losses arising on sundry items that cannot be classified elsewhere.

(4.18) Dividend income

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

(4.19) 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 contributions, short-term compensated absences, rewards, bonuses and non-monetary benefits that are due to be settled within twelve months.

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

Post-employment benefits include defined pension contributions that result from state plan funded on a pay-as-you-go basis.

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

Employee benefits are reported as 'Staff expenses' and the significant items related to the standard are included in note (15) Staff expenses..

(4.20) Income tax

Income tax for the period comprises current and deferred tax. Income tax is recognised in profit and loss, 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.

The Group considers as income tax the corporate income tax, the local business tax and the innovation contribution as defined by Hungarian tax laws.

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.

The Group has applied the temporarily applicable, mandatory exemption, which was published by the IASB in May 2023 related to the international tax reform. This exemption applies to accounting requirements for deferred taxes according to IAS 12. Respectively, the Group does not consider taxes related to the OECD pillar 2 model rules for the calculation and presentation of deferred tax assets and liabilities. The OECD pillar 2 model rules require a global minimum tax rate of 15 per cent on profits of multinational corporations. This minimum tax regime was enacted as EU directive in December 2022 and had been translated to Hungarian national law by 31 December 2023.

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 financial assets 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.

(4.21) Share capital

Share capital is the sum of amounts paid by the owners for ordinary shares and preference shares at foundation or at the time of any capital increase. Share capital is initially recognised at the time of registration by the court of registry in the amount registered and set out in the deed of foundation. Share capital is measured at historical exchange rates, at carrying amount.

(4.22) Additional Tier 1 Capital

The Group presents bonds (Additional Tier 1 Capital) issued that – in accordance with IAS 32.16 – do not represent contractual right to receive or obligation to deliver a fixed 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).

(4.23) Government grants

Government grants are specific resources that relate to operating activities of the Group and are transferred by the state (government and its agencies) in return for compliance with certain conditions. These can be in several forms, such as grants related to assets, grants related to income, forgivable 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) Events in the reporting period

(5.1) New standards and interpretations

Initial application of new standards and amendments to existing standards issued by IASB and adopted by the EU, effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 17 Insurance Contracts – Initial application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual reporting periods beginning on or after 1 January 2023)
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023)
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023)
- Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023)

Modifications of the above standards had no significant impact on the Group's financial statements.

New standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

On the date of authorisation of these financial statements for issue, the following amendments to the existing standards were issued by IASB and adopted by the EU but were not yet effective:

- Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback (effective for annual reporting periods beginning on or after 1 January 2024)
- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current - effective date was changed, Non-current Liabilities with Covenants (effective for annual reporting periods beginning on or after 1 January 2024)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards and new interpretations, which were not endorsed for use in the EU on the date of the publication of these financial statements:

- Amendments to IFRS 14 Regulatory Deferral Accounts – The European Commission decided not to apply the endorsement process for the current interim standard and awaits the final standard.
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date delayed for an uncertain period until the research project concludes on the equity method)
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (IASB effective date: 1 January 2024)
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (IASB effective date: 1 January 2025, EU endorsement process delayed for an indefinite period)

The Group considers that the endorsement of the new standards and amendments of existing standards will not have a significant impact on its financial statements in the period of initial application.

(5.2) Significant events in the reporting period

Mesures of the NBH

Base rate and interest rate corridor

In 2023, the NBH decreased the base rate – which was increased in 2022 from 2.4% to 13% – in three steps, on 25 October 2023 to 12.25%, on 22 November 2023 to 11.5% and on 20 December 2023 to 10.75%.

At the beginning of 2023, the overnight deposit rate which determines the lower edge of the interest corridor was 12.5%, whereas the overnight borrowing rate determining the higher edge of the interest rate corridor was 25%. On the 25 April 2023 meeting of the Monetary Council the process of decreasing interest rates commenced. As a result, the lower edge of the interest corridor decreased by the end of 2023 in several steps to 9.75% and the higher edge decreased to 11.75%.

Interest rate of quick deposits introduced in October 2022 also decreased continuously during 2023: from 18% at the beginning of the year to 13% by the end of September, thereby reaching the level of the base rate. Deposit quick tenders were suspended by the HNB from 2 October 2023.

Based on the decision of the Monetary Council in September, the tools used by the HNB were changed and became simpler. The gap between the one-day quick deposit and the base rate was closed, the base rate became the benchmark interest rate and thus the normalisation of the extraordinary interest environment as introduced in October 2022 ended.

Assets absorbing liquidity

The NBH applied its tools – including the transformed mandatory reserving system, the one-week discount bond and the long term deposit tender – introduced in autumn 2022 and aiming at long-term absorbing of interbank liquidity frequently also in 2023, it held discount bond auctions weekly and continued to apply one-day deposit quick tenders and currency swaps.

Reserving system

For credit institutions obliged to deposit reserves at NBH, depending on the credit institution's statement starting from 1 April 2023, NBH prescribed by its decree on the reserve ratio to keep a minimum of 10, 11, 12, 13, 14 or 15% (in the absence of a statement 10%) reserve instead of the previous minimum obligation to keep a reserve at 5, 6, 7, 8, 9 or 10%.

In May 2023, the Monetary Council decided upon following technical modifications to the mandatory reserving system:

- NBH starts to prepare for determining the amount of mandatory reserves in the future based on average balances in the current period instead of balances as at the last calendar day of the current period.
- In the period required for transition i.e., from July 2023 to withdrawal (planned by the end of this year), the basis of mandatory reserves as determined by NBH is fixed and is based on balances as at 31 March 2023, thus the basis of mandatory reserves remains unchanged in this period.
- From 1 July 2023, the reserving obligation can also be fulfilled by the credit institutions by depositing an amount with an original term of at least 14 days to the forint deposit account of the credit institution maintained by NBH. This way of fulfilling the reserving obligation is taken into account by NBH only up to 15% of the minimum mandatory reserve in case of each institution. Accordingly, NBH continues to regularly hold its long-term deposit auctions.

The credit institution obliged to deposit reserves at the HNB shall keep a reserve on every day of the current fulfilment period calculated with an at least 10% reserve ratio (minimum mandatory reserve). In addition, the credit institution obliged to deposit reserves at the HNB – considering the chosen level of reserve ratio – shall comply with the mandatory reserving obligation applicable to it once a month, on the last calendar day of the current fulfilment period, applying averaging.

The NBH introduced progressive interest rates for the mandatory reserve accounts of the credit institutions from 1 April 2023. The NBH does not pay interest on 2.5 percent of the reserve fund, continues to pay the base rate on the 7.5 percent portion and pays interest of overnight quick tenders, instead of the base rate on optional reserves.

On 26 September 2023, the Monetary Council decided that from 1 October 2023 NBH pays the base interest rate on the balance of the reserve account in excess of the mandatory reserve amounts, thus this asset becomes the benchmark asset. Thus, NBH pays the base interest on both the non-interest-free portion of the mandatory reserve and excess reserving.

Interest cap

Retail benchmark interest rate stop (from 01.01.2022 to 01.07.2024)

On 24 December 2021, the Government Decree nr. 782/2021. (24.XII.) that fixed the interest of retail loans (interest cap) was published.

The decree is applicable to retail mortgage loans with floating interest tied to benchmark interest rates (BUBOR), having an interest period less than 3 years, typically 3 or 6-month interest periods. If such loan is under the repayment moratorium, the interest maximization still applies for it.

According to the government decree, apart from the Section 117/D of the Act 2009 CLXII on loans to consumers, in case of mortgage loans tied to benchmark interest rate, in the period from 1 January 2022 to 30 June 2022

- the contractual benchmark interest rate effective from the contractual repricing date after the entry into force of the decree, and
 - the contractual benchmark interest rate effective from the contractual repricing date preceding the entry into force of the Decree
- cannot be higher than the contractual benchmark interest rate effective on 27 October 2021.

The Group cannot add the sum of the forgiven interest either to the outstanding capital or to the outstanding interest due from the affected debtors. On 1 January 2022 (or in case the benchmark interest rate for the current interest period is more favourable than the above benchmark interest maximum, on the next repricing date), considering benchmark interest rate fixed in the decree and applying unchanged contractual interest rate spread, the Bank sets the maximum applicable interest determined by regulation for the affected loan contracts.

The government extended the interest cap until 31.12.2022 by Government Decree 215/2022 (17.VI.) and later until 30.06.2023 by Government Decree 390/2022 (14.X.), as well as extended it from 1 November 2022 to non-interest subsidised mortgage loan contracts with interest rates fixed in interest periods up to 5 years.

In May 2023, the government decided on the prolongation of the interest cap until 31.12.2023, then in November 2023 set the expiry date of retail interest cap as 1 July 2024.

SME interest stop (from 15.11.2022 to 01.04.2024)

By Government Decree 415/2022 (26.X.), the Government introduced an interest rate stop for small and medium-sized enterprises. The interest rate stop applies to loans, credit and financial leasing contracts that were concluded before 28 October 2022, are not covered by a government subsidy, bear variable interest rate and are denominated in HUF. In accordance with it, between 15 November 2022 and 30 June 2023, the reference rate based on which the interest of the transactions concerned is calculated cannot be greater than the interest rate prevailing on 28 June 2022.

In May 2023, the government decided on the prolongation of the interest cap until 31.12.2023, then in November 2023 set the expiry date of SME interest cap as 1 July 2024.

Interest rate cap on deposits (until 01.04.2024)

By Government Decree 471/2022 (21.11.2022), the Government maximises the interest rate on deposits of institutional investors and retail customers above HUF 20 million. The interest paid based on HUF denominated on-demand deposit contracts or deposit contracts with a maturity of maximum 1 year concluded until 31 March 2023 cannot exceed the latest average auction yield for treasury bills issued for a 3 month maturity published by the Government Debt Management Agency on its official website. The Decree applies to deposits of institutional investors and retail customers with a deposit amount of over HUF 20 million.

During 2023, the government prolonged the above expiry date until 01.04.2024 in a number of steps.

In November 2023, the government extended the bank deposit interest rate cap to enterprises without specifying a threshold.

Voluntary cap on APRI (until 01.01.2024)

In October 2023, the government and the Banking Association agreed upon the introduction of voluntary interest rate cap. The voluntary interest rate cap means a APRI level of

- 12 percent for newly concluded working capital loans to enterprises; and
- 8.5 percent for retail loans (for purchasing or renovation of new or used residential properties).

The government undertook that, in the case when the base interest rate decreases to a one-digit amount, it could potentially cease the interest cap affecting enterprises and potentially reconsider the retail interest cap.

Raiffeisen Bank voluntarily joined this initiative on 9 October 2023.

Retail APRI cap

The Group makes the 8.5% maximum APRI available for most of its clients and applies it when all of the below criteria are met:

- the application accepted on or after 9 October 2023,
- loan contracts with 10-years interest periods or fixed interest loan contracts with 10 years maturity.

In the case of products under the APRI cap, the interest can be further reduced through various discounts.

Corporate APRI cap

The level of interest cap is:

- 12% in case of new corporate working capital loans contracted on or after 9 October 2023.
- 11.5% in case of new corporate working capital loans contracted on or after 2 November 2023.

In December 2023, the government and the Banking Association agreed that from 1 January 2024, for newly concluded contracts the voluntary APRI cap decreases to 7.3 percent in case of retail housing loans and to 9.9 percent in case of corporate loans and from 01.04.2024 the voluntary interest rate cap will cease.

Restricting the transfers of central bank bonds (until 31.12.2023)

In March 2023 the government decided to prohibit the transfers of central bank discount bills that are without restrictions.

Loan programs

For the loan programs introduced due to the pandemic please see the section about the loan portfolio in the Note 6.2 Credit risk.

NBH Circulars regarding the scope of using macroeconomic information and factors indicating a significant increase in credit risk for the purposes of IFRS 9 (last amended on 25.11.2021) and the assessment of loans in payment moratorium (last amended on 05.09.2022)

During 2021 the NBH modified multiple times its already published management Circular about the use of macroeconomic information and factors triggering significant increase in credit risk under IFRS 9. In 2022 and 2023, this Circular has only been amended with regards to updating of the macro parameters that guide the forward-looking information. In 2022, the Circular on the assessment of loans in the payment moratorium was updated by the NBH to include expectations for the treatment of loans in moratorium 4 and the agricultural moratorium.

The Group assesses its compliance with management circular as follows.

Corporate segment

The Group transfers clients in corporate segment who opted-in for the repayment moratorium 2 (launched in 2021) or for the agricultural moratorium (2022) to Stage 2 based on risk monitoring – individual assessment of the potential deterioration of the financial situation – in accordance with the guidelines of the NBH's management circular. However, those clients are excluded who participated altogether less than 9 months – in compliance with the EBA's report about the moratoria updated in December – in the first and second moratoria. If any single transaction of a client participated altogether more than 9 months in the first and second moratoria, then the Bank performed the risk monitoring assessment in case the client was opting-in to moratoria 2 launched in 2021.

The transactions of client already classified as Stage 2 or Stage 3 on participating at the start in moratorium 2 (launched in 2021) or agricultural moratorium (launched in 2022 and lasted until the end of 2023) were automatically flagged as restructured.

Considering the fact that clients participating in the repayment moratorium 1 (launched in 2020) with their last due repayment in 2020 were automatically transferred to repayment moratorium 2 (launched in 2021), those clients who notified the Group during their risk monitoring that they do not intend to participate in the repayment moratorium 2 with any of their transactions and opted-out from the repayment moratorium 2 by declaration, the Group did not establish financial difficulty and did not flag the transaction as restructured. In respect of newly opted-in clients, the Group performed every single time the necessary risk monitoring assessment and based on that transferred the clients to Stage 2 in case of financial difficulty.

In case of financial difficulty identified as above and participation in repayment moratorium 2, the Group also performs an impairment test (impairment test considering the credit impaired triggers according to IFRS 9) for the purpose of identifying potential non-performance.

When opting-in to the repayment moratorium 3 (launched in 2021) and moratoria 4 (launched in 2022), the Group considered the affected transactions as restricted and transferred them to Stage 2 in every case. In case of these clients, the default assessment was completed through performing the impairment test.

At the launch of the moratorium 4, which started in 2022, the remaining performing transactions – which were at that time already classified as Stage 2, flagged as restructured with an increased Stage 2 allowance level – were repaid. The remaining participating counterparties were classified as Stage 3 and designated as restructured-non-performing. The Stage 3 impairment was calculated using an individual assessment (net present value calculation of expected cash flow recoveries in multiple scenarios), using a conservative ('banker's case') approach.

Regardless of participation in the above programs, to cover risks for which there is no sufficient information to assess increase in credit risk or to recalibrate models, but for which a significant increase in credit risk is likely, the Group's management has recognised an overlay impairment for the first time in 2020, with quarterly review and value adjustments during 2021, 2022 and 2023 considering the whole portfolio.

Retail segment

In accordance with the NBH's management circular published on 21 January 2021, the Group assumes that its clients participating for more than 9 months in the repayment moratoria have or are expected to have financial difficulties, therefore they were transferred to Stage 2. Customers no longer eligible for moratorium 3 and moratorium 4 are still classified as Stage 2 for a further 6 months after opting out from the moratorium. Moreover, at the beginning of moratorium 3 and moratorium 4 the Group assessed for the clients opted in to these moratoria the need to classify the related balances as non-performing based on triggers other than days past due, due to the occurrence of 'unlikely to pay' conditions according to point a) of Section 1 of CRR Article 178, with particular attention to the situation, when the client is in a difficult financial situation due to unemployment. In cases where the Group did not have sufficient information to assess the increase in credit risk, the Group's management recognised an overlay impairment for both transactions participating in moratorium 3 and in moratorium 4 to cover the risks, followed by regular quarterly reviews.

Despite the unprecedented situation, the Group's cooperation with clients remains smooth, the continuous contact is secured.

(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 completely 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 Credit Risk Management Department; 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 (IRD).

The Group is exposed to the following risks:

- i. Credit risk
- ii. Market risk
- iii. Liquidity risk
- iv. Operational risk
- v. Environmental, social and governance 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 desired 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 borrowers. 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. 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 future 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 integrated forecasts for provisions, impairment, capital requirement and profit and loss after tax and performs stress testing. Based on expectations about the macroeconomic environment, the Group estimates default rates and their impact on the above amounts using statistical models. The period of the forecasts and stress scenarios is 3 years and the Group analyses Pillar I and Pillar II capital adequacy in case of both expected and pessimistic scenarios.

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

The impact of the COVID-19 pandemic and increased geopolitical, energy market, inflation and property market risks on the practices of recognising restructuring and default

The events that are under actions of the government decided until 31.03.2021 in order to mitigate the effects of the economic crisis, according to the guidelines of EBA should be considered as follows in relation to default:

- The exercise of a guarantee provided by the state or state organisation for mitigating the economic effects of the crisis is not considered as a default event.
- The public repayment moratoria ('public moratoria') introduced in order to mitigate the economic effects of the crisis or the general moratoria introduced by the Group ('private moratoria') is not considered as a financial difficulty as long as the participation in such program does not last longer than 9 months. In this relation the general moratoria introduced by the Group is defined as a program, which is available for a clearly identifiable group of clients and in this group the client's financial and economic difficulties are not investigated individually.
- Under the repayment moratoria in the above point, the payment delay is not applicable, neither is the default upon 90+ past due status. The payment delay should be interpreted based on the new payment schedules after the end the moratoria.
- Rescheduling of payments according to the above should not on their own be considered when assessing forced restructuring.
- It does not automatically qualify for a bad financial situation, when the Group introduces special attention and monitoring for the closer tracking of some clients, therefore it does not indicate an automatic trigger for impairment testing.
- The Group still has to investigate individually the financial difficulties of these clients and whether other default trigger exists, furthermore for contracts or modifications of contract not in the scope of the actions detailed above, the general rules. This is disclosed in note (4.10.5) Impairment of financial assets.

Government actions with condition other than described above, especially the repayment moratoria programs (moratorium 2, 3, 4 and agricultural financing moratorium) and the benchmark interest rate stop launched in 2021 and 2022, are no exception to the standard assessment obligation for restructuring and non-performance, therefore the Bank applies the standard identification processes in these cases, in compliance with regulations of the CRR, EBA, RBI Bank, the NBH Decree Nr. 39/2016 and the NBH's management circulars.

Compliance with prescriptions relating to sanctions

The Group applies policies and procedures which ensure compliance with financial sanctions and embargos on its activities. Furthermore, the Bank introduced appropriate monitoring and screening tools to ensure compliance with all regulations related to sanctions, including but not limited to the sanctions imposed by the UN, the EU and the USA.

Retail segment

Lending framework and risk policy

Retail segment

Measures after the breakout of the 2020 Covid pandemic were gradually phased out, which was followed by an economic upturn and in parallel an upturn in lending until the first half of 2022. After the first half of 2022, due to inflation effect the demand for retail loans and within them for housing loan mostly driving the volume decreased and thus disbursing new loans decreased. In order to mitigate inflation risk, the Group is taking a more cautious approach during the application for loan of clients with lower earnings.

Micro- and SME segment

New lending to micro and SME segment was obviously dominated by the Széchenyi products. The expected portfolio deterioration was not realised, although differences were experienced on the industry level. In the past 12 months the Group regularly reviewed the effects of inflation and other macroeconomic events to the micro and SME segment. In course of this, it assessed its clients' involvement and aimed at gathering a lot of relevant information both from existing clients and new applicants. The Group proactively initiated the restructuring of the financing in case of clients assessed as high-risk clients based on the information gathered, enhancing the preservation of long-term ability to pay. The Group finetuned its industry-specific risk appetite several times during the year in case of new lending.

Expected credit losses

In November 2020, the Group - considering the 'Management Circular about the use of macroeconomic information and factors triggering significant increase in credit risk under IFRS 9' published by NBH - decided to apply a portfolio level management overlay, the so-called Post Model Adjustment. The underlying assumption for this was that the days-past-due (DPD) numbers frozen due to the repayment moratoria as they did not reflect the real expected credit losses for the period after the moratoria.

As a consequence, the Group recognised additional impairment in 2020 for riskier clients (restructured, more than 30 days past due before the introduction of the moratoria, payments from the client decreased significantly) participating in the moratoria, calculated with 100% PD parameter.

In March 2021, the Group assessed the financial status of the clients opted-in to repayment moratorium 2 (and transferred them to default, i.e., Stage 3, where appropriate) and at the same time terminated the portfolio level management correction.

In November 2021, the Group performed again the assessment of the financial situation for client opted into the repayment moratorium 3, and transferred client with proven financial difficulty to default, e.g., Stage 3. Moreover, the Group applied again the portfolio level management overlay corrections, because in case of clients who spent more than 9 months in the repayment moratoria and

- in retail segment do not keep their primary bank accounts at the Group, and
- in microenterprises segment in case of clients who suffered more than 25% loss of revenue the Group identified increased credit risk.

In August 2022, the Group repeated its assessment of the financial situation of customers entering moratorium 4 and, where there were information regarding the customer's worsened financial situation became known, transferred them into default, i.e., Stage 3. In addition, the Group applied portfolio-level management corrections to all transactions within the retail moratorium.

At the end of June 2023, the management corrections relating to the moratoria were derecognised in the sixth months following the cessation of the general payment moratorium, as the clients affected are thereafter assessed in course of the normal monitoring processes and fall under past due days calculation thus not associated with excess risk.

Due to the impact of energy market risks and increasing liquidity and profitability difficulties, the Group also applied portfolio-level management corrections within the micro and small enterprise segment on several occasions during 2022. During 2023 the Group monitored the impacted clients closely but did not consider the derecognition of the corrections justified, due to the persisting inflation pressure and economic downturn. As a result of the monitoring, the population of clients affected were redefined and extended with sole entrepreneur clients financed within the retails segment and with employees of companies in industries considered high-risk industries.

Due to increasingly occurring extreme weather events, the problem of climate change became the focus of also the Group's attention. The Group worked out the practice to identify, quantify and manage such type of risks and implemented it into its risk processes.

The physical risk relates to the occurrence of extreme weather events and their effect on the Group's assets. The Group relies on a special engine called Physical Risk Engine (PRE) in measuring the physical risks in case of mortgage loans, which is capable to determine physical risks based on the following factors:

- geographically locating the risk exposure: in case of properties (e.g., collaterals for mortgage loans) the geographical location of residential and industrial properties;
- calculating risk maps along scenarios;
- calculating risk map and synthetic physical risk index.

The Group incorporated the results obtained in the calculation of impairment, transferring the mortgage loans related to properties most prone to physical risks into Stage 2.

Corporate segment

Lending framework and risk policy

In case of the corporate segment, the Group is regularly monitoring and reviewing to what extent its clients are affected by the current macroeconomic and geopolitical risks and is trying to collect more and better information. As a result of the portfolio screening, the Group identified some particularly sensitive industries (e.g., hotels, hospitality, vehicle production, companies with sensitivity to interest rates or exchange rate changes) where the exposures, industry outlooks and possible scenarios were reviewed in detail and individually as well. The screening has still been running regularly ever since in case of the corporate segment.

The Group's corporate and project finance portfolio has no significant cross-border financing towards Russia and Ukraine. The Group has identified one client group which, in addition to its activities in Hungary, also has some independent activities in Russia, which is not financed by the Group. The exposure to the identified client group does not exceed 1% of the corporate exposure. Indirect risks have not yet been identified also in 2023, but the occurrence of possible spreading effects in 2024 cannot be completely excluded (e.g., future sanctions, disruption of supply chains, see gas, oil).

Furthermore, the RBI group's effective lending policy was reviewed and amended in 2022 in the following points:

1. Identification and management of industry risks follows a well-established methodology, considering both short- and long-term perspectives, and is based on a detailed analysis of a single set of criteria. As a result, sectors are classified into high/medium/low risk categories on the basis of the industry risk matrix the lending policy is accordingly tightened as follows:
 - Clients in high-risk industries: new transactions and prolongations with existing clients should be handled with special care can be approved in special cases, acquisitions of new clients are to be avoided.
 - Clients in moderate risk industries: prolongations may be performed, but new transactions shall only be concluded, if based on a sensitivity analysis in case of a decrease in the client's revenue, the Bank does not expect any significant decline in the client's rating. The accurate documentation of the sensitivity analysis is crucial to the decision.
 - Clients in low-risk industries: continuing of the normal business in line with the lending policy in effect, however the risk management and approval process shall particularly focus on considering the client's potential vulnerability to COVID-19.
2. Review and adjustment of the general corporate lending framework in effect as well as corporate lending framework specific to the type of financing:
 - a) supplementing general lending policies
 - applying the changes initiated by RBI and presented above,
 - the risk profile of the clients needs to be investigated from the point of view of both the volume of supply/demand and the potential damage of the supply chain,
 - the flexibility of the cost structure needs to be analysed,
 - when assessing the client's financial situation, its short-term liquidity needs to be analysed (whether it is able to cover its expenditures for the next 6-9 months),
 - the existence and probability of the shareholders financial support should be assessed,

- further lending, if needed, is only allowed if the increased debt service is still in line with reference debt ratios in the Bank's risk policy, and the recovery is expected from primary sources,
 - if debt reference ratios are significantly breached, the client is given PWO status,
 - in case of clients participating in the repayment moratoria, due to the extended term, the validity and amounts of the limits in the credit proposals shall be reviewed and adjusted if needed.
- b) supplementing specific lending policies
- transactions with leverage: new transactions with the purpose of management-buy-out (MBO) and acquisitions/ buy-outs should be financed with particular care,
 - FX, interest and loan derivative limits: the margin-call processes should be adhered to, clients with missing or decreasing revenue easily could be over-hedged, therefore they could become exposed to the changes of the underlying again, this consideration should be an integral part of the limit proposal, the interest rate swaps concluded in relation to clients participating in the repayment moratoria should be modified between the client and the Group based on bilateral agreement,
 - bridging loans related to capital market transactions: the Group does not accept new proposals,
 - non-project-related unsecured finance for property developers: the Bank accepts proposals only with particular prudence,
 - real estate financing: the Group accepts proposals only with particular prudence.
3. Implementing rules for new transactions:
- the Group provides finance only for industries that were not mentioned above point 2 as industries affected by COVID-19, and on a selective basis,
 - the Group applies a selective approach for the ongoing transactions (considering the expected or potential COVID-19 effects),
 - for clients with long and good history with stable risk profile, limit increase is approvable in order to solve their transitional liquidity difficulties,
 - refinancing loans outstanding with other banks is not precluded, however it could primarily be considered in case of low-risk industries, considering the client's ability to repay the debt.

