Raiffeisen Bank Zrt.

Annual Report
and
Independent Auditor's Report

December 31, 2022

Deloitte.

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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 „Bank") and its subsidiaries (the "Group") for the year 2022 included in the digital files 5493001U1K6M7JOL5W45-2022-12-31-en.zip[1], which comprise the consolidated statement of financial position as at December 31, 2022 – which shows a total assets of HUF 4.320.982 million –, and the related consolidated statement of profit or loss, consolidated statement of comprehensive income – which shows a net profit for the year of HUF 72.115 million –, 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 a summary of significant accounting policies.

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, 2022 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 Consolidated 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.

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

[1] Digital identification of 5493001U1K6M7JOL5W45-2022-12-31-en.zip consolidated financial statements referred to above with SHA 256 HASH algorithm: D7BF2400AD5AA07A2658EE9E75EB42CF087F2BBF1D5521133D8077CC749E130B

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
Expected credit losses on loans to customers at amortized cost	
(See notes 6. to the consolidated financial statements for the details) As at December 31, 2022 the Group shows loans to customers at amortised cost in the amount of HUF 1,709,279 million (gross: HUF 1,780,044 million), in connection with HUF 70,765 million loss allowance on loans) has been recognized. 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. The most significant assumptions applied in provisioning calculation are the followings: - 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. The current economic macro environment and volatile energy prices resulted in an increase in the 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 Bank when calculating the ECL. 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.	The relevant audit procedures performed by us included the followings: - 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 collaterals and estimates of expected future cash-flows, - comprehensive analysis of loan portfolio, - a assessing the requirement for additional allowances considering the Bank’s ECL model, 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.

Other Information

Other information includes the consolidated business report and the Responsible Corporate Governance Statement of the Group for 2022. Management is responsible for the preparation of the consolidated business report and the Responsible Corporate Governance Statement 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 consolidated business report and the Responsible Corporate Governance Statement.

Our responsibility in connection with our audit of the consolidated financial statements is to read the consolidated business report and Responsible Corporate Governance Statement and, in doing so, consider whether the consolidated business report and the Responsible Corporate Governance Statement 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 also include assessing whether the consolidated business report and the Responsible Corporate Governance Statement was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, and to express an opinion on the above and on whether the consolidated business report and the Responsible Corporate Governance Statement is consistent with the consolidated financial statements.

In our opinion, the consolidated business report and the Responsible Corporate Governance Statement of the Group for 2022 correspond to the consolidated financial statements of the Group for 2022 and the relevant provisions of the Accounting Act in all material respects. As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report and the Responsible Corporate Governance Statement, we have not formulated an opinion on this matter.

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 consolidated business report and the Responsible Corporate Governance Statement 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 the Group on May 14, 2021 and our uninterrupted engagement has lasted for 2 year.

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 Group, which we issued on March 27, 2023 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 the 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 5493001U1K6M7JOL5W45-2022-12-31-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;
- 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, 2022 included in the digital file 5493001U1K6M7JOL5W45-2022-12-31-en.zip, is presented, in all material respects, in compliance with the requirements of the ESEF Regulation.

Budapest, March 30, 2023

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Molnár Gábor

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

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083
Registration number of statutory registered auditor: 007239

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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 Separate Financial Statements

Opinion

We have audited the separate financial statements of Raiffeisen Bank Zrt. (the „Bank") for the year 2022 included in the digital files 5493001U1K6M7JOL5W45-2022-12-31-en.zip[1], which comprise the separate statement of financial position as at December 31, 2022 – which shows a total assets of HUF 4.307.419 million –, and the related separate statement of profit or loss, separate statement of comprehensive income – which shows a net profit for the year of HUF 72.229 million –, separate statement of changes in equity and separate statement of cash flows for the year then ended and notes to the separate financial statements including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the separate financial position of the Bank as at December 31, 2022 and of its separate financial performance and its separate 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 separate 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 separate 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 Separate Financial Statements*" section of our report.

We are independent of the Bank 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.

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 separate financial statements of the current period. These matters were addressed in the context of our

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audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Expected credit losses on loans to customers at amortized cost	
(See notes 6. to the separate financial statements for the details) As at December 31, 2022 the Bank shows loans to customers at amortised cost in the amount of HUF 1,698,637 million (gross: HUF 1,767,017 million), in connection with HUF 68,380 million loss allowance on loans) has been recognized. 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. The most significant assumptions applied in provisioning calculation are the followings: - 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. The current economic macro environment and volatile energy prices resulted in an increase in the 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 Bank when calculating the ECL. 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.	The relevant audit procedures performed by us included the followings: - 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 collaterals and estimates of expected future cash-flows, - comprehensive analysis of loan portfolio, - assessing the requirement for additional allowances considering the Bank’s ECL model, 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 separate financial statements.

Other Information

Other information includes the separate business report and the Responsible Corporate Governance Statement of the Bank for 2022. Management is responsible for the preparation of the separate business report and the Responsible Corporate Governance Statement in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled *Opinion* does not apply to the separate business report and the Responsible Corporate Governance Statement.

Our responsibility in connection with our audit of the separate financial statements is to read the separate business report and Responsible Corporate Governance Statement and, in doing so, consider whether the separate business report and the Responsible Corporate Governance Statement is materially inconsistent with the separate 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 also include assessing whether the separate business report and the Responsible Corporate Governance Statement was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, and to express an opinion on the above and on whether the separate business report and the Responsible Corporate Governance Statement is consistent with the separate financial statements.

In our opinion, the separate business report and the Responsible Corporate Governance Statement of the Bank for 2022 correspond to the separate financial statements of the Bank for 2022 and the relevant provisions of the Accounting Act in all material respects. As the Bank is not subject to additional requirements under any other regulation in connection with the separate business report and the Responsible Corporate Governance Statement, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the separate business report and the Responsible Corporate Governance Statement 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 Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Bank’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 Bank or to cease operations, or has no realistic alternative but to do so.

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

The Auditor’s Responsibilities for the Audit of the Separate Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Bank'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 Bank'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 separate 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 Bank'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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 the Bank on May 14, 2021 and our uninterrupted engagement has lasted for 2 year.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 27, 2023 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 Bank. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the separate 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 separate 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 separate financial statements of the Bank included in the digital files 5493001U1K6M7JOL5W45-2022-12-31-en.zip („ESEF format separate 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 separate financial statements

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

- the preparation of the separate financial statements in XHTML format;
- 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 Bank'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 separate 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 Bank'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 separate financial statements of the „Bank" for the year ended December 31, 2022 included in the digital file 5493001U1K6M7JOL5W45-2022-12-31-en.zip, is presented, in all material respects, in compliance with the requirements of the ESEF Regulation.

Budapest, March 30, 2023

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Molnár Gábor

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

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083
Registration number of statutory registered auditor: 007239

Publication of the 2022 Annual Report

The Annual report of the Raiffeisen Bank Zrt's operation in 2022 is provided below which is based on the audited financial statements approved by the Board of Directors on 30 March 2023:

Raiffeisen Bank Zrt. Consolidated business report 2022
Raiffeisen Bank Zrt. Consolidated Financial Statements 2022
Responsible Corporate Governance Statement of Raiffeisen Bank Zrt. 2022
Raiffeisen Bank Zrt. Consolidated Statement of the Issuer 2022
Raiffeisen Bank Zrt. Business report 2022
Raiffeisen Bank Zrt. Separate Financial Statements 2022
Raiffeisen Bank Zrt. Statement of the Issuer 2022

Budapest, 30 March 2023

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Raiffeisen Bank Zrt.
Consolidated business report 2022

Content

(1) Macroeconomic environment in 2022

Obviously, one of the biggest challenge of the year was the inflation far above the long-term trends for the developed and developing economies. In the United State the demand shock due to the consumption regenerating really fast after the pandemic heated the inflation, while the supply was only able to slowly or not at all catch up with the rehabilitation. Labour market remained tight, which considerably accelerated the wage out-flow, triggering the FED on spring 2022 to begin a strong tightening. Of course, after mid-2021-reopening the CPI already exceeded the 2% mid-level target of the central bank and it continued the last year above 7%. The inflation peaked at 9.1% in June, and it decreased to 6.5% until year-end. The 0.25% base rate in March was increased by the FED in seven stages to 4.5% by December 2022, but in order for the continuous decrease of the inflation it envisaged further tightening actions for 2023. At the end of 2022, the market expected the base interest to peak at 5% in the middle of 2023, while the consumption to be cooled by the fall back of the growth. After the strong 5.9% growth in 2021, the American economic remained above the expectations with 2.1% growth during 2022, but in the next years it is expected to underperform. The growth consensus on the market for 2023 is way below 1%.
In the European Union, especially in the euro area – which from 2023 has 20 member states – has suffered from the over-demand and under-supply after the pandemic, which was worsened by the trust issues due to Ukrainian war and the energy crisis throughout the year. The cost-side inflation has knocked out the economic way more than seen in the Unites States through the multiplication of natural gas and electricity prices, which pushed the inflation up to 10.6% by October. The ECB, just like the FED started to increase the base interest with slower dynamic because it identified the main difference between the two regions the European energy crisis. The base rate started to increase in the second half of the year from its record-low -0.5% level and closed the year after four never-seen-before increases at 2%, which, based on the market prices, is still 150 bp lower than the peak estimated for mid-2023. Despite the high inflation, the consumption remained bulletproof throughout the year, due to the above average level of savings. It is not a unique phenomenon it can be observed worldwide after the coronavirus pandemic. Nevertheless, the growth momentum of the euro area is expected to considerably decline in 2023. The 2022 GDP-growth, after the 5.3% in 2021, is expected to be over or at least near to 3% but in 2023 only between 0-1%.

(1.1) Hungarian economy

Hungary's economic growth remained above the expectations for the whole year. The GDP increased in the first three quarters by 6.1% year-on-year based on the season and calendar-effects adjusted and balanced data. Based on quarter-to-quarter comparison, while in the first quarter it increased by 1.6%, in the second quarter it increased by only 0.8%, and it turned in the third quarter to 0.4% decrease. The energy-crisis impacting a large part of the continent played a significant role in the third quarter decrease and in the deceleration for the whole year along with the exceptional drought, which reduced the contribution of the agricultural growth already in the first, but even more in the second and third quarter of the year. Behind the 6.1% economic growth for the first three quarter the contribution of the agriculture, the forestry and the fishing to the GDP change was -1.1 percentage points. The industry supported the yearly growth by 1.2% – from which the processing industry contributed 1.1 percentage points and the construction industry 0.2 percentage points – and the services together supported it by 5 percentage points. From 2018, the agriculture has not been able to substantially contribute the Hungarian economy's growth, but its performance in the period from January to September 2022 had an unprecedented impact on decelerating it. On the usage side, the consumption of the households contributed to the 6.1% GDP growth by 4.6 percentage points, the community consumption by 0.2 percentage points, the investments by 1.7 percentage points and the external trade also by 0.2 percentage points. The labour market was characterized by turgidity in 2022 as well. With decreasing economic growth, along bottlenecks the unemployment indicators minimally increased, but still remained under their long-term average. In June 2022, the unemployment rate for the age group between 15-74 decreased in its three-month average to 3.3%, which is near to a record-low level. In the second part of the year, it increased from that level though but not substantially. The average for the period between October and December was 3.9%, which is only 0.2% higher as for the same period of 2021. The activity rate was 66.9% at year-end, the employment rate was 64.3%, which means a 0.6% and a 0.4% increase in one year. The gross average earnings of the full-time employed were by 16.8% higher in November 2022, for the period between January and November 17.5% higher than its previous year's level. Such strong wage outflow has not been seen for the last two decades.

Similar growth, that has not been seen for a long time, characterized the consumer prices in 2022 as well. Due to the European energy crisis and the extraordinary drought along with the particularly unfavorable yields on agricultural products the inflation increased significantly almost for all, not only for the hectically changing consumption segments. In December 2022, the index for consumer prices was 24.5%. Behind this, the yearly price increase was 44.8% for food, 55.5% for household energy, 13.6% for durables and on average 13.4% for alcohol and tobacco. The inflation for services was 9.5%. The core inflation was 24.8%. These factors altogether resulted in a yearly 14.5% inflation and 15.7% core inflation for 2022. By the end of 2022, based on the government's GDP estimation for 2022 Hungary's

sovereign debt decreased to 73.5%, its fiscal deficit decreased to 6.1%. According to Raiffeisen Bank's forecast, after the 2021 7.1% the Hungarian economy could still grow over 4% in the past year, however in 2023 the GDP growth can fall back to near 1% before gaining momentum again in 2024.
The Hungarian Forint further weakened to a significant extent compared to all of the main foreign currencies, which is mainly due to the energy crisis, Hungary's extra high exposure to the Russian energy sources, the temporary significant worsening of the exchange ratio and the external balance, along with the increased risk around the ability to access external financing. The EUR/HUF exchange rate started the year at 370 and finished it at 400, but it fluctuated in the year in an even wider range between 350 and 430. The mitigation of the depreciation was supported by start of the normalization of the energy market, moreover by the extraordinary increase of the domestic effective interest level (10.6% in case of the base rate, and from mid-October a further 500 basis points in case of the new benchmark asset's rate), and furthermore settling the currency need of the Hungarian energy-importers from the national bank's foreign currency reserve. At the end of 2022 the benchmark interest level was 18%, which by the end of 2023 can return to a single-digit figure along with the inflation according to the market's and Raiffeisen Bank's expectations and can further decrease in 2024-2025.

(1.2) The banking sector

In the first three quarter of 2022, according to NBH's data the banking sector recorded a HUF 562 billion profit after taxation on consolidated level, which takes 88% of last year's result. The net interest income was 45% higher than last year, the net fee income showed a little less, 23% growth.
The operating costs increased by 32% compared to the same period of last year. The net loss allowance and the risk provision recorded almost quadrupled, contributing significantly to the decrease of the banking sector's result.
The sector's net assets were HUF 82,710 billion, which means a 24% increase compared to the same period of last year based on the data. The corporate loans increased by 29%, the retail loans by 15% compared to the same period of last year. The balance of deposits from customers increased significantly as well, the total balance of deposits from retail and non-financial companies increased by 22% compared to the same period of last year.
The ratio of non-performing loans increased slightly from 3.0% to 3.4% compared to the same period of last year. The cost-income ratio was 59.8% for the first three quarter of 2022, which is slightly worse than last year's 58.8%. The RoE and RoA ratios have worsened too, the RoE decreased to 10.1% (from 12.8%), RoA decreased to 0.9% (from 1.3%). The liquidity status and the capital adequacy of the sector is appropriate.

(*For the data please see the publication by the NBH https://statisztika.mnb.hu/publikacios-temak/felugyeleti-statisztikak/penz--es-hitelpiaci-szervezetek/hitelintezeti-aktualis-publikaciok)

(2) Non-financial report

For the short presentation of the company's business model the please see Section 4. 'Presentation of the business segments' performance'.
The key non-financial performance indicators, which are important for the given business segments are included in Section 4. 'Presentation of the business segments' performance' as well.
The descriptions of the company's policies followed in respect of environmental protection, social and employment matters, respecting the human rights, fighting against corruption and bribery, with references to the implemented control procedures, the results of them, along with the risks in the listed areas that might have disadvantageous effects are included in the following sections:

- 7.4 Fraud risk management
- 8. Environmental protection
- 9. Employment policy
- 10. Compliance activity

The services authorized beyond the regulatory audit that are to be disclosed in the business report and were provided by the auditor to the entity and the companies controlled by it are included in section 12.

(3) Business activity

(3.1) Balance sheet

The Group’s total assets increased by 13% (HUF 496 billion) in 2022, its market share has decreased during the year, from 6.25% at 2021 year-end to 6.03%.
Lending activity continued to expand during the year, the growth of liabilities towards clients moderated compared to previous years as a result of the current inflation and interest rate environment. This also meant that the Group's market share decreased - compared to the end of the previous year - in the case of customer deposits.

(HUF million)	31.12.2022	31.12.2021	Change
Total assets	4,320,982	3,825,288	13%
Loans	1,834,729	1,535,230	20%
Deposits	2,909,023	2,870,115	1%

Following last year’s trend, the Group's loan/deposit ratio increased to 63% in 2022 from 53% in the previous year, thanks to dynamic lending activity and lower growth in customer deposits.

The Bank’s solvency capital slightly increased, its solvency capital ratio remained at the same level as at year-end 2021 - therefore the Bank's capital level is appropriate.

(HUF million)	31.12.2022	31.12.2021	Change
Regulatory capital	365,899	322,539	13%
Solvency ratio (%)	23.28%	22.43%	4%

(3.2) Profit or loss

Profit or loss item	31.12.2022-31.12.2021	31.12.2021-31.12.2020	Change	
	HUF million	HUF million	HUF million	%
Net interest and dividend income	139,389	69,834	69,555	100%
Net fee income	73,340	57,792	15,547	27%
Operating costs*	-64,656	-56,658	-7,998	14%
Risk costs**	-7,410	-5,370	-2,040	38%
Other result	-59,822	-24,951	-34,870	140%
Profit before tax	**80,841**	**40,647**	**40,194**	**99%**
Income tax	-8,726	-3,913	-4,813	123%
Profit after tax* **	**72,115**	**36,734**	**35,381**	**96%**

* The line includes personal expenses, other administrative expenses, depreciation and amortization, the fees paid to OBA and BEVA are presented in other result.
** The line includes other provisions in addition to the impairment of financial assets.

The Group recognised HUF 72.1 billion profit for the business year 2022, therefore almost doubled its profit compared to 2021.

The main reason for the increase was the growth in interest income induced by the high interest rate environment, which was somewhat offset by the Group's share from the extraordinary surtax charged on the banking sector.

Net interest income doubled from the previous year, primarily due to strong lending activity and the high interest rate environment.

The commission income also improved significantly compared to the previous year's result - thanks to the increase in fee income embedded in clients’ FX conversion transactions and other security transactions and the increase in fee income on settlement services.

Operating costs exceeded the previous year by 14%, which was mainly caused by the rise in wages and other operating expenses, driven by the high inflationary environment. In addition, deposit insurance premiums nearly doubled compared to the previous year due to the insolvency of a money market participant.

The risk cost became HUF 2 billion higher compared to 2021.

In other result category, the loss that was higher than in last year was the result of the Group’s share from the extraordinary surtax charged on the banking sector, the government actions aiming to prohibit interest increases, the higher loss on revaluations and the higher transaction tax.

In 2022, the Group's tax liability based on its profit before tax increased by HUF 4.8 billion compared to the previous year, mainly due to local business and corporate tax caused by higher revenue.

Since the increase in the Group's revenues exceeded its expenses, so the value of the cost/income ratio improved to 34% in 2022. As a result of the outstanding profit, the return on equity rose to 20.3% in 2022.