Expected credit losses

The Group's impairment recognition was influenced in many ways by the current market conditions. Stage 1 and Stage 2 impairment was directly affected by the changing macroeconomic forecasts (mainly GDP, unemployment rates, inflation, government bond yields, short-term interest rates, changes in commercial real estate prices) provided by the RBI's analytical department which were updated a number of times during the year.

In 2022, the Group re-modelled the impact of macroeconomic data on impairment, transitioning to a new model which, by fitting to the current economic environment, results in a more prudent level of provisioning. In parallel, since 2020 the Group has applied the option of management overlay, post model adjustment in impairment recognition.

The Post Model Adjustment model allocates impairment in addition to the model to industries identified along various factors depending on how much they are exposed to these factors (e.g., supply chain difficulties, rising of the energy and material prices and labor shortages, increase of the interest environment). The model dynamically estimates deal-by-deal, based on the risk factors identified in the given period a ceteris paribus expected probability of rating worsening and a corresponding expected probability of default and an expected increase in credit loss.

In 2023, the most important risk factors affecting the corporate portfolio playing a role in PMA calculation were the increased interest rate environment, the deterioration in the real estate market, the inflation, the situation of the energy market, the situation of the labor market and the vulnerability of supply chains. The industries identified as most risky were residential and commercial property development, constructions industry, vehicle production, chemical industry and restaurants.

The (Stage 2) indicators used in identifying increased credit risk profile were also supplemented by an indicator to take non-modelled risks into account. Based on the post model adjustment using industry classification, clients for which the model expects a significant rating deterioration were transferred to State 2, thus impairment recognised for them covers the lifetime expected credit loss. Clients opting into the moratoria – if there were no other triggers indicating increased credit risk – were not automatically transferred to Stage 2. However, if the rating of such clients deteriorated significantly or their credit risk status was either PWO or Covid-PWO Stage 2 classification and impairment was applied.

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, at the transaction level only with simple approval method used.

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.

- **Low 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.

- **Weak credit standing/below average:**

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 non-performance. 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 (based on a special rule

the Bank recognises 100% impairment on them), uncoded transactions, transactions unrated due to data failure in a negligible number, childbirth incentive and private loans under the standardised approach, and certain loans provided to micro enterprises.

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.

31.12.2023	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
(HUF million)								
Cash	39,642	0	0	0	0	0	0	39,642
Placements with banks and central bank	888,203	0	0	0	0	348,237	0	1,236,440
Loans and advances to clients	0	0	164,050	0	0	1,599,486	0	1,763,536
Investment in debt securities	0	1,834	420	0	365,819	745,761	0	1,113,834
Equity instruments**	0	1,011	571	0	65	0	0	1,647
Loan commitments and financial guarantees	0	0	0	0	0	0	9,612	9,612
Derivative assets	0	94,964	0	0	0	0	0	94,964
Total	927,845	97,809	165,041	0	365,884	2,693,484	9,612	4,259,675

* This balance sheet line item contains receivables due from HNB amounting to HUF 688,768 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'.

31.12.2022	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
(HUF million)								
Cash	52,780	0	0	0	0	0	0	52,780
Placements with banks and central bank	732,133	0	0	0	0	529,132	0	1,261,265
Loans and advances to clients	0	0	125,450	0	0	1,709,279	0	1,834,729
Investment in debt securities	0	20,245	388	0	305,785	442,419	0	768,837
Equity instruments**	0	525	578	0	65	0	0	1,168
Loan commitments and financial guarantees	0	0	0	0	0	0	6,237	6,237
Derivative assets	0	162,341	0	0	0	0	0	162,341
Total	784,913	183,111	126,416	0	305,850	2,680,830	6,237	4,087,357

*This balance sheet line item contains receivables due from HNB amounting to HUF 399,910 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 by asset classes. For financial assets measured at amortised cost or at fair value through other comprehensive income, gross carrying amounts are presented in the credit rating category lines of the tables. For financial instruments measured at fair value through profit or loss, the carrying amounts are presented in the lines. For financial guarantees and undrawn loan commitments, the credit rating category lines contain the guaranteed amounts and the amounts that can be drawn down under of the loan commitment, respectively.

(HUF million)	31.12.2023										Total
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss		
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI			
Placements with banks											
Minimal risk	80	0	0	0	0	0	0	0	0	0	80
Excellent credit standing	1,811	0	0	0	0	0	0	0	0	0	1,811
Very good credit standing	1,019,956	86	0	0	0	0	0	0	0	0	1,020,042
Good credit standing	97,799	116,364	0	0	0	0	0	0	0	0	214,163
Average credit standing	547	0	0	0	0	0	0	0	0	0	547
Acceptable credit standing	0	48	0	0	0	0	0	0	0	0	48
Low credit standing	0	0	0	0	0	0	0	0	0	0	0
Weak credit standing/below average	0	0	0	0	0	0	0	0	0	0	0
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	0	0
Default	0	0	0	0	0	0	0	0	0	0	0
Unrated	0	0	0	0	0	0	0	0	0	0	0
Gross carrying amount	1,120,193	116,498	0	0	0	0	0	0	0	0	1,236,691
Loss allowance	-55	-196	0	0	0	0	0	0	0	0	-251
Carrying amount	1,120,138	116,302	0	0	0	0	0	0	0	0	1,236,440
Loans and advances to clients											
Minimal risk	3,437	1,030	0	0	0	0	0	0	1,831		6,298
Excellent credit standing	8,026	1,695	0	0	0	0	0	0	1,657		11,378
Very good credit standing	254,641	28,522	0	0	0	0	0	0	12,924		296,087
Good credit standing	319,946	81,144	0	51	0	0	0	0	11,231		412,372
Average credit standing	300,117	154,056	0	272	0	0	0	0	5,933		460,378
Acceptable credit standing	166,439	84,320	0	829	0	0	0	0	2,895		254,483
Low credit standing	71,672	53,656	0	626	0	0	0	0	575		126,529
Weak credit standing/below average	10,611	18,197	0	446	0	0	0	0	117		29,371
Doubtful / high default risk	1,056	16,207	0	259	0	0	0	0	111		17,633
Default	0	9	51,989	2,663	0	0	0	0	126		54,787
Unrated	29,035	5,002	0	49	0	0	0	0	126,650		160,736
Gross carrying amount	1,164,980	443,838	51,989	5,195	0	0	0	0	164,050		1,830,052
Loss allowance	-10,578	-30,276	-23,617	-2,045	0	0	0	0	0		-66,516
Carrying amount	1,154,402	413,562	28,372	3,150	0	0	0	0	164,050		1,763,536
Investment in debt securities											
Minimal risk	0	0	0	0	16,584	0	0	0	0		16,584
Excellent credit standing	37,323	6,085	0	0	47,592	0	0	0	131		91,131
Very good credit standing	98,050	7,571	0	0	44,734	0	0	0	635		150,990
Good credit standing	521,066	59,339	0	0	186,710	60,363	0	0	957		828,435
Average credit standing	8,150	0	0	0	4,994	2,636	0	0	75		15,855
Acceptable credit standing	6,869	564	0	0	844	0	0	0	375		8,652
Low credit standing	0	1,880	0	0	0	1,625	0	0	81		3,586
Weak credit standing/below average	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	1,076	0	0		1,076
Unrated	0	0	0	0	0	0	0	0	0		0
Gross carrying amount	671,458	75,439	0	0	301,458	64,624	1,076	0	2,254		1,116,309
Loss allowance	-498	-638	0	0	-203	-486	-650	0	0		-2,475
Carrying amount	670,960	74,801	0	0	301,255	64,138	426	0	2,254		1,113,834
Loan commitments and financial guarantees											
Minimal risk	1,039	0	0	0							1,039
Excellent credit standing	19,870	21	0	0							19,891
Very good credit standing	137,457	939	0	0							138,396
Good credit standing	222,078	21,391	0	0							243,469
Average credit standing	214,113	59,371	0	0							273,484
Acceptable credit standing	78,956	25,223	0	0							104,179
Low credit standing	18,327	23,814	0	0							42,141
Weak credit standing/below average	1,642	12,322	0	0							13,964
Doubtful / high default risk	313	1,226	0	0							1,539
Default	0	0	13,728	0							13,728
Unrated	3,650	1,603	0	0							5,253
Gross amount	697,445	145,910	13,728	0	0	0	0	0	0		857,083
Carrying amount (provision)	-1,863	-3,833	-3,916	0	0	0	0	0	0		-9,612
Derivative assets											
Minimal risk										0	0
Excellent credit standing										223	223
Very good credit standing										87,098	87,098
Good credit standing										3,255	3,255
Average credit standing										1,925	1,925
Acceptable credit standing										1,253	1,253
Low credit standing										1,075	1,075
Weak credit standing/below average										0	0
Doubtful / high default risk										0	0
Default										0	0
Unrated										135	135
Carrying amount										94,964	94,964

(HUF million)	31.12.2022									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss	Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		
Placements with banks										
Minimal risk	5,633	0	0	0	0	0	0	0	0	5,633
Excellent credit standing	1,068,489	0	0	0	0	0	0	0	0	1,068,489
Very good credit standing	158,820	25,283	0	0	0	0	0	0	0	184,103
Good credit standing	0	0	0	0	0	0	0	0	0	0
Average credit standing	1,491	0	0	0	0	0	0	0	0	1,491
Acceptable credit standing	99	0	0	0	0	0	0	0	0	99
Low credit standing	0	0	0	0	0	0	0	0	0	0
Weak credit standing/below average	0	0	0	0	0	0	0	0	0	0
Doubtful / high default risk	181	0	0	0	0	0	0	0	0	181
Default	0	0	0	0	0	0	0	0	0	0
Unrated	1	1,337	0	0	0	0	0	0	0	1,338
Gross carrying amount	1,234,714	26,620	0	0	0	0	0	0	0	1,261,334
Loss allowance	-48	-21	0	0	0	0	0	0	0	-69
Carrying amount	1,234,666	26,599	0	0	0	0	0	0	0	1,261,265
Loans and advances to clients										
Minimal risk	3,230	425	0	0	0	0	0	0	1,476	5,131
Excellent credit standing	9,080	382	0	0	0	0	0	0	1,389	10,851
Very good credit standing	408,406	11,953	0	0	0	0	0	0	10,645	431,004
Good credit standing	214,638	188,389	0	43	0	0	0	0	7,259	410,329
Average credit standing	276,558	137,309	0	314	0	0	0	0	5,441	419,622
Acceptable credit standing	100,564	155,543	0	642	0	0	0	0	1,592	258,341
Low credit standing	36,982	87,285	0	535	0	0	0	0	601	125,403
Weak credit standing/below average	2,108	5,693	0	0	0	0	0	0	0	7,801
Doubtful / high default risk	4,673	26,864	0	909	0	0	0	0	243	32,689
Default	0	0	62,067	2,709	0	0	0	0	156	64,932
Unrated	32,501	8,450	1,739	53	0	0	0	0	96,648	139,391
Gross carrying amount	1,088,740	622,293	63,806	5,205	0	0	0	0	125,450	1,905,494
Loss allowance	-11,266	-31,416	-25,725	-2,358	0	0	0	0	0	-70,765
Carrying amount	1,077,474	590,877	38,081	2,847	0	0	0	0	125,450	1,834,729
Investment in debt securities										
Minimal risk	0	0	0	0	29,223	0	0	0	388	29,611
Excellent credit standing	33,860	0	0	0	28,377	0	0	0	100	62,337
Very good credit standing	376,920	0	0	0	223,127	0	0	0	19,702	619,749
Good credit standing	18,811	0	0	0	15,696	0	0	0	0	34,507
Average credit standing	6,636	1,207	0	0	6,904	0	0	0	88	14,835
Acceptable credit standing	4,825	0	0	0	93	734	0	0	355	6,007
Low credit standing	0	583	0	0	0	0	0	0	0	583
Weak credit standing/below average	0	0	0	0	0	0	0	0	0	0
Doubtful / high default risk	0	0	0	0	0	1,240	0	0	0	1,240
Default	0	0	0	0	0	0	1,094	0	0	1,094
Unrated	0	0	0	0	0	0	0	0	0	0
Gross carrying amount	441,052	1,790	0	0	303,420	1,974	1,094	0	20,633	769,963
Loss allowance	-372	-51	0	0	-182	-176	-345	0	0	-1,126
Carrying amount	440,680	1,739	0	0	303,238	1,798	749	0	20,633	768,837
Loan commitments and financial guarantees										
Minimal risk	1,877	0	0	0						1,877
Excellent credit standing	16,945	152	0	0						17,097
Very good credit standing	146,430	3,884	0	0						150,314
Good credit standing	149,441	40,151	0	0						189,592
Average credit standing	167,974	73,615	0	0						241,589
Acceptable credit standing	61,890	55,765	0	0						117,655
Low credit standing	13,307	14,069	0	0						27,376
Weak credit standing/below average	1,298	11,322	0	0						12,620
Doubtful / high default risk	66	440	0	0						506
Default	1	0	15,075	0						15,076
Unrated	9,077	2,554	0	0						11,631
Gross amount	568,306	201,952	15,075	0	0	0	0	0	0	785,333
Carrying amount (provision)	-1,731	-2,405	-2,101	0	0	0	0	0	0	-6,237
Derivative assets										
Minimal risk									1	1
Excellent credit standing									122,919	122,919
Very good credit standing									29,391	29,391
Good credit standing									4,214	4,214
Average credit standing									4,053	4,053
Acceptable credit standing									1,105	1,105
									585	585
Weak credit standing/below average									1	1
Doubtful / high default risk									0	0
Default									0	0
Unrated									73	73
Carrying amount									162,341	162,341

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

(HUF million)	31.12.2023								
	Financial assets at amortized cost				Financial assets at fair value through other comprehensive income				Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Loans and advances to bank and clients									
Non-retail									
Central bank	916,015	0	0	0	-3	0	0	0	916,012
Sovereign	8,614	1,262	0	0	-8	-8	0	0	9,860
Credit institution	199,500	116,498	0	0	-51	-196	0	0	315,751
Financial corporate	20,488	594	0	0	-4	-12	0	0	21,066
Large corporate	820,213	241,205	33,966	576	-5,259	-6,009	-13,549	-106	1,071,037
Small -and medium enterprises	57,013	27,046	1,588	4	-171	-402	-436	-2	84,640
Retail									
Private Individuals	246,616	154,334	13,591	4,599	-4,817	-21,242	-7,755	-1,937	383,389
hereof: mortgage	181,395	127,595	8,454	4,408	-1,731	-13,429	-4,585	-1,827	300,280
Micro	16,714	19,397	2,844	16	-320	-2,603	-1,877	0	34,171
Carrying amount	2,285,173	560,336	51,989	5,195	-10,633	-30,472	-23,617	-2,045	2,835,926

(HUF million)	31.12.2022								
	Financial assets at amortized cost				Financial assets at fair value through other comprehensive income				Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	
Loans and advances to bank and clients									
Non-retail									
Central bank	942,735	0	0	0	-5	0	0	0	942,730
Sovereign	8,785	9,421	0	0	-6	-3	0	0	18,197
Credit institution	286,769	17,293	0	0	-43	-17	0	0	304,002
Financial corporate	15,382	2,473	0	0	-13	-2	0	0	17,840
Large corporate	728,115	457,269	42,006	0	-3,233	-10,573	-13,915	0	1,199,669
Small -and medium enterprises	38,861	40,238	1,427	0	-129	-238	-295	0	79,864
Retail									
Private Individuals	284,404	104,622	16,820	5,190	-7,571	-18,328	-9,701	-2,358	373,078
hereof: mortgage	234,496	72,757	11,291	5,016	-3,419	-8,688	-6,269	-2,235	302,949
Micro	18,403	17,597	3,553	15	-314	-2,276	-1,814	0	35,164
Carrying amount	2,323,454	648,913	63,806	5,205	-11,314	-31,437	-25,725	-2,358	2,970,544

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

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

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

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.

No new SME contracts may be concluded under any of the NBH Funding for Growth Scheme (neither under the latest Funding for Growth Scheme Go, after 30 September 2021), excluding the refinancing of loans from another commercial bank within the framework identical to the framework of the Loan Scheme of the loan to be refinanced, in accordance with predetermined rules

Funding for Growth Scheme Go!

In order to mitigate the negative economic effects of the coronavirus pandemic, to avoid the crisis in the lending market the NBH introduced on 20.04.2020 the Funding for Growth Scheme Go! as part of its Funding for Growth Program with a frame budget of HUF 1,500 billion, which was increased with the decision of the Monetary Council on 17.11.2020 by HUF 1,000 billion to HUF 2,500 billion. Considering the adverse economic effects of the long-lasting pandemic and the substantial financing need from the SMEs for the construction, the Monetary Council decided to increase the frame budget of Funding for Growth Scheme Go with HUF 3,000 billion in 2021.

Under the scheme, the National Bank provides a 0% interest, maximum 20-year maturity refinancing loan to the credit institutions, which can be passed through to Hungarian SMEs in the form of loan or financial lease bearing a maximum interest rate of 2,5%. In the frame of the scheme, the following purposes can be financed: working capital loans, investment loan, pre-financing of grants, refinancing.

At the end of 2023 the balances relating to the FGS Schemes described above amounted to HUF 88,655 million (2022: the Group had an FGS refinancing balance of HUF 113,162 million).

Garantiqa Crisis Guarantee Scheme

In order to mitigate the negative economic effects of the coronavirus pandemic to domestic enterprises,, the Garantiqa Hitelgarancia Zrt introduced a scheme with favourable conditions called 'Garantiqa Crisis Guarantee Scheme' with a frame budget of HUF 2,200 billion for the domestic SME's and large enterprises, whereby it provides a 90% guarantee. A 90% suretyship of the state is linked to the guarantee. The Scheme is available until 06.30.2022. In October 2020, a new product of the Crisis Guarantee scheme named as 'Garantiqa Crisis Guarantee Scheme Investment Loan Guarantee' was also introduced, which is available for investment loans granted to SMEs with a maximum term of 10-year (maximum 80% guarantee, 90% state suretyship).

Garantiqa Crisis 2 Guarantee Scheme

In order to manage the corporate liquidity problems arising from the Russian-Ukrainian conflict and the related sanctions adopted by the EU and international partners, as well as the corporate liquidity problems and solvency problems arising from the countermeasures taken by Russia and in order to restore and preserve corporate viability, Garantiqa Hitelgarancia Zrt. has launched a guarantee scheme for local SMEs under the name of Garantiqa Crisis 2 Guarantee Scheme with a guarantee rate of 80%. The guarantee is backed by an 85% state suretyship. Garantiqa has also introduced the Crisis 2 Guarantee Scheme Investment Loan Guarantee, which is available for investment loans to SMEs with a maximum maturity of 15 years.

Széchenyi Card Plus Scheme

The products of the scheme were introduced to mitigate the negative economic effects of the coronavirus pandemic and are only available for SME's. It has strictly regulated conditions (eligibility, exclusion, contracting, disbursement conditions), with which all the banks must comply. For the product the NBH provides refinancing as part of the FGS Go Scheme. Thanks to this and to the high state subsidy to interest, administration and guarantee fee, the enterprises are able to access these products at low fixed interests and cost level.

1. Széchenyi Card Overdraft Plus

The purpose of the loan is to help with the transitional liquidity problems of the requesting enterprises/debtors. Micro and SMEs are able to request it without participating in the Széchenyi Job Maintaining Loan Program. Refinancing is also possible through the product under various restrictions. At our Group, it is only available for micro and small enterprises.

2. Széchenyi Liquidity Loan Plus

The purpose of the loan is to provide free-use working capital loan. The enterprise is permitted to cover its operating costs (without limitations) with the loan, including refinancing its already outstanding loan(s).

3. Széchenyi Investment Loan Plus

The purpose of the loan is to provide long-term financing for the enterprises' developments and this way to improve the investment climate, to maintain the competitiveness of the enterprises, and refinancing on certain conditions. In the frame of the scheme financing of only such investment is permitted where the investment is clearly related to the enterprise's existing operation or to an operation that is included in its business plan as an operation to be carried out. Refinancing is also possible when complying with specified rules.

Széchenyi Card Restart Program (GO)

The program in relation to GO products ended at the end of June 2022.

The products of the scheme were introduced to mitigate the negative economic effects of the coronavirus pandemic and are only available for SME's. It has strictly regulated conditions (eligibility, exclusion, contracting, disbursement conditions), with which all the banks must comply. For the product the Bank provides fix own financing, thanks to this and to the high state subsidy in interest, administration and guarantee fee, the enterprises are able to access these products at low fixed interests and cost level.

1. Széchenyi Restart Overdraft (GO)

The purpose of the loan is to help with the transitional liquidity problems of the requesting enterprises/debtors. Refinancing is also possible through the product under various restrictions. At our Group, it is only available for micro and small enterprises.

2. Széchenyi Restart Liquidity Loan (GO)

The purpose of the loan is to provide free-use working capital loan. The enterprise is permitted to cover its operating costs (without limitations) with the loan, including refinancing its already outstanding loan(s).

3. Széchenyi Restart Investment Loan (GO)

The purpose of the loan is to provide long-term financing for the enterprises' developments and this way to improve the investment climate, to maintain the competitiveness of the enterprises, and refinancing on certain conditions. In the frame of the scheme financing of only such investment is permitted where the investment is clearly related to the enterprise's existing operation or to an operation that is included in its business plan as an operation to be carried out. Refinancing is also possible when complying with specified rules.

4. Agricultural Széchenyi Restart Investment Loan (GO)

The purpose of the loan is to provide long-term financing for enterprises' development and investments in the operation areas of agricultural production, agricultural post-harvest services provision, forestry, fishing and hunting, and thereby improve investment climate and maintain the competitiveness of enterprises and refinancing on certain conditions. The investment loan for development will be granted to enterprises that meet the criteria for eligibility under the legal title of temporary support. For all loan transactions, the 80% or 90% guarantee provided by Loan Guarantee Foundation for Agricultural Enterprises will be involved.

Széchenyi Card Restart Program (MAX)

On 1 August 2022, the government launched a new scheme called Széchenyi Card MAX Scheme, which is a loan scheme targeting the SME sector with state support and very favourable interest rates given the current market conditions. Strictly regulated product conditions (eligibility, exclusion, contracting, disbursement conditions) have to be met by all the participating banks. The product is granted by the Bank with its own fixed resources, which, together with the high state subsidies for interest, management costs and guarantee fees, allows businesses to benefit from the products at fixed interest rates and low costs. The collateral background is reinforced by a guarantee from Garantiqa Hitelgarancia Zrt.

1. Széchenyi Card Overdraft MAX

The objective of the loan is bridging temporary liquidity problems of the applicant/debtor company. With various restrictions, restriction is also available. Available at the Bank only for small and medium enterprise clients.

2. Széchenyi Liquidity Loan MAX

The purpose of the loan is to provide free-use working capital loan. The enterprise is permitted to cover its operating costs (without limitations) with the loan, including refinancing its already outstanding loan(s).

3. Széchenyi Investment Loan MAX- including the Energy Efficiency subconstruction

The purpose of the loan is to provide long-term financing for the enterprises' developments and this way to improve the investment climate, to maintain the competitiveness of the enterprises, and refinancing on certain conditions. In the frame of the scheme financing of only such investment is permitted where the investment is clearly related to the enterprise's existing operation or to an operation that is included in its business plan as an operation to be carried out. Refinancing is also possible when complying with specified rules.

4. Agricultural Széchenyi Investment Loan MAX

The purpose of the loan is to provide long-term financing for enterprises' development, and investments in the operation areas of agricultural production, agricultural post-harvest services provision, forestry, fishing and hunting and thereby improve investment climate and maintain the competitiveness of enterprises and refinancing on certain conditions. The investment loan for development will be granted to enterprises that meet the criteria for eligibility under the legal title of temporary support. For all loan transactions, the 80% guarantee provided by Loan Guarantee Foundation for Agricultural Enterprises will be involved. A loan with a maximum amount of HUF 400 million and a maximum maturity of 10 years can be applied for with state interest subsidy with 1.5% fixed interest rate.

Széchenyi Card Restart Program (MAX+)

On 23 December 2022, the government launched a new scheme called Széchenyi Card MAX+ Scheme, which is a loan scheme targeting the SME sector with state support and very favourable interest rates given the current market conditions. Strictly regulated product conditions (eligibility, exclusion, contracting, disbursement conditions) have to be met by all the participating banks. The product is granted by the Bank with its own fixed resources, which, together with the high state subsidies for interest, management costs and guarantee fees, allows businesses to benefit from the products at fixed interest rates and low costs. The collateral background is reinforced by a guarantee from Garantiqa Hitelgarancia Zrt.