(3.3) Events after the reporting date

The Bank’s sole shareholder decided on 21 December 2022 to pay an advance dividend of HUF 20,132 million that was paid on 28 December 2022 by the Bank. On 9 February 2023 the NBH authorized the Bank to settle the positive result generated between 1 January and 31 December 2022 into primary equity at individual and consolidated level before the decision of the general meeting accepting 2022 financial statements. The board of directors of the Bank proposed a dividend payment of HUF 20,132 million from the profit of business year 2022, which is approved by the owner on 30 March 2023. The final capital adequacy ratio considering the settlement and dividend is 23.28%.

The Bank issued bonds with a total nominal value of EUR 40,000,000 (200 pieces with a nominal value of EUR 200,000 each) named as Raiffeisen EUR AT1 (ISIN number: HU0000362199) with value date of 25 January 2023. The bonds are additional tier 1 capital instruments without maturity, marketed privately.

(4) Presentation of the business segments’ performance

(4.1) 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 Group achieved a portfolio growth in line with the market trends in project financing and syndications. In 2022 the increase in the assets was predominantly due to non-property project and syndicated financing activity. The expansion of the lending portfolio was realised with conservative business policy and risk taking. Overall, the loan portfolio remained of excellent quality even during the pandemic.

In 2022, the Group’s Trade, Export and Agricultural Finance (TFA) continued to achieve excellent performance, despite market difficulties (Russian-Ukrainian war, energy crisis, raw material price and other cost increases). Despite the expiry or suspension of previous grant schemes during the year, it maintained its leading position in the market for refinancing and interest rate subsidies provided by Eximbank. The agricultural market has been affected by the unfavorable effects of the drought and price rises, but the Group has maintained its market share in this area too. Despite these difficulties, the TFA area increased its asset portfolio by over 15% and closed well above its targets.
The increase of the stock of guarantees and letter of credits continued and reached over 20% on a year-on-year basis again this year. The results have been achieved through the acquisition of some large clients and a fast, flexible and constructive client service practice, which was highly appreciated by clients according to feedbacks. The Factoring segment of the Group practically repeated its performance of the previous year. As the majority of their clients are mainly financed in HUF, the significant increase in HUF interest rates a decrease in the utilisation of factor facilities was experienced. After the highest growth rate in the domestic factor market in the previous years, maintaining the level of the previous year is reassuring.
Important part of the Group’s client service model is to finance municipalities, entities owned by municipalities, non-profit entities, associations, condominiums and other communities as well as to provide complete, advanced financial services to clients. Significant part of services are investment and development loans to municipalities, associations and condominiums. It supports the services provided to these clients by ongoing development of digital channels, maintaining immediate payment transaction services, and providing QR code-based payment opportunity. Digital developments ensure effective client servicing and facilitate the use of ASP services for municipalities.

The Financial Institutions and Custody segment continued its growing trend in 2022 particularly in terms of loan and deposit balances and the number of active clients and it maintained its custody portfolio despite the negative market conditions and the increased competition.

Thanks to the Group's Cash, FX and Capital Market Department – according to the statistics of the National Bank of Hungary – it was the bank with the biggest FX turnover in Hungary also in 2022 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 2022.

(4.2) Retail clients

The year 2022 brought a number of challenges for the Retail segment (Russian-Ukrainian war, dynamically rising inflation, high volatility in the foreign exchange market, etc.), but the business unit nevertheless ended the year with outstanding results: the number of mass retail customers increased by 7% and the number of Premium Banking customers by 22% compared to 2021, revenues were significantly above plan and Raiffeisen Bank's NPS (Net Promoter Score) was one of the highest amongst universal banks (2022 H1 NPS: 33).
The high acquisition results were partly due to external market conditions, partly due to successful marketing campaigns and the ongoing development of services. Throughout the year, the Group has put a strong emphasis on marketing activities to support customer acquisition through various channels, including bank account opening promotions, renewed customer referral programs and special promotions for our Yelloo account for the young age group (18-25 years). In addition, several educational campaigns have been conducted, which have contributed to increasing customer usage of accounts and digital services. The Group's Loyalty Programme has also become increasingly popular, offering existing customers a range of discounts with commercial and service partners.

In 2022, savings and investment products also gained significance among retail customers. In order to serve customer needs, the Group renewed its regular savings product, with the name Reflex Savings Programme, in November 2022 and launched the development of additional savings products. From 1 April 2022, the Group started selling insurance products as a dependent single agent and introduced the Income Protection Group Insurance product, which was successfully sold.
This year, the Group continued its digital enhancements across a number of platforms to provide customers a modern, high quality customer experience in their day-to-day financial management. The focus of its digital strategy is to continuously expand the capabilities of the myRaiffeisen mobile application and the range of products available online. These developments have led to a significant increase in both online account openings and online loan applications.

Investor appetite among clients started to recover at the end of April 2022. In line with the change in the market interest rate environment, interest in investment funds increased significantly in the second half of the year, while demand for government bonds fell to a lesser extent.

The business unit continued its successful retail lending business in 2022. Demand for retail mortgage and personal loans was strong in the first half of the year, driven by the NBH's Green Loan Programme. Demand for the Baby Loan remained steady, while in December, due to uncertainty about the future of the product, strong customer demand led to record disbursements. The adverse change in macroeconomic conditions certainly could not be avoided, demand for loans fell significantly in the second half of the year, mainly due to high interest rates and real wages that started to fall.
In the area of lending, despite all the external challenges, the priority remains to maximise the service to customers where security and predictability are key. Another key strategic focus is digitalisation, where the launch of a completely online application process for joining customers for personal loans should be highlighted. This channel has been available to existing customers for some time and has been increasingly used by customers month after month. The completely online application process is now also available for the overdraft product for customers with an existing banking relationship and its success is also a realistic expectation for the future.
Overall, the Group had a successful year in retail lending and made significant progress in digital lending. The Group is confident that this can be sustained in the period ahead despite the difficult external conditions that are yet to come, although this may be challenged by a potentially stagnant yield environment at high levels.

The Group's market share of retail loans continued to increase slightly, reaching 5.6% at the end of 2022.

In 2022, the main targets of the small entities segment were new client acquisitions, the introduction of innovative payment solutions and new loan products. Maintaining quality client service in small entity client relationships and building relationships as partners were still in the small entities segment's strategic focus in 2022. Thanks to this, the number of new micro clients increased by 29%, resulting the 3rd place in the ranking of small entities acquisitions, which is a very good result considering the size of the branch network. It contributed to the double-digit growth of revenues. The success in acquisitions was partly due to external factors (e.g. market events, changes in the taxation of individual businesses) and partly due to the Group's successful customer acquisition activities (increased MGM programme, acquisition campaigns).

The Group was one of the first in the market to introduce the Széchenyi Card MAX programme loan products in August 2022 and was third in sales of Széchenyi products according to KAVOSZ statistics.
Raiffeisen Bank has supported the use of banking services for its small entities segment by continuously developing digital channels (VideoBank service/myRaiffeisen mobile application, SME On account opening), providing innovative payment solutions (Scan&Go mobile payment application, QR code payment and payment application) and expanding its card acceptance service (myPOS bank card acceptance), ensuring efficient and convenient service for small business customers. This is confirmed by the fact that the satisfaction of small business customers reached one of the highest levels among universal banks in the NPS survey in 2022.

(4.3) Private Banking Clients

Friedrich Wilhelm Raiffeisen Private Banking aims to protect its clients' family wealth, increasing it and maintaining it from generation to generation. The Group provides, with the help of the professional work of it's experienced advisors safety, comfort, discretion and customized individual solutions to its clients.
Friedrich Wilhelm Raiffeisen Private Banking closed an extraordinary successful year in 2022. Thanks to the honored trust of its clients the amount of total managed assets reached over HUF 821 billion, which is a more than 7% increase in a year. This increase further strengthens the Group's market position.

It is impossible to provide and maintain the satisfaction of special private clients without customized individual solutions and the highest standards of service. Accordingly, Friedrich Wilhelm Private Banking invested substantial amounts also in 2022 to introduce new products and services and to develop IT systems and advisor knowledge. In the recent period, digitalisation has been a key focus, not only allowing customers to manage their finances undisturbed and independently but employees are also available to assist them even from remote locations. During 2022, the Group has put a strong emphasis on reducing administrative costs, which has led to a significant reduction in the use of paper and the number of documents to be signed.
The client services of Friedrich Wilhelm Raiffeisen Private Banking lies on 4 pillars: offering long-term financial solutions combined with active investment advisory, availability of dedicated, highly trained advisors, supporting the work of investment advisors with modern IT tools and allocating assets based on risk and return optimization.

(4.4) Financial institutions

The financial institutions segment is of strategic priority for the Group. The asset portfolio further increased in 2022 like in previous year, keeping a moderate risk weighted assets and capital need character. The deposit balance increased significantly due to the appropriate handling of changes in the market. Besides interest income increase in commissions also contributed to over-the-plan results. The segment is still characterized by secure funding and stable long-term client relationships. The risk costs of the segment is very moderate and its cost/income ratio is at a record low level.
The main target group of the segment are domestic insurers, investment fund managers, funds and domestic and international financial institutions and investment service providers, which are supported with new innovative solutions, products to serve fast and securely their clients in cash management and treasury operations. Besides the mentioned factors 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 Raiffeisen Bank Zrt's Financial Institutions department provides professional support for intragroup servicing of payment service providers (PSP).
The Banking Group provides a unique custodian market solution in its Vienna headquarter with the support of strengthened group level management to provide custody services for and to settle clients' investments directed to Central and Eastern Europe. 2022 was a successful year for also the custodian segment of the Group. Despite negative market impacts and strengthening competition it managed its custody portfolio successfully and held in terms of both client relationships and volume.
In the rising interest rate environment and changing regulatory environment, there was a particularly strong demand amongst institutional investor clients for the appropriate management of investments and financial sources. Amongst partners and clients, due to increased market volatility, the demand for services offered by the Cash, FX and Capital Market Trading Department increased. The Group takes a leadership role in a number of internal projects as well as in projects concerning the whole Hungarian capital market. Both the clients' and the profession's clear positive feedbacks prove that Raiffeisen Bank is one of the strongest brands in the regional money and capital markets and in servicing financial institutions.

(4.5) Subsidiaries

Raiffeisen Corporate Lízing Zrt.

Finance lease within Raiffeisen Lízing Group which is provided only to clients who do not qualify as consumers in order to finance the purchase of assets, vehicles and equipment, has been concentrated since 2014 at the Company, which is 100% owned by the bank.

After the economic downturn due to covid, the Company expected in 2022 the ramp up of investments, however the Russian-Ukrainian war worsened the shortage of spare parts due to supply chain disruptions. Although several grant schemes were available in the first half of the year, the lack of assets represented a bottleneck in several cases.

The Company has had a substantial share in the area of asset financing in the medium and large enterprise segment, primarily through serving the need for lease financing of banking clients. A big challenge of the past year was the successful introduction of competitive leasing constructions aiming to service small enterprises as well as designing of standard leasing products that can also be offered to micro enterprises.

The Company continued with its strategy started earlier in which, besides lease financing of vehicle and/or asset investments of medium and large enterprise clients, a more significant role will be given to enhancing the lease financing of micro and small enterprises segment, introduction of new – primarily vendor – sales channels, maintaining the good quality of the portfolio and keeping costs at a low level through cost-efficient operation and to increasing profitability.

Raiffeisen Autó Lízing Kft.

The Company is 100% owned subsidiary of Raiffeisen Corporate Lízing Zrt.. The popularity of operating lease dropped back significantly due to the accounting method prescribed by IFRSs and due to the availability of finance leases with preferential interest conditions (NHP, EXIM, KAVOSZ) and as a consequence of that a decrease occurred in the vehicle and asset financing provided without fleet service. The Company does not put an emphasis on concluding new businesses in operating leasing arrangements.

Raiffeisen Biztosításközvetítő Kft.

It is 100% owned by the Bank. The main activity of the Company is insurance brokerage, primarily for the member firms of Raiffeisen Banking Group.

At the beginning the main source of revenue of the Company stemmed from small and medium enterprise segment but later it began to sell its insurance products also in large enterprise and leasing segment as well.

The Bank has started to operate as a dependent single agent effective from 1 April 2022. From this date, in addition to the products transferred from the Company, the Bank will also manage the portfolio of insurance policies currently actively sold by the Bank, and therefore the Bank will also realise the commission income related to these products.

The Company manages the portfolios of insurance policies sold until 1 April 2022 and also acts as an intermediary for insurance policies linked to Raiffeisen Corporate Lízing Zrt. products. This restructuring had a significant impact on the achievement of the commission fee income plans.

RB Szolgáltató Központ Kft.

The Company was founded by the Bank in order to open a banking operating center in Nyíregyháza. Its activity began as call center and sales activity and that extended to phone collection, credit assessment and banking operation activities.

The Company finances asset purchases necessary to its operation from investment loan, its financial situation and liquidity is stable, its operation is profitable.

The number of the Company's employees increased to over 400. It operates with improving its processes and further improving the quality of its service. In accordance with the group's strategy, it moved in June 2022 to a new headquarter after which the colleagues can perform their banking operations tasks in a more modern working environment, better supporting the processes.

Raiffeisen Befektetési Alapkezelő Zrt.

The Company is a 100% owned subsidiary of the Bank.

In 2022, the Company's managed assets continuing the trend of 2021, rose dynamically and well above the market average. The main part of the increase in managed assets was realised in the second half of the year, driven by strong investor interest in the short bond fund segment. At the same time, mixed and equity funds, which have been the hit products of recent years, performed much more modestly.

The Company's operating result developed favorably in which, besides increase in revenues, costs kept under control played also a role.

The Company completed the restructuring of its product set in past years, in order to adopt to the challenges imposed by the market. The first step of this was setting up in cooperation with the Austrian fund manager of Raiffeisen Group three funds aiming at different risk levels and equipped with active portfolio management and strict risk management. As a result of the next step in the restructuring, the Company now manages four funds with an ESG focus and is in the

process of launching a further similar fund, which will ensure that clients have a choice between traditional and ESG products in all major asset classes. Assets managed in the ESG segment were stagnated in 2022, while assets managed in the real estate segment grew slightly.
The success of the Company is signaled by its operations having been awarded with a number of prizes in the past years.

SCT Kárász utca Kft.
A 100% owned subsidiary of the Bank. The activity of the Company is facility management.
In May 2022, the Company acquired 100% of the shares of DAV Property Kft. and Ötödik Vagyonkezelő Kft. belonging to the RBI Group and a decision was made on the merger of these companies. This was done with effect from 30.09.2022. Its 2021 and 2022 business activity is focused on the management of the properties it owns.

Raiffeisen Ingatlan Üzemeltető Kft.
It is a 100% owned subsidiary of Raiffeisen Befektetési Alapkezelő Zrt.. The activity of the Company is facility management, for example managing shopping centers, office buildings, industrial and commercial properties, banking branch offices. It performed also in 2022, in the name of its largest client Raiffeisen Ingatlan Alap, complete financial and technical management and renting-out activity.

DAV Property Kft.
In recent years, the Company was a subsidiary of the RBI Group incorporated in Hungary, 100% share of which was acquired on 24.05.2022 by SCT Kárász utca in a sale transaction. The Company had no operations in the business years' 2021 and 2022, therefore SCT Kárász utca Kft, as its single owner decided to merge the Company into itself. The merge-in was concluded with an effective date of 30.09.2022.

Ötödik Vagyonkezelő Kft.
In recent years, the Company was a subsidiary of the RBI Group incorporated in Hungary, 100% share of which was acquired on 24.05.2022 by SCT Kárász utca in a sale transaction. The Company had no operations in the business years' 2021 and 2022, therefore SCT Kárász utca Kft, as its single owner decided to merge the Company into itself. The merge-in was concluded with an effective date of 30.09.2022.

(5) 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. full 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.

(6) 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 precent range.

(7) 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.

(7.1) 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 rate 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 is only 1.9%. 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 side, therefore the Group carries out strengthened and intensive monitoring activities related to these dimensions from October 2021. 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.

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 moratorium2 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 moratorium4 will resume its repayments in accordance with the relevant new loan schedule at the end of 2022. The Group assessed clients entering into moratorium2 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 moratorium2. The Group followed the same procedure in assessing clients' financial situation during 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 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 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 a 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: in judging riskiness of industries, besides higher granularity, the volume/probability of short-term effects and expected mid-term recovery plays a particular role. Financing activity is aimed at 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 in determining impairment and recognised additional impairment if necessary. In 2022, in the corporate segment, the most important risks covered by additional impairment model are the drastic increase in energy prices, the limited availability of energy sources (especially gas reserves), the refinancing risk caused by interest rate environment and inflation, besides these, the crisis of supply chains, regulatory risk and shrinking demand were also considered as additional risk factors. The Group continuously revises and if justified adjusts the adequate level of related reserves.

From 2022, the Group will pay more attention to environmental sustainability aspects during corporate risk management, which will be ensured by supplementing both the sector-level credit policies and customer rating criteria to that direction.

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. Besides that, considering the „Management circular on the usage of macroeconomic information and factors triggering significant increase in credit risk in the application of IFRS 9 standard" of NBH the Group decided in November 2020 on the application of portfolio level management corrections, so called overlays. Moreover, it is important that during 2021 and 2022 the Group comprehensively investigated the changes in the income situation of clients, thereby forward-lookingly preparing for the potential problems. The Group made management corrections at the portfolio level in micro and small business segments several times during 2022 due to the effect of risks in the energy market and the increasing challenges regarding liquidity and profitability.

(7.2) *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.

(7.3) *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.

(7.4) *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 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.

(8) *Environmental protection*

Making the Group's shared use car park even greener continued in 2022, as 2 new plug-in hybrid and 2 full hybrid vehicles were purchased. A photovoltaic solar park with an installed capacity of 42 kwp was installed on the RBSC building. After the installation, the solar panels will produce about a quarter of RBSC's annual electricity need, which – according to preliminary calculations – will be fully used by the service center. The replacement of branch network's mechanical equipment and energy efficient mechanical and lighting (LED installation) investments continued in 2022 as well, and it will not end in 2023, mainly related to branch redesign. In the current circumstances, when the price of energy carriers has risen to unprecedented heights, increasing energy efficiency has become even more important.
In 2023, the Group will ensure the electricity supply of the AGORA headquarters by purchasing pure green electricity, thereby contributing to the reduction of the Group's carbon footprint. Adding 6 new plug-in hybrid and 2 full hybrid vehicles into the fleet serves the same purpose this year.

In 2023, the Environment-focused Management Systems (EMS) of ISO14001 standard was implemented in the Group's area, that helps to create a more reliable basis for sustainable development initiatives. This year's plans include the expansion of selective waste collection to all members of the branch network.

(9) Employment policy

The Group is one of the dominant employers in the financial sector: at the end of December 2022 the average statistical number of employees was 2,945. It is especially important for the Group that is operates 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 the 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 employees of the Group spent on average 5.71 day at training and development events, in programmes they spent 1.13 days (without e-learning). 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.