1. Széchenyi Card Overdraft MAX+

The objective of the loan is bridging temporary liquidity problems of the applicant/debtor company. With various restrictions, restriction is also available. Available at the Bank only for small and medium enterprise clients.

2. Széchenyi Liquidity Loan MAX+

The purpose of the loan is to provide free-use working capital loan. The enterprise is permitted to cover its operating costs (without limitations) with the loan, including refinancing its already outstanding loan(s).

3. Széchenyi Investment Loan MAX+ – including the Energy Efficiency and GEKKO subconstructions

The purpose of the loan is to provide long-term financing for the enterprises' developments and this way to improve the investment climate, to maintain the competitiveness of the enterprises, and refinancing on certain conditions. In the frame of the scheme financing of only such investment is permitted where the investment is clearly related to the enterprise's existing operation or to an operation that is included in its business plan as an operation to be carried out. Refinancing is also possible when complying with specified rules.

4. Agricultural Széchenyi Investment Loan MAX+ including the Energy Efficiency subconstruction

The purpose of the loan is to provide long-term financing for enterprises' development, and investments in the operation areas of agricultural production, agricultural post-harvest services provision, forestry, fishing and hunting and thereby improve investment climate and maintain the competitiveness of enterprises and refinancing on certain conditions. The development purpose investment loan with fixed, subsidized interest is disbursed to the enterprises meeting the eligibility conditions under the legal title of crisis subsidy. For all loan transactions, the 80% guarantee provided by Loan Guarantee Foundation for Agricultural Enterprises will be involved. Refinancing is also possible if specified rules are complied with.

5. Agricultural Széchenyi Card Overdraft

Agricultural Széchenyi Card Overdraft forming part of the Agricultural Széchenyi Card Scheme, is a free-use state subsidised overdraft advanced in relation to the operation of the enterprises with maturity of one year. The purpose of the overdraft facility is bridging the temporary liquidity problems of agricultural and fishing enterprises. The facility can be used for every expenditure that arise in the interest of the business operations and that can be accounted for – in accordance with the tax and accounting legislation –, in the way of purchase, cash withdrawal, wire transfer or other ways.

Loan Guarantee Foundation for Agricultural Enterprises (LGFAE) Crisis Program

The Hungarian Government decided about the introduction of the LGFAE Crisis Agriculture Guarantee Scheme in its decree nr. 1195/2020. (dated 30.04.2020), which aims to improve the possibilities to receive loan for agriculture and countryside micro enterprises and SME's with 90% guarantee under the legal title of transitional grant. There's a 90% state subsidised suretyship linked to the guarantee. At first, participation in the scheme was available only for loan contracts signed before 31.12.2020, and later it was modified several times and extended to 30.06.2022. The guarantee can be given to loans (working capital and investment loans, overdrafts) with a maximum term of 6 years and the amount cannot exceed 25% of the enterprise's total revenue of 2019 or two times the personal costs of 2019, or in duly justified cases the amount of the enterprise's 18-month liquidity need.

The Program ended on 30 June 2022.

Loan Guarantee Foundation for Agricultural Enterprises (LGFAE) – Crisis Agricultural Guarantee Program II

The European Committee approved the credit guarantee scheme on 17 June 2022, with the case nr. SA.102986. The Committee does not provide an additional finance through the title of the temporary Russian-Ukrainian aid program but makes the LGFAE's guarantee with decreased fee more widely available, this way increasing the financing opportunities. The new title replaced the title introduced for the aid related to the Covid-19 and can be applied for until the end of 2022 in the frame of Crisis Program II, this way helping the food businesses which got to a difficult situation due to the crisis caused by the Russian-Ukrainian conflict and related sanctions. The foundation's guarantee can be maximum 90% (backed by 85% state suretyship), the fee equals 0,25% p.a. and can be taken for loans with a maximum maturity of 6-years. The amount to be guaranteed cannot exceed 15% of the enterprise's average total yearly revenue in its last 3 closed business year, or 50% of its energy costs for the last 12 month before applying for the guarantee, but in some adequately reasoned cases it can reach its 12-month liquidity need.

EXIM Compensation Program

In order to balance the negative economic effects of the coronavirus pandemic and to mitigate the damages of the domestic economic operators the EXIM introduced the Compensation Program for the exporting companies, their suppliers and companies preparing to export. EXIM Compensation Program ended in 31 December 2021. The Scheme consisted of 3 pillars one important element of which was the EXIM Compensation Loan Program.

1. EXIM Compensation Loan Program

The aim of the program is to provide working capital finance (for maximum 3 years), investment loans (for maximum 6 years) and lease finance (for maximum 6 years) for companies who had difficulties after 01.02.2020 with a fixed interest determined by EXIM. The net margin of the commercial banks is also fixed, EXIM provides refinancing at 2.5% in case of SME's and at 2% in case of large enterprises.

2. EXIM Compensation Loan Protection Program

Under the program, companies who had difficulties after 02.01.2020 have an option to receive a 100% suretyship to their existing loans backed by state counter-guarantee. Suretyship is available for working capital loans with a maximum maturity of 3 years and for investment loans with a maximum maturity of 6 years, in case of SMEs and small mid-cap companies (maximum of 499 employees) to the extent of 80% and in case of companies larger than these to the extent of 50% (but in individual cases the Credit Committee of EXIM can also approve 90%). The approval process for guarantees not exceeding HUF 300 million are processed in an accelerated procedure.

3. EXIM Compensation Credit Insurance Program

The program helps exporters with a maximum of 95% insurance for trade receivables with short deferred payment terms. The novelty of the program is that it can be used for market risk insurance for a temporary period.

EXIM Spin up SME Investment Loan Program

EXIM launched its Spin up SME Investment Loan Program to promote restart after the deteriorating business environment due to the Covid-19 pandemic and to refinance developments necessary to that, for SME size exporters, suppliers, and businesses preparing to export. The aim of the program is to provide investment loan (for maximum 10 year) for SME size enterprises, who get into difficult situation after 1 February 2020 with fixed interest determined by EXIM. The net margin of commercial banks is also fixed: EXIM grant a 2.5% margin in course of refinancing.

The EXIM Spin up SME Investment Loan Program ended on 30 June 2022.

EXIM Gábor Baross Loan Scheme

Gábor Baross Loan Scheme was launched by EXIM to mitigate the effects of the economic and energy crisis arising from Russia's aggression against Ukraine, which facilitates the recovery of domestic SMEs and large enterprises from the crisis and further increase of the export through low interest financing constructions. Under the loan scheme working capital loan (for maximum 3 years), investment loan (for maximum 8 years) green investment loan (for maximum 8 years) and lease financing (for maximum 5 years) can be advanced with fixed interest rate determined by EXIM.

Retail products

The government extended the deadline for the application for childbirth incentive loans until the end of 2024 and the opportunity of VAT return for new homes. Furthermore, the subsidised real estate loans and the CSOK subsidy which can also be used as own contribution when purchasing a home are still available. However, the subsidised home renovation loan, and the non-repayable grants were terminated at 2022 year end, and the repayment moratoria ceased for everybody.

NBH Green Home Program (GHP)

As part of the NBH's green toolbox strategy, the GHP Green Home Program, launched under the Funding for Growth Scheme (FGS), is helping to develop a green home loan market. This construction was only allowed to finance the purchase and construction of green and new homes. The NBH provided HUF 300 billion of interest-free refinancing funds to credit institutions, which could then lent out at a maximum interest rate of 2.5%. Disbursement started at the end of 2021 and was available until 29 March 2022.

Purchased or originated credit-impaired (POCI) financial instruments

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

Exposure towards credit institutions has not changed significantly compared to the previous year (2023: HUF 1,236 billion; 2022: HUF 1,261 billion).

In 2023 the ratio of non-performing loans in the corporate segment decreased by HUF 1 billion (2023: HUF 36 billion, 2022: HUF 43 billion) along with a smaller decrease of the portfolio (2023: HUF 1,251 billion; 2022: 1,323 billion).

The decrease in the non-performing portfolio was caused as a result of the following four opposite effects:

- besides the decreasing effect of recoveries of HUF approximately 15.1 billion resulting from workout activities;
- the Bank identified approx. HUF 9.5 billion new non-performing loans in course of its standard identification procedures;
- HUF 0.7 billion was affected by write-off;
- revaluation difference on the non-performing portfolio caused by the strengthening of the forint decreased the outstanding amount by approx. HUF 1.5 billion.

The level of new non-performing balances was dominated by two individual transactions (in aggregate HUF 8.2 billion) where the Bank decided to apply non-performing status due to uncertainties of future cash-flows. The events are isolated, no systematic deterioration or the indicators thereof can be seen in the non-performing portfolio.

The ratio of non-performing loans in the corporate segment is 2.4%, unchanged compared to previous year.

There was an increase in retail and small enterprise portfolio in 2023 as well (2023: HUF 618.2 billion, 2022: HUF 573.3 billion). In the retail sector, there was an increase in both mortgage loans and uncollateralised product groups, out of uncollateralised products, childbirth incentive loans are mandatorily measured at fair value through profit or loss. Non-performing portfolio decreased (2023: HUF 18.6 billion, 2022: HUF 21.5 billion). In the retail segment, unrated portfolio increased (2023: HUF 159 billion, 2022: HUF 130.8 billion) the largest part of which is made up by childbirth incentive loans.

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 (4.10.5) 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 for Stage 3 exposures towards sovereign and corporate clients, from project financing, towards credit institutions, local and regional municipalities, insurance companies and collective investment companies by discounting the expected recoveries from the cash flows using the effective interest rates. Expected recoveries for multiple scenarios are given on the deal-level by the experts and probability-weighted average of the cash flows for each return scenario is considered 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 probability of default uses 12 months expected probability 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 considered to be in default, and every defaulted financial asset is considered credit-impaired).

In retail segments probability of default is calculated over the lifetime of the instrument, with modeling the probability 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, various 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.

The following table presents the average PDs. When determining the average PDs, the Group did not take into consideration the effect of the portfolio level management overlay:

	Average PD	
	Non-retail	Retail
Minimal risk	0.01%	0.19%
Excellent credit standing	0.04%	0.23%
Very good credit standing	0.08%	0.40%
Good credit standing	0.20%	0.89%
Average credit standing	1.12%	2.12%
Acceptable credit standing	1.69%	4.22%
Low credit standing	5.56%	7.76%
Very weak/Weak credit standing / below average	9.91%	11.56%
Doubtful / high default risk	22.28%	30.11%
Unrated	1.30%	2.19%

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, as expert estimation, the uncollateralised LGD considered in capital adequacy calculations, is used.

In order to determine the LGD parameters the RBI modelling collects data from the group members, which is sent individually to the central 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 entities.

Macroeconomic forecasts were also incorporated into LGDs that are 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 Group 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 considering 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 month 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 considered 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 that have 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 this and other country-specific information so that it matches the lending information of the various entities.

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: $EAD = \text{used facility} + \text{unused facility} * CCF$. 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, change in real estate prices, 3-month benchmark interest rate.
- Retail portfolios: gross domestic product housing price index, benchmark interest rate, inflation rate.

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. The weights of the scenarios (probability of the scenarios: 50% base, 25% optimistic, 25% pessimistic) remained the same in 2023.

Change in gross domestic product (GDP)	Scenario	2024	2025	2026
	Optimistic	4.27%	4.67%	5.23%
	Base	2.99%	3.96%	4.52%
	Pessimistic	1.09%	2.90%	3.46%
Unemployment rate	Scenario	2024	2025	2026
	Optimistic	3.54%	3.57%	3.48%
	Base	3.81%	3.72%	3.63%
	Pessimistic	5.06%	4.41%	4.32%
Long-term (10 years) government bond yields	Scenario	2024	2025	2026
	Optimistic	4.65%	5.11%	5.01%
	Base	6.2%	5.97%	5.87%
	Pessimistic	9.01%	7.53%	7.43%
Inflation rate	Scenario	2024	2025	2026
	Optimistic	6.82%	5.14%	4.50%
	Base	7.28%	5.4%	4.76%
	Pessimistic	10.00%	7.00%	6.00%
Reference interest rate	Scenario	2024	2025	2026
	Optimistic	2.96%	1.62%	1.44%
	Base	5.8%	3.2%	3.02%
	Pessimistic	7.28%	4.02%	3.84%
Housing price index	Scenario	2024	2025	2026
	Optimistic	1.59%	5.50%	5.50%
	Base	-2%	3.5%	3.5%
	Pessimistic	-6.70%	0.89%	0.89%
Commercial property price index	Scenario	2024	2025	2026
	Optimistic	0.04%	3.47%	4.97%
	Base	-3.5%	1.5%	3%
	Pessimistic	-8.62%	-1.35%	0.15%

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:

31.12.2023 (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	49,079	42,264	48,180	57,700

31.12.2022 (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	48,098	42,611	47,081	55,629

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:

31.12.2023 (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	49,079	38,285	-10,794

31.12.2022 (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	48,098	40,043	-8,055

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:

31.12.2023 (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	49,079	63,695	14,616

31.12.2022 (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	48,098	64,162	16,064

Development of loss allowances and provisions

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 01.01.2023	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to update in the methodology for estimation (net)	Decrease in impairment account due to write-offs	Other adjustments	Closing balance 31.12.2023	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss
Debt instruments									
Placements with banks	48	44	-29	-7	0	0	-1	55	0
Loans and advances to clients	11,266	7,230	-2,541	-5,368	0	-2	-7	10,578	9
Investment in debt securities	554	247	-119	-92	0	0	111	701	0
of which: collectively assessed impairment	11,868	7,521	-2,688	-5,468	0	-2	103	11,334	9
Stage 1 total	11,868	7,521	-2,689	-5,467	0	-2	103	11,334	9
Placements with banks	21	5	-5	173	0	0	2	196	0
Loans and advances to clients	31,416	3,359	-3,229	-809	0	-5	-456	30,276	0
Investment in debt securities	228	0	-6	1,015	0	0	-113	1,124	0
of which: collectively assessed impairment	31,665	3,364	-3,240	379	0	-5	-567	31,596	0
Stage 2 total	31,665	3,364	-3,240	379	0	-5	-567	31,596	0
Placements with banks	0	0	0	0	0	0	0	0	0
Loans and advances to clients	25,725	2,396	-6,148	3,253	0	-835	-774	23,617	0
Investment in debt securities	345	0	-7	312	0	0	0	650	0
of which: collectively assessed impairment	11,490	442	-3,143	928	0	-98	-13	9,606	0
of which: individually assessed impairment	14,580	1,954	-3,012	2,637	0	-736	-762	14,661	0
Stage 3 total	26,070	2,396	-6,155	3,565	0	-835	-774	24,267	0
Placements with banks	0	0	0	0	0	0	0	0	0
Loans and advances to clients	2,358	0	-2,014	1,539	0	-2	164	2,045	0
Investment in debt securities	0	0	0	0	0	0	0	0	0
of which: collectively assessed allowances	2,358	0	-1,849	1,430	0	-2	-1	1,936	0
of which: individually assessed allowances	0	0	-165	109	0	0	165	109	0
POCI total	2,358	0	-2,014	1,539	0	-2	164	2,045	0
Total allowance for debt instruments	71,961	13,281	-14,098	16	0	-844	-1,074	69,242	9
Loan commitments and financial guarantees given									
Stage 1	1,731	1,676	-1,627	103	0	0	-20	1,863	0
Stage 2	2,405	1,415	-2,035	2,055	0	0	-7	3,833	0
Stage 3	2,101	572	-1,316	2,580	0	0	-21	3,916	0
Total provisions on loan commitments and financial guarantees given	6,237	3,663	-4,978	4,738	0	0	-48	9,612	0

(HUF million)	Opening balance 01.01.2022	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to update in the methodology for estimation (net)	Decrease in impairment account due to write-offs	Other adjustments	Closing balance 31.12.2022	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss*
Debt instruments									
Placements with banks	6	17	-7	31	0	0	1	48	0
Loans and advances to clients	3,345	5,257	-1,944	5,671	-1,225	8	154	11,266	26
Investment in debt securities	242	109	-62	264	0	0	1	554	0
of which: collectively assessed impairment	3,593	5,383	-2,013	5,966	-1,225	8	156	11,868	26
Stage 1 total	3,593	5,383	-2,013	5,966	-1,225	8	156	11,868	26
Placements with banks	2	11	0	8	0	0	0	21	0
Loans and advances to clients	22,726	3,635	-3,474	2,756	5,241	-2	534	31,416	0
Investment in debt securities	70	1	-203	359	0	0	0	227	0
of which: collectively assessed impairment	22,798	3,647	-3,677	3,123	5,241	-2	534	31,664	0
of which: non-performing	0	0	0	0	0	0	0	0	0
Stage 2 total	22,798	3,647	-3,677	3,123	5,241	-2	534	31,664	0
Placements with banks	0	0	0	0	0	0	0	0	0
Loans and advances to clients	30,879	3,661	-8,342	2,659	-3,905	-114	887	25,725	0
Investment in debt securities	0	0	0	345	0	0	0	345	0
of which: collectively assessed impairment	17,969	828	-3,961	697	-3,905	-110	-28	11,490	0
of which: individually assessed impairment	12,909	2,833	-4,382	2,307	0	-4	917	14,580	0
Stage 3 total	30,879	3,661	-8,342	3,004	-3,905	-114	887	26,070	0
Placements with banks	0	0	0	0	0	0	0	0	0
Loans and advances to clients	3,164	0	-1,908	1,133	-65	-3	37	2,358	0
Investment in debt securities	0	0	0	0	0	0	0	0	0
of which: collectively assessed allowances	3,164	0	-1,908	1,133	-65	-3	37	2,358	0
of which: individually assessed allowances	0	0	0	0	0	0	0	0	0
POCI total	3,164	0	-1,908	1,133	-65	-3	37	2,358	0
Total allowance for debt instruments	60,434	12,691	-15,940	13,226	46	-111	1,614	71,960	26
Loan commitments and financial guarantees given									
Stage 1	734	1,597	-1,271	701	-39	0	9	1,731	0
Stage 2	998	295	-449	1,267	272	0	22	2,405	0
Stage 3	2,814	36	-436	-327	-37	0	51	2,101	0
Total provisions on loan commitments and financial guarantees given	4,546	1,928	-2,156	1,641	196	0	82	6,237	0

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

In 2023 and 2022, the effect of the changes in some of the estimation methodologies in the retail segments to the expected credit loss allowance is presented 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 – in addition to impairment presented in the line item 'Impairment losses on financial assets' the adjustments to the net exposure of credit-impaired (Stage 3) financial assets arising from the net interest calculation, which is presented in the line item 'Interest income calculated with the effective interest method' in profit or loss (2023: HUF 2,872 million, 2022: HUF 6,108 million) as well as decrease in loss allowances due to sale of exposures presented in profit or loss line item 'Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss' (2023: HUF 2,679 million). Besides the above, the profit or loss line item 'Impairment losses on financial assets' includes amounts derecognised due to write-offs (2023: HUF 1,426 million, 2022: HUF 3,567 million) as well as the increase in profit from recoveries on purchased or originated credit-impaired financial assets (2023: HUF 1,419 million, 2022: HUF 1,682 million).

The Bank continues to perform collection activities in relation to its certain written-off financial assets. The contractual receivable amount from such financial assets amounts to HUF 2,726 million (2022: HUF 2,840 million).

Contract modifications and expected credit losses

Also in 2023, there were contract modifications which did not lead to the derecognition of the financial asset. The pre-modification amortised cost of financial assets so modified and for which lifetime expected credit loss was recognised, amounted to HUF 136,619 million (2022: HUF 129,825 million), the associated net modification loss amounted to HUF 5,045 million (2022: HUF 6,227 million) the largest portion of which was the loss arising from changes in present value of cash-flows of transactions affected by the interest cap (2023: HUF 5,246 million, 2022: HUF 6,523 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.

The Group will restructure clients entering moratorium 2 launched in 2021 and the agricultural moratorium launched in 2022, as set out in the NBH's Management Circular, on the basis of individual risk monitoring on the corporate side, based on a specific assessment of the potential deterioration of the financial situation. Exceptions include transactions that participated in the first and second moratorium for less than 9 months in total, according to the EBA's updated report on the moratorium in December. If a client has ever had even a single transaction that has spent more than 9 months in the first and second moratorium in total, the Bank carried out a risk monitoring assessment for it in case of entering into moratorium 2 launched in 2021.

Customers participating in moratorium 2 in 2021 or in the agricultural moratorium in 2022 were already classified as Stage 2 or Stage 3 and were automatically marked as restructured. Considering that the transactions that were included in moratorium 1 (launched in 2020) with a final expiration date in 2020 were automatically included in moratorium 2 (launched in 2021), for those clients that indicated during the risk monitoring process that they did not exercise the option of moratorium 2 for any of their transactions and that declared their withdrawal from moratorium 2, the Bank did not identify any financial difficulties and did not mark the transaction as restructured. For all new entrants, the Group carried out a risk monitoring assessment and on the basis of that assessment, the Group reclassified the client as a restructured client in case of financial difficulties.

During moratorium 3 launched in 2021 and moratorium 4 launched in 2022, the Bank identified all transactions as restructured and classified them at least to Stage 2. At the start of moratorium 4 in 2022, the performing exposures – which were at that time classified to Stage 2 and identified as restructured – were repaid. The remaining clients participating in the moratoria were classified to Stage 3 and designated as non-performing restructured.

In 2023, no changes occurred in the assessment of clients affected by the moratoria. By the reporting date in 2023 all payment moratoria expired.

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., forbore 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 forbore – 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 3 months prior to the contract modification contractual payments more than 30 days past due or the borrower was in a more than 30 days delinquency at the date of contract modification or other factors are present evidencing the client's financial difficulties.

Exposures associated with concessions (forborne exposures) are regarded by the Bank as restructured in accordance with the Decree 39/2016 of NBH.

Restructured loan exposures of the Group as at the reporting date are presented in the following tables:

31.12.2023 (HUF million)	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value changes due to change in credit risk and provisions			Collaterals and financial guarantees received
	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	67,005	38,015	105,020	-2,654	-17,395	-20,049	58,836
Total financial assets at amortised cost	67,005	38,015	105,020	-2,654	-17,395	-20,049	58,836
Loans and advances to clients	190	79	269	0	0	0	252
Total financial assets at fair value through profit and loss	190	79	269	0	0	0	252
Commitments and financial guarantees given (Stage 3)	7,581	11,133	18,714	-105	-2,724	-2,829	8,640
Total	74,776	49,227	124,003	-2,759	-20,119	-22,878	67,728

31.12.2023 (HUF million)	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value changes due to change in credit risk and provisions			Collaterals and financial guarantees received
	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	82,952	44,072	127,024	-6,421	-18,956	-25,377	73,443
Total financial assets at amortised cost	82,952	44,072	127,024	-6,421	-18,956	-25,377	73,443
Loans and advances to clients	137	115	252	0	0	0	245
Total financial assets at fair value through profit and loss	137	115	252	0	0	0	245
Commitments and financial guarantees given (Stage 3)	8,219	1,594	9,813	-87	-268	-355	4,548
Total	91,308	45,781	137,089	-6,508	-19,224	-25,732	78,236

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 considered 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 Bank only considers collateral which is defined in the Raiffeisen Bank International Group Collateral Evaluation and Management (Functional regulations) and complies with all of the following requirements:

- legal enforceability;
- sustainable intrinsic value;
- realisable 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 fair value of the collaterals, reduced by prior ranking liens, capped at the contractually pledged amount, applying a discount for currency mismatch (Hfx), 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:

31.12.2023 (HUF million)	Loans and advances to clients	Investments in securities	Loan commitments and financial guarantees given	Derivative assets	Total collateral
Cash deposits	16,843	0	26,752	11,223	54,818
Debt securities issued by	57,613	0	423	174	58,210
Government	16,082	0	153	174	16,409
Companies	37,748	0	10	0	37,758
Others	3,783	0	260	0	4,043
Shares	23,388	0	888	1,079	25,355
Mortgage on	597,032	0	55,075	0	652,107
Residential real estate	324,095	0	3,042	0	327,137
Commercial real estate	222,372	0	37,736	0	260,108
Other	50,565	0	14,297	0	64,862
Guarantees from	459,347	14,554	94,293	0	568,194
Government	362,091	13,865	2,123	0	378,079
Banks	97,256	689	92,170	0	190,115
Other collateral	156,126	0	51,698	0	207,824
Total collateral	1,310,349	14,554	229,129	12,476	1,566,508

31.12.2022 (HUF million)	Loans and advances to clients	Investments in securities	Loan commitments and financial guarantees given	Derivative assets	Total collateral
Cash deposits	14,423	0	25,004	4,813	44,240
Debt securities issued by	56,556	0	1,294	86	57,936
Government	11,120	0	172	86	11,378
Companies	38,811	0	177	0	38,988
Others	6,625	0	945	0	7,570
Shares	11,266	0	2,758	723	14,747
Mortgage on	551,783	0	46,462	0	598,245
Residential real estate	318,627	0	2,317	0	320,944
Commercial real estate	189,837	0	35,272	0	225,109
Other	43,319	0	8,873	0	52,192
Guarantees from	507,260	641	43,228	0	551,129
Government	361,244	93	2,005	0	363,342
Banks	146,016	548	41,223	0	187,787
Other collateral	145,333	0	60,376	0	205,709
Total collateral	1,286,621	641	179,122	5,622	1,472,006

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

31.12.2023 (HUF million)	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income			Financial assets at fair value through profit and loss	Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3		
Loans and advances to clients	0	0	0	0	0	0	0	0	0
Investment in debt securities	737,391	402,969	18,737	2,793	0	0	0	148,459	1,310,349
Loan commitments and financial guarantees given	9,323	4,909	0	0	263	0	59	0	14,554
Derivative assets	186,589	37,158	5,382	0					229,129
Total								12,476	12,476
(HUF million)	933,303	445,036	24,119	2,793	263	0	59	160,935	1,566,508

31.12.2022 (HUF million)	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income			Financial assets at fair value through profit and loss	Total
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3		
Loans and advances to clients	0	0	0	0	0	0	0	0	0
Investment in debt securities	760,671	379,084	23,099	2,736	0	0	0	121,031	1,286,621
Loan commitments and financial guarantees given	568	63	0	0	0	0	10	0	641
Derivative assets	118,556	59,190	1,376	0					179,122
Total								5,622	5,622
(HUF million)	879,795	438,337	24,475	2,736	0	0	10	126,653	1,472,006

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)	31.12.2023	31.12.2022
Property and equipment	1,211	846
Other	4	4
Total assets obtained	1,215	850

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:

31.12.2023 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	197,085	4,136	1,008	34,816
Domestic trade	0	190,916	4,307	62	191,831
Other, mainly service industries	0	242,285	12,727	316	99,997
Finance	320,182	137,144	390,265	69,995	114,795
Central Bank	916,014	0	0	11,516	15
Public administration	0	5,825	597,192	0	7,669
Mining	0	7,317	0	0	165,836
Manufacturing	0	304,317	69,810	11,618	9,090
Agriculture	0	41,997	35,382	8	28,800
Transportation, communication	0	75,556	0	50	169,552
Construction	0	25,728	751	131	12,331
Energy	0	14,489	1,739	167	2,328
Infrastructure	0	3,951	0	0	20,023
Private households	0	583,937	0	93	0
Total	1,236,196	1,830,547	1,116,309	94,964	857,083

31.12.2022						
(HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given	
Real estate	0	194,997	3,113	2,508	43,992	
Domestic trade	0	189,734	3,514	194	158,409	
Other, mainly service industries	0	308,537	9,890	457	98,726	
Finance	318,597	138,091	242,616	103,931	62,964	
Central Bank	942,737	0	0	26,951	27	
Public administration	0	7,081	433,446	0	1,217	
Mining	0	13,724	0	0	178,786	
Manufacturing	0	367,544	53,233	27,564	7,669	
Agriculture	0	41,249	22,085	76	44,465	
Transportation, communication	0	74,353	0	33	160,724	
Construction	0	25,743	637	580	3,903	
Energy	0	2,791	1,429	0	3,714	
Infrastructure	0	3,016	0	0	20,737	
Private households	0	538,634	0	47	0	
Total	1,261,334	1,905,494	769,963	162,341	785,333	

Securitization

Securitization represents a particular form of refinancing and credit risk enhancement under which risks from loan agreements are packaged into portfolios and placed with capital market investors. The objective of the Bank's securitization transactions is to relieve Bank's regulatory total capital and to use additional refinancing sources.

No transfer of asset happens under synthetic securitization, no asset, only the risk is transferred from the initiator's balance sheet. The risk transfer is carried out by credit derivatives or guarantees.

The Bank signed a portfolio guarantee agreement commencing on 23.12.2022. The synthetic transaction is split into a senior, a mezzanine and a junior tranche. The credit risk of the mezzanine tranche is guaranteed by institutional investors, while the credit risk of the junior and senior tranches is retained.

31.12.2023								
(HUF million)	Contract date	Maturity	Maximum of the securitized portfolio	Securitized portfolio	Outstanding balance of the portfolio*	Portfolio	Disbursed deal series	Amount of disbursed tranche
Synthetic transaction	23.12.2022	31.13.2035	228,014	227,973	239,972	Mortgage loans	Mezzanine	28,958
Total			228,014	227,973	239,972			28,958

31.12.2022								
(HUF million)	Contract date	Maturity	Maximum of the securitized portfolio	Securitized portfolio	Outstanding balance of the portfolio*	Portfolio	Disbursed deal series	Amount of disbursed tranche
Synthetic transaction	23.12.2022	31.13.2035	228,014	226,164	238,067	Mortgage loans	Mezzanine	30,482
Total			228,014	226,164	238,067			30,482

*Securitized and non-securitized part

(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 aggregate 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 much 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 various stress tests the results of which are also regularly presented to the Management.

The Group manages its market risk exposure separately within 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 daily.

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

Interest bearing financial instruments

Financial instruments with fixed interest rates

(HUF million)	31.12.2023	31.12.2022
Financial assets	1,409,951	1,896,339
Financial liabilities	883,829	776,351
Total	526,122	1,119,988

Financial instruments with variable interest rates

(HUF million)	31.12.2023		31.12.2022	
	HUF	Financial liabilities	Financial assets	Financial liabilities
HUF	2,096,766	1,589,402	1,216,548	1,606,229
CHF	909	18,523	569	20,632
EUR	536,298	951,599	673,969	990,975
USD	7,145	159,260	31,664	182,607
Other currencies	6,236	24,001	5,475	25,345
Total	2,647,354	2,742,785	1,928,225	2,825,788

Changes are explained as follows:

- fixed interest rate assets decreased by HUF 486 billion in 2023 (receivables due from NBH decreased by HUF 712 billion, loans to customers increased by HUF 28 billion whereas fixed interest rate securities increased by HUF 212 billion),
- in case of fixed interest rate liabilities, an increase of HUF 107 billion was observable in 2023 (liabilities due to NBH decreased by HUF 10 billion, liabilities due to other banks increased by HUF 11 billion and in case of client deposits an increase of HUF 112 billion was observed),
- the balance of floating interest rate assets increased by HUF 719 billion (out of which the increase of HUF securities amounted to HUF 139 billion, nostro account balance at NBH increased by HUF 705 billion, HUF receivables due from credit institutions decreased by HUF 14 billion and EUR denominated loans advanced to clients decreased by HUF 100 billion),
- the balance of floating rate liabilities decreased by HUF 83 billion (out of which the most significant change was observed in case of client deposits: EUR deposits decreased by HUF 39 billion and USD deposits decreased by HUF 21 billion), liabilities towards NBH decreased by HUF 15 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:

31.12.2023 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash, cash balances at central banks and other demand deposits	894,225	2,001	13,952	9,644	8,023	927,845
Financial assets held for trading except for derivatives	2,645	0	158	43	0	2,846
Non-trading financial assets mandatorily at fair value through profit or loss	164,621	0	0	420	0	165,041
Financial assets designated at fair value through profit or loss	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	289,229	0	52,959	1,680	22,016	365,884
Financial assets at amortised cost	1,682,733	433	980,690	29,188	440	2,693,484
Financial assets except for derivatives	3,033,453	2,434	1,047,759	40,975	30,479	4,155,100
Financial liabilities held for trading except for derivatives	4,262	0	0	0	0	4,262
Financial liabilities measured at amortised cost	2,145,615	19,111	1,350,775	237,874	27,997	3,781,372
Financial liabilities except for derivatives	2,149,877	19,111	1,350,775	237,874	27,997	3,785,634
Net open position on balance sheet	883,576	-16,677	-303,016	-196,899	2,482	369,466
Net derivative and spot position	-508,679	17,183	297,471	197,818	-3,262	531
Total open foreign currency position (net)	374,897	506	-5,545	919	-780	369,997

31.12.2022 (HUF million)	HUF	CHF	EUR	USD	Other	Total
Cash, cash balances at central banks and other demand deposits	714,422	1,977	48,861	12,290	7,363	784,913
Financial assets held for trading except for derivatives	20,670	0	56	45	0	20,771
Non-trading financial assets mandatorily at fair value through profit or loss	126,028	0	0	388	0	126,416
Financial assets designated at fair value through profit or loss	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	193,696	0	84,676	7,125	20,353	305,850
Financial assets at amortised cost	1,573,437	100	1,044,942	59,034	3,317	2,680,830
Financial assets except for derivatives	2,628,253	2,077	1,178,535	78,882	31,033	3,918,780
Financial liabilities held for trading except for derivatives	1,951	0	0	0	0	1,951
Financial liabilities measured at amortised cost	2,083,594	21,265	1,338,313	255,652	27,393	3,726,217
Financial liabilities except for derivatives	2,085,545	21,265	1,338,313	255,652	27,393	3,728,168
Net open position on balance sheet	542,708	-19,188	-159,778	-176,770	3,640	190,612
Net derivative and spot position	-349,585	19,687	112,256	176,218	-3,395	-44,819
Total open foreign currency position (net)	193,123	499	-47,522	-552	245	145,793

Net open position on balance sheet includes fair valuation adjustments due to interest rate risk on hedged items designated in hedging relationships, whereas only notionals of derivatives are presented in the line 'Net derivative and spot positions'. During 2023, a total fair value adjustment of net HUF 14 billion was recognised in the carrying amounts of hedged bonds, accounted for in EUR.

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 reflected in FX VaR figures. For derivatives related to options (gamma and vega), additional limits are defined and monitored by the Group on a 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 risk factors – foreign currency, interest and equity 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 equity 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 given that the individual risk components do not move together. Foreign currency risk, other 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 the fundamental factors separately and on the entire group of factors as well. Diversification effect is not taken into consideration by the Bank in case of capital requirement 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)	31.12.2023				31.12.2022			
	VaR at year end	Average VaR	Minimum VaR	Maximum VaR	VaR at year end	Average VaR	Minimum VaR	Maximum VaR
Trading book								
Foreign currency risk	2	10	0	119	2	7	1	78
Interest rate risk	43	75	36	170	136	137	24	519
Share and commodity price risk	0	0	0	0	0	0	0	0
Total risk	57	113	35	1,499	274	300	40	928
Banking book								
Foreign currency risk	0	0	0	0	0	0	0	0
Interest rate risk	15,518	13,848	10,922	16,987	14,640	9,506	2,983	21,167
Total risk	15,518	13,848	10,922	16,987	14,640	9,506	2,983	21,167

The reason of the increase of the banking book's VaR position is that the Group established a significant strategic interest position that resulted in openness at the end of the year as well.

Gap and BPV report

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

Repricing of assets or liabilities occurs when:

- they fall due,
- part of the principal is repaid according to the contract,
- the interest is repriced in accordance with the contract, based on a reference rate,
- the assets or liabilities are repaid before maturity,

The interest-bearing off-balance sheet items are managed as nominal deposits and loans.

The difference between assets and liabilities in the same repricing category is called a 'gap'. The gap in a particular category is positive when interest rate risk of assets exceeds 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 yield curve. BPV limits which were approved by the parent bank are assigned for the repricing categories by currency.

BPV reports are presented in the below tables:

(HUF thousand)		31.12.2023				31.12.2022			
Trading book	HUF	EUR	CHF	USD	HUF	EUR	CHF	USD	
Less than 3 months	-356	36	-10	258	246	-813	-2	328	
3 months to 6 months	70	-101	-1	206	-16	-337	-1	443	
6 months to 1 year	-246	204	0	44	-75	-199	-1	156	
1 year to 2 years	-98	21	0	-1	-817	-5	0	-1	
2 years to 3 years	-41	-8	0	-2	-574	-11	0	0	
3 years to 5 years	-19	-3	0	-42	-343	-4	0	0	
5 years to 7 years	564	-14	0	0	501	0	0	0	
7 years to 10 years	-188	-47	0	0	-278	0	0	0	
10 years to 15 years	-199	0	0	0	-24	0	0	0	
15 years to 20 years	0	0	0	0	0	0	0	0	
Over 20 years	0	0	0	0	0	0	0	0	
Banking book	HUF	EUR	CHF	USD	HUF	EUR	CHF	USD	
Less than 3 months	787	-2,599	-31	709	-1,917	-1,022	-18	225	
3 months to 6 months	-3,024	-2,292	9	211	-345	-4,820	0	254	
6 months to 1 year	-1,265	695	43	86	3,849	2,221	-1	184	
1 year to 2 years	843	105	20	132	600	1,756	0	-405	
2 years to 3 years	5,751	534	0	107	3,002	-3,451	0	1,187	
3 years to 5 years	-3,142	569	0	670	5,754	748	0	144	
5 years to 7 years	3,471	5,101	0	2	4,116	92	0	1	
7 years to 10 years	3,376	841	0	0	3,969	2,043	0	10	
10 years to 15 years	192	-246	0	0	77	-542	0	0	
15 years to 20 years	431	-15	0	0	353	-41	0	0	
Over 20 years	2	0	0	0	6	144	0	0	

Netting arrangement related to derivative instruments

Derivative instruments are classified as assets if their fair values are positive and as liabilities if their fair values are negative. According to IAS 32.42 derivative assets and liabilities arising from different transactions could only be presented net in the statement of financial position, if the transactions are concluded with the same counterparty, an enforceable right exists to offset the amounts presented and the parties intend to settle the cash-flows net. The netting arrangement concluded by the Bank is enforceable only in certain circumstances and as a result financial assets and liabilities are presented gross in the statement of financial position.

31.12.2023		Gross amount of derivative assets which can be considered in offsetting in the statement of financial position	Net amount of derivative assets in the statement of financial position	Amounts from global netting agreements		Net amount
(HUF million)	Gross amount of derivative assets			Derivative instrument	Cash collateral received	
Derivative assets	214,586	0	214,586	183,005	0	31,581

31.12.2023		Gross amount of recognised financial derivative assets set off which can be considered in offsetting in the statement of financial position	Net amount of derivative liabilities in the statement of financial position	Amounts from global netting agreements		Net amount
(HUF million)	Gross amount of derivative liabilities			Derivative instrument	Cash collateral received	
Származékos eszközök	216,211	0	216,211	183,005	4,856	28,350

31.12.2022		Gross amount of derivative assets which can be considered in offsetting in the statement of financial position	Net amount of derivative assets in the statement of financial position	Amounts from global netting agreements		Net amount
(HUF million)	Gross amount of derivative assets			Derivative instrument	Cash collateral received	
Származékos eszközök	353,417	0	353,417	287,068	0	66,349

31.12.2022		Gross amount of recognised financial derivative assets set off which can be considered in offsetting in the statement of financial position	Net amount of derivative liabilities in the statement of financial position	Amounts from global netting agreements		Net amount
(HUF million)	Gross amount of derivative liabilities			Derivative instrument	Cash collateral received	
Származékos eszközök	386,267	0	386,267	287,068	48,446	50,753

(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 always meet its liabilities when due, under both normal and stressed conditions.

Liquidity risk management is a key priority in RBI Group as well as in Raiffeisen Bank Zrt, 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.

31.12.2023		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)	39,642	39,642	39,642	0	0	0
Placements with banks	(6, 19)	888,203	888,453	888,453	0	0	0
Loans and advances	(6, 20, 21, 42)	2,111,773	2,488,095	488,512	328,813	1,042,565	628,205
Investment in debt securities	(6, 20, 21, 22, 23, 42)	1,113,835	1,292,688	18,970	42,540	711,130	520,048
Total assets		4,153,453	4,708,878	1,435,577	371,353	1,753,695	1,148,253
Derivative instruments							
Derivative instruments - Trading	(20, 42)		96,576	25,637	16,732	35,057	19,150
Outflow			-168,531	-23,741	-41,712	-50,131	-52,947
Inflow			265,107	49,378	58,444	85,188	72,097
Derivative instruments - Hedge accounting	(10, 42)		120,408	19,278	7,859	52,338	40,933
Outflow			-13,000	-13,000	0	0	0
Inflow			133,408	32,278	7,859	52,338	40,933
Total derivative instruments			216,984	44,915	24,591	87,395	60,083

31.12.2023		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)	3,551,018	3,741,077	3,018,090	110,270	388,761	223,956
Short positions	(6, 27, 28, 42)	4,261	4,261	4,261	0	0	0
Debt securities issued	(6, 28, 30)	192,646	216,326	362	148,217	67,747	0
Other financial liabilities	(5, 32)	37,708	41,167	10,667	3,335	14,505	12,660
Financial guarantees given		192,706	192,706	192,706	0	0	0
Loan commitments		433,651	433,651	433,651	0	0	0
Total liabilities		4,411,990	4,629,188	3,659,737	261,822	471,013	236,616
Derivative instruments							
Derivative instruments - Trading	(27, 42)		-89,057	-27,572	-10,365	-25,559	-25,561
Outflow			-272,030	-113,670	-91,743	-34,242	-32,375
Inflow			182,973	86,098	81,378	8,683	6,814
Derivative instruments - Hedge accounting	(10, 42)		-126,849	-12,457	-6,470	-62,459	-45,463
Outflow			-220,451	-28,293	-28,798	-114,855	-48,505
Inflow			93,602	15,836	22,328	52,396	3,042
Total derivative instruments			-215,906	-40,029	-16,835	-88,018	-71,024

31.12.2022	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)	52,780	52,780	52,780	0	0	0
Placements with banks	(6, 19)	732,133	733,311	733,311	0	0	0
Loans and advances	(6, 20, 21, 42)	2,363,861	2,837,496	727,029	475,996	997,587	636,884
Investment in debt securities	(6, 20, 21, 22, 23, 42)	768,837	884,580	21,476	36,547	329,825	496,732
Total assets		3,917,611	4,508,167	1,534,596	512,543	1,327,412	1,133,616
Derivative instruments							
Derivative instruments - Trading	(20, 42)		108,025	29,696	-32,820	52,646	58,503
Outflow			-231,471	-5,753	-110,675	-87,402	-27,641
Inflow			339,496	35,449	77,855	140,048	86,144
Derivative instruments - Hedge accounting	(10, 42)		192,450	7,310	8,844	82,593	93,703
Outflow			-13,195	-13,195	0	0	0
Inflow			205,645	20,505	8,844	82,593	93,703
Total derivative instruments			300,475	37,006	-23,976	135,239	152,206

31.12.2022	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)	3,496,528	3,613,791	2,936,071	145,311	385,420	146,989
Short positions	(6, 27, 28, 42)	1,951	1,951	1,951	0	0	0
Debt securities issued	(6, 28, 30)	194,100	235,158	-448	17,324	221,294	-3,012
Other financial liabilities	(5, 32)	35,590	39,323	8,613	3,168	13,035	14,507
Financial guarantees given		176,790	176,790	176,790	0	0	0
Loan commitments		403,413	403,413	403,413	0	0	0
Total liabilities		4,308,372	4,470,426	3,526,390	165,803	619,749	158,484
Derivative instruments							
Derivative instruments - Trading	(27, 42)		-154,298	-42,275	-24,718	-25,468	-61,837
Outflow			-257,605	-46,701	-101,801	-39,133	-69,970
Inflow			103,307	4,426	77,083	13,665	8,133
Derivative instruments - Hedge accounting	(10, 42)		-246,365	-9,966	-18,785	-102,311	-115,303
Outflow			-339,301	-25,875	-22,508	-151,914	-139,004
Inflow			92,936	15,909	3,723	49,603	23,701
Total derivative instruments			-400,663	-52,241	-43,503	-127,779	-177,140

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:

31.12.2023 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	97,809	31,425	66,384
Non-trading financial assets mandatorily at fair value through profit or loss	165,041	544	164,497
Financial assets at fair value through other comprehensive income	365,884	15,759	350,125
Financial assets at amortised cost	2,693,484	609,632	2,083,852
Derivatives - Hedge accounting	119,623	15,877	103,746
Deferred tax assets	1,841	0	1,841
Other assets	9,355	9,355	0
Total assets	3,453,037	682,592	2,770,445
Liabilities			
Financial liabilities held for trading	93,665	30,173	63,492
Financial liabilities measured at amortised cost	3,781,372	3,052,608	728,764
Derivatives - Hedge accounting	126,808	7,971	118,837
Provisions	16,831	16,831	0
Deferred tax liabilities	11	0	11
Other liabilities	11,814	11,814	0
Total liabilities	4,030,501	3,119,397	911,104

31.12.2022 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	183,111	39,709	143,402
Non-trading financial assets mandatorily at fair value through profit or loss	126,416	464	125,952
Financial assets at fair value through other comprehensive income	305,850	12,664	293,186
Financial assets at amortised cost	2,680,830	937,983	1,742,847
Derivatives – Hedge accounting	191,077	6,756	184,321
Deferred tax assets	5,101	0	5,101
Other assets	8,324	8,324	0
Total assets	3,500,709	1,005,900	2,494,809
Liabilities			
Financial liabilities held for trading	145,730	52,037	93,693
Financial liabilities measured at amortised cost	3,726,217	3,053,522	672,695
Derivatives – Hedge accounting	242,488	10,443	232,045
Provisions	11,526	11,526	0
Deferred tax liabilities	8	0	8
Other liabilities	12,176	12,176	0
Total liabilities	4,138,145	3,139,704	998,441

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:

2023		2022	
Date	HUF million	Date	HUF million
31.01.2023	0	31.01.2022	274
28.02.2023	0	28.02.2022	64
31.03.2023	0	31.03.2022	216
28.04.2023	0	29.04.2022	312
31.05.2023	0	31.05.2022	175
30.06.2023	0	30.06.2022	406
31.07.2023	0	29.07.2022	839
31.08.2023	0	31.08.2022	636
29.09.2023	0	30.09.2022	0
31.10.2023	0	28.10.2022	0
30.11.2023	0	30.11.2022	0
29.12.2023	0	30.12.2022	0

The Bank reviewed the calculation of the illiquidity capital requirements related to the liquidity risk in 2022. The liquidity risk in the trading book mainly arises from private government securities. Since the private government securities only appear temporarily in the trading book, the Government Debt Management Agency (GDMA) regularly – on a monthly basis – repurchases them and these are measured prudently at the repurchase price quoted by GDMA for this short period, no additional liquidity risk arises due to this and there is no need to calculate illiquidity capital requirement for the illiquid position.

(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 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) Environmental, governance and social risks

Our planet, the biodiversity and the quality of our life is largely impacted by the natural factors making up the biological system. The business activity of the financial sector has a significant impact on the environment and on the society. However, this is a two-way relationship, the finance sector itself is also affected by environmental and social factors. The two most significant environmental effects of these times are climate change and biodiversity loss.

ESG (environmental, social and governance) is a framework that helps stakeholders understand how an organization manages risks and utilises opportunities related to ESG factors.

(6.6.1.) Governance and strategy

Governance

The Group has established its sustainability (ESG) governance framework and responsibilities, headed by a Sustainability Council chaired by the Group's Management Board. The Strategy and Corporate Governance Department (SCO) is responsible for coordinating key ESG aspects and factors, while operational tasks remain below functional departments (functional agents). The Group employs a number of ESG experts, including the Strategy, Business, Risk Management, Procurement and Legal departments, who ensure the Group's ESG compliance and sustainable operations. The Group pays special attention to knowledge sharing both internally and externally, providing the latest information on the legal and environmental background of ESG factors.

The Group pays special attention to data management and ESG processes, with special regard to the increasing data needs of ESG analyses and to serve the risk management and business goals of the organization.

In addition to the above-mentioned points, the Group has also implemented an environmental management system in accordance with ISO 14001:2015 in order to ensure the sustainable operation of the organization.

Internal ESG-related regulations are approved by Raiffeisen Bank International (RBI) and implemented through business units at the level of the relevant subsidiary. Internal ESG policies include: the ESG Risk Framework Policy, sectoral policies (e.g., oil and gas, steel, renewable energy, etc.), group ESG and Sustainability Guidelines and ESG loan disbursement process rules.

RBI is a signatory to the UN Principles for Responsible Banking and is committed to operating transparently and actively creating value with stakeholders.

Strategy

The Group's mission and strategy is deeply incorporated into the operation of Raiffeisen Group, backed up by its professional background and center of excellence. For the Group, sustainability is a fundamental value and a measure of corporate success. The Group takes ESG factors into account in establishing its business strategy in relation to both its own operation and its lending activity.

The Group offers numerous sustainable financing and investment products, and its everyday operation is conducted in line with an approach focusing on energy efficiency and climate protection. The sustainability strategy lies on two main pillars:

- (a) analysing and assessing the environment, monitoring and developing the banking activity, and
- (b) the business approach taken in the areas of portfolio strategies and financing activities..

(a) Analysing our environment

The Group currently prepares two comprehensive analysis per year, namely one climate horizon analysis and one GAP analysis.

The climate horizon analysis is an analysis aiming at identification of the Group's short-term (0-3 years), mid-term (4-10 years) and long-term (over 10 years) vulnerabilities and opportunities in the area of climate protection. Vulnerability describes the exposure/expected negative effects related to the physical and transition risks effecting corporates whereas opportunities focus on the identification of economic factors of the transition in a changing environment.

The Group prepares GAP analyses and action plans from time to time, in order to manage the green directives of European Central Bank / National Bank of Hungary. The purpose of the assessment is the review of compliance with green directives along four segments (business model and strategy, risk management, disclosure, internal governance) and describing the actual processes in order to comply with recommendations and to manage identified deficiencies.

(b) Portfolio strategies and business approach

The Group has formulated a Climate & Environment Business Strategy that integrates climate & environment risk into major strategic processes aiming to:

- aligning the accounting balance sheet with climate goals of the Paris Treaty;
- supporting clients in their climate and environmental transition; and
- supporting sustainable financial transformation.

The Group implemented portfolio strategies in course of its lending activity that are in line with the economic transition, namely: supportive, transformative and restrictive approach.

Supportive approach: support companies and projects that are 'best-in-class' already in terms of sustainability.

Transformative approach: (1) transformative: in implementation – support companies on their way to reduce their carbon footprint and mitigate their negative impacts and promote their positive impacts to the environment and society; (2) transformative: in planning – support companies to design their plans to reduce their carbon footprint and mitigate their negative impacts and promote their positive impacts to the environment and society.