(10) 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 defence lines – an independent orgainsational 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
- Organising and operating anti-corruption measures within the group
- Fighting against money-laundering and financing international terrorism, as well as organising, governing and coordinating 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 organisational 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 defence and the underlying EBA (GL44) guideline.

(11) Research and development

The Group performs R&D activity in developing applications in relation to finance services and implementing business and risk management modelling.

(12) Fees charged by the auditor

The following net amounts of services were charged in 2021 and 2022 by Deloitte Könyvvizsgáló és Tanácsadó Kft. and by Deloitte Üzletviteli és Vezetési Tanácsadó Zrt:

(HUF million)	31.12.2022-31.12.2021	31.12.2021-31.12.2020
Audit of the financial statements	163	106
Other assurance services	94	12
Other non-audit services	6	5
Total	**263**	**123**

(13) Introduction of branch offices

The Bank serves its clients as at 31.12.2022 with the following branches:

1015 Budapest, Széna tér 1/a.
1024 Budapest, Lövőház u. 2-6.
1036 Budapest, Bécsi út 136.
1037 Budapest, Montevideo u. 16/b.
1037 Budapest, Szépvölgyi út 41.
1045 Budapest, Árpád út 183-185.
1051 Budapest, Vörösmarty tér 4.
1055 Budapest, Szent István körút 27.
1061 Budapest, Andrássy út 1.
1062 Budapest, Váci út 1-3.
1066 Budapest, Teréz krt. 12.
1072 Budapest, Rákóczi út 44.
1085 Budapest, Üllői út 36.
1087 Budapest, Kerepesi út 9.
1106 Budapest, Örs vezér tere 25.
1114 Budapest, Bocskai út 1.
1115 Budapest, Etele út 68.
1117 Budapest, Hunyadi János út 19.
1123 Budapest, Alkotás utca 55-61.
1126 Budapest, Királyhágó tér 8-9.
1133 Budapest, Váci út 116-118.
1139 Budapest, Váci út 81.
1148 Budapest, Örs vezér tere 24.
1152 Budapest, Szentmihályi út 137.
1173 Budapest, Ferihegyi út 74.
1181 Budapest, Üllői út 417.
1203 Budapest, Kossuth Lajos utca 21-29.
1211 Budapest, Kossuth Lajos u. 85.

2030 Érd, Budai út 22.
2040 Budaörs, Templom tér 22.
2100 Gödöllő, Gábor Áron u. 5.
2310 Szigetszentmiklós, Vak Bottyán u. 18.
2400 Dunaújváros, Vasmű út 39.
2500 Esztergom, Kossuth Lajos u. 14.
2600 Vác, Széchenyi u. 28-32.
2800 Tatabánya, Fő tér 20.
2900 Komárom, Mártírok útja 14.
3200 Gyöngyös, Fő tér 12.
3300 Eger, Jókai Mór utca 5.
3525 Miskolc, Erzsébet tér 2.
3527 Miskolc, Bajcsy Zs.u. 2-4.
4024 Debrecen, Piac u. 18.
4026 Debrecen, Péterfia utca 18.
4400 Nyíregyháza, Korányi Frigyes u. 5.
4400 Nyíregyháza, Kossuth tér 7.
5000 Szolnok, Szapáry út 22.
5600 Békéscsaba, Andrássy út 19.
6000 Kecskemét, Kisfaludy u. 5.
6200 Kiskőrös, Petőfi S. tér 8.
6500 Baja, Dózsa György út 12.
6720 Szeged, Széchenyi tér 15.
6720 Szeged, Széchenyi tér 3.
6722 Szeged, Kossuth Lajos sugárút 9-13.
6800 Hódmezővásárhely, Kossuth tér 6.
7100 Szekszárd, Széchenyi utca 37-39.
7400 Kaposvár, Berzsenyi utca 1-3.
7621 Pécs, Bajcsy Zs u. 11.
7621 Pécs, Irgalmasok útja 5.
8000 Székesfehérvár, Palotai út 1.
8000 Székesfehérvár, Távírda utca 1.
8200 Veszprém, Mindszenty József u. 2.
8360 Keszthely, Széchenyi utca 1-3.
8400 Ajka, Szabadság tér 4.
8500 Pápa, Fő tér 15.
8800 Nagykanizsa, Deák tér 11-12.
8900 Zalaegerszeg, Kossuth u. 21-23.
9022 Győr, Arany János utca 28-32.
9024 Győr, Vasvári P. út 1/a.
9200 Mosonmagyaróvár Fő u. 26.
9400 Sopron, Széchenyi tér 14-15.
9431 Fertőd, Fő u. 12.
9700 Szombathely, Fő tér 36.

(14) Key financial indicators

(HUF million)	**31.12.2022**	**31.12.2021**
Main profitability and efficiency indicators		
Number of branch offices	72	66
Net interest income	139,006	67,917
Net fee and commission income	73,340	57,793
Operating costs	68,258	56,750
Cost/income ratio (without transaction fees and taxes)	32.24%	43.77%
Impairment	-7,701	-5,607
Business year profit	72,115	36,734
Return on equity (ROE)	22.73%	13.96%

Return on investment (ROI)	1.67%	1.05%
Net interest margin	3.47%	1.97%
Impairment ratio	0.40%	0.35%
Total assets	4,320,982	3,825,288
Receivables from customers (gross)	1,905,494	1,595,344
Customer deposits	2,909,023	2,870,117
Loan/deposit ratio	65.50%	55.58%
Bank deposits	525,218	491,295

Main risk indicators		
Loss allowance on receivables from customers	70,765	60,114
Non-performing loans	69,011	76,168
Ratio of non-performing loans	3.62%	4.77%
Coverage ratio of non-performing loans	102.54%	78.92%
Impairment ratio	0.40%	0.35%

Ratios related to solvency capital		
Common Equity Tier 1 (CET1)	265,712	232,486
Additional Tier 1 capital (AT1)	31,445	31,445
Tier 2 capital (T-2)	68,743	58,608
Solvency capital	365,899	322,539
Risk weighted asset	1,572,011	1,437,984
CET1 capital adequacy ratio	16.90%	16.20%
T1 capital adequacy ratio	18.90%	18.40%
Total capital adequacy ratio	23.28%	22.43%
Gearing ratio	6.91%	6.69%

Main liquidity indicators		
Liquidity coverage ratio (LCR)	188.20%	31.,10%
High quality liquid assets	1,168,139	736,980
Net liquidity outflow	620,569	232,448
Net stable funding ratio (NSFR)	129.56%	14.32%

Date: 30.03.2023

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Raiffeisen Bank Zrt.
Consolidated Financial Statements
31st December 2022

Table of content

I. Primary financial statements

A. Consolidated statement of profit or loss

(HUF million)	Notes	2022	2021
Interest income calculated with the effective interest method	(7, 11)	211,421	70,679
Other interest income	(7, 11)	139,549	14,788
Interest expenses	(7, 11, 25)	-211,964	-17,550
Net interest income	**(7, 11)**	**139,006**	**67,917**
Dividend income		383	1,917
Fee and commission income	(8)	103,661	77,693
Fee and commission expenses	(8)	-30,321	-19,900
Net fee and commission income	**(8)**	**73,340**	**57,793**
Net trading income and fair value result	(9, 11)	511	241
Net gains/losses from hedge accounting	(10, 11)	-1,780	798
Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss	(11)	271	993
Other operating income	(12)	1,083	1,863
Other operating expenses	(12)	-24,431	-18,907
Staff expenses	(15)	-33,955	-29,508
Other administrative expenses	(16)	-23,228	-18,644
Depreciation and amortisation	(24)	-11,283	-9,832
Other result	(13, 14)	-6,229	-1,588
Levies and special governmental measures	(17)	-25,146	-6,789
Impairment losses	(6, 11)	-7,701	-5,607
Profit before tax from continuing operations		**80,841**	**40,647**
Tax expense or (-) income related to profit or loss from continuing operations	(18)	-8,726	-3,913
Profit after tax from continuing operations		**72,115**	**36,734**
Profit for the year		**72,115**	**36,734**

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Date: 30 March 2023

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

(HUF million)	Notes	2022	2021
Profit for the year		**72,115**	**36,734**
Other comprehensive income	**(38)**	**6,473**	**-603**
Items that will not be reclassified to profit or loss	**(38)**	**34**	**-6**
Fair value changes of equity instruments measured at fair value through other comprehensive income	(38)	35	-71
Income tax relating to items that will not be reclassified to profit or loss	(18, 38)	-1	65
Items that may be reclassified to profit or loss	**(38)**	**6,439**	**-597**
Foreign currency translation		-19	0
Cash flow hedges (effective portion)	(10, 38)	**11,219**	**813**
Valuation gains or (-) losses taken to equity	(10, 38)	10,388	594
Transferred to profit or loss	(10, 38)	831	219
Debt instruments at fair value through other comprehensive income	(38)	**-4,122**	**-1,469**
Valuation gains or (-) losses taken to equity	(38)	-3,840	383
Transferred to profit or loss	(38)	-282	-1,852
Income tax relating to items that may be reclassified to profit or (-) loss	(18, 38)	-639	59
Total comprehensive income for the year	**(38)**	**78,588**	**36,131**

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting

Date: 30 March 2023

C. Consolidated statement of financial position

(HUF million)	Notes	31.12.2022	31.12.2021
Cash, cash balances at central banks and other demand deposits	(6, 19, 46)	784,913	482,489
Financial assets held for trading	(6, 20, 42, 46)	183,111	114,942
Non-trading financial assets mandatorily at fair value through profit or loss	(6, 20, 42, 46)	126,416	98,941
Financial assets designated-at fair value through profit or loss	(6, 20, 42)	0	195
Financial assets at fair value through other comprehensive income	(6, 22, 23, 42, 46)	305,850	351,960
Financial assets at amortised cost	(6, 21, 42, 46)	2,680,830	2,670,508
Derivatives – Hedge accounting	(10, 42, 46)	191,077	53,286
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-24,300	-12,917
Current tax assets	(18)	1,095	36
Investments in subsidiaries, joint ventures and associates	(44)	8	23
Property and equipment	(24)	35,950	33,706
Intangible assets	(24)	22,607	21,037
Deferred tax assets	(18)	5,101	3,466
Other assets	(26)	8,324	7,616
Total assets		**4,320,982**	**3,825,288**
Financial liabilities held for trading	(6, 27, 28, 42, 46)	145,730	58,502
Financial liabilities measured at amortised cost	(6, 25, 28, 29, 30, 31, 42, 46)	3,726,217	3,450,738
Derivatives – Hedge accounting	(10, 42, 46)	242,488	76,099
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42, 46)	-177,653	-57,868
Current tax liabilities	(18)	5,704	1,599
Provisions	(6, 33)	11,526	9,034
Deferred tax liabilities	(18)	8	4
Other liabilities	(32)	12,176	7,498
Total liabilities		**3,966,196**	**3,545,606**
Share capital	(6, 35)	50,000	50,000
Share premium	(6, 36)	113,445	113,445
Equity instruments issued other than share capital	(37)	31,445	31,445
Accumulated other comprehensive income	(6, 38)	8,853	2,380
Retained earnings	(6, 40)	56,713	30,686
Other reserves	(6, 39)	22,215	14,992
Profit or loss	(6)	72,115	36,734
Total equity		**354,786**	**279,682**
Total liabilities and total equity		**4,320,982**	**3,825,288**

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting

Date: 30 March 2023

D. Consolidated statement of changes in equity

Sources of equity changes	Share capital	Share premium	AT1 instruments issued	OCI* not to be reclassified	OCI* to be reclassified			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 01.01.2022	**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**
Settled payments on equity intstrument	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 31.12.2022	**50,000**	**113,445**	**31,445**	**31**	**10,754**	**-1,932**	**0**	**128,828**	**22,215**	**354,786**

*OCI: Other Comprehensive Income

Date: 30 March 2023

Sources of equity changes	Share capital	Share premium	AT1 instruments issued	OCI* not to be reclassified: Fair value changes of equity instruments measured at fair value through OCI*	OCI* to be reclassified: Cash flow hedges [effective portion]	OCI* to be reclassified: Debt instruments at fair value through OCI*	OCI* to be reclassified: Foreign currency translation	Retained earnings	Other reserves	Total
Notes	(35)	(36)	(37)	(38)	(38)	(38)	(38)	(40)	(39)	
Opening balance 01.01.2021	**50,000**	**113,445**	**31,445**	**3**	**-195**	**3,156**	**19**	**37,330**	**11,336**	**246,539**
Profit or (-) loss	0	0	0	0	0	0	0	36,734	0	**36,734**
Other comprehensive income	0	0	0	-6	740	-1,334	0	0	0	**-603**
Total comprehensive income for the year	**0**	**0**	**0**	**-6**	**740**	**-1,334**	**0**	**36,734**	**0**	**36,131**
Settled payments on equity intstrument	0	0	0	0	0	0	0	-3,127	0	**-3,127**
Total contributions and distributions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,127**	**0**	**-3,127**
Transfers among components of equity	0	0	0	0	0	0	0	-3,656	3,656	**0**
Other increase or (-) decrease in equity	0	0	0	0	0	0	0	139	0	**139**
Total other equity transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,517**	**3,656**	**139**
Closing balance 31.12.2021	**50,000**	**113,445**	**31,445**	**-3**	**545**	**1,819**	**19**	**67,420**	**14,992**	**279,682**

*OCI: Other Comprehensive Income

Date: 30 March 2023

E. Consolidated statement of cash flows

(HUF million)	Notes	2022	2021
Profit or loss for the period		**72,115**	**36,734**
Cash flows from operating activities			
Adjustments for:			
Depreciation and amortisation	(24)	11,283	9,832
Net impairment loss on non-financial assets	(13)	2	34
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(11)	6,227	6,489
Net interest income	(11)	-139,006	-67,917
hereof: amortization, accruals and unwinding		*-741*	*5,046*
Net gains or (-) losses from derecognition of non-financial assets	(12)	-16	4
Other		8,051	2,090
Income tax expense	(18)	8,726	3,913
		-104,733	**-45,555**
Changes in operating assets and liabilities:			
Change in financial assets held for trading	(20)	-51,738	-29,110
Change in non-trading financial assets mandatorily at fair value through profit or loss	(20)	-27,625	-31,089
Change in financial assets at fair value through other comprehensive income	(22)	40,826	159,547
Change in financial assets at amortised cost	(22)	208,643	-288,492
Change in derivatives (assets) – Hedge accounting	(10)	-64,381	-41,037
Change in other assets	(26, 34)	2,116	659
Change in financial liabilities held for trading	(27)	75,195	7,590
Change in financial liabilities measured at amortised cost	(29)	74,810	573,505
Change in derivatives (liabilities) – Hedge accounting	(10)	90,081	57,917
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	-108,402	-46,978
Change in other liabilities, provisions and liabilities held for sale	(32, 33, 34)	7,171	542
		246,696	**363,054**
Interest received	(7, 11)	272,043	88,518
Interest paid	(7, 11)	-133,779	-15,555
Dividend received		383	1,917
Income tax paid	(18)	-7,951	-3,904
Net cash from (+)/used in (-) operating activities		**344,774**	**425,209**
Cash flows from investing activities			
Purchase of securities	(20, 22)	-253,135	-137,936
Disposals of securities	(20, 22)	9,319	86,178
Purchase of equity investments		-450	0
Disposals of other equity investments	(44)	463	650
Purchases of property and equipment	(24)	-6,274	-3,022
Disposals of property and equipment	(24)	1,744	11
Purchases of intangible assets	(24)	-6,619	-6,138
Disposals of intangible assets	(24)	0	1
Net cash from (+)/used in (-) investing activities		**-254,952**	**-60,256**
Cash flows from financing activities			
Issuance and repurchase of issued debt securities	(30)	199,118	0
Repayment of issued debt securities at maturity	(30)	0	0
Payment of lease liabilities	(25)	-2,800	-2,328
Dividend paid	(35)	-3,527	-3,127
Net cash from (+)/used in (-) financing activities		**192,791**	**-5,455**
Net increase/decrease of cash, cash balances at central banks and other demand deposits		**282,613**	**359,498**
Cash, cash balances at central banks and other demand deposits as at 1 January		**482,489**	**121,791**
Net effect of exchange rate changes		19,811	1,200
Cash, cash balances at central banks and other demand deposits as at 31 December	**(19)**	**784,913**	**482,489**

Date: 30 March 2023

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 2022 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).

György István Zolnai Chief Executive 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 EU.

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.

These financial statements were authorised for issue on 30 March 2023.

(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,
- assets and liabilities that are hedged are measured at fair value only in respect of the risk that is hedged,
- other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or – if applicable –, at cost less accumulated depreciation and impairment losses.

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

The selection, development, application and disclosure of critical accounting policies and accounting estimates are agreed with the Supervisory Board of the 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 epidemy 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 introduced in 2022 have no or insignificant effect on the consolidated financial statements.

(4) Significant accounting policies

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

(4.1) *Presentation of financial statements*

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

(4.2) *Basis of consolidation*

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 2022 and 2021.

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*.

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 the functional currency at the exchange rate at that date. The Group uses the exchanges rates published by National Bank of Hungary.

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

(4.5) *Intangible assets*

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

i. Goodwill

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

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

Goodwill on acquisitions of interests in associates is included in 'Investments measured by the equity method'.

ii. Intangible assets other than goodwill

Intangible assets that have a finite useful life are measured initially at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. 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 owner or by a lessee under financial lease) to earn rentals or for capital appreciation or both. The Group applies cost model as valuation method for investment property. The Group uses straight line depreciation, and the useful lives of the properties are 20 years. The fair value of investment 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 price of the lease component and the aggregate standalone 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 Groups published by Bloomberg.

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

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

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

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

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

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

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 a straight-line basis over the lease term.

The Group acting as a lessor

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

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

(4.7) *Assets obtained against receivables*

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

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

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

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

(4.8) *Cash and cash equivalents*

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

Cash and cash equivalents are carried at amortised cost in the balance sheet 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 the Group's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair value is determined for measurement and / or disclosure purposes based on the following methods.

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

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

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

The most favourable market is the market that maximises the amount that would be received for the sale of the as-set or minimises the amount that would be paid for the transfer of the liability after 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 sale or purchase of the asset. Regular way purchase or sale is a purchase or sale of an asset based on a contract whose terms require delivering the asset within the time frame established by conventions and regulations in the market.