Restrictive approach: focus is on negative filtering i.e., the identification of companies and project that are not preferred. The lending directives do not incentivize lending to such companies and projects, unless the partner presents its plans supporting its significant and measurable commitment to transition.

(6.6.2.) Sustainable banking

The Group introduced its portfolio strategies applicable to its lending activities that are in line with economic transition (restrictive, transformative, supportive) and its comprehensive business approach which ensures transition of Raiffeisen Group and the stakeholders through knowledge sharing and responsible corporate governance.

The Group is active in the market of green lending and green investments which was rewarded in 2022 by the National Bank of Hungary with prizes 'Green Bank of the Year 2022' and 'Green Asset Manager of the Year 2022':

- strong position in the area of corporate green financing which supports fundraising through green bonds;
- significant expertise in the area of advisory services related to green bonds – the Group supported 4 green financing projects as an advisor; and
- introduced and offers to clients 5 ESG funds of funds that only invest in securities the issuers of which are qualified sustainable.

The Group formed the Framework for Sustainability Bond ('Framework') which forms part of the comprehensive sustainability strategy, placing strong focus on assets making positive environmental and social impact, in order to support the transition towards a more sustainable future. The Framework is in line with ICMA (i) Green Bond Principles, (ii) Social Bond Principles and (iii) Sustainability Bond Principles. The first tranche under the Framework was issued in July 2022 in the amount of USD 50 million. The Group undertook to comply with ICMA requirements related to (1) usage of funds (2) evaluating and selecting the project, (3) handling of funds and (4) reporting. Allocation and evaluation tasks are supervised by the Group's Sustainability Bond Committee.

The ESG loan disbursement process relating to corporate loans were worked out in 2023 and its implementation is expected in the first quarter of 2024. ESG-based lending:

- Incorporates the function of ESG expert (as first line of defense) in order to analyze critical factors/transactions and their harmony with the directives, especially with the exclusion directives of the group (e.g. tobacco products, gambling, nuclear energy, etc.);
- manages the compliance of industry-specific credit assessment criteria with sector-specific directives;
- assesses compliance with the sustainable product frameworks, conditions and features;
- ensures the assessment and management of potential credit risk arising from sustainability features of corporate clients and industries relating to transition (increasing business model risks arising from greenhouse gas emission and regulatory, technological and demand aspects).

The Group launched in 2023 its ESG data warehouse for the ESG flagging of transaction in all segments (large corporate, medium-sized corporate, small and micro-sized corporate, retail), using four frameworks (EU taxonomy decree, RBI Green and Social, National Bank of Hungary green and EBRD). During 2023, the Group made a significant step forward in the area of information systems servicing the management of ESG data and supporting the above-mentioned lending and designation processes.

(6.6.3.) Risk management and measurement

Main focus points of risk management:

- defining and identifying ESG risk,
- identifying vulnerable industries,
- portfolio monitoring,
- assessing ESG risk and business model in relation to loan disbursement processes,
- analysing client risk,
- valuing collaterals.

Defining and identifying ESG risk

The Group introduced the ESG Framework to define and identify environmental, social and governance risks. The document is a basis for widening ESG-based knowledge. In addition, climate horizon analysis helps in identifying climate and environmental risks on the short, mid and long run.

Identifying vulnerable industries

The second focus point of risk management and measurement means the identification of industries with high environmental risks. To do this, the Group prepares a climate horizon analysis with a strategic methodology and will perform ESG-based industry risk modelling.

Portfolio monitoring

The Group actively manages its portfolio by using the governance and assessment tools made available by RBI, considering existing sector-specific directives (e.g., oil, gas industry, steel, coal etc.). The ESG rating score serves as an input to monthly portfolio reports.

Assessing ESG risk and business model in relation to loan disbursement processes

During the loan disbursement process the main goal of risk management is managing credit risk arising from sustainability features of corporate clients and industries relating to transition (higher business risk arising from greenhouse gas emission and regulatory, technological and demand aspects).

The ESG risk assessment can be considered as a second line of defense, behind business assessment and can be applied for each credit risk bearing product for which credit assessment is necessary. The ESG risk management focuses on credit prospects relating to transition whereas potential physical risks are considered in collateral valuation.

Analysing client risk

The ESG rating is an assessment (qualitative and/or quantitative), which measures long-term commitment of an organisation to sustainability through the three main factors of ESG. In addition, the ESG rating gives an insight into the entity's exposure to transition risks. The Group introduced ESG Framework to define and identify environmental, social and governance risks. The's responsible client clustering concept relies on ESG-based client score which is fine-tuned by expert judgments reflected in ESG Final Customer Score for the corporate portfolio.

Methodology and steps of scoring are as follows:

- (1) The ESG industry-based score measures ESG risks at the industry level, supplemented by the integrated country risk factor;
- (2) Expert judgement adjusts this through answering and assessing a number of ESG questions;
- (3) The final ESG client score varies among industries, within an approved interval the higher edge of which denotes the 'best' and the lower edge the 'worst' assessment within the given class.

Valuing collaterals

Climate change and ESG awareness increasingly impacts the valuation and revaluation of loan collaterals, especially in case of property.

The most important factors affecting the valuation are expected costs, expected income, yield expectations of the investors and liquidity aspects. The Group introduced ESG Framework to define and identify environmental, social and governance risks. The gathers information from clients to identify and evaluate ESG related risks in course of valuation of property collateral. Besides valuation, these newly introduced areas are for more accurately approach and assess the general exposure to climate change risks.

The Group strives to assess and reduce its carbon footprint. For this purpose, the Group assessed its scope 1 and 2 in 2022 and the limited scope 3 carbon values (excluding financed emission) in 2023. Portfolio measurement tools (e.g., calculating Scope 3 financed part) are currently under development and this project is managed by RBI.

The Group does not have science based targets on branch level yet, however science based targets of the RBI serve as guideline and basis for future targets and methodology (please find science based targets here: (<https://www.rbinternational.com/en/raiffeisen/sustainability-esg/responsible-banking/science-based-target.html>)).

(6.6.4.) Reporting

Since 2017, the Raiffeisen Group has published its Sustainability Report every year, which is based on the current state of science and international standards. The Group collects, monitors and reports non-financial information through its ESG Cockpit system to support RBI in preparing its Sustainability Report.

In addition to the group report, the Group prepares voluntary non-financial (ESG) reporting and a mandatory corporate governance report within the framework of the annual report.

The Group is subject to the CSRD and EU Taxonomy Regulations (and their respective delegated regulations) and will include non-financial information in its annual report from 2025 onwards (the first reporting period will be the financial year of 2024).

(6.7) 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 the amount of risk-weighted exposure (under IRB approach) to tier 2 capital;
- 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):
 - o 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,
 - o 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 as to whether 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.

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 regulatory capital requirements throughout the year of 2023. The capital position of the Group remained at a sound level throughout the year, aligned with its' risk appetite.

The sole shareholder of the Bank decided on 23 December 2022 on an interim dividend of HUF 32,300 million, which was paid before the year end.

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.

Systemically important institution buffer

The National Bank Hungary (NBH) reassessed in 2023 as well the importance of the domestic credit institutions based on 2021 year end data, and according to the assessment 7 Banking Group have been flagged as Other Systemically Important Institutions (O-SII), including Raiffeisen Group.

Already from 2022, the NBH has been expected a gradual rebuilding of the buffers required for systemically important institutions – which were released due to the extraordinary economical conditions caused by the coronavirus pandemic – until 2024. The capital positions of the systemically important banks are still adequate for the NBH to determine the buffers prescribed from 2023 in line with the previously determined increasing pattern. Accordingly, the temporary buffer rates will be increased also in 2024 by half of the planned final level and will reach their target level from 2024.

O-SII buffer rates provided for Raiffeisen Bank				
	Actual		Provided	
2020	from 01.07.2020	2022	2023	2024
0,50 %	0%	0,125%	0,25%	0,5%

Anti-cyclical capital buffer

Systemically important institution buffer

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Capital adequacy

(HUF million)	2023	2022*
Share capital	50,000	50,000
Capital reserve	113,445	113,445
Retained earnings	197,968	128,828
Accumulated other comprehensive income	22,193	12,258
Funds for general banking risk	32,143	22,215
Adjustments to CET1 due to prudential filters	-23,031	-15,672
(-) Goodwill	-1,035	-1,035
(-) Other intangible assets	-16,674	-14,088
(-) Securitization positions	0	-1,336
(-) Deferred tax items	-1,839	-4,764
(-) Additional capital requirement for non-performing exposures	-2,007	-4,008
Common Equity Tier 1 Capital	371,163	285,843
Capital instruments eligible as AT1 Capital	46,979	31,445
Additional Tier 1 Capital (AT1)	46,979	31,445
IRB Excess of loss allowances and provisions over expected losses	6,844	6,704
Equity instruments classified as subordinated loans	59,331	62,039
Tier 2 Capital	66,175	68,743
Total regulatory capital	484,317	386,031
Capital requirement	139,728	125,761
Solvency ratio (%)	27.73%	24.56%

*The regulatory capital as at 31.12.2023 and 31.12.2022 does not include the deduction of the interim dividend paid

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)	2023	2022
Interest income calculated with the effective interest method	358,864	211,421
Other interest income	244,368	139,549
Financial assets held for trading	98,072	92,372
Debt securities	533	1,608
Derivatives – Held for trading	22,431	58,702
Derivatives – Held for risk management (not in hedge accounting)	75,108	32,062
Financial assets designated at fair value through profit or loss	0	1
Debt securities	0	1
Non-trading financial assets mandatorily at fair value through profit or loss	9,530	6,109
Loans and advances	9,530	6,109
Derivatives – Hedge accounting, interest rate risk	76,939	31,108
Other	59,827	9,959
Interest income total	603,232	350,970
Interest expense calculated with the effective interest method	-167,446	-71,626
Other interest expenses	-235,130	-140,338
Financial liabilities held for trading	-127,288	-94,919
Derivatives – Held for trading	-22,160	-60,840
Derivatives – Held for risk management (not in hedge accounting)	-105,128	-34,079
Derivatives – Hedge accounting, interest rate risk	-107,837	-45,224
Other	-5	-195
Interest expense total	-402,576	-211,964
Net interest income	200,656	139,006

Net interest income of the Group increased by HUF 61,650 million compared to the previous year. Both interest income and interest expenses increased, however the former to a higher extent.

There was an outstanding increase in interest income calculated with the effective interest method (an increase of HUF 147,443 million) thanks to the level of interest rates which was still high in 2023, mostly to the increase of interest income on interbank placements – especially on placements at NBH – and to higher interest income on clients' loans and current accounts and interest income on securities held to maturity.

A significant portion of the HUF 95,820 million increase in interest expense calculated with the effective interest method was attributable to the higher interest payable on client and interbank deposits. Besides that, the MREL bond issue also increased the interest burden of the year 2023.

Interest on securities measured at fair value through other comprehensive income (mostly interest on mortgage bonds and government bonds) and the amortisation of discounts and premiums related to securities further increased interest income (an increase in interest income of HUF 11,629 million).

Net interest income was significantly worsened by interest recognised on derivatives (a HUF 25,594 million worsening in trading interest income) and slightly worsened by the interest result on debt securities held for trading (a HUF 1,075 million decrease in interest). This was slightly compensated by the interest income on loans mandatorily measured at fair value through profit or loss (childbirth incentive loans, HUF 3,421 million increase in interest income).

Net interest income on derivative instruments designated in cash-flow and fair value hedging relationships decreased (HUF 16,782 million decrease in interest).

(HUF million)	2023	2022
Interest income calculated with the effective interest method	358,864	211,421
Financial assets at fair value through other comprehensive income	29,850	18,222
Debt securities	29,850	18,222
Financial assets at amortised cost	329,014	193,199
Debt securities	57,703	19,411
Loans and advances	266,830	170,866
Leasing receivables	4,416	2,860
Other assets	65	62
Interest expense calculated with the effective interest method	-167,446	-71,626
Financial liabilities at amortised cost	-167,446	-71,626
Deposits	-146,400	-65,206
Subordinated liabilities	-3,686	-2,044
Debt securities issued	-16,610	-3,664
Leasing liabilities	-750	-712
Net interest income calculated with the effective interest method	191,418	139,795

(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)	2023	2022
Fee and commission income		
IFRS 15 revenues		
Payment and bank card services	51,279	45,053
Margin included in foreign exchange conversions and other transactions	23,530	22,916
Outsourced currency exchange activity	16,712	17,606
Security issuance fees and transfer commissions	5,565	5,541
Fund management	6,567	3,580
Services as agent	1,768	1,056
Custody	1,090	908
Corporate finance	316	286
Asset management	4	16
Clearing and settlement	16	26
Other	2,160	1,858
Total IFRS 15 revenues	109,007	98,846
IFRS 9 revenues		
Loan servicing activities	368	272
Loan commitments given	4	4
Financial guarantees given	4,527	4,134
Loans granted	287	405
Total IFRS 9 revenues	5,186	4,815
Total fee and commission income	114,193	103,661
Fee and commission expense		
Payment and bank card services	-7,064	-5,991
Margin included in foreign exchange conversions and other transactions	-239	-209
Outsourced currency exchange activity	-16,318	-17,091
Securities	-510	-723
Services of agents	-252	-102
Custody	-936	-920
Clearing and settlement	-88	-86
Loan servicing activities	-350	-227
Loan commitments received	0	0
Financial guarantees received	-3,966	-2,487
Other	-2,950	-2,485
Total fee and commission expense	-32,673	-30,321
Net income from commissions and fees	81,520	73,340

Net fee and commission income of the Bank increased by HUF 8,180 million compared to last year and this was primarily due to increase in payment service fees (HUF 5,153 million).

Within payment service fees, commissions relating to transfers and other settlement transactions that increased extraordinarily but the increase in banking card fees and in fees related to account maintenance was also outstanding.

Fees relating to distribution of securities (investment funds) (HUF +3.224 million), fees included in foreign exchange conversions and other securities transactions and agent fees (fees for mediating insurance services) also positively impacted net commission income.

Net commission income was significantly lowered by the synthetic securitization fee paid during 2023.

(9) Net trading income and fair value result

Gains and losses from financial assets and liabilities held for trading

(HUF million)	2023	2022
Derivative instruments	-56,278	49,456
Derivatives held for trading	-21,427	9,320
Derivatives held for risk management purposes, without hedge accounting	-34,851	40,136
Equity instruments	89	26
Debt securities	651	-118
Other financial liabilities	1,053	-9,675
Gains or (-) losses on financial assets and liabilities held for trading, net	-54,485	39,689

Gains or losses on derivatives held for trading decreased by HUF 30,746 million. The reason of this was the decrease of HUF 30,651 million in realized and unrealized result on FX swap, forward and futures transactions.

Starting from 1st of January 2023, the net implicit interest result of trading FX swap and FX forward transactions is reported in line item 'Net trading income and fair value result'. In 2023, a net implicit interest expense of 19,426 million HUF appeared on this line for these transactions, while in 2022, the Group reported the interest of these transactions as part of the 'Net interest income' (50,920 million HUF interest income and 53,320 million HUF interest expense).

The amount of line 'Derivatives held for risk management purposes, without hedge accounting' (derivatives for economic hedging purposes) decreased by HUF 74,988 million, which is on the one hand is due to increase of losses on FX swap, forward and futures transactions by HUF 44,352 million and on the other hand due to increase of losses by HUF 30,626 million on single currency and cross-currency interest rate swap (FRA, IRS, CCIRS, OSP) transactions.

Last year's result on the line 'Debt securities' increased by HUF 770 million. In composition: government bonds decreased it by HUF 466 million whereas other bonds increased it by HUF 700 million and treasury bills by HUF 238 million.

Change in 'Other financial liabilities' was caused by gains realised on spot transactions (HUF 10,728 million).

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

(HUF million)	2023	2022
Equity instruments	85	35
Debt securities	73	66
Loans and advances	24,483	-8,913
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	24,641	-8,812

'Equity Instruments' includes gains or losses recognised on units of Raiffeisen Befektetési Alapkezelő Zrt.

The 'Debt securities' line shows the revaluation result of Visa C share.

In 2023, the revaluation result of childbirth incentive loans increased the gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss by HUF 18,279 million.

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

(HUF million)	2023	2022
Debt securities	0	-6
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	0	-6

(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)	2023	2022
Fair value changes of the hedging instrument (including effects of discontinuation) in fair value hedges	38,328	-36,203
Fair value changes of the hedged item attributable to the hedged risk in fair value hedges	-39,754	34,476
Ineffectiveness in profit or loss from cash flow hedges	-82	-53
hereof: existing hedges	-326	777
discontinued hedges	244	-830
Gains and losses from hedge accounting, net	-1,508	-1,780

Net loss arising from fair valuation of interest rate swaps and cross-currency interest rate swaps hedging purchased bonds amounted to HUF 63,917 million in 2023 (in 2022 HUF 70,312 million gain). Gain from fair valuation of interest rate swaps hedging received deposits amounted to HUF 8,050 million in 2023 (in 2022 HUF 6,381 million loss). On interest rate swaps, hedging received deposit portfolios, a fair valuation gain of HUF 110,588 million was recognised in 2023 (in 2022 HUF 120,439 million loss). 2023 net fair valuation loss on interest rate swaps, hedging loans advanced, amounted to HUF 8,591 (in 2022 HUF 13,598 million gain). In 2023, gain on fair valuation of interest rate swaps, hedging issued bonds involved in hedge accounting, amounted to HUF 6,125 million (in 2022 HUF 4,794 million loss), out of which HUF 6,071 million gain (in 2022 HUF 4,728 million loss) relates to MREL bond issue. In relation to interest rate swaps, hedging loan portfolio, in 2023 a loss of HUF 13,927 million (in 2022 a gain of 11,501 million) was recognised in gains and losses from hedge accounting.

In 2023, a fair valuation result of HUF 63,912 million (in 2022 HUF -70,724 million) was recognised on purchased bond, HUF -8,014 million (in 2022 HUF 6,365 million) on hedged received deposits, HUF 8,641 million (in 2022 HUF -13,398 million) on hedged loans, HUF -6,129 million (in 2022 HUF 4,768 million) on hedged own issued bonds thereof HUF -6,070 million (in 2022 HUF 4,700 million) relates to MREL bonds. On hedged received deposit portfolio a fair valuation result of HUF -111,174 million (in 2022 HUF 118,848 million), in relation to hedged loan portfolio HUF 13,010 million (in 2022 HUF -11,383 million) was recognised.

Given that most of the Group's hedge relationships are denominated in HUF, the profit or loss effect arising from the ineffectiveness of hedging relationships was exaggerated by the significant decrease in yields experienced in 2023. Whereas the 3-month BUBOR was in the range of 4.21%-16.18% in 2022, it was in the range of 9.96%-16.31% in 2023. Swap rates of 5 years HUF interest rate swaps fluctuated in the same periods within the range of 4.72%-11.73% (2022) and 5.53%-10.77% (2023).

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:

31.12.2023 (HUF million)	Maturity			
	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	8,602	213,958	424,273	123,514
Average fixed interest rate	3.35%	9.07%	6.53%	6.26%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	19,343	57,047	13,965
Average HUF/EUR exchange rate	-	386.86	384.97	383.74
31.12.2022				
(HUF million)	Maturity			
	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	12,197	63,620	313,186	155,836
Average fixed interest rate	1.43%	7.76%	6.50%	5.58%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	0	36,586	13,563
Average HUF/EUR exchange rate	-	-	414.13	413.14

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::

31.12.2023 (HUF million)	Carrying amount			Changes in fair value in 2023 used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognised in OCI*	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss
	Notional amount	Assets	Liabilities				
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	770,347	49,508	17,944	10,263	10,635	-370	-239
Interest rate risk hedge total	770,347	49,508	17,944	10,263	10,635	-370	-239
Interest rate risk / Currency risk HUF/EUR							
Cross currency interest rate swaps (CCIRS)	90,355	1,170	1,328	195	157	37	-4
Interest rate risk / Currency risk hedge total	90,355	1,170	1,328	195	157	37	-4
Portfolio cash flow hedges total	860,702	50,678	19,272	10,458	10,792	-333	-243

31.12.2022 (HUF million)	Carrying amount			Changes in fair value in 2022 used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognised in OCI*	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss
	Notional amount	Assets	Liabilities				
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	544,839	34,960	19,581	11,304	10,652	649	781
Interest rate risk hedge total	544,839	34,960	19,581	11,304	10,652	649	781
Interest rate risk / Currency risk HUF/EUR							
Cross currency interest rate swaps (CCIRS)	50,149	2,666	377	-126	-264	138	50
Interest rate risk / Currency risk hedge total	50,149	2,666	377	-126	-264	138	50
Portfolio cash flow hedges total	594,988	37,626	19,958	11,178	10,388	787	831

*OCI: Other comprehensive income

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 2023	Cash flow hedge reserve	
		existing hedges	discontinued hedges*
31.12.2023			
Interest rate risk			
Loans	44,870	21,556	0
Deposits	-34,523	-1,314	-4
Interest rate risk hedge total	10,347	20,242	-4
Interest rate risk/Currency risk			
Loans	-236	-183	0
Deposits	394	298	0
Interest rate risk/Currency risk hedge total	158	115	0
Hedged items in cash flow hedges total	10,505	20,357	-4

(HUF million)	Changes in fair value used for calculating hedge ineffectiveness in 2022	Cash flow hedge reserve	
		existing hedges	discontinued hedges*
31.12.2022			
Interest rate risk			
Loans	-15,323	-19,275	0
Deposits	26,717	30,057	-4
Interest rate risk hedge total	11,394	10,782	-4
Interest rate risk/Currency risk			
Loans	-198	32	0
Deposits	-16	-60	4
Interest rate risk/Currency risk hedge total	-214	-28	4
Hedged items in cash flow hedges total	11,180	10,754	0

*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 2023, HUF 10,550 million gain (in 2022 HUF 11,219 million gain) 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 29.12.2023 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 2023 or 2022. In 2023, HUF 244 million gain (in 2022 HUF 830 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 2023, HUF 326 million loss (in 2022 HUF 777 million gain) was recognised in the same line relating to the ineffectiveness of hedging instruments designated in cash flow hedging relationships existing at 29.12.2023.

Fair value hedges

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

31.12.2023 (HUF million)	Maturity			
	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased HTCS bonds				
Nominal	0	16,000	148,911	79,702
Average fixed interest rate	-	1.60%	4.40%	1.54%
Interest rate swaps (IRS) hedging purchased HTC bonds				
Nominal	0	18,502	234,223	154,380
Average fixed interest rate	-	5.16%	5.59%	2.90%
Interest rate swaps (IRS) hedging loans				
Nominal	18	1,214	105,011	41,612
Average fixed interest rate	-0.33%	0.38%	2.67%	2.48%
Interest rate swaps (IRS) hedging deposits				
Nominal	0	2,000	46,088	0
Average fixed interest rate	-	8.19%	1.46%	-
Interest rate swaps (IRS) hedging issued bonds				
Nominal	345	131,842	52,558	0
Average fixed interest rate	6.04%	10.55%	4.23%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	40,886	136,692	522,069	339,651
Average fixed interest rate	2.01%	1.52%	2.11%	2.72%
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	421	15,806	27,837	39,197
Average fixed interest rate	0.50%	1.11%	1.35%	1.50%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging HTCS purchased bonds				
Nominal	0	0	3,482	19,343
Average CZK/EUR exchange rate	-	-	24.55	24.58
USD/EUR Cross currency interest rate swaps (CCIRS) hedging issued bonds				
Nominal	0	0	18,280	0
Average USD/EUR exchange rate	-	-	0.96	-

31.12.2022 (HUF million)	Maturity			
	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased HTCS bonds				
Nominal	1,879	1,250	134,339	94,864
Average fixed interest rate	0.56%	0.97%	0.90%	1.01%
Interest rate swaps (IRS) hedging purchased HTC bonds				
Nominal	0	11,607	69,797	185,067
Average fixed interest rate	-	0.17%	1.63%	2.74%
Interest rate swaps (IRS) hedging loans				
Nominal	214	3,662	105,295	35,869
Average fixed interest rate	-0.46%	0.62%	1.80%	2.58%
Interest rate swaps (IRS) hedging deposits				
Nominal	0	7,650	46,088	0
Average fixed interest rate	-	13.39%	1.46%	-
Interest rate swaps (IRS) hedging issued bonds				
Nominal	0	374	192,136	0
Average fixed interest rate	-	6.42%	6.96%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	36,996	217,354	575,735	390,288
Average fixed interest rate	0.55%	1.46%	1.50%	2.35%
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	463	7,226	38,826	44,435
Average fixed interest rate	0.41%	1.02%	1.23%	1.51%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging HTCS purchased bonds				
Nominal	0	0	2,072	20,717
Average CZK/EUR exchange rate	-	-	24.39	24.57
USD/EUR Cross currency interest rate swaps (CCIRS) hedging issued bonds				
Nominal	0	0	19,114	0
Average USD/EUR exchange rate	-	-	0.96	-

In case of CZK/EUR cross currency interest rate 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.

In case of USD/EUR cross-currency interest rate swap (CCIRS) contracts, the Group exchanges floating interest cash flows linked to €STR overnight interest rate to floating interest cash flows linked to SOFR overnight interest rate both repricing with a daily frequency.