Every other financial asset and liability (including financial assets and liabilities measured at fair value through profit or loss) is recognised when the Group falls under the provisions of the contract 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*

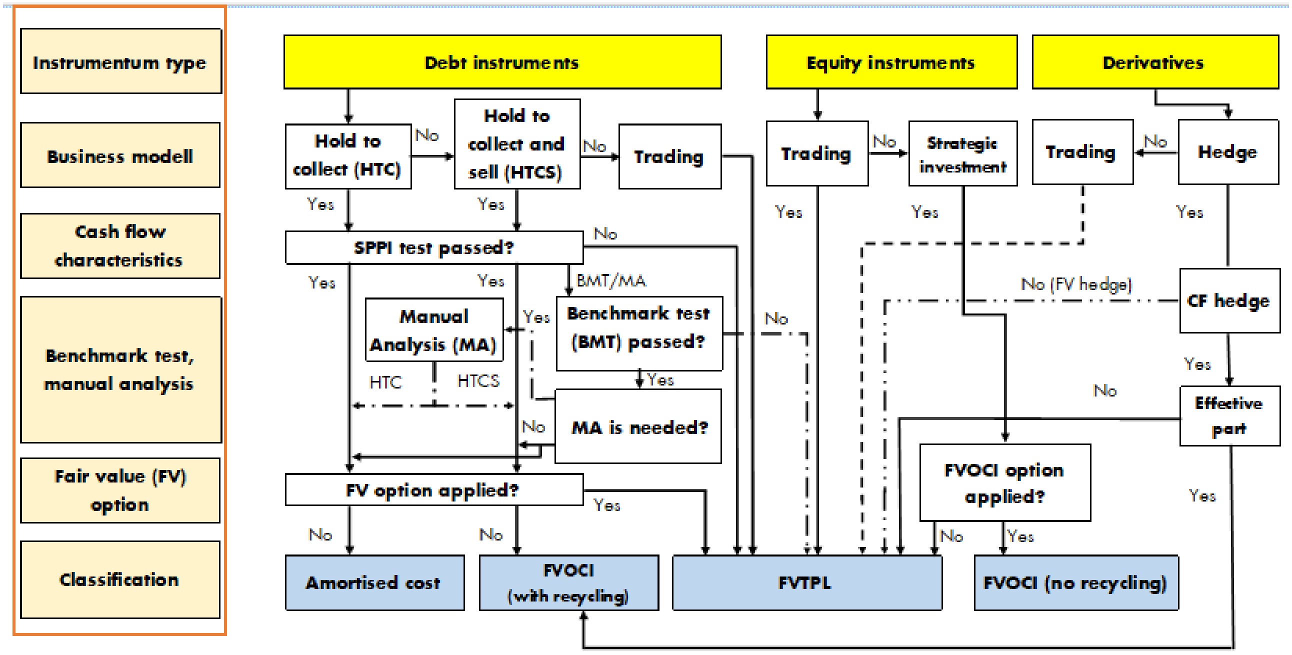
i. Classification and measurement of financial

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

- how the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the Group's key management personnel,
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed,
- how managers of the business are compensated – 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 collection of the remaining contractual cash flows.

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

Hold 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 profit margin. This also means that the contractual terms need to be examined, whether they introduce features that change the timing or amount of contractual cash flows. The Group considers the following factors:

- contractual features that change the timing or amount of contractual cash flows,
- gearing,
- prepayment and prolongation options,
- contractual terms that limit the Group's receivables to defined assets of the debtor or cash flows generated by a defined asset (e.g., non-performing financial assets that cannot be liquidated), 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 by grouping (clasterisation) of financial assets. The analysis of contractual cash flow characteristics of contracts not clasterised 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 observed on auctions regularly published by GDMA in the preceding 3 months plus 2%. In case of breaching the conditions, the customer shall pay back the interest subsidy within 120 days and the loan becomes interest bearing with an interest rate equal to 130% of the weighted average of 5-year government bond yields observed on auctions regularly published by GDMA in the preceding 3 months plus 5%. The Group regards the multiplier applied to GDMA average yields as a leverage factor inconsistent with a basic lending agreement and thus the contractual cash flows of childbirth incentive loans are deemed not to solely represent payments of principal and interest on principal outstanding

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 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 reclassification date. The Group determines the reclassification date as the first day of the quarter following the business model change. The Group does not remeasure income, 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 holds structured issued bonds that contain both a liability component and an embedded derivative whose values are interdependent. Embedded derivatives are separated when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative meet the definition of a stand-alone derivative if they were in a separate contract; and the combined contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the consolidated profit or loss.

Derivatives embedded in financial assets that are in the scope of IFRS 9 are never separated. In this case the entire hybrid instrument is assessed for classification as part of the SPPI test.

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

Interest income and expense from derivatives – irrespective whether derivatives are held for trading or held for risk management purposes – are recognised in statement of comprehensive income line item '*Net interest income'* and changes in fair value less accrued interest are recognised in statement of comprehensive income 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 instrument, the Group manages the modified interest risk of the new cash flow profile with derivative instruments. 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 as part of the recalculated effective interest rate of the item over its remaining term.

The Group hedges fixed-rate loans, deposits, fixed-rate issued bonds and purchased bonds in fair value hedge relationships with interest rate swaps and cross currency interest rate swaps. Hedge accounting is applied on micro and on macro (portfolio) level as well. Under the latter case, a portfolio of (modelled) current account balances and a portfolio of fixed rate loans are designated as hedged items.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, the portion of the gain or loss less accrued interest on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss under *'Net gains/losses from hedge accounting'*. Interest income or expense of the derivative is reported as '*Net interest income'*.

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

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively from that point of time when the hedging relationship became ineffective. The Group reclassifies gain or loss 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 the portion of the loss in the other comprehensive income will not be recoverable then it reclassifies that amount immediately to profit or loss as *'Net gains/losses from hedge accounting'*.

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 in hedge relationship. The derivative counterparty's credit risk is not offset by the hedged item. This risk is minimised by entering into derivatives only with high credit quality counterparties.
- Different amortisation profiles on hedged item principal amounts and interest rate swap notionals.
- In some cases, the discounting curve is different on the hedged item and the derivate deal for the purposes of calculation of fair value.

- Ineffectiveness might arise due to different starting/maturity date between the hedged item and the hedging instrument.

Interest rate benchmark reform

The reform of interest rate benchmarks such as interbank offered rates (IBORs) caused changes to financial reporting requirements under IFRS Standards. The International Accounting Standards Board (the Board) tackled the changes in two phases.

Phase 1 amended specific hedge accounting requirements where uncertainty could arise in the run-up to the transition. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amount of interest rate benchmark-based cash flows of the hedging instrument is uncertain.

The Group has no hedged items with an interest rate benchmark subject to the reform. The Group has concluded that as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

Phase 2 addressed potential financial reporting issues that may arise when IBORs are either reformed or replaced. When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. Since the Group has no hedged items with an interest rate benchmark subject to the reform, the hedge designation is amended only to updating the description of the hedging instrument subject to the reform. The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

(4.10.5) *Impairment of financial assets*

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

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

The Group does not recognise impairment for equity instruments.

Recognition of expected credit loss

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

Performing financial instruments where the credit risk of the financial instrument has not increased significantly since initial recognition (Stage 1 classification)

For financial instruments classified to Stage 1, the recognition of 12 months expected credit loss is required, 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)

For financial instruments classified to Stage 2 the recognition of lifetime expected credit loss is required. Lifetime expected credit losses are credit losses arising from potential default events during the entire life of the financial instruments.

Credit-impaired financial instruments (Stage 3 classification)

Those exposures are classified as credit-impaired where there is objective evidence that the debtor will not be able to meet its payment obligations towards the Group. For financial instruments classified as Stage 3, the recognition of lifetime expected credit loss is required (see the definition above).

Purchased or originated credit impaired financial instruments (POCI classification)

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

Low credit risk financial assets

The Group applies this qualification only in case of investment grade rated government securities, for which the Group always recognises 12-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), and Aaa and Baa3 (Moody's) qualification.

Significant increase in credit risk (transfer to Stage 2)

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

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) differs for each segment (it is 250% for non-retail segment but can decrease to minimum 150% for transactions with a maturity of over one year, in line with the regulations of the parent bank). In the retail segment (households and micro enterprises) the determination of significant increase in PD is based on the initial and actual credit rating, remaining maturity and the PD curve. The measure for significant portfolio deterioration was determined on the basis of the PD estimated for the remaining maturity of a financial asset at the date of disbursement divided by the current PD for the remaining maturity, disaggregated into products of the retail portfolio.

Qualitative criteria

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

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

- renegotiation because of financial difficulties,
- past-due for more than 30 days,
- the client requires special treatment because of its credit risk status,
- in line with the provisions of IFRS and Group instructions 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: by 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 review of the significant increase of credit risk includes 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 review of the significant increase of credit risk includes 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 defaulted if it meets one of the following criteria:

Quantitative criteria

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

A payment delay is considered material, if the overdue amount reaches HUF 165,000 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,
- the Group suffers credit losses due to the client, or it sells the asset with losses due to financial difficulties (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 default definition of IFRS as non-performing and categorises them as Stage 3 for impairment and provision calculation purposes.

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

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

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 two repayment moratoria 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 agricultural finance exposures, 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 cases, the clients affected with the moratoria were considered restructured and an impairment test was performed to detect the probable non-performance. In case of clients detected in the impairment test, the Group performed a net present value calculation, and in case of contracts where the net present value of the expected future repayments did not cover the actual outstanding balance, default status was concluded, and the client was transferred to Stage 3. The tests described above were performed separately for clients participating in the moratorium (2, 3, 4 and agricultural) and the SME interest rate stop.

During the repayment moratoria, the DPD calculations have been terminated 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, when one or more of the following criteria are met:

Quantitative criteria

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

A payment delay is considered material, if the delay related to the financing agreement reaches the HUF equivalent of EUR 100 and 1% compared to the total (delayed and non-delayed) exposure from the transactions (in case of micro companies' 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. A retail client turns into default due to expected non-payment in the following cases:

- the debtor passed away,
- the debtor committed a fraud,
- legal claim enforcement procedure (bankruptcy, liquidation) starts against the micro enterprise client,
- the Group sold the receivable due to its high credit risk,
- terminating the financing agreement with immediate effect,
- restructuring the obligation due to financial difficulties,
- envisaging expected credit losses due to 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 3 months, or in case of restructured loans for 1 year, and the client fulfils all other conditions to be classified out of the 'defaulted' category.

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

Measurement of expected credit losses

The amount of expected credit loss is an unbiased probability-weighted amount that takes into consideration the time value of money, uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

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 expected recoveries are calculated on a client basis and the experts provide estimates in more scenarios and the probability-weighted averages of the different cash flows from the scenarios are considered in the present value calculations.
- In case of Stage 3 retail loans, the expected credit loss is calculated by adjusting statistical estimates for most likely expected loss (BEEL, Best Estimate of Expected Loss) to remove indirect costs, and conservative add-ons from those estimations.

Discount rate

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

- financial instruments and financial assets which are not purchased or originated credit impaired (non-POCI): original or current effective interest rate,
- purchased or originated credit-impaired financial assets (POCI): the credit-adjusted effective interest rate,
- undrawn loan commitments: market interest rate, which is an appropriate approximation of effective interest rate,
- financial guarantees: market interest rate, which is an appropriate approximation of effective interest rate,
- lease receivables: interest rate implicit in the lease.

Forward looking information

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

These economic variables and their impact on the probability of default, loss given default and exposure at default can vary across types of categories. While making this analysis, also expert estimations were used. The forecasts of the above economic variables (‘base case economic scenario’) is provided by Raiffeisen Research quarterly, giving the best estimates of those economic indicators for the following three years. 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 economic variables in order to estimate the probability of default. Based on this model the effect of forecasted change in PD is estimated for a 3-year period, then it returns to the original PD curve.

Besides the base economic scenario, a best case (optimistic) and a worst case (pessimistic) scenario is also provided by Raiffeisen Research, together with their weighting in order to grab the expected variance. The Group concluded that three scenarios capture the expected variance properly. The weighting of the scenarios is determined by the combination of statistical analysis and expert credit rating taken the outcomes of the selected individual scenarios into account. The probability-weighted expected credit losses are determined by running the appropriate expected credit loss model to the respective scenarios and weighting the results, the weights being the probabilities of the scenarios. The weights of the scenarios (probability of the scenarios: 50% base, 25% optimistic, 25% pessimistic) remained the same in 2022.

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.

The forward-looking information applied to determine the expected credit losses for the actual and previous period is presented in *Note 6.2 Credit risk*.

Recognition of expected credit losses in the statement of financial position

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

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

(4.10.6) *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 the operating cash flows of the client. In these cases, partial write-off is applied to the extent of the existing loss allowance. The legal claim towards the client remains the contractual receivable amount before write-off.

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 only be written off if the recoverable amount 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'* (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, as well as securitization.

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

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of the ownership of a financial asset, it derecognises the asset, if it does not retain control over the asset. If the Group retains substantially all the risks and rewards, the rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate in the balance sheet items of placements with banks, other assets, deposits or other liabilities depending on the nature and direction of the transaction. In transfers in which control over the financial asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial assets for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset is recognised for the servicing contract if servicing fee exceeds the value of the service, and a liability is recognised for the servicing contract if servicing fee is lower than the value of the service.

The Group enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical securities at a certain date in the future at a fixed price. Securities purchased subject to commitments to resell them at future dates are not recognised as securities. The amounts paid are presented in the statement of financial position line item *'Financial assets at amortised cost'* and disclosed as collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised and measured in the consolidated statement of financial position as part of the securities portfolio. The proceeds from the sale of the securities are included in the statement of financial position line item *'Financial liabilities at amortised cost'*. The difference between the sale and repurchase considerations is recognised on an accrual basis over the term of the transaction and is included in interest income or expense, respectively.

The Bank securitizes certain financial instruments by classifying the related risks in 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 security. In this case, a true transfer of receivables takes place and the assets and risks are fully or partially excluded from the balance sheet of the initiator. In case of synthetic securitisation, the transfer of risk is achieved by the use of risk transfer credit derivatives or guarantees, and the exposures being securitised remain exposures of the Group.

On 23 December 2022, the Group entered into 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, while the credit risk of the junior and senior tranches is retained by the Group. Since the rights to the cash flows from the loans were retained by the Group, and all or substantially all risks and rewards from parts of all affected loans were retained, the loans are not derecognised from the statement of financial position according to IFRS 9.

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

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

(4.10.8) *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. If the renegotiated cash flows significantly differ from the contractual cash flows of the original financial asset, the original financial asset is derecognised and the new financial asset is recognised at fair value on the date of the renegotiation. The difference between the carrying amount of the original financial asset and the fair value of the newly recognised financial asset is included in the line item '*Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss'* in the statement of profit or loss.

The Group evaluates significance based on qualitative and quantitative criteria.

Qualitative criteria:
- change of currency, when the contract does not allow drawdowns 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 parameter 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 (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 by EUR 100,000, in case of retail assets by EUR 2,000 EUR (considering the larger of the 2 criteria).

If the modified cash flows of an asset measured at amortised cost do not differ significantly from the cash flows prior to the modification, the modification does not result in derecognition. In this case, the Group recalculates the gross carrying amount of the financial asset and the difference between this amount and the gross carrying amount of the asset prior to the modification is recognised as a modification gain or loss in the statement of profit or loss. If the modification was carried out in relation to the financial difficulties of the client, the modification gain or loss is presented in the statement of 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 at the date of modification. The difference between the carrying amount of the derecognised liability and the fair value of the new, recognised liability is reported as '*Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss'* in the statement of profit or loss.

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

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

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

(4.10.9) *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 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. In case of commitments and issued guarantees, the event could occur at any time up to the expiry date while in case of pending legal issues it could be expected to occur at the date of closing the legal case.

All contingent liabilities are presented in the statement of financial position whether or not the economic outflows related to the settlement of the obligation are probable or not.

(4.13) *Financial guarantees*

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The amount of the financial guarantee liability subsequently is the higher of the provision for expected credit losses in line with the rules of the IFRS 9 and its initially recognised amount less the accumulated revenue recorded in line with IFRS 15. Financial guarantees are presented under provisions.

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

(4.14) *Interest income and interest expense*

Interest income and expenditure on financial instruments, calculated using the effective interest method are presented in the line item '*Interest income calculated with the effective interest method*', negative interest on demand deposits at the National Bank of Hungary and on financial liabilities is presented in the line item *'Other interest income'* and interest on financial liabilities as well as negative interest on financial assets is presented in the line item '*Interest expenses*' in the statement of profit or loss. Interest income and expense for financial instruments measured at fair value through profit or loss in trading book and classified as held for trading, as well as derivative instruments designated for risk management purposes are presented in '*Other interest income*' and '*Interest expenses*'. Interest income for loans measured at fair value through profit or loss is presented in '*Other interest income*' and interest expense for deposits measured at 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 result the interest result only contains realised and unrealised interest results from derivatives.

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life (or a sometimes a shorter period) of the financial asset or financial liability to the net carrying amount of a financial asset or a financial liability. The effective interest rate is determined at the initial recognition of the financial asset or financial liability and is revised in case of financial instruments with a floating interest when the floating interest rate is periodically reset. When calculating the effective interest rate, the Group estimates future cash flows by considering all contractual terms of the financial instrument. The calculation contains all paid or received amounts which are an integral part of the effective interest rate, including transaction costs and any other premium and discount. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Calculation of interest income

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

(4.15) *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 for 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 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 securities issuance

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 typically relate to affecting the transaction and are accounted for 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

Financial commissions not yet mentioned, and items related to other services are presented under custodian, corporate finance, asset management and other income. Also in these cases when services are provided continuously (for example fees for custody, protecting credit collateral, safe fees), the practice is to account for the income 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 (for example advisory services for corporate customers, 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*.

Non-credit institution services related fee and commission income

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 2022 because the contracts with clients are either fixed terms for less than one year, are open 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 bill.

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 sundry items that cannot be classified elsewhere.

(4.18) *Dividend income*

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

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

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

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 assets relating to termination benefits, if it is demonstrably committed to terminate the employment.

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

(4.20) *Income tax*

Income tax for the period comprises current and deferred tax. Income tax is recognised in the consolidated income statement, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. The Group considers the business tax and the innovation contribution as part of income tax.

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

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

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

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

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

(4.21) *Share capital*

Share capital is the sum of preference and ordinary shares contributed by the shareholders at foundation or at capital increase. Share capital is recognised at the time of the registry by the commercial court in the amount registered and defined in the deed of company formation. Share capital is valued at book value using historical rates.

(4.22) *Additional Tier 1 Capital*

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

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

(4.23) *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 under 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 3 'Business Combinations' - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)

- Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)

- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)

- Amendments to various standards due to 'Improvements to IFRSs (cycle 2018 -2020)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The adoption of the above amendments to the existing standards has not led to any material changes in 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

At 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 and which are not yet effective:

- IFRS 17 'Insurance Contracts' including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual 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 periods beginning on or after 1 January 2023)

- Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure of Accounting Policies (effective for annual 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 periods beginning on or after 1 January 2023)

- Amendments to IFRS 17 'Insurance contracts' - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023)

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, which were not endorsed for use in EU on the date of the publication of these financial statements:

- Amendments to IAS 1 'Presentation of Financial Statements' - Classification of Liabilities as Current or Non-Current (effective date has changed, Long-term liabilities with covenants (effective for reporting periods beginning on or after 1 January 2024)

- Amendments to IFRS 16 'Leases' - Lease liabilities on sale and leaseback (effective for annual periods beginning on or after 1 January 2016)

- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded)

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on its financial statements in the period of initial application.

(5.2) *Significant events in the reporting period*

Actions of the NBH

Following a decision of the NBH's Monetary Board, the regulations regarding minimum reserves have been changed from 1 October 2022. According to the amendment, the amount of minimum reserve, which previously equalled 1% of the corresponding liabilities will be substantially increased and will include both daily and monthly average compliance requirements. The minimum reserve ratio will be increased up to 5%, with daily compliance requirements to ensure a sustainable liquidity coverage. Above the 5% minimum rate, an additional optional percentage rate of up to 5% was introduced, allowing the NBH to provide additional liquidity and giving credit institutions the flexibility to deal with liquidity shocks. For the optional reserve requirement level, the regulation requires compliance on a monthly average basis. The amendments became effective with the monthly reserve period starting from 1 October 2022. The Bank chose a rate of 8%.

The NBH increased the base rate from 2.4% from the beginning of the year to 13% in several steps until 28 September 2022.

As a result of the significant weakening of the forint, the NBH announced on 14 October 2022 that it would increase the benchmark interest rate to 18% by introducing the overnight deposit rapid auction, which meant an immediate rate increase of 500 basis points. The interest rate on overnight secured loans increased to 25%. The one-week secured loan instrument was suspended. The base rate remained at 13%. The NBH also guaranteed to provide the more significant foreign currency liquidity needs arising from the hedging of energy imports in the upcoming months.

The NBH introduced a new deposit instrument in October 2022. The purpose of the instrument is to provide a long-term liquidity position of more than one week in order to reduce the volatility of short yields by extending the average maturity of the sterilised stock, thereby strengthening the monetary transmission. The deposit instrument has a maturity of up to 6 months and is considered being an eligible collateral for the NBH's lending operations.

Extra-profit tax

Credit institutions and financial enterprises are required to pay an extra-profit tax in 2022 and 2023 based on their net revenue according to Act C of 1990 on Local Taxes (hereinafter 'the Act C on Local Taxes'). The basis of the special tax is the net revenue determined on the basis of the financial statement of the preceding tax year. The rate of the tax is 10% in 2022 and 8% in 2023. The tax liability for the tax year 2022 must be paid in two equal instalments (between 10 October 2022 to 10 December 2022) and the liability for the tax year 2023 must be paid in three equal instalments (until 10 June 2023, until 10 October 2023 and until 10 December 2023). These directives for credit institutions and financial enterprises will be applicable for the first time for their first entire tax year beginning after 31 December 2021, covering 1 July 2022.

Repayment moratorium

The contracts expired under the repayment moratorium are prolonged. Due to the repayment moratorium in case of contracts under the repayment moratorium, the Group stopped collecting the repayments and the interest and fees due. In case of these contracts, the principal, interest and fee obligations were postponed beyond the end of the moratorium and those will have to be paid under the term in equal instalments. After the end of the repayment moratorium, the term must be prolonged so that the instalments after the end of the moratorium cannot exceed the instalments according to the original contract terms.

Repayment moratorium II. (moratorium 3, 1 November 2021 - 31 July 2022)

In 2021, the Government extended the repayment moratoria for particular society groups and enterprises with financial difficulties until 30 June 2022 (Government Decree nr. 536/2021. (XII.22.) about the modification of the Government Decree nr. 637/2020. (XII.22.) about special rules related of the repayment moratoria in connection with the emergency). From 1 November 2021, only those clients are able to participate in the repayment moratorium who participated in the repayment moratorium on 30 September 2021 and declared between 1 October 2021 and 31 October 2021 on a form specified by the legislation their intention to continue participating in the moratorium (from 1 November 2021) and comply with eligibility conditions set by the legislation. The exact conditions for eligibility are determined by Section 5 of the Government Decree nr. 637/2020. (XII.22.). By Government Decree 216/2022 (17.VI.2022), the Government extended the moratorium period until 07 July 2022.

Repayment moratorium II. (moratorium 4, 1 August 2022 - 31 December 2022)

By Government Decree 216/2022 (17.VI.2022), the Government extended the moratorium period until 31 December 2022. As of 1 August 2022, clients that remained under moratorium at the end of July 2022 and requested an extension of the moratorium until 31 July 2022, in a declaration specified in the legislation, remained in moratorium.

In December 2022, the government announced that the number of clients in the moratorium had decreased significantly, therefore the maturity of the moratorium would not be extended beyond the end of 2022. However, it was emphasised that the government would provide support to repay the debts, as repayments would not be allowed to increase after the termination of the moratorium.

Agricultural moratorium (from 01.09.2022 to 31.12.2023)

Due to the drought in 2022, the Government Decree 23/2022 (VIII.8.) provides a payment moratorium for agricultural businesses (agricultural enterprises, self-employed entrepreneurs and farmers) from 1 September 2022 to 31 December 2023. The payment moratorium applies to loans already disbursed under contracts existing on 31 August 2022.

Interest cap

Retail benchmark interest rate stop (1 January 2022 – 30 June 2023)

On 24 December 2022, the Government Decree nr. 782/2021. (XII. 24.) about the implementation of the Act 2009. CLXII on loans to consumers in pandemic, which 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 1 17/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 before 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 the decree for the affected loan contracts.

The Government extended the interest rate stop 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 fixed interest rates of up to 5 years of interest periods.

SME interest rate stop

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

Interest rate stop on bank deposits (until 31.03.2023)

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 after HUF on-demand deposits or deposits committed to maximum 1 year contracted until 31 March 2023 cannot exceed the latest auction average yield for treasury bills issued for a 3-month maturity published by the Government Debt Management Agency. The Decree applies to deposits of institutional investors and retail customers with a deposit amount of over HUF 20 million.

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 Circular regarding the scope of 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 classification 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, this Circular has only changed with regarding to the update of the macro parameters that guide the forward-looking information. In 2022, the Circular on the classification of loans was updated by the NBH to include expectations for the treatment of loans in moratorium 4 and the agricultural moratorium.

The Bank 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 less than 9 months – in compliance with the European Banking Authority's (EBA) report about the moratoria updated in December – in the first and second moratoria combined. If any single transaction of a client participated more than 9 months in the first and second moratoria combined, then the Group 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 participating at the start in moratorium 2 (launched in 2021) or agricultural moratorium (launched in 2022) 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 flagged 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 trigger 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 preforming the impairment test.

At the launch of the moratorium 4, which started in 2022, the remaining performing clients, who were then 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 by multiple scenarios) method, using a conservative ('banker's case') approach.

To cover risks for which there is no sufficient information pool to assess increase in credit risk or to recalibrate models, but for which a significant increase in credit risk is likely, the Bank's management has recognised an overlay impairment for the first time in 2020, with quarterly review and value adjustments during 2021 and 2022.

Retail segment

In accordance with the NBH's management circular published on 21 January 2021, the Group assumes that its clients participating more than 9 months in the repayment moratoria have financial difficulties or they are likely to have financial difficulties in the future, 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 leaving the moratorium. Moreover, the Group assessed also for these clients 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 Bank did not have sufficient information to assess the increase in credit risk, the Bank's management recognised an overlay impairment for both moratorium 3 and moratorium 4 participating transactions 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.

The interest benchmark rate reform

There is a global, overall interest benchmark reform in progress, which seeks to change some particular interbank interest rates (IBOR) to alternative almost risk-free interest rates ('IBOR reform'). The substantial part of LIBOR interest rates will cease after 31 December 2021, except USD LIBOR for some maturities, which will be available until 30 June 2023. Instead of these risk-free alternative (transaction based or hybrid, partly based on other pricing) interbank interest rates will be introduced in Europe along with Hungary. Apart from LIBOR, the EURIBOR will not cease, but its calculation method will be changed.

The Bank has substantial outstanding balances in some particular interbank benchmark interest rates, which are affected in the reform.

The main risk for which due to the IBOR reform the Group is exposed are operating risks: i.e., renegotiation of loan contracts through bilateral negotiations, actualization of the contracts, updating the systems using IBOR yield curves, review of the operating controls in respect of the reform, regulatory risks. The financial risks are mainly related to interest risk.

The Group launched a project managing the transition to the alternative yields. The transition is based on the RBI's methodology, but in two phases:

- in 2021 the reform of GBP, CHF, EUR, JPY LIBOR,
- in 2022 the reform of overnight, 1-month, 3-month USD LIBOR.

In the first phase, enterprises, financial institutions, private individuals were affected in the transition (no balance to retail clients). There was a mutual decision about the pricing methodology in the related business areas, but later modification was needed due to the different products and client needs.

The new benchmark interest rates used in the related portfolio are the following:

- EONIA -> €STR (Euro Short-Term Rate)
- GBP LIBOR -> SONIA (Sterling Overnight Index Average)
- CHF LIBOR -> SARON (Swiss Average Rate Overnight)
- USD LIBOR -> SOFR (Secured Overnight Financing Rate)
- JPY LIBOR -> TONAR (Tokyo Overnight Average Rate)

In case of the transactions, the Group applied a 5-day retrospective period but did not consider any credit adjustment spread. The LIBOR transactions were handled by the Group to the contrary of the EU regulation. In case of bank accounts, the Group neither applied the retrospective period nor the credit adjustment spread (except for some credit institutions). The Group did not apply a fallback clause, but some contracts were modified bilaterally.

The Group notified the clients through mail or internet bank.

In case of new products, the Group applied the same methodology as in case of existing transactions, the transfer pricing and the contractual background should be clarified.

The Group applies the overnight SOFR for the transition from overnight, 1-month, and 3-month LIBOR, as in case of existing transactions. In case of interest-rate swaps contracted against USD LIBOR due to the fallback clause becoming effective after 06.30.2023 the interest rate of the variable leg will be determined based on SOFR + marge.

According the parent bank's decision starting form the second half of 2022 the Bank can enter new USD deals (loan, deposit, derivatives) with variable interest only based on SOFR, or TermSOFR.

The Group believes that a contract did not reprice to an alternative benchmark interest rate, if the contractual interest rate is still tied to a benchmark rate, which is affected by the IBOR reform, even in cases, when it contains a fallback clause for the termination of the IBOR benchmark rate currently in use.

(6) Financial risk management

(6.1) Introduction and overview

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

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

Individual credit risk analysis, credit rating, credit assessment and credit monitoring is performed by the CRM; portfolio level credit risk measurement and analysis of market (interest rate, foreign currency, liquidity) risks and operational risks is performed by the Integrated Risk Assessment Department (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 balance of business and risk considerations which are established by Group's management, within the frame of the Act on Credit Institutions, other laws and regulations and the Group's Credit Policies.

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

Credit risk arises primarily from the non-performance risk related to banking activities involving retail and corporate clients, banks and municipalities as lenders. Non-performance risk is the risk that a client will not be able to fulfil its contractual financial obligations. However, credit risk might also arise from migration risk, from the concentration of lenders, credit risk mitigation techniques and from country risk.

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

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

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

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

The Group prepares integrated forecasts for provisions, impairment, capital requirement and profit and loss after tax and performs stress testing bi-annually. Based on expectations about the macroeconomic environment, we estimate default rates and their impact on the above amounts using statistical models. The period of the forecasts is 3 years and Pillar I and Pillar II capital adequacy is analysed for both the expected and the pessimistic scenarios.

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

The impact of the COVID-19 pandemic and increased geopolitical and energy market risks on restructuring and default recognition practices

The events that are under actions of the government decided until 31.03.2021 in order to mitigate the economic crisis, according to the guidelines of EBA[1] 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 real economic difficulties are not investigated individually.
- Under the repayment moratoria - according to 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 different conditions than above, especially the repayment moratoria programs (moratorium 2 and 3) and the benchmark interest rate stop launched in 2021 are no exception to the standard assessment obligation for restructuring and non-performance, therefore the Group applies the standard identification processes, in compliance with regulations of the CRR, EBA, RBI Group, the NBH Decree Nr. 39/2016 and the NBH's management circulars.

Compliance with sanctions

As a matter of policy, the Group maintains policies and procedures to ensure compliance with embargoes and financial sanctions applicable to its activities. Furthermore, the Group has implemented adequate monitoring and screening tools to ensure compliance with such policies related to all applicable sanctions, including but not limited to sanctions imposed by the UN, EU and US.

Retail segment

Lending framework and risk policy

Retail segment

The repayment moratorium introduced by the government from 19.03.2020 was extended until 30.10.2021 with unchanged conditions, and until 31.12.2022 with limited conditions. The Group has regularly revised and amended the rules for taking

[1] https://eba.europa.eu/eba-provides-clarity-banks-consumers-application-prudential-framework-light-covid-19-measures

this criterion into account in its lending decisions for new loans, to apply this factor in the judgement in the decisions. Moratorium 3 affected only 3% of the customers on a banking system level, and even less of the retail customer base. The initial need for credit scoring actions due to Covid-19 was slowly being phased out in parallel with the economic recovery towards the first half of 2022. As a result of the strong inflationary impact during the second half of the year, the Group is taking a more cautious approach to lending to customers with lower earnings.

Micro- and SME segment

In general, given the situation due to COVID-19, the Group tried to handle the micro and SME segment with due caution and attention. The Group monitored and reviewed regularly to what extent their clients are affected and tried to collect more and better information. This practice has been continued in the year 2022, in the context of the Russian-Ukrainian conflict and the resulting negative economic events.

The process for collecting information during the credit assessment has been extended with the following, in addition to information available in the Group's systems:

- A questionnaire for both segments was prepared extended with economic environment related questions, which must be attached to the credit proposals. The questionnaire focuses on the enterprise's operation, revenue prognoses, level of own reserves, customer-supplier relationships, financing needs. In 2022, the questionnaire has been extended to include information on the changes in energy costs for businesses, the costs and availability of stocks and supplies, and labour. When scoring loans, we pay particular attention to the impact of increased costs on business performance in short and medium term, how customers can adapt to rising costs, whether they have the capacity to make energy-saving investments and what resources they can draw on to do so.
- In the micro segment in case of affiliated companies for loans over HUF 20 million, trial balance is requested in order to obtain well supported information on interim operations (in SE segment it has already been part of the risk analysis documentation).

The performance of the micro and SME segment is measured and analysed on a monthly basis taking into account the above detailed economic environment related considerations (risk profile). Based on the results of monitoring, we proactively initiate the restructuring of the financing for clients identified at a high risk, using available exit products.

Expected credit losses

Otherwise, considering the 'Management Circular about the use of macroeconomic information and factors triggering significant increase in credit risk under IFRS 9' published by NBH, the Group decided in November 2020 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 did not reflect the real expected credit losses for the period after the moratoria. Therefore, the Group recorded an additional HUF 3,346 million impairment loss for the riskiest clients in 2020 (restructured, already having 30+ DPD before the repayment moratoria, the client's payments decreased significantly) calculated with 100% PD factor, since based on the Group's expectation this client segment has a high probability of becoming defaulted after the repayment moratoria.

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

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

- in retail segment do not keep their primary bank account by the Group, or
- in microenterprises segment more than 25% loss of turnover, the Group identified increased credit risk.

In 2021, the Group recorded a HUF 2,772 million additional impairment related.

In August 2022, the Group repeated its assessment of the financial situation of customers entering moratorium 4 and, where there was reasonable information regarding the customer's worsened financial situation, placed them in default, i.e. Stage 3. In addition, the Group applied portfolio-level management adjustments to transactions within the retail moratorium. The amount of the additional impairment was HUF 133 million.

Due to the impact of energy market risks and increasing liquidity and profitability difficulties, the Group also applied portfolio-level management adjustments within the small and medium enterprise segment on several occasions during 2022. The total additional impairment loss recognised in the segment under post model adjustment framework exceeded HUF 1,142 million.

Corporate segment

Lending framework and risk policy

In case of the corporate segment, the Group regularly monitors and reviews to what extent its clients were affected by the current macroeconomic and geopolitical risks and tries to collect more and better information. As a result of the portfolio screening, the Group identified some particularly sensitive industries (e.g.: hotels, food service, vehicle production, companies with sensitivity due to interest rate or exchange rate changes) where the exposures, industry forecasts and possible outcomes 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 portfolios have 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 activity 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 as of 2022, but possible effects in 2023 cannot be completely excluded (e.g. future sanctions, disruption of supply chains of gas, oil).

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

1. Industrial segmentation 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 and are to 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 are only to be signed, if based on a sensitivity analysis in case of a decrease in the client’s revenue, the Group does not expect any significant decline in the client’s rating. The accurate documentation of the sensitivity analysis is crucial in the decision.
   - Clients in low-risk industries: continuing of the normal business in line with the effective lending policy, however the risk management and approval process shall particularly focus on considering the client’s potential vulnerability to COVID-19.

2. Update and review of the effective general corporate lending framework and 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 COVID-19 vulnerability point of view, regarding both the volume of supply/demand and the potential damage of the supply chain,
   - the flexibility of the cost structure needs to be analysed, what fixed cost are to be expected for the next period,
   - when assessing the client’s financial situation, the 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 is only allowed if the increased debt repayment is still in line with reference debt ratios in the Group’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 validity and amounts of the limits in the credit proposals shall be reviewed and updated 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 kept, clients with missing or decreasing revenue easily could by 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 (especially in case of COVID-PWO status), the interest rate swaps concluded in relation to clients participating in the repayment moratoria can 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 Group accepts proposals only with particular circumspection,
   - real estate finance: the Group accepts proposals only with particular circumspection.

3. Implementing rules for new transactions:

    - the Group provides finance only for industries that were not mentioned as COVID-19 effected industries in point 2., and on selective basis,
    - the Group applies the selective method 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 mainly it could be considered in case of low-risk industries, less influenced by the COVID-19, with detailed assessment of the client's ability to repay the debt considering the COVID-19.

Expected credit losses

The Groups' impairment recognition was influenced in many ways by current market conditions.. Stage 1 and Stage 2 impairments were 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 analysing department which were updated several times during the year. Furthermore, decline in the clients' financial situation and the resulting revised/worsening rating caused a higher level of impairment (where significant decline in rating occurred, transfer from Stage 1 to Stage 2 was performed). There was no deterioration in the risk profile of individual transactions in 2021 nor in 2022, so there has been no increase in impairment losses due to the impact of the prolonged effects of Covid-19, the geopolitical situation in the surrounding countries or the slowdown in the domestic economy.