The following table presents amounts related to hedging instruments and hedge ineffectiveness in fair value hedges:

31.12.2023 (HUF million)	Carrying amount			Changes in fair value in 2023 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss
	Nominal	Assets	Liabilities		
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased HTCS bonds	244,613	17,286	5,399	-24,886	-165
Interest rate swaps (IRS) hedging purchased HTC bonds	407,105	17,530	11,704	-39,140	211
Interest rate swaps (IRS) hedging loans	147,855	8,098	631	-8,587	53
Interest rate swaps (IRS) hedging deposits	48,088	4	4,616	8,048	34
Interest rate swaps (IRS) hedging issued bonds	184,745	3,352	1,453	6,187	-7
Interest rate risk hedge total	1,032,406	46,270	23,803	-58,378	126
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased HTCS bonds	22,825	91	3	141	-19
USD/EUR Cross currency interest rate swaps (CCIRS) hedging issued bonds	18,280	0	840	-64	1
Interest rate risk / Currency risk hedge total	41,105	91	843	77	-18
Micro fair value hedges total	1,073,511	46,361	24,646	-58,301	108
Portfolio fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging deposit portfolios	1,039,298	11,286	82,010	110,525	-649
Interest rate swaps (IRS) hedging loan portfolios	83,261	11,298	880	-13,919	-908
Interest rate risk hedge total	1,122,559	22,584	82,890	96,606	-1,557
Portfolio fair value hedges total	1,122,559	22,584	82,890	96,606	-1,557
Hedging instruments in fair value hedges total	2,196,070	68,945	107,536	38,305	-1,449

31.12.2022 (HUF million)	Carrying amount		Changes in fair value in 2021 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss	
	Nominal	Assets			Liabilities
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased HTCS bonds	232,332	48,912	1,703	30,344	-214
Interest rate swaps (IRS) hedging purchased HTC bonds	266,471	44,819	0	39,949	-258
Interest rate swaps (IRS) hedging loans	145,040	16,525	57	13,596	198
Interest rate swaps (IRS) hedging deposits	53,738	0	12,925	-6,378	-13
Interest rate swaps (IRS) hedging issued bonds	192,510	130	4,106	-4,939	-24
Interest rate risk hedge total	890,091	110,386	18,791	72,572	-311
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased HTCS bonds	22,789	0	710	-8	33
USD/EUR Cross currency interest rate swaps (CCIRS) hedging issued bonds	19,114	0	77	147	0
Interest rate risk / Currency risk hedge total	41,903	0	787	139	33
Micro fair value hedges total	931,994	110,386	19,578	72,711	-278
Portfolio fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging deposit portfolios	1,220,373	16,734	201,291	-120,379	-1,531
Interest rate swaps (IRS) hedging loan portfolios	90,950	26,331	1,661	11,492	109
Interest rate risk hedge total	1,311,323	43,065	202,952	-108,887	-1,422
Portfolio fair value hedges total	1,311,323	43,065	202,952	-108,887	-1,422
Hedging instruments in fair value hedges total	2,243,317	153,451	222,530	-36,176	-1,700

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:

31.12.2023 (HUF million)	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 2023 used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets		Liabilities		
			existing hedges	discontinued hedges	existing hedges	discontinued hedges	
Purchased HTCS bonds	222,953	0	-10,628	-183	0	0	24,560
Purchased HTC bonds	400,108	0	-5,565	0	0	0	39,352
Loans	137,414	0	-7,027	37	0	0	8,641
Deposits	0	44,011	0	0	-4,103	0	-8,014
Issued bonds	0	189,165	0	0	1,502	0	-6,129
Deposit portfolio	0	804,362	0	0	-64,919	0	-111,174
Loan portfolio	55,974	0	-11,289	0	0	0	13,010
Hedged items in fair value hedges total	816,449	1,037,538	-34,509	-146	-67,520	0	-39,754

31.12.2022 (HUF million)	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 2022 used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets		Liabilities		
			existing hedges	discontinued hedges	existing hedges	discontinued hedges	
Purchased HTCS bonds	173,377	0	-44,532	-208	0	0	-30,518
Purchased HTC bonds	215,339	0	-46,859	0	0	0	-40,207
Loans	119,925	0	-16,156	64	0	0	-13,398
Deposits	0	41,681	0	0	-12,117	0	6,366
Issued bonds	0	190,582	0	0	-4,697	0	4,768
Deposit portfolio	0	748,397	0	0	-177,653	0	118,848
Loan portfolio	49,344	0	-24,300	0	0	0	-11,383
Hedged items in fair value hedges total	557,985	980,660	-131,847	-144	-194,467	0	34,476

*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' and 'Financial assets at amortised cost', 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 2023, gain from fair value changes of hedged items in designated fair value hedging relationships attributable to the hedged risk amounted to HUF 39,754 million loss (in 2022 HUF 34,476 million gain) which is presented by the Group in the statement of comprehensive income line item 'Net gains/losses from hedge accounting'.

The Group recognised a gain of HUF 38,328 million in 2023 in relation to derivatives designated as hedging instruments in fair value hedges (in 2022 a loss of HUF 36,203 million loss), 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	2023	2022
Financial instruments held for trading		-83,690	37,215
Net interest income	(7)	-29,216	-2,547
Realised and unrealised gains and losses	(9)	-54,485	39,689
Dividend income		11	73
Net gains and losses from hedge accounting		-32,406	-15,896
Net interest income	(7)	-30,898	-14,116
Realised and unrealised gains and losses	(10)	-1,508	-1,780
Non-trading financial instruments mandatorily at fair value through profit or loss		34,174	-2,700
Net interest income	(7)	9,530	6,109
Realised and unrealised gains and losses	(9)	24,641	-8,812
Dividend income		3	3
Financial instruments designated at fair value through profit or loss		0	-5
Net interest income	(7)	0	1
Realised and unrealised gains and losses	(9)	0	-6
Financial instruments at fair value through other comprehensive income		28,793	17,889
Net interest income	(7)	29,850	18,222
Impairment	(6)	-600	-578
Realised and unrealised gains and losses		-459	245
Financial instruments at amortised cost		2	109,047
Net interest income	(7)	158,049	120,897
Impairment loss	(6)	160,818	-5,650
Realised and unrealised gains and losses		4,707	-6,200
Net gains or losses on financial instruments		-7,476	145,550

(12) Other operating income and expenses

(HUF million)	2023	2022
Gain on disposal of intangibles, property and equipment	19	14
Gain on disposal of inventory	121	72
Operational fees	120	48
Income related to damages	23	7
Rental income from investment property	138	88
Professional fees	193	88
Income from accounting services	54	73
Income from other non-banking activities	329	396
Other	970	297
Other operating income total	1,967	1,083
Transaction fee and other taxes	-27,418	-23,556
Expenses related to damages	-514	-180
Expert fees	-117	-68
Other provisions	-663	148
Expenses from other non-banking activities	-173	-404
Other expenses	-532	-371
Other operating expenses total	-29,417	-24,431

Other operating income decreased by HUF 780 million. The increase in other operating expenses is due to increase in transaction fee by HUF 5,278 million.

Other operating income increased by HUF 884 million, mainly due to the increase in other income. Other operating expenses also increased by HUF 3,862 million.

The Group recognized in other operating income HUF 483 million revenue from contracts with its customers (IFRS 15) in 2023 (2022: HUF 317 million).

(13) Impairment of non-financial assets

Development of impairment of non-financial assets:

(HUF million)	Opening			Closing	
	01.01.2023	Additions	Reversals	31.12.2023	
Other non-financial assets	-22	-37	5	-54	
Impairment on non-financial assets total	-22	-37	5	-54	

(HUF million)	Opening			Closing	
	01.01.2022	Additions	Reversals	31.12.2022	
Other non-financial assets	-37	-21	36	-22	
Impairment on non-financial assets total	-37	-21	36	-22	

The 'Impairment of non-financial assets' line shows the impairment on properties obtained against receivables.

(14) Other result

(HUF million)	2023	2022
Modification gains or losses, net	-5,055	-6,227
Impairment on non-financial assets	-32	-2
Other result	-5,087	-6,229

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. In case of these non-substantial contract modifications the Bank recognizes a one-time change in gross carrying amount through profit or loss of which HUF 5,249 million (2022: HUF 6,532 million) was attributable to the interest cap.

In December 2022, the NBH decided that Raiffeisen Autó Lizing Kft should be fully consolidated, so the statement of financial position includes data from this subsidiary. The involvement in consolidation is presented in equity.

(15) Staff expenses

(HUF million)	2023	2022
Salaries	-34,811	-28,290
Social security contributions	-5,492	-4,290
Other employee benefits	-2,396	-1,375
Total	-42,699	-33,955

(HUF million)	2023		2022	
	Headcount (person)	Salaries	Headcount (person)	Salaries
Full time	2,809	-33,091	2,689	-27,067
Part time	221	-1,502	236	-1,101
Pensioners	16	-218	22	-122
Total	3,046	-34,811	2,947	-28,290

(16) Other administrative expenses

(HUF million)	2023	2022
Office space expenses rental, maintenance, other	-5,159	-3,724
IT cost	-6,565	-5,100
Legal, advisory and consulting expenses	-4,358	-3,925
Advertising, PR and promotional expenses	-3,253	-3,418
Deposit insurance fees	-1,376	-3,810
Communication expenses	-1,890	-1,782
Office supplies	-273	-248
Car expenses	-444	-355
Security expenses	-420	-283
Travelling expenses	-131	-84
Training expenses for staff	-443	-284
Expenses for leases	-236	-224
Sundry administrative expenses	-1,365	9
Total	-25,913	-23,228

Other administrative expenses increased by HUF 2,685 million. The expenses of office space increased mainly due to the utility fees and common costs. Deposit insurance fees in 2022 included the extraordinary payment made to NDIF due to Sberbank. In 2023, the remitted amount of that extraordinary payment decreases the same line item.

(17) Bank tax and other special levies

(HUF million)	2023	2022
Surtax of financial institutions and surtax of credit institutions	-35,017	-23,717
Resolution Funds	-939	-1,429
Bank tax and other special levies	-35,956	-25,146

Surtax of financial institutions is levied on the modified total assets as at the end of the second preceding tax year. Tax rate is 0,15% (2022: 0,15%) for the portion of tax base not exceeding HUF 50 billion and 0,20% (2022: 0,20%) for the exceeding portion. While calculation the modified total assets, certain inter-bank loans and deposits and certain debt instruments issued by financial institutions are deductible.

The Bank pays extra-profit surtax based on the net sales revenue in 2022 and 2023. The tax base of this tax liability for a given tax year is the net sales revenue based on the financial statements on the tax year preceding that tax year. The extra-profit tax rate is 10% in 2022 and 8% in 2023. The surtax payable for 2022 tax year shall be paid in two equal instalments (until 10 October 2022 and 10 December 2022) and surtax payable for 2023 shall be paid in three equal instalments (until 10 June 2023, 10 October 2023, 10 December 2023). These regulations shall be applied by credit institutions and financial enterprises first for the tax year beginning after 31 December 2021 which includes 1 July 2022. The extra-profit surtax amounted to HUF 17,485 million in 2022 and HUF 28,893 in 2023.

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

The Bank recognized the payable extra surtax due to the pandemic as a liability in its entire amount, and paid that amount in 2020, so this liability is not presented in the financial statement at year end. Since the Bank is entitled to a tax retention related to the normal surtax until 2025, the Bank did not present an expense against the liability for the extra surtax due to the pandemic, but an asset (please see note (26) Other assets). Considering the right for the tax retention, the payment embodies an advance payment for the normal surtax.

(18) Income tax

Income tax expense recognised to profit or loss

(HUF million)	2023	2022
Current tax expense	11,113	10,997
Corporate income tax	5,116	3,452
Local business tax	5,214	6,558
Innovation contribution	783	987
Deferred tax expense/-income	1,944	-2,271
Origination and reversal of temporary differences	-30	55
Changes in the tax effect of tax losses	1,974	-2,326
Income tax expense	13,057	8,726

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 2023 and 2022. The tax base of corporate income tax differs from the tax base of local business tax and innovation contribution, the latter two having the same tax base.

Reconciliation of effective tax rate

	2023		2022	
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		116,316		80,841
Expected tax rate calculated with Group's applicable tax rate	9.00%	10,468	9.00%	7,276
Tax effect of tax base adjusting items	-2.93%	-3,408	-7.54%	-6,095
Tax effects related to tax losses:				
- usage of previously not recognised tax losses	-4.04%	-4,696	-4.00%	-3,231
- change in previously unrecognised tax losses	1.70%	1,974	-2.88%	-2,326
Other	-0.59%	-686	-0.67%	-538
Other income taxes – local business tax, innovation contribution	5.16%	5,997	9.33%	7,545
Income tax expense total	11.23%	13,057	10.79%	8,726

Income taxes recognised in other comprehensive income

	2023			2022		
	Before tax	Tax expense/ benefit	After tax	Before tax	Tax expense/ benefit	After tax
Items that will not be reclassified to profit or loss						
Changes in fair value reserve (equity instruments)	4	0	4	35	-1	34
Items that will not be reclassified to profit or loss – total	4	0	4	35	-1	34
Items that the Group reclassified or will reclassify to profit or loss						
Changes in hedge reserve						
Effective portion of fair value changes	10,792	-971	9,821	10,390	-935	9,455
Net amount reclassified to profit or loss	-243	22	-221	831	-75	756
Change in fair value reserve (debt instruments)						
Changes in fair value	2,072	-187	1,885	-3,843	346	-3,497
Net amount reclassified to profit or loss	2,034	-183	1,851	-282	25	-257
Items that the Group reclassified or will reclassify to profit or loss – total	14,655	-1,319	13,336	7,096	-639	6,457
Foreign currency translation reserve for foreign operations			0			-18
Total	14,659	-1,319	13,340	7,131	-640	6,473

Movements in deferred tax balances

(HUF million)	Net balance 01.01.2023	Recognised in profit or loss	Recognised in other compre- hensive income	Balance 31.12.2023		
				Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	-15	61	0	46	46	0
Non-trading financial assets mandatorily at fair value through profit or loss	-7	-4	0	-11	0	-11
Investment securities – at fair value through other comprehensive income	189	0	-370	-181	0	-181
Derivatives*	-1,064	0	-949	-2,013	0	-2,013
Loss allowances for expected credit losses	219	-26	0	193	193	0
Tax losses carried forward	5,768	-1,974	0	3,794	3,794	0
Loss allowances for trade receivables	3	-1	0	2	2	0
Other assets and liabilities	0	0	0	0	0	0
Net deferred tax asset/liability before offsetting				1,830	4,035	-2,205
Offsetting					-2,194	2,194
Tax assets/Tax liabilities	5,093	-1,944	-1,319	1,830	1,841	-11

(HUF million)	Net balance 01.01.2022	Recognised in profit or loss	Recognised in other compre- hensive income	Balance 31.12.2022		
				Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	2	-17	0	-15	0	-15
Non-trading financial assets mandatorily at fair value through profit or loss	-4	-3	0	-7	0	-7
Investment securities – at fair value through other comprehensive income	-181	0	370	189	189	0
Derivatives*	-54	0	-1,010	-1,064	0	-1,064
Loss allowances for expected credit losses	253	-34	0	219	219	0
Tax losses carried forward	3,443	2,325	0	5,768	5,768	0
Loss allowances for trade receivables	3	0	0	3	3	0
Other assets and liabilities	0	0	0	0	0	0
Net deferred tax asset/liability before offsetting				5,093	6,179	-1,086
Offsetting					-1,078	1,078
Tax assets/Tax liabilities	3,462	2,271	-640	5,093	5,101	-8

*Derivatives are presented net

In 2023, HUF 1,841 million (2022: HUF 5,101 million) deferred tax asset was recognised which comprises of the following items:

- HUF 241 million (2022: HUF 411 million) was recognised due to temporary differences which modify the tax base and are expected to reverse in the future,
- HUF 3,794 million (2022: HUF 5,768 million) was recognised for the balances of tax losses carried forward from previous years which are expected to be utilised by the Group,
- HUF -2,194 million (2022: HUF -1,078 million) was recognised due to fair values of financial assets measured at fair value through other comprehensive income and cash flow hedging instruments recognised in other comprehensive income.

In 2023, HUF 11 million (2022: HUF 8 million) deferred tax liability was recognised for fair values of financial assets measured at fair value through other comprehensive income recognised in other comprehensive income.

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

Maturity	2023	2022
12.31.2030	0	22,990
Total	0	22,990

The Group has no carry forwards of unused tax losses on 31 December 2023 that are not expected to be utilised in the future, On 31 December 2022, the Group had HUF 22,990 million carry forwards of unused tax losses that were not expected to be utilised in the future, which could be utilised in the tax year containing 31 December 2030 the latest. 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 HUF 1,841 million deferred tax asset is recognised in respect of 2024, 2025 and 2026.

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

(HUF million)	31.12.2023			31.12.2022		
	HUF	Foreign currency	Total	HUF	Foreign currency	Total
Cash and cheques	27,034	12,608	39,642	39,958	12,822	52,780
National Bank of Hungary	863,023	0	863,023	669,554	19,214	688,768
Other banks	4,169	21,011	25,180	4,909	38,456	43,365
Total	894,226	33,619	927,845	714,421	70,492	784,913

Current account with National Bank of Hungary (NBH) contains the minimum mandatory reserves. The average balance of prescribed minimum reserve was HUF 309,156 million (2022: HUF 84,667 million). The amount of mandatory reserve is the liabilities subject to reserving obligation multiplied by the minimum reserve rate.

Required reserves shall be kept in respect of the following liability categories:

- deposits and loans received with an original maturity within two years,
- debt securities with an original maturity within two years

No required reserves shall be kept after liabilities owed to other credit institutions that are obliged to keep mandatory reserves and after loans received from the NBH.

The Group can use its minimum reserve in its daily operation, as long as the daily balance and the monthly average balance of the reserve is more than or equal to the legislative limit. Based on this reasoning, the Group presents the minimum reserves as cash in the cash-flow statement

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

Financial assets held for trading

31.12.2023 (HUF million)	Nominal value of derivatives	Carrying amount
Derivative instruments	2,023,484	94,963
hereof: economic hedge	517,359	44,256
Interest rate	668,415	70,789
Equity	0	30
Currency	1,355,069	24,144
Equity instruments		1,011
Debt securities		1,835
Government bonds and treasury bills		757
Corporate and other bonds		1,041
Bank bonds		37
Financial instruments held for trading total	2,023,484	97,809

31.12.2022 (HUF million)	Nominal value of derivatives	Carrying amount
Derivative instruments	1,605,060	162,340
hereof: economic hedge	477,954	73,945
Interest rate	700,135	122,511
Equity	0	3
Currency	904,925	39,826
Equity instruments		525
Debt securities		20,246
Government bonds and treasury bills		19,399
Corporate and other bonds		801
Bank bonds		46
Financial instruments held for trading total	1,605,060	183,111

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, there were no new transactions since that. As at 29.12.2023 the carrying amount of these swaps was HUF 11,116 million asset (HUF 26,127 million asset as at 30.12.2022). Fair valuation loss recognised in relation to MIRSs, amounting to HUF 14,178 (HUF 12,070 million gain in 2022) 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

31.12.2023 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Negative fair value changes due to changes in credit risk - nonperforming exposures
Equity instruments	452	0	119	571	0
Debt securities	1,161	0	-741	420	0
Bank bonds	1,161	0	-741	420	0
Loans and advances	153,051	282	10,717	164,050	-302
Non-trading financial assets mandatorily at fair value through profit or loss total	154,664	282	10,095	165,041	-302

31.12.2022					Negative fair value changes due to changes in credit risk – nonperforming exposures
(HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	
Equity instruments	493	0	85	578	0
Debt securities	1,259	0	-871	388	0
Bank bonds	1,259	0	-871	388	0
Loans and advances	139,023	235	-13,808	125,450	-376
Non-trading financial assets mandatorily at fair value through profit or loss total	140,775	235	-14,594	126,416	-376

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.

In the retail segment exposures in the uncollateralised product group increased significantly, childbirth incentive loans mandatorily measured at fair value through profit or loss reached HUF 122 billion by year-end (2022: HUF 96 billion).

Financial assets designated at fair value through profit or loss

The Group had no financial assets designated at fair value through profit and loss either at 31.12.2023 or at 31.12.2022.

(21) Placements with banks

(HUF million)	31.12.2023					31.12.2022				
	Less than 1 year		Over 1 year		Total	Less than 1 year		Over 1 year		Total
	HUF	Foreign currency	HUF	Foreign currency		HUF	Foreign currency	HUF	Foreign currency	
National Bank of Hungary	52,988	0	0	0	52,988	253,874	0	0	0	253,874
Other Banks	10,777	8,588	0	0	19,365	758	51,537	0	7,726	60,021
Impairment losses	-1	0	0	0	-1	-3	0	0	-2	-5
Placements with banks total	63,764	8,588	0	0	72,352	254,629	51,537	0	7,724	313,890

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 placements maturing less than 1 year with a balance of HUF 43,154 million (2022: HUF 253,874 million). Other placements with banks decreased by HUF 40,657 million during 2023 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 746 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 366 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 130 billion as collateral for its liabilities in 2023 (2022: HUF 159 billion).

In 2023, the Group recognised HUF 2,076 million income in other comprehensive income in relation to securities measured at fair value through other comprehensive income (2022: HUF 3,805 expense) and reclassified HUF 2,034 million gain from other comprehensive income to profit or loss (2022: HUF 282 million loss).

National Bank Hungary (NBH) launched the NKP (Bond Funding for Growth Scheme, FGS) program in March 2019, to support the financing needs of companies and to help by building financing channels other than bank lending. Within the program, the NBH can purchase securities in a budget amount of HUF 1,550 billion. The program ended in December 2021. FGS bonds were purchased by the Group in 2022 but no such bonds were purchased in 2023.

Investment securities measured at amortised cost

31.12.2023 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses*	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	444,229	6,430	3,519	3,753	-508	457,423
Corporate and other bonds	82,867	935	-8,977	1,860	-455	76,230
Bank bonds	203,422	8,023	-106	942	-173	212,108
Investments in securities at amortised cost total	730,518	15,388	-5,564	6,555	-1,136	745,761

31.12.2022 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses*	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	321,390	5,744	-15,529	-1,393	-137	310,075
Corporate and other bonds	87,994	1,102	-26,443	1,007	-271	63,389
Bank bonds	72,903	807	-4,887	148	-16	68,955
Investments in securities at amortised cost total	482,287	7,653	-46,859	-238	-424	442,419

* The disclosed amounts arise from hedge accounting.

Investment securities measured at fair value through other comprehensive income

31.12.2023 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments						
Shares in limited liability companies	16	0	34	0		50
Shares in companies limited by shares	15	0	0	0		15
Debt securities	372,258	3,345	-8,829	384	-1,339	365,818
Government bonds and treasury bills	171,766	2,410	411	-224	-107	174,256
Corporate and other bonds	36,553	231	-5,460	637	-969	30,991
Bank bonds	163,939	704	-3,780	-29	-263	160,571
Financial assets at fair value through other comprehensive income total	372,289	3,345	-8,795	384	-1,339	365,883

31.12.2022 (HUF million)	Cost	Accrued interest	Unrealised gains/ losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments						
Shares in limited liability companies	16	0	33	0		49
Shares in companies limited by shares	19	0	-3	0		16
Debt securities	351,253	2,928	-46,867	-826	-704	305,785
Government bonds and treasury bills	144,666	1,841	-21,014	-1,302	-40	124,151
Corporate and other bonds	36,746	230	-12,674	447	-529	24,221
Bank bonds	169,841	857	-13,179	29	-135	157,413
Financial assets at fair value through other comprehensive income total	351,288	2,928	-46,837	-826	-704	305,850

The Group elected to measure its other equity instruments that it does not control 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 Bank's profit generation but facilitate the performance of various banking services (e.g., credit card business, payment transaction services, etc.).

(23) Investments in unlisted securities

(millió Ft)	Ownership interest % 31.12.2023	Ownership interest % 31.12.2022	Carrying amount 31.12.2023	Carrying amount 31.12.2022
RC Gazdasági és Adótanácsadó Zrt,	0%	20.00%	0	1
Garantiqa Hitelgarancia Zrt,	0.16%	0.16%	15	15
SWIFT	0.01%	0.01%	50	49
Investments in unlisted securities total			65	65

Unlisted investment securities are included in the statement of financial position line item 'Financial assets at fair value through other comprehensive income'. Changes in carrying amounts was, in addition to changes in fair values, attributable to the following: in 2023, the investment in RC Gazdasági és Adótanácsadó Zrt was sold and with the sale HUF 21 million was reclassified from other comprehensive income to profit or loss. The Group did not recognise dividend related to the above equity instruments.