Furthermore, the Group concluded, that these above-mentioned market conditions created such a new situation, which cannot be managed with its already existing credit risk models with sufficient accuracy and can only predict the expected credit losses with limitations. Therefore, the Group has re-modelled the impact of macroeconomic data on impairment in 2022, adopting a new model that reflects the current situation more realistically and results in a more prudent level of provisioning. Alongside, the Group applied the option of the 'post model adjustment' for the year 2022 and 2021.

The post model adjustment allocates impairment depending on how much they are exposed to these factors (supply chain difficulties, rising of the energy and material prices and labour shortages, increase of the interest environment). The model dynamically estimates deal-by-deal based on the above-mentioned risk-factors a ceteris paribus expected probability of rating worsening and a corresponding probability of default and an expected credit loss.

The Stage 2 indicators that are used for identifying increased credit risk profiles were supplemented with the risks not yet modelled, too. Those clients were transferred to Stage 2 based on the sector-based Post Model Adjustment for which the model assumes a significant downgrade, so in this case expected credit loss covers the expected loss over the term. Clients entering the repayment moratoria – in case no other trigger for increased credit risk occurred – were not transferred automatically to Stage 2. However, if such client's rating significantly declined or its risk status was PWO or COVID-PWO then in their case Stage 2 classification was performed and impairment was recognised.

Process of credit rating

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

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

Internal credit rating categories are as follows:

- **Minimal risk:**

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

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

- **Excellent credit standing:**

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

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

- **Very good credit standing:**

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

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

- **Good credit standing:**

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

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

- **Average credit standing:**

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

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

- **Acceptable credit standing:**

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

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

- **Weak credit standing:**

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

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

- **Very weak credit standing:**

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

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

- **Doubtful / high default risk:**

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

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

- **Default:**

  Occurred 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 specific rule, 100% impairment is allocated to them by the Group), uncoded transactions, transactions unrated due to data failure in a negligible number, private and childbirth incentive under standard approach and loans provided to small and medium sized 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.

31.12.2022 (HUF million)	Cash, cash balances at central banks and other demand deposits *	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Provisions***	Total
Cash	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 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'*.

31.12.2021 (HUF million)	Cash, cash balances at central banks and other demand deposits *	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Provisions***	Total
Cash	54,091	0	0	0	0	0	0	**54,091**
Placements with banks and central bank	428,398	0	0	0	0	1,007,462	0	**1,435,860**
Loans and advances to clients	0	0	97,771	0	0	1,437,459	0	**1,535,230**
Investment in debt securities	0	43,272	627	195	351,897	225,587	0	**621,578**
Equity instruments**	0	6,141	543	0	63	0	0	**6,747**
Loan commitments and financial guarantees	0	0	0	0	0	0	4,546	**4,546**
Derivative assets	0	65,529	0	0	0	0	0	**65,529**
Total	**482,489**	**114,942**	**98,941**	**195**	**351,960**	**2,670,508**	**4,546**	**3,723,581**

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

	31.12.2022									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income					
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Financial assets at fair value through profit and loss**	**Total**
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 stand-ing	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 stand-ing	99	0	0	0	0	0	0	0	0	**99**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit stand-ing	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 stand-ing	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 stand-ing	100,564	155,543	0	642	0	0	0	0	1,592	**258,341**
Weak credit standing	36,982	87,285	0	535	0	0	0	0	601	**125,403**
Very weak credit stand-ing	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**

	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	
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		Total
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**
Weak credit standing	0	583	0	0	0	0	0	0	0	**583**
Very weak credit standing	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**
Weak credit standing	13,307	14,069	0	0						**27,376**
Very weak credit standing	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**

	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	
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		Total
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**
Weak credit standing									585	**585**
Very weak credit standing									1	**1**
Doubtful / high default risk									0	**0**
Default									0	**0**
Unrated									73	**73**
Carrying amount									**162,341**	**162,341**

	31.12.2021									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss	
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		Total
Placements with banks										
Minimal risk	2,067	0	0	0	0	0	0	0	0	**2,067**
Excellent credit standing	1,329,538	0	0	0	0	0	0	0	0	**1,329,538**
Very good credit standing	88,358	15,002	0	0	0	0	0	0	0	**103,360**
Good credit standing	199	0	0	0	0	0	0	0	0	**199**
Average credit standing	402	0	0	0	0	0	0	0	0	**402**
Acceptable credit standing	0	301	0	0	0	0	0	0	0	**301**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**

	31.12.2021									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income				Financial assets at fair value through profit and loss	
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI		Total
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	1	0	0	0	0	0	0	0	0	**1**
Gross carrying amount	**1,420,565**	**15,303**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,435,868**
Loss allowance	-6	-2	0	0	0	0	0	0	0	**-8**
Carrying amount	**1,420,559**	**15,301**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,435,860**
Loans and advances to clients										
Minimal risk	15,181	4,032	0	0	0	0	0	0	999	**20,212**
Excellent credit standing	70,294	6,466	0	21	0	0	0	0	4,207	**80,988**
Very good credit standing	287,570	48,222	0	17	0	0	0	0	5,313	**341,122**
Good credit standing	214,662	80,730	0	159	0	0	0	0	4,187	**299,738**
Average credit standing	300,919	104,874	0	643	0	0	0	0	2,830	**409,266**
Acceptable credit standing	93,807	48,725	0	736	0	0	0	0	782	**144,050**
Weak credit standing	28,549	84,231	0	398	0	0	0	0	181	**113,359**
Very weak credit standing	3,380	12,196	0	174	0	0	0	0	45	**15,795**
Doubtful / high default risk	1,223	6,747	0	205	0	0	0	0	109	**8,284**
Default	0	1	67,832	3,661	0	0	0	0	276	**71,770**
Unrated	8,728	868	2,299	23	0	0	0	0	78,842	**90,760**
Gross carrying amount	**1,024,313**	**397,092**	**70,131**	**6,037**	**0**	**0**	**0**	**0**	**97,771**	**1,595,344**
Loss allowance	-3,345	-22,726	-30,879	-3,164	0	0	0	0	0	**-60,114**
Carrying amount	**1,020,968**	**374,366**	**39,252**	**2,873**	**0**	**0**	**0**	**0**	**97,771**	**1,535,230**
Investment in debt securities										
Minimal risk	0	0	0	0	32,103	0	0	0	0	**32,103**
Excellent credit standing	35,676	0	0	0	25,870	0	0	0	35,942	**97,488**
Very good credit standing	168,127	4,462	0	0	263,179	7,772	0	0	7,662	**451,202**
Good credit standing	7,761	0	0	0	13,191	0	0	0	0	**20,952**
Average credit standing	6,874	0	0	0	8,650	0	0	0	117	**15,641**
Acceptable credit standing	2,873	0	0	0	1,258	0	0	0	373	**4,504**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**

(HUF million)	31.12.2021 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**
Gross carrying amount	**221,311**	**4,462**	**0**	**0**	**344,251**	**7,772**	**0**	**0**	**44,094**	**621,890**
Loss allowance	-156	-30	0	0	-86	-40	0	0	0	**-312**
Carrying amount	**221,155**	**4,432**	**0**	**0**	**344,165**	**7,732**	**0**	**0**	**44,094**	**621,578**
Loan commitments and financial guarantees										
Minimal risk	11,850	1,330	0	0						**13,180**
Excellent credit standing	37,859	3,357	0	0						**41,216**
Very good credit standing	114,848	43,915	0	0						**158,763**
Good credit standing	112,381	16,631	0	0						**129,012**
Average credit standing	139,412	26,773	0	0						**166,185**
Acceptable credit standing	47,475	16,987	0	0						**64,462**
Weak credit standing	15,337	9,541	0	0						**24,878**
Very weak credit standing	372	3,240	0	0						**3,612**
Doubtful / high default risk	66	1,204	0	0						**1,270**
Default	0	0	15,472	0						**15,472**
Unrated	2,089	2,973	65	0						**5,127**
Gross amount	**481,689**	**125,951**	**15,537**	**0**	**0**	**0**	**0**	**0**	**0**	**623,177**
Carrying amount (provision)	-734	-998	-2,814	0	0	0	0	0	0	**-4,546**
Derivative assets										
Minimal risk									1	**1**
Excellent credit standing									54,246	**54,246**
Very good credit standing									2,174	**2,174**
Good credit standing									2,824	**2,824**
Average credit standing									5,179	**5,179**
Acceptable credit standing									378	**378**

	31.12.2021									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income					
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Weak credit standing									627	**627**
Very weak credit standing									0	**0**
Doubtful / high default risk									4	**4**
Default									83	**83**
Unrated									13	**13**
Carrying amount									**65,529**	**65,529**

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

	31.12.2022								
	Financial assets at amortized cost				Financial assets at fair value through other comprehensive income				
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
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**

	31.12.2021								
	Financial assets at amortized cost				Financial assets at fair value through other comprehensive income				
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to bank and clients									
Non-retail									
Central bank	1,230,193	0	0	0	0	0	0	0	**1,230,193**
Sovereign	14,919	0	0	0	-1	0	0	0	**14,918**
Credit institution	184,299	15,303	0	0	-6	-2	0	0	**199,594**
Financial corporate	31,882	0	0	0	-10	0	0	0	**31,872**
Large corporate	645,887	272,139	41,811	0	-1,487	-9,487	-12,605	0	**936,258**
Small -and medium enterprises	50,918	15,502	1,335	0	-182	-117	-279	0	**67,177**
Retail									
Private Individuals	258,288	101,099	22,349	6,037	-1,485	-12,143	-14,934	-3,164	**356,047**
hereof: mortgage	*201,006*	*75,567*	*15,988*	*5,780*	*-796*	*-8,288*	*-10,198*	*-2,958*	***276,101***
Micro	28,492	8,352	4,636	0	-180	-979	-3,061	0	***37,260***
Carrying amount	**2,444,878**	**412,395**	**70,131**	**6,037**	**-3,351**	**-22,728**	**-30,879**	**-3,164**	**2,873,319**

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. SMEs can apply under the FGS for investment (capital expenditure) loans, working capital loans, loans for pre-financing EU subsidies and loans for repaying foreign currency loans (conversion loans). The maximum term is 10 years in case of investment (capital expenditure) loans, loans pre-financing EU-subsidies and conversion loans, and 1 year in case of working capital loans. Credit institutions can only charge a maximum interest of 2.5% (including costs and fees).

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

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 refinancing loans with predetermined rules from a different commercial bank within identical framework of the Loan Scheme.

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 2022 year-end, the balance outstanding from the above-described FG Schemes was HUF 113,162 million (2021: the Group had refinancing balance of HUF 134,426 million under the FG scheme).

Garantiqa Crisis Guarantee Scheme

In order to mitigate the negative economic effects of the coronavirus pandemic, the Garantiqa Hitelgarancia Zrt. introduced a scheme with favourable conditions named 'Garantiqa Crisis Guarantee Scheme' with a frame budget of HUF 2,200 billion for the domestic SMEs 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 indemnity).

Garantiqa Crisis 2 Guarantee Scheme

In order to deal with 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 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 Programme 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 SMEs. It has strictly regulated conditions (requesting, precluding, contracting, disbursing conditions), with which all the banks must comply. For the product the NBH provides refinancing as part of the FGS Go!. 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 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 listed 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 GO! ended in 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 SMEs. It has strictly regulated conditions (requesting, precluding, contracting, disbursing conditions), with which all the banks must comply. For the product, the Group provides fix own financing, thanks to this and to the high state subsidy in interest, administration and guarantee fee, the enterprises can 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 help with the transitional liquidity problems of the requesting enterprises/debtors. Refinancing is also possible through the product under various restrictions.

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 listed 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 log-term financing for enterprises' development, and investments in the operation areas of agricultural products production, agricultural post-harvest services provision, and activities related to forestry, game- and fish farming, 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 temporary support title. For all loan transactions, the 80% or 90% guarantee of AVHGA will be involved.

Széchenyi Card MAX Scheme

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 under 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 backing is reinforced by a guarantee from Garantiqa Hitelgarancia Zrt.

1. Széchenyi Overdraft Max
The objective of the loan is bridging temporary liquidity problems of the applicant/debtor company. With various restrictions, loan conversion 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 help with the transitional liquidity problems of the requesting enterprises/debtors. Refinancing is also possible through the product under various restrictions. At our Bank, it is only available for micro and small enterprises.

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 listed 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 products production, agricultural post-harvest services provision, and activities related to forestry, game- and fish farming, 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 temporary support title. For all loan transactions, the 80% or 90% guarantee of AVHGA will be involved. Max. HUF 400 million loan can be requested for a duration of max. 10 years, with a fixed interest rate of 1.5%, with state interest subsidy.

Agricultural Enterprises Loan Guarantee Foundation (AVHGA) Crisis Program

The Hungarian Government decided about the introduction of the AVHGA 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 and SMEs with 90% guarantee labelled as a 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 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 revenue of 2019 or the double of the personal costs of 2019, or in duly justified cases the amount of the enterprise's 18-month liquidity needs.

The Program ended on 30 June 2022.

Agricultural Enterprises Loan Guarantee Foundation (AVHGA) Crisis Program II.

The European Committee approved the credit guarantee scheme on 17th 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 programme, but makes the AVGHA's guarantee with decreased fee more widely, this way increasing the financing opportunities. The new title replaced the title introduced for the aid related to the Covid-19 and is eligible until the end of 2022 in the frame of Crisis Program II., this way helping the food business, which is in a difficult situation due to the Russian-Ukrainian conflict. The foundation's guarantee can be maximum 90% (by 85% state suretyship), the fee equals 0,25% p.a. and can be taken to maximum maturity of 6-year loans. The amount to be guaranteed cannot exceed 15% of the enterprise's average yearly revenue resulted from its last 3 closed business year, or 50% of the energy costs for the last 12 month before applying for the guarantee, but in some adequately reasoned cases it can reach to 12-month liquidity needed.

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 on 31 December 2021. The Scheme consisted of 3 pillars:

1. EXIM Compensation Loan Program
The aim of the program is to provide working capital finance (maximum for 3 years), investment loans (maximum for 6 years) and lease finance (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 SMEs and at 2% in case of large enterprises.

2. EXIM Compensation Loan Protection Program
Under the program, companies who had difficulties after 01.02.2020 have an option the receive a 100% state subsidized suretyship to their existing loans. An 80% of suretyship is granted to SMEs and small mid-cap companies (maximum of 499 employees) and a 50% suretyship is granted for companies larger than these (but by individual cases the Credit Committee of Exim can approve 90%, too) for working capital finance loans with a maximum maturity of 3 years and for investment loans with a maximum maturity of 6 years. The approval process for guarantees below of HUF 300 million are processed in accelerated proceed.

3. EXIM Compensation Credit Insurance Program
The program helps exporters with 95% insurance of deferred trade receivables. 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 deterioration of the business environment due to the COVID-19 pandemic by providing interest-subsidized loans to finance the development projects necessary for this purpose for SME size exporters, suppliers, and businesses preparing to export. The aim of the program is to provide investment loan (maximum 10 year) for SME size enterprises, who got into difficult situation after 1 February 2020 with fixed, by EXIM determined interest. The margin of the commercial banks is also fix: 2.5% is ensured by EXIM during the refinancing.

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

Retail products

The government extended the deadline until the end of 2024 the application for baby loans and the opportunity VAT return for new homes. Furthermore, the subsidized real estate loans, CSOK, which can be used as own contribution when purchasing residents are still available. However, the subsidized home renovation loan, and the non-repayable grants were terminated, and the repayment moratoria was terminated as well 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 assets

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

Changes to the portfolio

In 2022, exposures towards credit institutions decreased significantly due to a few individually significant amounts (2022: HUF 1,261 billion, 2021: HUF 1,421 billion).

In 2022, besides the increasing level of the portfolio in the corporate segment (2022: HUF 1,323 billion; 2021: HUF 1,053 billion), the balance of non-performing corporate loans increased (2022: HUF 43.3 billion, 2021: HUF 41.4 billion).

The approximately HUF 1.3 billion increase in the non-performing portfolio was caused by three opposite impacts: return on about HUF 6.6 billion workout operation decreasing effect, the Group detected about HUF 4.9 billion non-performing balance during its standard assessment processes, which was further boosted by a revaluation difference of around HUF 3 billion on the total non-performing portfolio due to the weakening of the forint. The volume of the new non-performing portfolio is determined by two cash-flow producing project loans (total HUF 4.5 billion), where the Bank decided to opt for non-performing status due to uncertainties about future cash flows. This is a distinct event, no signs of systematic portfolio deterioration nor its signs can be seen.

The proportion of non-performing loans in the corporate segment is decreased to 2.4% from 2.8% compared to 2021.

As for the corporate portfolio, the impact of forward-looking macroeconomic variables on PD was revised during the year, resulting in an increase in the stage 2 portfolio due to the associated PD deterioration.

In the retail and micro-enterprises portfolios, an increase in the exposure occurred in 2022 (2022: HUF 573.3 billion, 2021: HUF 526.3 billion). In the retail segment, the portfolio increased both in the mortgage loan and in the uncollateralized product portfolio, and in the uncollateralized portfolio due to the childbirth incentive loan program measured at FVTPL Besides, the non-performing exposure decreased in 2022 (2022: HUF 21.5 billion, 2021: HUF 30.3 billion). The non-rated (uncategorized) exposure increased (2022: HUF 130.8 billion, 2021: HUF 86.9 billion) in the retail segment, mainly related to 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 *(4.11.5) Impairment of financial assets*.

The determination of the exposure necessary for credit risk management is a complex exercise and requires the application of models as exposure changes depend on market conditions, expected cash flows and the passage of time. The assessment of credit risk of the portfolio contains further estimations regarding the probability of default, the loss given default and the correlations between different clients' non-performance. Group measures credit risk using the probability of default (PD), the risk exposure (EAD) and the expected loss due to default (LGD). This is the primary approach in measuring expected credit losses under IFRS 9.

Expected credit losses are calculated by workout experts 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 a 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 modelling 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, 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%	0.23%
Excellent credit standing	0.04%	0.26%
Very good credit standing	0.16%	0.54%
Good credit standing	0.36%	0.89%
Average credit standing	1.44%	2.35%
Acceptable credit standing	2.92%	4.44%
Weak credit standing	7.12%	7.93%
Very weak credit standing	13.15%	13.80%
Doubtful / high default risk	23.24%	34.91%
Unrated	1.72%	2.44%

Loss given default (LGD)

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

For non-retail segments, given the amount of data available and the weight of non-retail segments in the portfolio, modelling is performed by Raiffeisen Bank International (RBI):

- in case of corporate clients, project financing, credit institutions, insurance companies and local and regional municipalities, the Group uses its own LGD estimations taking loss rate experience into account,
- loss given default for sovereign debts is estimated using market information sources,
- in case of investment funds, given the lack of loss experience, expert estimations for uncollateralised LGD, which is considered in capital adequacy calculations, is used.

In order to determine the LGD parameters the RBI modelling collects data from the members of the Group, which is sent individually to the 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 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 months and lifetime EAD is determined taking the expected repayment characteristics into account, which varies across product types. For amortising products and bullet-type loans, EAD is based on contractual repayment obligations over the next 12 months or the lifetime of the instrument. Where relevant, assumptions about prepayments and refinancing are 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, the ones having so-called high probabilities of default. The credit conversion factors applied are quantified using different methodologies for revolving and non-revolving exposures. Related modelling is performed by RBI. This process is the same as the process described at the modelling of LGD parameters, i.e., various entities send data to the central database, afterwards the central modelling calculates the EAD using those and other country-specific information so that it matches the lending information of the various 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 = used facility + 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 2021.

Gross domestic product	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	2.38%	4.27%	4.27%
	Base	1.00%	3.50%	3.50%
	Pessimistic	-1.54%	2.09%	2.09%
Unemployment rate	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	3.37%	3.60%	3.10%
	Base	4.80%	4.40%	3.90%
	Pessimistic	6.22%	5.19%	4.69%
Long-term (10 years) government bond yields	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	6.69%	6.90%	6.73%
	Base	7.76%	7.49%	7.33%
	Pessimistic	10.90%	9.24%	9.07%
Inflation rate	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	17.95%	7.05%	5.85%
	Base	15.70%	5.80%	4.60%
	Pessimistic	13.07%	4.34%	3.14%
Reference interest rate	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	11.21%	6.17%	4.80%
	Base	11.71%	6.45%	5.08%
	Pessimistic	13.67%	7.54%	6.17%
Housing price index	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	7.52%	11.07%	16.07%
	Base	2.00%	8.00%	13.00%
	Pessimistic	-3.32%	5.05%	10.05%
Commercial property price index	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	8.80%	6.50%	6.50%
	Base	2.50%	3.00%	3.00%
	Pessimistic	-4.64%	-0.97%	-0.97%

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:

31.12.2022 (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

31.12.2021 (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	28,430	26,004	27,170	31,049

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:

31.12.2022 (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

31.12.2021 (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	28,430	20,135	-8,295

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:

31.12.2022 (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

31.12.2021 (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	28,430	40,787	12,357

Current year development of expected credit losses

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

(HUF million)	Opening balance 01.01.2022	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**
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 commitments and financial guarantees given	**4,546**	**1,928**	**-2,156**	**1,641**	**196**	**0**	**82**	**6,237**	**0**

(HUF million)	Opening balance 01.01.2021	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 31.12.2021	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss*

Debt instruments									
Placements with banks	2	9	-5	-1	0	0	1	6	0
Loans and advances to clients	1,586	1,173	-894	2,173	-693	-9	9	3,345	0
Investment in debt securities	47	93	-29	116	0	0	15	242	0
of which: collectively assessed impairment	*1,635*	*1,275*	*-928*	*2,288*	*-693*	*-9*	*25*	*3,593*	*0*
Stage 1 Total	**1,635**	**1,275**	**-928**	**2,288**	**-693**	**-9**	**25**	**3,593**	**0**
Placements with banks	0	0	0	2	0	0	0	2	0
Loans and advances to clients	19,326	4,358	-5,027	4,620	-564	-2	15	22,726	0
Investment in debt securities	278	0	0	-194	0	0	-14	70	0
of which: collectively assessed impairment	*19,604*	*4,358*	*-5,027*	*4,428*	*-564*	*-2*	*1*	*22,798*	*0*
of which: non-performing	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Stage 2 Total	**19,604**	**4,358**	**-5,027**	**4,428**	**-564**	**-2**	**1**	**22,798**	**0**
Placements with banks	0	0	0	0	0	0	0	0	0
Loans and advances to clients	26,674	6,221	-13,044	11,068	-4	-357	321	30,879	0
Investment in debt securities	0	0	0	0	0	0	0	0	0
of which: collectively assessed impairment	*13,411*	*395*	*-4,531*	*8,782*	*-4*	*-101*	*18*	*17,970*	*0*
of which: individually assessed impairment	*13,263*	*5,826*	*-8,513*	*2,286*	*0*	*-256*	*303*	*12,909*	*0*
Stage 3 Total	**26,674**	**6,221**	**-13,044**	**11,068**	**-4**	**-357**	**321**	**30,879**	**0**
Placements with banks	0	0	0	0	0	0	0	0	0
Loans and advances to clients	3,670	0	-3,485	2,972	0	-8	15	3,164	0
Investment in debt securities	0	0	0	0	0	0	0	0	16
of which: collectively assessed allowances	*3,670*	*0*	*-3,485*	*2,972*	*0*	*-8*	*15*	*3,164*	*0*
of which: individually assessed allowances	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
POCI Total	**3,670**	**0**	**-3,485**	**2,972**	**0**	**-8**	**15**	**3,164**	**16**
Total loss allowance for debt instruments	**51,583**	**11,854**	**-22,484**	**20,756**	**-1,261**	**-376**	**362**	**60,434**	**16**
Loan commitments and financial guarantees given									
Stage 1	254	196	-142	440	-16	0	2	734	0
Stage 2	1,183	934	-898	-207	-18	0	4	998	0
Stage 3	4,019	282	-2,232	798	0	0	-53	2,814	0
Total provisions on loan commitments and financial guarantees given	**5,456**	**1,412**	**-3,272**	**1,031**	**-34**	**0**	**-47**	**4,546**	**0**

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

In 2022 and in 2021, the effect of some changes in retail estimation methodology on the expected credit loss is shown in the column ‘Changes due to update in the methodology for estimation (net)’. For the details about the changes in the methodology please see the Note ‘Effect of the COVID-19 on the credit risk management’.

The total of this year’s movements in expected credit losses include – within changes due to change in credit risk – the adjustments to the net exposure of credit-impaired (Stage 3) exposures arising from the net interest calculation, which is presented in *’Impairment losses’* but affects interest (2022: HUF 6,108 million, 2021: HUF 7,139 million). Besides the above, the profit or loss item *’Impairment losses’* includes amounts from de-recognising sold and written-off exposures (2022: HUF 3,567 million, 2021: HUF 6,272 million) including individually large corporate exposures and retail packages, as well as recoveries from purchased or originated credit-impaired financial instruments (2022: HUF 1,682 million, 2021: HUF 1,252 million).

The Group performs further collection procedures in relation to certain financial assets which were written off in the current year. The contractual receivables relating to such financial assets amount to HUF 2,840 million (2021: HUF 3,495 million).

Contract modifications and expected credit losses

There were contract modifications which did not lead to derecognition of the financial assets in 2022, too. The amortised costs of financial assets so modified and for which lifetime expected credit losses were recognised amounted to HUF 129,825 million (2021: HUF 203,977 million) before the modifications and the related net modification loss amounted to HUF 6,227 million (2021: HUF 1,554 million), the biggest part of this was related to net modification loss (2022: HUF 294 million, 2021: HUF 726 million) arising from the changes in the present value of the cash flows related to the cash flows from clients participating in moratorium, furthermore from the changes in the present value of the clash flows related to the products affected by the interest rate stop (2022: HUF 6,523 million, 2021: HUF 962 million).

The table below present the balances related to the repayment moratoria:

12.31.2022	Performing			Non-performing			
(HUF million)	Total performing	*hereof: Stage 2*	*hereof: re-structured*	Total non-per-forming	*hereof: un-likely to pay that are not past-due or past-due <= 90 days*	*hereof: re-structured*	Total performing and non-performing
Households	9,552	*8,982*	*1,409*	5,922	*5,343*	*5,887*	**15,474**
hereof: collateralised by residential immovable property	*6,218*	*6,218*	*861*	*4,371*	*3,851*	*4,366*	**10,589**
Non-financial corporations	2,668	*1,445*	*1,263*	23,712	*23,712*	*23,664*	**26,380**
hereof: small and medium-sized enterprises	*2,611*	*1,442*	*1,263*	*1,528*	*1,528*	*1,492*	**4,139**
hereof: collateralised by commer-cial immovable property	*0*	*0*	*0*	*19,286*	*19,286*	*19,271*	**19,286**
Other	0	*0*	*0*	0	*0*	*0*	**0**
Gross carrying amount	**12,220**	***10,427***	***2,672***	**29,634**	***29,055***	***29,551***	**41,854**
Impairment	-2,235	*-2,229*	*-388*	-10,907	*-10,504*	*-10,867*	**-13,142**
Net carrying amount	**9,985**	***8,198***	***2,284***	**18,727**	***18,551***	***18,684***	**28,712**

12.31.2021	Performing			Non-performing			
(HUF million)	Total performing	*hereof: Stage 2*	*hereof: re-structured*	Total non-per-forming	*hereof: un-likely to pay that are not past-due or past-due <= 90 days*	*hereof: re-structured*	Total performing and non-performing
Households	14,661	*14,658*	*1,090*	8,341	*22,004*	*8,265*	**23,002**
hereof: collateralised by residential immovable property	*10,084*	*10,080*	*836*	*6,479*	*15,684*	*6,465*	**16,563**
Non-financial corporations	1,376	*1,349*	*877*	21,974	*23,299*	*21,960*	**23,350**
hereof: small and medium-sized enterprises	*859*	*831*	*428*	*1,817*	*2,625*	*1,802*	**2,676**
hereof: collateralised by commer-cial immovable property	*71*	*71*	*20*	*17,375*	*17,443*	*17,374*	**17,446**
Other	0	*0*	*0*	0	*0*	*0*	**0**
Gross carrying amount	**16,037**	***16,007***	***1,967***	**30,315**	***45,303***	***30,225***	**46,352**
Impairment	-2,667	*-2,667*	*-247*	-11,900	*-13,753*	*-11,832*	**-14,567**
Net carrying amount	**13,370**	***13,340***	***1,720***	**18,415**	***31,550***	***18,393***	**31,785**

Out of the total gross carrying amount, the unpaid amount related to the payment moratoria in 2022 was HUF 21,086 million (2021: HUF 36,468 million).

The table below shows the gross carrying amounts related to the payment moratoria by sectors:

(HUF million)	31.12.2022	31.12.2021
Real estate	228	268
Domestic trade	550	761
Other, mainly service industries	19,539	18,055
Finance	0	242
Public administration	0	0
Mining	0	0
Manufacturing	3,066	3,328
Agriculture	2,728	52
Transportation, communication	168	473
Construction	101	171
Energy	0	0
Infrastructure	0	0
Households	15,474	23,002
Total	**41,854**	**46,352**

The below table presents the loss from changed cash flows due to the payment moratoria:

(HUF million)	2022	2021
Households	-172	-674
hereof: collateralised by residential immovable property	*-44*	*-464*
Non-financial corporations	-122	-48
hereof: small and medium-sized enterprises	*-15*	*-45*
hereof: collateralised by commercial immovable property	*-105*	*-23*
Other	0	-4
Modification gains or (-) losses, net total	**-294**	**-726**

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 Group has already carried out a risk monitoring assessment for it during the start of moratorium 2.

Customers participating in moratorium 2 in 2021 or in the agricultural moratorium in 2022 are already classified as Stage 2 or Stage 3 and are automatically marked as restructured. Considering that the transactions that were included in moratorium 1 (2020) with a final expiration date in 2020 were automatically included in moratorium 2 (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 Bank carried out a risk monitoring assessment and on the basis of this assessment, the Bank reclassified the client as a restructured client in case of financial distress.

During Moratorium 3 in 2021 and Moratorium 4 in 2022, the Group identified all transactions as restructured and classified them as Stage 2 or higher. At the start of moratorium 4 in 2022, the outstanding transactions - which were then classified as Stage 2 and identified as restructured- were repaid. The remaining participating counterparties were classified as Stage 3 and designated as non-performing restructured.

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

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

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

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

A contract can be regarded as forborne – regardless of the modified conditions or actual past due status – if in course of the contract modification the Group is granting a concession and the borrower had at least once during the 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.

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

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

31.12.2022	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
(HUF million)	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**

31.12.2021	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
(HUF million)	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	87,533	50,117	137,650	-7,863	-23,473	-31,336	75,902
Total financial assets at amortised cost	**87,533**	**50,117**	**137,650**	**-7,863**	**-23,473**	**-31,336**	**75,902**
Loans and advances to clients	11	218	229	0	0	0	161
Total financial assets at fair value through profit and loss	**11**	**218**	**229**	**0**	**0**	**0**	**161**
Commitments and financial guarantees given (Stage 3)	6,666	3,664	10,330	-140	-1,280	-1,420	2,734
Total	**94,210**	**53,999**	**148,209**	**-8,003**	**-24,753**	**-32,756**	**78,797**

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 Group considers collateral which is defined in the Raiffeisen International Group Directive for Collateral Evaluation and Management (Catalogue) and complies with all of the following requirements:

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

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

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

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

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

31.12.2022 (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**

31.12.2021 (HUF million)	Loans and advances to clients	Investments in securities	Loan commitments and financial guarantees given	Derivative assets	Total collateral
Cash deposits	**13,196**	**0**	**14,926**	**4,480**	**32,602**
Debt securities issued by	**45,699**	**0**	**288**	**0**	**45,987**
Government	7,308	0	0	0	7,308
Companies	29,888	0	60	0	29,948
Others	8,503	0	228	0	8,731
Shares	**13,078**	**0**	**54**	**1,313**	**14,445**
Mortgage on	**477,545**	**0**	**29,516**	**0**	**507,061**
Residential real estate	267,090	0	2,112	0	269,202
Commercial real estate	173,657	0	19,868	0	193,525
Other	36,798	0	7,536	0	44,334
Guarantees from	**302,258**	**158**	**47,536**	**0**	**349,952**
Government	181,111	94	1,179	0	182,384
Banks	121,147	64	46,357	0	167,568
Other collateral	**114,483**	**0**	**40,328**	**0**	**154,811**
Total collateral	**966,259**	**158**	**132,648**	**5,793**	**1,104,858**

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

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**	
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**		**Total**
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**

31.12.2021	**Financial assets at amortised cost**				**Financial assets at fair value through other comprehensive income**			**Financial assets at fair value through profit and loss**	
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**		**Total**
Loans and advances to clients	0	0	0	0	0	0	0	0	0
Investment in debt securities	625,374	218,381	25,633	2,710	0	0	0	94,161	966,259
Loan commitments and financial guarantees given	64	0	0	0	94	0	0	0	158
Derivative assets	112,943	17,693	2,012	0					132,648
Total								5,793	5,793
(HUF million)	**738,381**	**236,074**	**27,645**	**2,710**	**94**	**0**	**0**	**99,954**	**1,104,858**

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)	**31.12.2022**	**31.12.2021**
Property and equipment	846	848
Other	4	4
Total assets obtained	**850**	**852**

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:

31.12.2022 (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**

31.12.2021 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	169,417	168	2,934	23,385
Domestic trade	0	169,186	3,626	477	117,789
Other, mainly service industries	0	187,097	12,292	1,052	81,813
Finance	205,673	94,161	224,385	35,765	68,675
Central Bank	1,230,195	0	35,047	15,195	643
Public administration	0	7,692	271,885	0	835
Mining	0	4,568	0	2	135,258
Manufacturing	0	323,739	69,193	9,123	4,370
Agriculture	0	32,882	2,439	0	31,512
Transportation, communication	0	85,397	0	159	134,692
Construction	0	22,990	829	814	1,328
Energy	0	1,770	2,026	0	2,340
Infrastructure	0	2,988	0	0	20,537
Private households	0	493,457	0	8	0
Total	**1,435,868**	**1,595,344**	**621,890**	**65,529**	**623,177**

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.

31.12.2022 (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	2035.03.31	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 foreign currency open position, Additionally, credit spread risk between bonds and money market products is indicated as an individual risk factor in the reports as well.

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

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

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

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

Non-trading portfolio (banking book) includes positions that arise from the interest rate management of the Group’s retail and commercial banking assets and liabilities. The Group's non-trading activities encompass all activities other than accounted for as trading transactions, including lending, accepting deposits, and issuing debt instruments. A special interest rate model was introduced for the products in the banking book with no maturity, which was integrated also into the risk reports.

Exposure to interest rate risk – trading and banking book

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

Interest rate exposure is the most significant risk factor in the banking and trading book portfolios, On Group level, strict Basis Point Value limits and Value-at-risk (VaR) limits are defined, which are monitored 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)	31.12.2022	31.12.2021
Financial assets	1,896,339	2,300,225
Financial liabilities	776,351	462,118
Total	**1,119,988**	**1,838,107**

Financial instruments with variable interest rates

	31.12.2022		31.12.2021	
(HUF million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities
HUF	1,216,548	1,606,229	799,767	1,946,812
CHF	569	20,632	4,471	18,143
EUR	673,969	990,975	437,227	762,994
USD	31,664	182,607	33,590	134,167
Other currencies	5,475	25,345	3,402	26,496
Total	**1,928,225**	**2,825,788**	**1,278,457**	**2,888,612**

Changes can be broken down as follows:

- the fixed-rate assets decreased in 2022 by HUF 404 billion (NBH placements decreased by HUF 429 billion, loans to customers increased by HUF 34 billion, while the securities with fixed interest rate decreased by HUF 11 billion),
- the fixed-rate liabilities increased in 2022 by HUF 314 billion (issuing MREL debts resulted in an increase of HUF 195 billion, loans from NBH decreased by HUF 22 billion, customer deposits increased by HUF 126 billion),
- variable-rate assets increased by HUF 650 billion (from which the increase of HUF securities portfolio was HUF 168 billion, the nostro accounts with NBH increased by HUF 141 billion, the receivables from credit institution increased by HUF 98 billion and EUR loans to clients increased by HUF 228 billion),
- variable-rate liabilities decreased by HUF 63 billon (the largest decrease was related to the customer deposits: deposits in HUF decreased by HUF 332 billion, deposits in EUR decreased by HUF 213 billion and deposits in USD increased by HUF 49 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.*

Interest rate benchmark reform

The Group launched a project, tasked partly with managing the Group's liquidity risks related to the IBOR reform, The project regularly communicates with the ALCO and IRD, issues new rules and monitors the new risks related to the IBOR reform,

The table below presents the outstanding 'non-reformed' alternative clause containing financial assets, liabilities and derivatives on 31 December 2022.