(24) Property and equipment, intangible assets and goodwill

(HUF million)	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount		
	01.01.2022	Additions	Disposals	Reclassifi-	01.01.2023	Additions	Disposals	Reclassifi-	31.12.2023	31.12.2023	
				cations				cations			
Property, plant and equipment											
Property	46,319	7,159	-1,896	-10	51,572	-18,162	-4,690	1,667	0	-21,185	30,387
Plant and equipment	21,988	4,458	-3,306	56	23,196	-14,194	-2,410	1,728	0	-14,876	8,320
Property, plant and equipment total	68,307	11,617	-5,202	46	74,768	-32,356	-7,100	3,395	0	-36,061	38,707
Intangible assets											
Software	70,625	6,821	-345	-46	77,055	-49,085	-5,726	345	0	-54,466	22,589
Other intangible assets	1,740	0	0	0	1,740	-673	-17	0	0	-690	1,050
Intangible assets total	72,365	6,821	-345	-46	78,795	-49,758	-5,743	345	0	-55,156	23,639

(HUF million)	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount		
	01.01.2022	Additions	Disposals	Reclassifi-	01.01.2022	Additions	Disposals	Reclassifi-	31.12.2022	31.12.2022	
				cations				cations			
Property, plant and equipment											
Property	41,864	6,029	-1,504	-70	46,319	-15,796	-3,877	1,504	7	-18,162	28,157
Plant and equipment	20,724	4,204	-3,007	67	21,988	-13,087	-2,356	1,256	-8	-14,195	7,793
Property, plant and equipment total	62,588	10,233	-4,511	-3	68,307	-28,883	-6,233	2,760	-1	-32,357	35,950
Intangible assets											
Software	64,035	6,616	-30	4	70,625	-44,086	-5,029	30	0	-49,085	21,540
Other intangible assets	1,750	0	-10	0	1,740	-662	-21	10	0	-673	1,067
Intangible assets total	65,785	6,616	-40	4	72,365	-44,748	-5,050	40	0	-49,758	22,607

The Group recognised expenses amounting to HUF 1,956 million in the carrying amount of intangible assets, in course of developing intangible assets in 2023 (2022: HUF 1,977 million). As of 31 December 2023, property includes HUF 24,437 million (2022: HUF 23,163 million) and 'Plant and equipment' includes HUF 0 million (2022: HUF 68 million) right-of-use assets. The Group recognised expenses amounting to HUF 1,035 million in the carrying amount of intangible assets, in course of developing intangible assets (2022: HUF 1,035 million).. Hereof HUF 1,023 million is the goodwill on Raiffeisen Befektetési Alapkezelő Zrt and HUF 12 million on SCT Kárász utca Kft. No impairment was recognised for goodwill.

(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 year rental term, in respect of which 3 or 5 years extension options were agreed. In case of contracts with shorter term, 1 or 2 year extension options were agreed. The contracts with indefinite term have a one-year notice period.

The Bank moved into a new head office in 2020. The contract for new head office was recognised in June 2020 with an original term of 10 years considering a 5-year extension option, in the total amount of HUF 15,295 million. The present value was calculated with an incremental borrowing rate of 2.28%.

The vehicles have 6 years of rental term in all cases, with no extension options.

Furthermore, the Group leases IT equipment, however they either qualify as short-term leases or the underlying 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.):

(HUF million)	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount
	01.01.2023	Additions	Disposals	31.12.2023	01.01.2023	Additions	Disposals	31.12.2023	31.12.2023
Right-of-use asset									
Property	32,659	4,975	-500	37,134	-9,496	-3,472	271	-12,697	24,437
Vehicles	318	-6	-90	222	-250	-50	78	-222	0
Right-of-use asset total	32,977	4,969	-590	37,356	-9,746	-3,522	349	-12,919	24,437

(HUF million)	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount
	01.01.2022	Additions	Disposals	31.12.2022	01.01.2022	Additions	Disposals	31.12.2022	31.12.2022
Right-of-use asset									
Property	28,949	3,950	-240	32,659	-6,625	-3,111	240	-9,496	23,163
Vehicles	350	8	-40	318	-221	-59	30	-250	68
Right-of-use asset total	29,299	3,958	-280	32,977	-6,846	-3,170	270	-9,746	23,231

Lease liabilities

The Group presents lease liabilities within 'Financial liabilities measured at amortised cost'. The maturity analysis for lease liabilities as at 31 December 2023 is as follows (undiscounted cash flows):

(HUF million)	31.12.2023	31.12.2022
Less than 1 year	4,428	4,224
Between 1 and 5 years	16,717	15,966
More than 5 years	10,789	12,451
Total	31,934	32,641

Amounts presented in the Statement of cash flows

In 2023, the total cash outflows related to lease contracts amounted to HUF 4,422 million (2022: HUF 3,534 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:

(HUF million)	31.12.2023	31.12.2022
Interest expense on lease liabilities	750	712
Expenses relating to short-term leases	225	200
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	38	42
Total	1,013	954

In 2023, the Bank recognised expenses in profit or loss related to leases in the amount of HUF 1,013 million (2022: HUF 954 million).

The Group as a lessor

The main activity of the leasing company is financial leasing under which vehicles, real estates and equipments are leased.

The net investment in the lease according to the type of leasing activity is presented in the table below:

(HUF million)	31.12.2023	31.12.2022
Vehicles leasing	49,593	45,201
Real estate leasing	828	1,051
Equipment leasing	10,727	13,630
Finance leases per balance sheet	61,148	59,882

In 2023, HUF 4,107 million (2022: HUF 2,801 million) was presented in the income statement under 'Other interest in-come'. In the financial year, there was no such income from variable leasing fees which was not considered in the valuation of the net investment.

The following table describes the receivables (IFRS 9) from financial lease:

31.12.2023 (HUF million)	Up to 1 year	1 year to 2 years	2 year to 3 years	3 year to 4 years	4 year to 5 years	Over 5 years	Total
Gross investment leases	22,735	17,749	13,232	10,516	4,684	1,101	70,017
Unearned finance income	3,615	2,397	1,467	708	182	45	8,414
Net present value of minimum lease payments	19,120	15,352	11,765	9,808	4,502	1,056	61,603
Accumulated allowance for uncollectible minimum lease payments	135	114	88	74	34	8	455
Finance leases per balance sheet	18,985	15,238	11,677	9,734	4,468	1,048	61,148

2022.12.31 (millió Ft)	Up to 1 year	1 year to 2 years	2 year to 3 years	3 year to 4 years	4 year to 5 years	Over 5 years	Total
Gross investment leases	23,001	17,397	13,777	8,514	5,457	1,327	69,473
Unearned finance income	3,617	2,506	1,484	714	263	43	8,627
Net present value of minimum lease payments	19,384	14,891	12,293	7,800	5,194	1,284	60,846
Accumulated allowance for uncollectible minimum lease payments	345	287	153	102	71	6	964
Finance leases per balance sheet	19,039	14,604	12,140	7,698	5,123	1,278	59,882

The risk associated with the rights retained in the underlying assets is managed by the Group, including the registration of assets financed in the Credit Collateral Register, required collateral for the assets, residual value guarantee and redemption agreement.

(26) Other assets

(HUF million)	31.12.2023	31.12.2022
Prepayments and accrued income	5,703	4,240
Materials and inventories	379	258
Repossessed assets	1,211	849
Tax receivables	1,774	2,592
Other assets	288	385
Other assets total	9,355	8,324
thereof: loss allowance	-54	-22

In 2023 the balance of other assets increased by HUF 1,031 million, mainly due to the increase of prepayments and accrued income and decrease in tax receivables. The volume of securities received under reverse repurchase agreements increased and thus related interest accruals also increased significantly (HUF +1,107 million). Prepayments for expenses and costs also increased (HUF 934 million).

Decrease in tax receivables resulted in a decrease in other asset balance. In 2020, due to the pandemic situation, the government introduced a special surtax on credit institutions, which was paid in three equal instalments at that time. However, this amount, recognised as a receivable, can be used to reduce the amount of the 'normal' surtax payable by a credit institution under the surtax law, in the form of tax withholding over the next five years. This causes a reduction in the tax receivable in 2023.

Furthermore, decrease in unrealised foreign exchange losses on spot and FRA transactions (HUF -489 million) was approximately counterbalanced by the increase in properties repossessed against receivables (HUF + 362 million).

From its revenue under IFRS 15 the Bank includes in its balance sheet as accrued assets HUF 825 million (2022: HUF 1,009 million).

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

31.12.2023 (HUF million)	Nominal value of derivatives	Carrying amount
Derivative instruments held for trading	1,987,197	89,404
hereof: economic hedge	784,800	40,333
Interest rate	588,349	66,602
Equity	1,808	130
FX	1,397,040	22,672
Total derivative instruments	1,987,197	89,404
Short positions		4,261
Total short positions		4,261
Total financial liabilities at fair value through profit/loss	1,987,197	93,665

31.12.2022 (HUF million)	Nominal value of derivatives	Carrying amount
Derivative instruments held for trading	1,835,497	143,779
hereof: economic hedge	299,149	56,199
Interest rate	475,494	96,366
Equity	0	11
FX	1,360,003	47,402
Total derivative instruments	1,835,497	143,779
Short positions		1,951
Total short positions		1,951
Total financial liabilities at fair value through profit/loss	1,835,497	145,730

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:

31.12.2023 (HUF million)	Financial liabilities held for trading	Financial liabilities at amortised cost	Total
Deposits from banks	0	504,981	504,981
Deposits from customers	0	2,986,372	2,986,372
Subordinated liabilities	0	59,665	59,665
Debt securities issued	0	192,646	192,646
Derivative liabilities	89,404	0	89,404
Short positions	4,261	0	4,261
Other financial liabilities	0	37,708	37,708
Total	93,665	3,781,372	3,875,037

31.12.2022 (HUF million)	Financial liabilities held for trading	Financial liabilities at amortised cost	Total
Deposits from banks	0	525,218	525,218
Deposits from customers	0	2,909,023	2,909,023
Subordinated liabilities	0	62,287	62,287
Debt securities issued	0	194,100	194,100
Derivative liabilities	143,779	0	143,779
Short positions	1,951	0	1,951
Other financial liabilities	0	35,589	35,589
Total	145,730	3,726,217	3,871,947

(29) Deposits from banks and deposits from customers

Deposits from banks

(millió Ft)	31.12.2023					31.12.2022				
	Within 1 year		Over 1 year		Total	Within 1 year		Over 1 year		Total
	HUF	Foreign currency	HUF	Foreign currency		HUF	Foreign currency	HUF	Foreign currency	
Resident	25,240	30,083	290,228	135,263	480,814	63,578	43,139	249,773	150,476	506,966
Non resident	14,950	9,217	0	0	24,167	14,256	3,996	0	0	18,252
Deposits from banks total	40,190	39,300	290,228	135,263	504,981	77,834	47,135	249,773	150,476	525,218

Deposits from customers

(HUF million)	31.12.2023					31.12.2022				
	Within 1 year		Over 1 year		Total	Within 1 year		Over 1 year		Total
	HUF	Foreign currency	HUF	Foreign currency		HUF	Foreign currency	HUF	Foreign currency	
Resident	1,718,099	1,151,499	6,496	673	2,876,767	1,633,622	1,131,280	5,547	875	2,771,324
Non resident	39,596	70,000	0	9	109,605	70,935	66,757	0	7	137,699
Deposits from customers total	1,757,695	1,221,499	6,496	682	2,986,372	1,704,557	1,198,037	5,547	882	2,909,023

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

In case of deposits from customers a significant increase in deposits was experienced in both corporate and retail segment.

Deposits insured by National Deposit Insurance Fund (indemnified amount) was HUF 1,069 billion at the end of 2023 (2022: HUF 1,094 billion).

(30) Debt securities issued

(HUF million)	31.12.2023		31.12.2022	
	Par value	Carrying amount	Par value	Carrying amount
Measured at amortised cost	188,071	192,646	195,849	194,100
fix	188,071	192,646	195,849	194,100
Total debt securities issued	188,071	192,646	195,849	194,100

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

In 2022 the Bank issued MREL bonds in the amount of HUF 195 billion. The purpose of the MREL (Minimum Requirement for Own Funds and Eligible Liabilities) issue was that the Bank, in line with the bank resolution directives of the European Union can hold funds of appropriate quality and in sufficient amount. The bonds are callable, their interest rate is fixed at inception, becoming variable in later periods.

Debt securities insured by National Deposit Insurance Fund (indemnified amount) was HUF 361 million at the end of 2023 (2022: HUF 724 million).

(31) Subordinated liabilities

31.12.2023	Amount in original currency (CCY million)		Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Lender	Borrowed on					
Raiffeisen Bank International AG	28.02.2020	40	EUR	7.08	27.02.2032	15,408
Raiffeisen Bank International AG	28.02.2020	50	EUR	6.96	28.02.2031	19,257
Raiffeisen Bank International AG	28.02.2020	50	EUR	6.83	28.02.2030	19,255
Raiffeisen Bank International AG	27.03.2020	15	EUR	7.05	31.03.2027	5,745
Subordinated liabilities total		155				59,665

31.12.2022	Amount in original currency (CCY million)		Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Lender	Borrowed on					
Raiffeisen Bank International AG	28.02.2020	40	EUR	5.08	27.02.2032	16,082
Raiffeisen Bank International AG	28.02.2020	50	EUR	4.95	28.02.2031	20,101
Raiffeisen Bank International AG	28.02.2020	50	EUR	4.83	28.02.2030	20,098
Raiffeisen Bank International AG	27.03.2020	15	EUR	5.33	31.03.2027	6,006
Subordinated liabilities total		155				62,287

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.

(32) Other liabilities

(HUF million)	31.12.2023	31.12.2022
Deferred income and accrued expenses	6,846	7,079
Tax liabilities	4,648	4,986
Sundry liabilities	320	111
Other liabilities total	11,814	12,176

Other liabilities decreased by HUF 362 million. The decrease of accruals amounted to HUF 233 million, mainly caused by the decrease in unrealised foreign exchange gains on spot and FRA transactions.

Tax liabilities decreased by HUF 338 million compared to 2022, thanks to the significant decrease in VAT liability, which was counterbalanced with slight increases in other taxes.

In 2023, the balance of provision for overdue vacation increased.

Revenue deferred under IFRS 15, presented within accruals amounted to HUF 1,286 million (2022: HUF 1,460 million).

(33) Provisions

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

(HUF million)	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2023	120	661	4,509	5,290
Additions, including increases in existing provisions	220	853	4,896	5,969
(-) Amounts used	-120	0	-4,053	-4,173
(-) Unused amounts reversed during the period	0	0	0	0
Other movements	0	0	130	130
Closing balance 31.12.2023	220	1,517	5,482	7,219

(HUF million)	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2022	120	1,027	3,341	4,488
Additions, including increases in existing provisions	0	250	4,150	4,400
(-) Amounts used	0	0	-2,497	-2,497
(-) Unused amounts reversed during the period	0	-616	-410	-1,026
Other movements	0	0	-75	-75
Closing balance 31.12.2022	120	661	4,509	5,290

Provision recognised for litigations increased by HUF 857 million, which was mainly allocation.

The HUF 973 million increase of other provisions was caused mainly by the increase of accrual of bonus payments

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

Assets and liabilities held for sale

The Group had no assets and liabilities held for sale on 31 December 2023 and 31 December 2022.

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 significant discontinued operation in 2023 and in 2022.

(35) Share capital

Shareholder structure of the Group was as follows as at 31.12.2023 and 31.12.2022:

Shareholder	31.12.2023			
	Type of share	Number of shares	Par value	Total (HUF million)
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Total		5,000,009		50,000

Shareholder	31.12.2022			
	Type of share	Number of shares	Par value	Total (HUF million)
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Total		5,000,009		50,000

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

The Group had no treasury shares as at 31 December 2023 and 31 December 2022.

On 22 December 2023, the Bank's sole shareholder decided to pay an interim dividend of HUF 32,300 million, which was paid by the Bank before year-end.

(36) Share premium

Amounts contributed to the Group by the shareholder, after deduction of transaction costs, increases share premium. In 2017, share capital in an amount of HUF 176,649 million was transferred to retained earnings. There has been no change in share premium after that re-appropriation.

(37) Equity instruments issued, other than share capital

31.12.2023 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	12.955%	Without maturity	31,445
Raiffeisen Bank International AG	25.01.2023	40	EUR	11.597%	Without maturity	15,534
Additional Tier 1 capital total		140				46,979

31.12.2022 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 Tier 1 capital total		100				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 (AT1 capital) 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 bonds 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 is 12-month 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.

The Bank issued a nominal value bond in amount of EUR 40,000,000 (200 pieces with a nominal value of EUR 200,000) named as Raiffeisen EUR AT1 (ISIN number: HU0000362199) with value date of 25 January 2023. The bonds are additional basic capital instruments marketed privately without maturity. The interest rate is fixed at 11.597% for the first year, followed by the 1-year mid-swap rate plus 9%.

In 2023, the Bank paid HUF 4,081 million (2022: HUF 3,527 million) dividend on the AT1 capital.

(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 recognised to 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 CCXXXVII 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 reappropriation within equity the Bank set up general reserve amounting to HUF 9,928 million in 2023 (2022: HUF 7,723 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 creditives 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.

31.12.2023	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
(HUF million)						
Loan commitments	360,351	72,323	977	1,726	3,006	277
Financial guarantees given	152,731	33,593	6,382	54	722	1,704
Other guarantees and commitments	184,363	39,994	6,369	83	105	1,935
Total	697,445	145,910	13,728	1,863	3,833	3,916
31.12.2022	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
(HUF million)						
Loan commitments	323,529	77,752	2,132	1,373	1,718	468
Financial guarantees given	117,671	49,237	9,881	234	441	363
Other guarantees and commitments	127,106	74,963	3,062	124	246	1,270
Total	568,306	201,952	15,075	1,731	2,405	2,101

*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. Consequently, the above amounts do not represent future expected cash flows.

(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

The Group's accounting policy on fair value measurements is discussed in note (4.9) 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 represent 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 corroborated by the observable inputs.

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

The Group records the transfers (if any) between the levels in the fair value hierarchy at the end of the reporting period.

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

31.12.2023 (HUF million)	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
	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	1,836	95,973	0	-62,763	0	109	83,640	0
Derivative instruments	30	94,932	0	-62,992	0	30	83,722	0
Equity instruments	1,011	0	0	0	0	77	0	0
Debt securities	795	1,041	0	229	0	2	-82	0
Non-trading financial assets mandatorily at fair value through profit or loss total								
Equity instruments	0	991	164,050	165	24,530	0	-622	10,710
Debt securities	0	571	0	34	0	0	119	0
Loans and advances	0	420	0	131	0	0	-741	0
Financial assets designated at fair value through profit or loss total	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income total	279,610	85,783	491	10,402	-59	219	-8,985	-29
Equity instruments	0	65	0	5	0	0	0	35
Debt securities	279,610	85,783	426	10,402	-64	219	-8,985	-64
Hedging derivative instruments	0	119,623	0	-82,057	0	0	98,867	0
Financial assets at fair value total	281,446	302,370	164,541	-134,253	24,471	328	172,900	10,681
Financial liabilities at fair value								
Financial liabilities held for trading total	130	93,535	0	-57,337	0	130	76,089	0
Derivatives	130	89,274	0	-57,337	0	130	76,089	0
Short positions	0	4,261	0	0	0	0	0	0
Hedging derivative instruments	0	126,808	0	-121,116	0	0	113,796	0
Financial liabilities at fair value total	130	220,343	0	-178,453	0	130	189,885	0

31.12.2022 (HUF million)	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
	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	19,970	163,141	0	80,362	0	142	146,403	0
Derivative instruments	0	162,341	0	80,563	0	0	146,714	0
Equity instruments	525	0	0	0	0	-10	0	0
Debt securities	19,445	800	0	-201	0	152	-311	0
Non-trading financial assets mandatorily at fair value through profit or loss total								
Equity instruments	0	966	125,450	-372	-8,899	0	-786	-13,819
Equity instruments	0	578	0	35	0	0	85	0
Debt securities	0	388	0	-407	0	0	-871	0
Loans and advances	0	0	125,450	0	-8,899	0	0	-13,819
Financial assets designated at fair value through profit or loss total								
Debt securities	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income total								
Equity instruments	254,138	51,647	65	-10,147	7	-27,481	-19,387	30
Equity instruments	0	1	65	0	7	0	0	30
Debt securities	254,138	51,646	0	-10,147	0	-27,481	-19,387	0
Hedging derivative instruments								
Debt securities	0	191,077	0	125,720	0	0	180,923	0
Debt securities	0	191,077	0	125,720	0	0	180,923	0
Financial assets at fair value total								
274,108	406,831	125,515	195,563	-8,892	-27,339	307,153	-13,789	0
Financial liabilities at fair value								
Financial liabilities held for trading total								
Derivatives	0	145,730	0	80,838	0	0	133,432	0
Derivatives	0	143,779	0	80,838	0	0	133,432	0
Short positions	0	1,951	0	0	0	0	0	0
Hedging derivative instruments								
Debt securities	0	242,488	0	155,140	0	0	234,912	0
Debt securities	0	242,488	0	155,140	0	0	234,912	0
Financial liabilities at fair value total								
0	388,218	0	235,978	0	0	368,344	0	0

Fair value hierarchy: financial instruments measured at amortised cost

31.12.2023 (HUF million)	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	745,761	757,422	679,714	77,708	0
Loans and advances	1,886,033	1,898,770	0	0	1,898,770
Financial assets at amortised cost total					
2,631,794	2,656,192	679,714	77,708	1,898,770	0
Financial liabilities at amortised cost					
Deposits	3,551,018	3,560,911	0	0	3,560,911
Debt securities issued	192,646	199,065	0	199,065	0
Other financial liabilities	9,803	9,803	0	0	9,803
Financial liabilities at amortised cost total					
3,753,467	3,769,779	0	199,065	3,570,714	0

31.12.2022 (HUF million)	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	442,419	438,625	379,558	59,067	0
Loans and advances	2,179,486	2,043,253	0	0	2,043,253
Financial assets at amortised cost total					
2,621,905	2,481,878	379,558	59,067	2,043,253	0
Financial liabilities at amortised cost					
Deposits	3,496,528	3,461,455	0	0	3,461,455
Debt securities issued	194,100	200,579	0	200,579	0
Other financial liabilities	7,595	7,595	0	0	7,595
Financial liabilities at amortised cost total					
3,698,223	3,669,629	0	200,579	3,469,050	0

Assumptions made in estimating the fair value of financial instruments

A few 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.

Methodologies, valuation techniques used and assumptions made in determining the fair values of financial instruments 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 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 adjusted with 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, level 2 and level 3)

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 and 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 based on 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 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 is 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.

Fair values of fixed rate debt securities issued and designated in hedge relationships are calculated as the present value of future cash flows.

According to IFRS 13 standard, own credit risk is quantified as follows: depending on the currency, the cash flows of the bond are discounted using a HUF, EUR or USD zero-coupon IRS curve shifted by the amount of the liquidity premium.

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 01.01.2023	Exchange differences	Payments/ Disbursements	Sales	Settlements/Repayments	Gains/ losses in profit or loss	Hereof: unrealised gains/ losses	Gains/losses in other comprehensive income OCI *	Reclassification/ Transfers to Level 3	Closing balance 31.12.2023
Non-trading financial assets mandatorily at fair value through profit or loss										
Loans and advances	125,450	0	24,136	0	-10,108	24,572	22,248	0	0	164,050
Non-trading financial assets mandatorily at fair value through profit or loss total	125,450	0	24,136	0	-10,108	24,572	22,248	0	0	164,050
Financial assets at fair value through other comprehensive income										
Equity instruments	65	-1	0	-4	0	0	0	5	0	65
Debt securities	0	0	0	0	0	-185	29	137	474	426
Financial assets at fair value through other comprehensive income total	65	-1	0	-4	0	-185	29	142	474	491

(HUF million)	Opening balance 01.01.2022	Exchange differences	Payments/ Disbursements	Sales	Settlements/Repayments	Gains/ losses in profit or loss	Hereof: unrealised gains/ losses	Gains/losses in other comprehensive income OCI *	Reclassification/ Transfers to Level 3	Closing balance 31.12.2022
Non-trading financial assets mandatorily at fair value through profit or loss										
Loans and advances	97,771	0	43,567	0	-7,040	-8,848	-8,899	0	0	125,450
Non-trading financial assets mandatorily at fair value through profit or loss total	97,771	0	43,567	0	-7,040	-8,848	-8,899	0	0	125,450
Financial assets at fair value through other comprehensive income										
Equity instruments	63	1	0	0	0	0	0	1	0	65
Financial assets at fair value through other comprehensive income total	63	1	0	0	0	0	0	1	0	65

*Other Comprehensive Income

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

31.12.2023 (HUF million)	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt securities	Loans and advances
Total gains or losses in profit or loss:	0	0	34,085	0	-185	0
Net trading income and fair value result	0	0	24,556	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	0	0	0	5	119	0
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	0	0	31,777	0	12	0
Net trading income and fair value result	0	0	22,248	0	0	0
Other interest income	0	0	9,529	0	12	0

31.12.2022 (HUF million)	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt securities	Loans and advances
Total gains or losses in profit or loss:	0	0	-2,803	0	0	0
Net trading income and fair value result	0	0	-8,913	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	-2,789	0	0	0
Net trading income and fair value result	0	0	-8,899	0	0	0
Other interest income	0	0	6,110	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:

31.12.2023 (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	164,050	a)	b)	c1)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	164,050				
Financial assets at fair value through other comprehensive income					
Equity instruments	65	e)	f)	g)	h)
Debt securities	426	i)	j)	k)	l)
Financial assets at fair value through other comprehensive income total	491				

31.12.2022 (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	125,450	a)	b)	c1)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	125,450				
Financial assets at fair value through other comprehensive income					
Equity instruments	65	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	65				

Identifier	Description
a)	Performing Retail: Discounted Cash flows, Behavioural Option Modelling if applies, Financial Option Pricing: Black-Scholes (shifted) if applies Non-retail: Discounted Cash flows, Behavioural Option Modelling if applies, Financial Option Pricing: Black-Scholes (shifted) if applies Non-performing: Discounted Cash Flows

b)	<p>Performing: Retail: estimated cash flows in case of 'babyloan' product Non-retail: funding curves (for liquidity costs)</p> <p>Non-performing: Retail: distressed CF (based on customer specific BEEL) estimated by workout/retail risk Non-retail: recovery estimated by workout</p>
c1)	<p>Performing: Retail: estimated average monthly instalment between HUF 2083 – 455,563 (grace period vs. prepayment by the state) Non-retail: funding curves (for liquidity costs): -0.07% - +0.78% for HUF funding costs at valuation; 0,17% - +3,7% for HUF funding costs at origination</p> <p>Non-performing: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100%</p>
c2)	<p>Performing: Retail: estimated average monthly instalment for baby loans between HUF 2001-783,742 HUF (modelled cash flow with forbearance period, including consideration for state guarantee and prepayment model) Non-retail: funding curves (for liquidity costs -0.88% - +0.60% for HUF funding costs at valuation; 0.17% - +3.7% for HUF funding costs at issuance)</p> <p>Non-performing: Retail: stressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100%</p>
d)	<p>If the duration of the estimated cash flows decreases fair value can decrease. Increase in risk-free curve, funding curve and credit spreads cause a decrease in FV. If distressed CF or recovery rate increase, FV also increases.</p>
e)	Dividend discounting model (DDM)
f)	<p>Length of period with high growth rate Growth rate in terminal period Beta* in terminal period</p>
g)	<p>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</p>
h)	<p>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.</p>
i)	Discounted cash flow adjusted with impairment
j)	Distressed cash flow
k)	Impairment amount: HUF 613 million
l)	Increase in default probability affects FV negatively.

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

Financial instruments at amortised cost:

31.12.2023 (HUF million)	Fair value at reporting date	Valuation technique	Significant unobservable inputs
Financial assets at amortised cost			
Loans and advances	1,898,770	discounted CF	discount curve
Financial assets at amortised cost total	1,898,770		
Financial liabilities at amortised cost			
Deposits	3,560,911	discounted CF	discount curve
Other financial liabilities	9,803	no valuation	not applicable
Financial liabilities at amortised cost total	3,570,714		
31.12.2022 (HUF million)			
Financial assets at amortised cost			
Loans and advances	2,043,253	discounted CF	discount curve
Financial assets at amortised cost total	2,043,253		
Financial liabilities at amortised cost			
Deposits	3,461,455	discounted CF	discount curve
Other financial liabilities	7,595	no valuation	not applicable
Financial liabilities at amortised cost total	3,469,050		

(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

31.12.2023 (HUF million)	Entities having joint control or significant influence over the Bank or its parent	Unconsolidated subsidiaries and other entities belonging to the same group	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Financial assets					
Loans and advances	56,853	371	0	30	0
hereof: non-performing	0	0	0	0	0
Financial assets total	56,853	371	0	30	0
Financial liabilities					
Deposits	70,034	374	0	423	0
Financial liabilities total	70,034	374	0	423	0
Nominal value of loan commitments, financial guarantees given and other contingencies given	3,627	1,750	0	5	0
hereof: non-performing	0	0	0	0	0
Nominal value of loan commitments, financial guarantees and other contingencies received	3,381	0	0	3	0
Nominal value of derivatives	5,437,936	0	0	0	0
31.12.2022					
(HUF million)	Entities having joint control or significant influence over the Bank or its parent	Unconsolidated subsidiaries and other entities belonging to the same group	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
Financial assets					
Loans and advances	77,108	372	0	35	0
hereof: non-performing	0	0	0	0	0
Financial assets total	77,108	372	0	35	0
Financial liabilities					
Deposits	64,720	601	0	843	0
Financial liabilities total	64,720	601	0	843	0
Nominal value of loan commitments, financial guarantees given and other contingencies given	2,926	750	0	7	0
hereof: non-performing	0	0	0	0	0
Nominal value of loan commitments, financial guarantees and other contingencies received	2,664	0	0	4	0
Nominal value of derivatives	5,058,773	0	0	0	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.

Main changes in the column 'Entities having joint or significant influence over the Bank or its parent':

- The movement in the line of 'Loans and advances' was caused by a decrease other receivables (overdraft credit, financial interbank placements) of HUF 34,757 million), an increase in the balance of active repo agreements (HUF 1,694 million), an increase of invoices (HUF 495 million) and the result of the booked dividend advance (HUF 12,313 million).
- In 2023, the balance in the line 'Nominal value of loan commitments, financial guarantees given and other contingencies given' has increased by HUF 701 million. This change is related to guarantees issued with other coverage.
- The change in the line 'Deposits' was largely affected by an increase of HUF 8,548 million in current accounts, a decrease in subordinated debt (HUF 2,622 million) and a decrease of liabilities arising from investment services (HUF 611 million).
- 'Loan commitments, financial guarantees and other contingencies received' have increased by HUF 717 million in relation to the parent company.
- In the line of 'Nominal value of derivatives' the nominal value of derivatives pay leg is disclosed.

Liabilities against subsidiaries contain amounts of Raiffeisen Biztosításközvetítő Kft. and Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft. The value of deposits decreased by HUF 226 million, the 'Nominal value of loan commitments, financial guarantees given and other contingencies given' increased by HUF 1,000 million

Income and expenses from transactions with related parties

2023	Entities having joint or significant influence over the Bank or its parent	Unconsolidated subsidiaries and other entities belonging to the same group	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
(millió Ft)					
Interest income	157,702	10	0	3	0
Interest expense	-230,782	-1	0	-3	0
Dividend income	0	450	0	0	0
Fee and commission income	2,240	13	0	5	0
Fee and commission expense	-548	0	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair value through profit and loss	0	0	0	0	0
Total	-71,388	472	0	5	0

2022	Entities having joint or significant influence over the Bank or its parent	Unconsolidated subsidiaries and other entities belonging to the same group	Associates and joint ventures	Key management personnel of the Bank or its parent	Other related parties
(millió Ft)					
Interest income	88,409	4	0	0	0
Interest expense	-110,393	-1	0	-24	0
Dividend income	0	307	0	0	0
Fee and commission income	1,428	10	0	5	0
Fee and commission expense	-540	0	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair value through profit and loss	0	0	0	0	0
Total	-21,096	320	0	-19	0

The remuneration of key management personnel amounted to HUF 1,083 million in 2023 (HUF 1,360 million in 2022) which were short-term employee benefits.

The line item 'Dividend income' contains dividend received from Raiffeisen Biztosításközvetítő Kft (HUF 450 million).

The remuneration of key management personnel amounted to HUF 1,083 million in 2023 (2022: HUF 1,360 million) which were short-term employee benefits.

(44) Investments in subsidiaries

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

Subsidiaries	Ownership interest 31.12.2023	Ownership interest 31.12.2022	Residence of the Company	Brief description of activities
Raiffeisen Corporate Lízing Zrt,	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Finance leasing
Raiffeisen Biztosításközvetítő Kft,	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Activities of insurance agents and brokers
SCT Kárász utca Ingatlankezelő Kft,	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Management of real estate on a fee or contract basis
Raiffeisen Befektetési Alapkezelő Zrt,	100,00%	100,00%	1133 Budapest, Váci út 116-118.	Fund management activities
RB Szolgáltató Központ Kft,	100,00%	100,00%	4400 Nyíregyháza, Sóstói út 31/b	Other financial auxiliary activities
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:

Subsidiaries	Cost			Fair value correction			Fair value correction	Carrying amount	Carrying amount	
	01.01.2023	Increase	Decrease	31.12.2023	01.01.2022	Increase	Decrease	31.12.2023	01.01.2023	31.12.2023
Raiffeisen Biztosításközvetítő Kft,	5				0					
Raiffeisen Autó Lízing Kft,	0				0					
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft,	3				0					
Total	8				0					

(millió Ft)	Cost			Fair value correction			Fair value correction			Carrying amount	
	01.01.2022	Increase	Decrease	31.12.2022	01.01.2022	Increase	Decrease	31.12.2022	01.01.2022	31.12.2022	
Raiffeisen Biztosítóközvetítő Kft,	5	0	0	5	0	0	0	0	5	5	
Raiffeisen Autó Lízing Kft,	42	0	-42	0	-27	0	27	0	15	0	
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft,	3	0	0	3	0	0	0	0	3	3	
Total	50	0	-42	8	-27	0	27	0	23	8	

There is no significant difference between the accounting and prudential consolidation of the Group, that is why the Group decided to harmonise those scopes of consolidation. The exclusion of the deconsolidated companies, which was made during the mentioned harmonisation, has no material effect on the reliability and accuracy of the financial statement. Nevertheless, the National Bank of Hungary decided that Raiffeisen Autó Lízing Kft. should be included in the scope of prudential consolidation as of December 2022 as a full-consolidated entity.

(45) Fund management activity

The Group manages zero closed-end (2023: 0) and 15 open-end (2022: 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)	2023	2022
Managed funds	543,903	371,940
Open-end funds	543,903	371,940
Net fee and commission income from funds	6 921	3,585
Deposits from funds	22 348	20,883
Interest income and expense on deposits from funds	-2 974	-203

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. While in 2022 the funds were primarily placed in short-term deposits, in 2023 they were mainly invested in one-month treasury placements. Thanks to the high-interest environment, the amount of interest paid by the Group to the funds increased significantly compared to the previous year. Concurrently, the commission income collected from them also showed exceptionally high values in 2023.

(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					NCI	Total
	Note	Debt securities	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	AT1 instruments issued	Retained earnings	Reserves			
Balance as at 1 January 2023		194,100	62,287	24,692	50,000	113,445	31,445	128,829	31,068	0	635,866	
Changes from financing cash flows												
Proceeds from issue of debt securities	(30)	196	0	0	0	0	0	0	0	0	196	
Repayment of debt securities at maturity	(30)	-142	0	0	0	0	0	0	0	0	-142	
Proceeds from issue of Additional Tier 1 Capital (AT1)	(37)	0	0	0	0	0	15,534	0	0	0	15,534	
Payment of lease liability	(25)	0	0	-4,423	0	0	0	0	0	0	-4,423	
Dividends and coupon on equity instruments paid*	(35)	0	0	0	0	0	0	-24,213	0	0	-24,213	
Total changes from financing cash flows		54	0	-4,423	0	0	15,534	-24,213	0	0	-13,048	
The effect of changes in foreign exchange rates		-7,647	-2,708	-1,277	0	0	0	0	0	0	-11,632	
Changes in fair value		6,198	0	0	0	0	0	0	14,660	0	20,858	
Other changes		92	0	6,714	0	0	0	0	-1,319	0	5,487	
Liability-related												
Interest expense	(7)	16,611	3,686	750	0	0	0	0	0	0	21,047	
Interest paid	(7)	-16,762	-3,600	-742	0	0	0	0	0	0	-21,104	
Total liability-related other changes		-151	86	8	0	0	0	0	0	0	-57	
Total equity-related other changes		0	0	0	0	0	0	93,353	9,928	0	103,281	
Balance as at 31 December 2023		192,646	59,665	25,714	50,000	113,445	46,979	197,969	54,337	0	740,755	

	Liabilities						Equity				Total
	Note	Debt securities	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	AT1 instruments issued	Retained earnings	Reserves	NCI	
Restated balance as at 1 January 2022		689	57,333	23,531	50,000	113,445	31,445	67,420	17,372	0	361,235
Changes from financing cash flows											
Proceeds from issue of debt securities	(30)	199,118	0	0	0	0	0	0	0	0	199,118
Repayment of debt securities at maturity	(30)	0	0	0	0	0	0	0	0	0	0
Payment of lease liability	(25)	0	0	-2,800	0	0	0	0	0	0	-2,800
Dividends and coupon on equity instruments paid*	(35)	0	0	0	0	0	0	-3,527	0	0	-3,527
Total changes from financing cash flows		199,118	0	-2,800	0	0	0	-3,527	0	0	192,791
The effect of changes in foreign exchange rates		-3,897	4,954	2,025	0	0	0	0	-18	0	3,064
Changes in fair value		-4,703	0	0	0	0	0	0	7,130	0	2,427
Other changes		-695	-80	1,936	0	0	0	0	-639	0	522
Liability-related											
Interest expense	(7)	3,588	2,044	712	0	0	0	0	0	0	6,344
Interest paid	(7)	0	-1,964	-712	0	0	0	0	0	0	-2,676
Total liability-related other changes		3,588	80	0	0	0	0	0	0	0	3,668
Total equity-related other changes		0	0	0	0	0	0	64,936	7,223	0	72,159
Balance as at 31 December 2022		194,100	62,287	24,692	50,000	113,445	31,445	128,829	31,068	0	635,866

*In 2023, the Group paid HUF 4,081 million (2022: HUF 3,527 million) dividends on additional AT1 capital from retained earnings.

(47) Disclosures according to the Hungarian Accounting Law

- Head of Accounting, Tibor Gáspár is responsible for the coordination and management of bookkeeping services, and he is also entitled to perform bookkeeping services (registration number: 168480, availability: 1133 Budapest, Váci Street 116-118).
- Obradovic Zeljko Chief Financial Officer (availability: 1133 Budapest, Váci Street 116-118) and Tibor Gáspár Head of Accounting are obliged to sign these consolidated financial statements.
- 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 Deloitte Könyvvizsgáló és Tanácsadó Kft. (registration number: 000083), the auditor in charge is Attila Molnár (registration number: 007379). The audited consolidated annual financial statements of the Group are published by the Court of registration and also available at the website of the Group at www.Raiffeisen.hu.

Audit fees

The following net amounts of services were charged by Deloitte Könyvvizsgáló és Tanácsadó Kft. in 2023 and in 2022:

(HUF million)	2023	2022
Audit fees	236	163
Other assurance services	50	94
Fees for non-audit services	0	6
Total	286	263

iv. The proposal for the approval of dividend submitted by the management contains a dividend of HUF 20,132 million.

(HUF million)	31.12.2023	31.12.2022
Retained earnings + Profit and loss after tax	197,968	128,828
Eligible dividend income	100	0
Sources available for dividend payment	198,068	128,828

In 2024, the Group recognised a received dividend of HUF 100 million based on the resolution of profit distribution of Raiffeisen Biztosításközvetítő Kft before the date the financial statements were authorised for issue and which, in accordance with section 114/A, paragraph 17 and section 39, paragraph 3a of Act C on Accounting, is eligible to increase the sources available for dividend payment. (2023: HUF 0 million).

(48) Reports by segments

The following segment information is presented in accordance with IFRS 8 Operating segments, which requires disclosures of financial information about an entity's operating segments. It follows the 'management approach', which requires operating segments to be identified on the basis of internal reports on the components of the entity that are regularly reviewed by the chief operating decision maker to allocate resources among the segments and assess the performance of each segment. The Group's exposure to risk and the level of return achieved depends primarily on the diversity of products and services offered, and therefore segment information is presented in respect of the Group's business segments. The business segments defined by the Group are aligned with the organisational structure, which presents the profitability and operations of the group's business along the main business areas.

Both revenues and assets are geographically linked to domestic activity.

The following summary describes the operations of the Group's segments included in this report:

Retail, private and SME segment: the Group offers a wide range of financial services to retail and private customers. The main services are lending and deposit-taking. The retail segment also offers credit card and investment services.

Corporate, subsidiaries segment: the Group offers a wide range of financial products and services to companies and institutions, including project and structured finance products and syndicated loans, in addition to its traditional lending and deposit-taking activities.

Banking and treasury segment: the Group offers a wide range of financial products and services to banks, as well as lending and deposit-taking. For this segment, the Group also provides a wide range of investment activities (investment advisory, brokerage, derivatives trading and other investment services).

Other segments: includes various financial services for government, municipalities, social organisations, and also includes items that cannot be directly allocated to a specific segment (mainly general administrative expenses, taxes).

31.12.2023 (HUF million)	Corporate/ Subsidiaries	Retail/ Private/ SME	Bank/ Treasury	Other	Total
Assets					
Cash, accounts receivable from central banks and other demand deposits	3	0	895,901	31,941	927,845
Financial assets held for trading	0	0	97,809	0	97,809
Non-trading financial assets at fair value through profit or loss	4,354	149,386	10,730	571	165,041
Financial assets at fair value through profit or loss	36,334	91,463	238,087	0	365,884
Financial assets at fair value through other comprehensive income	1,159,260	497,591	1,020,205	16,428	2,693,484
Financial assets measured at amortised cost	0	0	119,623	0	119,623
Derivatives designated as hedging items	0	0	-11,289	0	-11,289
Change in fair value of items hedged in portfolio hedges of interest rate risk	0	0	0	108	108
Investments in subsidiaries, joint ventures and associates	8	0	0	0	8
Property and equipment	0	0	17	38,690	38,707
Intangible assets	0	0	4	23,635	23,639
Deferred tax assets	0	0	0	1,841	1,841
Other assets	0	0	0	9,355	9,355
Assets in total	1,199,959	738,440	2,371,087	122,569	4,432,055
Liabilities					
Financial liabilities held for trading	0	0	93,665	0	93,665
Financial liabilities measured at amortised cost	1,223,751	1,682,281	613,749	261,591	3,781,372
Derivatives designated as hedges	0	0	126,808	0	126,808
Changes in fair value of items hedged in portfolio hedges of interest rate risk	0	0	-64,919	0	-64,919
Current tax liabilities	0	0	0	3,745	3,745
Liabilities included in disposal group classified as held for sale	0	0	0	16,831	16,831
Provisions	0	0	0	11	11
Other liabilities	0	0	19	11,795	11,814
Total liabilities	1,223,751	1,682,281	769,322	293,973	3,969,327
Equity	0	0	0	462,728	462,728
Equity capital and liabilities in total	1,223,751	1,682,281	769,322	756,701	4,432,055

31.12.2022					
(HUF million)	Corporate/ Subsidiaries	Retail/ Private/ SME	Bank/ Treasury	Other	Total
Assets					
Cash, accounts receivable from central banks and other demand deposits	1	0	738.916	45.996	784.913
Financial assets held for trading	0	0	183.111	0	183.111
Non-trading financial assets at fair value through profit or loss	3.124	122.708	0	584	126.416
Financial assets at fair value through profit or loss	24.294	91.812	189.744	0	305.850
Financial assets at fair value through other comprehensive income	1.262.473	487.763	928.527	2.067	2.680.830
Financial assets measured at amortised cost	0	0	191.077	0	191.077
Derivatives designated as hedging items	0	0	-24.300	0	-24.300
Change in fair value of items hedged in portfolio hedges of interest rate risk	0	0	0	1.095	1.095
Investments in subsidiaries, joint ventures and associates	8	0	0	0	8
Property and equipment	0	0	35	35.915	35.950
Intangible assets	0	0	13	22.594	22.607
Deferred tax assets	0	0	0	5.101	5.101
Other assets	0	0	0	8.324	8.324
Assets in total	1.289.900	702.283	2.207.123	121.676	4.320.982
Liabilities					
Financial liabilities held for trading	0	0	145.730	0	145.730
Financial liabilities measured at amortised cost	1.156.857	1.666.834	641.960	260.566	3.726.217
Derivatives designated as hedges	0	0	242.488	0	242.488
Changes in fair value of items hedged in portfolio hedges of interest rate risk	0	0	-177.653	0	-177.653
Current tax liabilities	0	0	0	5.704	5.704
Liabilities included in disposal group classified as held for sale	0	0	0	11.526	11.526
Provisions	0	0	0	8	8
Other liabilities	0	0	27	12.149	12.176
Total liabilities	1.156.857	1.666.834	852.552	289.953	3.966.196
Equity	0	0	0	354.786	354.786
Equity capital and liabilities in total	1.156.857	1.666.834	852.552	644.739	4.320.982

2023					
(HUF million)	Corporate/ Subsidiaries	Retail/ Private/ SME	Bank/ Treasury	Other	Total
Net interest income	58,877	62,878	25,038	53,863	200,656
Dividend income	4	450	0	11	465
Net fee and commission income	23,420	48,442	5,843	3,815	81,520
Net result from trading and fair value changes	-1,565	0	225	-11,635	-12,975
Net gains/losses on hedge accounting	-21	0	-1,516	29	-1,508
Total income	80,715	111,770	29,590	46,083	268,158
Impairment	319	-160	-3,127	87	-2,881
Net gains/losses on derecognition of financial assets not at fair value through profit or loss	-24,368	-70,959	-4,819	-8,758	-108,904
Other operating result, Operating expenses	-223	-4,796	-36	-32	-5,087
Other income	-14,077	-13,944	-5,868	-2,067	-35,956
Bank taxes and other specific charges	-2,182	3,828	-669	9	986
Profit/loss from continuing operations before tax	40,184	25,739	15,071	35,322	116,316
Tax expense or income relating to the result from continuing operations	0	0	0	-13,057	-13,057
Profit/loss from continuing operations after tax	40,184	25,739	15,071	22,265	103,259
Profit/loss for the year	40,184	25,739	15,071	22,265	103,259

2022					
(HUF million)	Corporate/ Subsidiaries	Retail/ Private/ SME	Bank/ Treasury	Other	Total
Net interest income	48.617	58.755	15.972	15.662	139.006
Dividend income	3	307	0	73	383
Net fee and commission income	21.324	44.761	5.049	2.206	73.340
Net result from trading and fair value changes	373	-23	3.379	-3.218	511
Net gains/losses on hedge accounting	-14	0	-1.702	-64	-1.780
Total income	70.303	103.800	22.698	14.659	211.460
Impairment	526	-25	-246	16	271
Net gains/losses on derecognition of financial assets not at fair value through profit or loss	-19.310	-61.250	-3.310	-7.944	-91.814
Other operating result, Operating expenses	-958	-5.275	0	4	-6.229
Other income	-9.659	-12.074	-3.183	-230	-25.146
Bank taxes and other specific charges	-2.335	-5.023	-368	25	-7.701
Profit/loss from continuing operations before tax	38.567	20.153	15.591	6.530	80.841
Tax expense or income relating to the result from continuing operations	0	0	0	-8.726	-8.726
Profit/loss from continuing operations after tax	38.567	20.153	15.591	-2.196	72.115
Profit/loss for the year	38.567	20.153	15.591	-2.196	72.115

(49) Events after the reporting date

The Group decided on 22 December 2023 to pay an advance dividend of HUF 32,300 million that was paid on 28 December 2023. The Group decided on 25 March 2024 to pay a dividend of HUF 79,800 million out of which the actual payment of HUF 47,500 million can occur until 15 December 2024 the latest. The final capital adequacy ratios considering the inclusion of current year's profit and dividends are CET1 16.68%, TIER1 19.37%, total capital adequacy ratio 23.16%.

(50) Abbreviations and terms used in the financial statements

AAC: At Amortised Cost

ALCO: Asset and Liability Committee

APRI: Annual Percentage Rate Indicator, a special index calculated in accordance with Government Decree No. 83/2010 (III. 25.) on the Definition, Calculation and Announcement of the Annual Percentage Rate Indicator; an index that aims to provide information in the form of an annual percentage on the total costs and fees of a loan or finance lease.

AT1: Additional tier 1 capital

BEEL: Best Estimate of Expected Loss

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

BMT: Benchmark Test

BPV: Basis Point Values

CCIRS: Cross Currency Interest Rate Swap

CET1: Common tier 1 capital

CF: Cash flow

CIRS: Cross Currency Interest Rate Swap

COVID-PWO: clients, that either are already showing, or based on the Group's expectation are about to show in a short period the first signs to decline in the credit rating due to effect of the virus on their business operation

CRM: Credit Risk Management Department

CRO: Chief Risk Officer

CRR: Capital Requirements Regulation

CVA/DVA: Credit Value Adjustment/Debit Value Adjustment

Default: non-performing

EAD: Exposure at Default

EBA: European Banking Authority

EURIBOR: Euro Interbank Offered Rate

FGS: Funding for Growth Scheme

FRA: Forward Rate Agreement

FV: Fair Value

FVOCI: at Fair Value through Other Comprehensive Income

FTPL: 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 Accounting Law

Hold to collect: the model's objective is to hold financial assets to collect contractual cash flows

Hold to collect and sell: the model's objective is both collecting contractual cash flows and selling financial assets in the portfolio

IAS: International Accounting Standards

IASB: International Accounting Standards Board

ICCAP: Internal Capital Adequacy Assessment Process

IFRS: International Financial Reporting Standards

IFRIC: International Financial Reporting Interpretations Committee

IRB: Internal Rating Based Approach

IRD: Integrated Risk Assessment Department

IRS: Interest Rate Swap

L&R: Loans and Receivables

LGD: Loss Given Default

LIBOR: London Interbank Offered Rate

MA: Manual Analysis

MIRS: Monetary policy Interest Rate Swap

NBH: National Bank of Hungary

NDIF: National Deposit Insurance Fund

OCI: Other Comprehensive Income

PD: Probability of Default

PL: Profit and Loss

POCI: Purchased or Originated Credit Impaired

PRIBOR: Prague Interbank Offered Rate

Repayment moratorium 1: repayment moratorium (repayment suspension), which was introduced by the Act LVIII/2020 on the temporary rules related to the termination of the emergency and on the pandemics preparedness, furthermore by the Gov, Decree nr, 47/2020, (III, 18,) along with decree on the detailed rules about the defined actions in this, the Gov. Decree nr. 62/2020 (III. 24.).

Repayment moratorium 2: repayment moratoria (repayment suspension), which was introduced by the Act CVII/2020 on the temporary actions in order to stabilize the situation for particular society groups and enterprises with financial difficulties along with the Gov, Decree nr. 637/2020. (XII.22.) on the special rules related to the repayment moratoria in connection with the emergency.

RRM: Retail Risk Management Department

SPPI: Solely Payment of Principal and Interest

Stage 1: performing financial instruments where the credit risk has not increased significantly since initial recognition

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

Tier 1: common tier 1 capital (CET1) plus additional tier 1 capital (AT1)

Trading: primary objective is to realise short-term profits

VaR: Value at Risk

WCV: Weighted Collateral Value

Raiffeisen Bank Zrt. Annual Report 2023

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