31.12.2022						
(HUF)	EURIBOR	EONIA	USD LIBOR	GBP LIBOR	CHF LIBOR	JPY LIBOR
Non-derivative assets						

Loans and advances	619,331	0	23,371	0	0	0
Non-derivative assets total	**619,331**	**0**	**23,371**	**0**	**0**	**0**
Non-derivative liabilities						
Deposits	129,828	0	177	0	0	0
Non-derivative liabilities total	**129,828**	**0**	**177**	**0**	**0**	**0**
Derivatives						
Derivatives	345,999	0	0	0	0	0
Derivatives in hedge accounting	599,329	0	9,542	0	0	0
Derivatives total	**945,328**	**0**	**9,542**	**0**	**0**	**0**

31.12.2021 (HUF)	**EURIBOR**	**EONIA**	**USD LIBOR**	**GBP LIBOR**	**CHF LIBOR**	**JPY LIBOR**
Non-derivative assets						
Loans and advances	27,725	775	3	0	4	0
Non-derivative assets total	**27,725**	**775**	**3**	**0**	**4**	**0**
Non-derivative liabilities						
Deposits	443,748	2,396	1,298	5,061	5,327	456
Non-derivative liabilities total	**443,748**	**2,396**	**1,298**	**5,061**	**5,327**	**456**
Derivatives						
Derivatives	320,207	0	0	0	0	0
Derivatives in Hedge Accounting	635,350	0	24,070	0	0	0
Derivatives total	**955,557**	**0**	**24,070**	**0**	**0**	**0**

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:

31.12.2022 **(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 instruments (-/+: short / long 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**

31.12.2021 **(HUF million)**	**HUF**	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash, cash balances at central banks and other demand deposits	429,068	991	39,528	7,453	5,449	482,489
Financial assets held for trading except for derivatives	49,293	0	36	85	0	49,414
Non-trading financial assets mandatorily at fair value through profit or loss	98,314	0	0	627	0	98,941
Financial assets designated at fair value through profit or loss	195	0	0	0	0	195
Financial assets at fair value through other comprehensive income	221,381	0	91,053	21,173	18,353	351,960
Financial assets at amortised cost	1,879,554	4,363	732,687	53,629	275	2,670,508
Financial assets except for derivatives	**2,677,805**	**5,354**	**863,304**	**82,967**	**24,077**	**3,653,507**
Financial liabilities held for trading except for derivatives	6,428	0	0	0	0	6,428
Financial liabilities measured at amortised cost	2,287,969	18,647	939,347	175,623	29,152	3,450,738
Financial liabilities except for derivatives	**2,294,397**	**18,647**	**939,347**	**175,623**	**29,152**	**3,457,166**
Net open position on balance sheet	**383,408**	**-13,293**	**-76,043**	**-92,656**	**-5,075**	**196,341**
Net derivative and spot instruments (-/+: short / long position)	**36,156**	**13,851**	**73,986**	**92,348**	**4,448**	**220,789**
Total open foreign currency position (net)	**419,564**	**558**	**-2,057**	**-308**	**-627**	**417,130**

Fair valuation result calculated on hedged items designated in fair value hedges is part of the net open foreign currency position, while in the line item 'Net derivative and spot instruments' only the nominal of the derivatives is presented. In 2022, HUF 38 billion valuation result was calculated in the hedged bonds' book value denominated 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 handled within VaR calculations. For Greek values (gamma and vega), additional limits are defined and monitored on daily basis.

Exposure to other price risk – trading book

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

The Group's exposure to other price risk only arises from exposures to exchange traded equity instruments. The Group defines strict limits for open equity exposures and uses price risk VaR as well. These limits are monitored on a daily basis.

Tools for managing market risk – trading book and banking book

Value at risk

The principal tool used to measure and control market risk exposure within the Group's trading and banking portfolio is Value at Risk (VaR). A VaR indicator shows the maximum loss of a financial instrument under a given period and confidence level, within normal course of business. The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-days holding period in case of trading book and a 250-days holding period in case of banking book. The VaR is a risk indicator which must be assigned to the distribution of possible losses of the financial instrument. The Group applies Monte Carlo VaR calculation. Considering the trading book products, they can be divided into three basic risk factors – foreign currency, interest rate and price – and risks are grouped according to this categorization.

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

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

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

(HUF million)	31.12.2022				31.12.2021			
Trading book	VaR at year end	Average VaR	Minimum VaR	Maximum VaR	VaR at year end	Average VaR	Minimum VaR	Maximum VaR
Foreign currency risk	2	7	1	78	6	95	2	396
Interest rate risk	136	137	24	519	94	429	47	1,063
Share and commodity price risk	0	0	0	0	0	9	0	51
Total risk	274	300	40	928	120	324	104	569
Banking book	VaR at year end	Average VaR	Minimum VaR	Maximum VaR	VaR at year end	Average VaR	Minimum VaR	Maximum VaR
Foreign currency risk	0	0	0	0	0	0	0	0
Interest rate risk	14,640	9,506	2,983	21,167	1,404	892	281	3,144
Total risk	14,640	9,506	2,983	21,167	1,404	892	281	3,144

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 interest rate curve. BPV limits which were approved by RBI are assigned for the repricing categories by currency.

BPV reports are presented in the below tables:

(HUF thousand)	31.12.2022				31.12.2021			
Trading book	HUF	EUR	CHF	USD	HUF	EUR	CHF	USD
Less than 3 months	246	-813	-2	328	240	-597	-2	211

3 months to 6 months	-16	-337	-1	443	230	-564	0	493
6 months to 1 year	-75	-199	-1	156	-63	-862	-1	765
1 year to 2 years	-817	-5	0	-1	-55	-72	0	-8
2 years to 3 years	-574	-11	0	0	-53	2	0	0
3 years to 5 years	-343	-4	0	0	-903	-13	0	0
5 years to 7 years	501	0	0	0	561	-3	0	0
7 years to 10 years	-278	0	0	0	590	0	0	0
10 years to 15 years	-24	0	0	0	74	0	0	0
15 years to 20 years	0	0	0	0	659	0	0	0
Over 20 years	0	0	0	0	-1,613	0	0	0
Banking book	**HUF**	**EUR**	**CHF**	**USD**	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-1,917	-1,022	-18	225	6,578	-35	93	727
3 months to 6 months	-345	-4,820	0	254	-1,018	-3,627	-1	111
6 months to 1 year	3,849	2,221	-1	184	1,743	1,500	21	256
1 year to 2 years	600	1,756	0	-405	3,417	59	0	475
2 years to 3 years	3,002	-3,451	0	1,187	175	468	-16	945
3 years to 5 years	5,754	748	0	144	-2,403	-5,207	-9	1,654
5 years to 7 years	4,116	92	0	1	5,722	226	0	-32
7 years to 10 years	3,969	2,043	0	10	4,426	3,699	0	2
10 years to 15 years	77	-542	0	0	-2,214	-709	0	0
15 years to 20 years	353	-41	0	0	-242	-113	0	0
Over 20 years	6	144	0	0	-9	0	0	0

(6.4) *Liquidity risk*

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

Managing liquidity risk

The objective of liquidity management is to provide the necessary liquidity for the Group to 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 Hungary, thereby the Group has a comprehensive set of group-standards and local internal rules, regulations and practices beside the legal regulations regarding liquidity requirements. Liquidity management procedures, tasks, responsibilities, reports and instructions for the limit systems are all governed in Management directives.

Liquidity management is one of the main tasks of the Asset Liability Committee (ALCO), ALCO is responsible for asset and liability management, liquidity risk management and setting local limit system according to (or sometimes stricter than) the limits determined by RBI Liquidity Risk Management. The ALCO meets monthly and has extraordinary meetings if necessary.

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

The Group's liquidity policy which includes the liquidity contingency plan is reviewed annually. The Group's liquidity position is stable, its liquidity risk exposure is low. The Group does not use stand-by loan commitments for liquidity management purposes, sufficient level of liquidity reserve is available without such commitments.

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

31.12.2022				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**

31.12.2021 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows 3 months or less	3-12 months	1-5 years	more than 5 years
Assets							
Cash	(6, 19)	54,091	**54,091**	54,091	0	0	0
Placements with banks	(6, 19)	428,397	**429,612**	429,612	0	0	0
Loans and advances	(6, 20, 21, 42)	2,542,693	**2,795,530**	1,134,493	326,860	880,697	453,480
Investment in debt securities	(6, 20, 21, 22, 23, 42)	621,579	**683,112**	43,127	41,925	353,599	244,461
Total assets		**3,646,760**	**3,962,345**	**1,661,323**	**368,785**	**1,234,296**	**697,941**
Derivative instruments							
Derivative instruments - Trading	**(20, 42)**		**56,653**	**5,713**	**6,605**	**20,184**	**24,151**
Outflow			**-146,946**	-3,549	-45,726	-65,055	-32,616
Inflow			**203,599**	9,262	52,331	85,239	56,767
Derivative instruments - Hedge accounting	**(10, 42)**		**53,673**	**-1,801**	**2,822**	**26,532**	**26,120**
Outflow			**-4,219**	-4,219	0	0	0
Inflow			**57,892**	2,418	2,822	26,532	26,120
Total derivative instruments			**110,326**	**3,912**	**9,427**	**46,716**	**50,271**

31.12.2021 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows 3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	3,418,743	**3,453,983**	2,884,766	100,084	358,343	110,790
Short positions	(6, 27, 28, 42)	6,428	**6,428**	6,428	0	0	0
Debt securities issued	(6, 28, 30)	689	**769**	0	0	769	0
Other financial liabilities	(5, 32)	31,305	**35,268**	7,019	2,361	11,440	14,448
Financial guarantees given		146,141	**146,141**	146,141	0	0	0
Loan commitments		301,919	**301,919**	301,919	0	0	0
Total liabilities		**3,905,225**	**3,944,508**	**3,346,273**	**102,445**	**370,552**	**125,238**
Derivative instruments							
Derivative instruments - Trading	**(27, 42)**		**-42,669**	**-3,721**	**-4,741**	**-11,548**	**-22,659**
Outflow			**-110,484**	-7,997	-29,854	-46,717	-25,916
Inflow			**67,815**	4,276	25,113	35,169	3,257
Derivative instruments - Hedge accounting	**(10, 42)**		**-76,728**	**3,428**	**-5,018**	**-35,757**	**-39,381**
Outflow			**-116,180**	-3,087	-15,074	-39,223	-58,796
Inflow			**39,452**	6,515	10,056	3,466	19,415
Total derivative instruments			**-119,397**	**-293**	**-9,759**	**-47,305**	**-62,040**

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:

31.12.2022 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	183,111	28,035	155,076
Non-trading financial assets mandatorily at fair value through profit or loss	126,416	390	126,026
Financial assets designated at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	305,850	65	305,785
Financial assets at amortised cost	2,680,830	706,405	1,974,425
Derivatives – Hedge accounting	191,077	1,024	190,053
Deferred tax assets	5,101	0	5,101
Other assets	8,324	8,324	0
Total assets	**3,500,709**	**744,243**	**2,756,466**
Financial liabilities held for trading	145,730	37,691	108,039
Financial liabilities measured at amortised cost	3,726,217	2,959,855	766,362
Derivatives – Hedge accounting	242,488	70	242,418
Provisions	11,526	11,526	0
Deferred tax liabilities	8	0	8
Other liabilities	12,176	12,176	0
Total liabilities	**4,138,145**	**3,021,318**	**1,116,827**

31.12.2021 (HUF million)	Carrying amount	Within 12 months	More than 12 months
Assets			
Financial assets held for trading	114,942	64,741	50,201
Non-trading financial assets mandatorily at fair value through profit or loss	98,941	4,093	94,848
Financial assets designated at fair value through profit or loss	195	0	195
Financial assets at fair value through other comprehensive income	351,960	56,384	295,576
Financial assets at amortised cost	2,670,508	1,443,128	1,227,380
Derivatives – Hedge accounting	53,286	1,695	51,591
Deferred tax assets	3,466	0	3,466
Other assets	7,616	7,616	0
Total assets	**3,300,914**	**1,577,657**	**1,723,257**
Financial liabilities held for trading	58,502	22,266	36,236
Financial liabilities measured at amortised cost	3,450,738	3,006,888	443,850
Derivatives – Hedge accounting	76,099	2,208	73,891
Provisions	9,034	9,034	0
Deferred tax liabilities	4	0	4
Other liabilities	7,498	7,498	0
Total liabilities	**3,601,875**	**3,047,894**	**553,981**

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:

2022		2021	
Date	HUF million	Date	HUF million
31.01.2022	274	31.01.2021	243
28.02.2022	64	28.02.2021	148
31.03.2022	216	31.03.2021	173
30.04.2022	312	30.04.2021	183
31.05.2022	175	29.05.2021	99
30.06.2022	406	30.06.2021	161
31.07.2022	839	31.07.2021	184
31.08.2022	636	31.08.2021	78
30.09.2022	0	30.09.2021	118
30.10.2022	0	30.10.2021	59
30.11.2022	0	30.11.2021	147
31.12.2022	0	31.12.2021	228

The Group 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 because they are regularly – on a monthly basis - repurchased by the Government Debt Management Agency (GDMA) and for this short period they are measured prudently at the repurchase price listed by GDMA (AKK), therefore no additional liquidity risk arises and there is no need to set illiquidity capital requirement aside 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, social and governance risk*

Our planet is impacted by a wide and interlinked range of environmental factors, which affect all living things. The activities of finance sector have a meaningful impact on the environment and society. However, this is a two-way relationship, the finance sector itself is also affected by environmental and social factors, especially by climate change and biodiversity loss[2].

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

Governance

The Bank has established its governance framework and the respective responsibilities related to sustainability (ESG), including a dedicated Sustainability Council with focus of the Bank's executive body. The Bank gives special attention to the knowledge building inside and outside of the organisation, providing up to date information on the legal and environmental background of ESG factors. In addition to the above data, governance is strongly emphasized in line with the increasing data need of ESG analysis.

Strategy

The strategy and mission of the Bank is embedded in the strategy of Raiffeisen Group and is backed by the technical expertise and knowledge hub of Raiffeisen Bank International. Raiffeisen Bank International is a ratifier of the Principles for Responsible Banking with strong commitment towards stakeholders and transparency. Raiffeisen Group has been publishing its Sustainability Report every year since 2017, which is built on science-based international standards[2].

Sustainability is a fundamental principle for the Bank and a measure of corporate success. The Bank considers ESG factors both on the level of own operation and financing activities within its business strategy. The Bank provides several sustainable financial and investment products, while daily operations are executed with the approach of energy efficiency and climate consciousness. Raiffeisen Group has initiated three types of portfolio strategies (exclusive, transformative, supportive) in its lending activities in order to support the real economy on the way to climate transition.

The Bank has taken steps to integrate the transitional and physical risk aspects into its sectoral and risk management policies. The Bank is aware of the risks arising from climate change and biodiversity loss and initiated the screening of its portfolio within the framework of risk management processes.

Engagement

The Bank has a strong position in green lending and ESG investments, which is acknowledged by the Hungarian National Bank awarding the Bank and its fund management company with 'Green Bank of the Year 2022' and 'Green Asset Management Fund of 2022'. Total assets managed by the ESG funds of Raiffeisen Fund Management Hungary had exceeded EUR 68 million by the end of 2022, which is considered to be more than 7 percentage of the total managed assets. The portfolio of the ESG funds consist of companies, which are leaders in, among others, (a) decreasing environmental load, (b) using renewable energy sources, (c) decreasing CO_2 emission, (d) using low level of water and energy, (e) recycling and state of the art waste management, (f) elimination of discrimination, (g) supporting and developing health care and education, (h) complying with human and labour laws, (i) prohibition of child labour, (j) under transparent, corruption free enterprise management.

The Bank defines its stakeholders as people or groups of people that have a legitimate interest in the company through their direct or indirect business activities. The Bank is a fair business and dialog partner to all stakeholders. In this role, the Bank interacts in an open and respectful manner with employees, customers, business partners and other stakeholders. However, the Bank also considers environmental and climate protection to be part of its social responsibility and considers itself as fair partner to the environment. The Bank also stands for fair competition and responsible marketing. In addition to the above, the Bank is an active stakeholder by promoting sustainable conscious activities and knowledge building on the level of society.

(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 tier 1 capital 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

[2] For further information concerning Raiffeisen Group sustainability strategy please see our Sustainability Reports under: Sustainability Report (rbinternational.com)

0,6 % of risk-weighted exposure amount to tier 2 capital (under IRB approach),
- own funds should cover the capital requirement of credit, market and operational risk,

A Group's own funds can be split into two tiers:
- tier 1 capital (T1):
  - common tier 1 capital (CET1) which includes common tier 1 capital instruments (share capital, share premium, retained earnings, accumulated other comprehensive income, other reserves) and the related deductions, namely deductions related to intangible assets, goodwill, deferred tax assets, IRB shortfall of credit risk adjustment to expected loss, deductions due to securitization positions, and other deduction due to exceeding limits,
  - additional tier 1 capital (AT1): which includes capital instruments eligible as additional tier1 capital,
- tier 2 capital (T-2): which includes subordinated loans and the excess of loss allowances and provisions for credit losses over expected losses in case of loan portfolios for which the Basel III IRB method is applied.

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

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

Besides the above capital requirements, the Group's policy is to maintain a strong capital base 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 in 2022. Throughout the year, the capital position of the Group remained at an adequate level aligned with its' risk appetite.

The dividend limit issued in 2020 by the National Bank Hungary for the banking sector was terminated on 1 January 2022. On 23.12.2022, the solely shareholder of the Bank decided about a HUF 20,132 million interim dividend, which was paid before 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.

Capital buffer for systemically important institutions

Also in 2022, the National Bank of Hungary (NBH) reassessed the importance of the domestic credit institutions based on their 2021 financial data, and just like in the previous year 7 banking groups have been identified as Other Systemically Important Institutions (O-SII) according to the assessment, including the Raiffeisen Group.

Already from 2022, the NBH has expected a gradual rebuilding of the buffers required for systemically important institutions until 2024, lifted due to the economical difficulties caused by the corona virus. The capital positions of the systemically important institutions are still adequate for the NBH to determine the buffers in line with the previously allocated increasing degree from 2023. Accordingly, also in 2023 the temporary buffer rates will be increased by a quarter of the final planned amount, which will reach the planned goal seek from 2024.

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

Anti-cyclical capital buffer

On 30 June 2022, the NBH communicated the activation of the anti-cyclical capital buffer, in order to mitigate the risks in the lending and real estate market. The NBH had been measuring a significant overpricing in the real estate market for 2 quarters before June 2022, which was paired with an increase in the banking sector's risks related to lending activities. These risks had not lessened with the uncertainties in the prior months related to the war situation, thus the resistance of the banks with regulatory actions was justified. Therefore, the NBH Monetary Council decided to lift the capital buffer ratios for banks and from 1 July 2023 - for the first time since its introduction – increased the ratio of the anti-cyclical capital buffer to 0.5%.

Capital adequacy

(HUF million)	2022	2021
Share capital	50,000	50,000
Capital reserve	113,445	113,445
Retained earnings	128,828	67,420
Accumulated other comprehensive income	12,258	5,425
Funds for general banking risk	22,215	14,992
Adjustments to CET1 due to prudential filters	-15,672	-3,067
(-) Goodwill	-1,035	-1,035
(-) Other intangible assets	-14,088	-11,248
(-) Securitization positions	-1,336	0
(-) Deferred tax items	-4,764	-3,165
(-) Additional capital requirement for non-performing exposures	-4,008	-281
Common Equity Tier 1 Capital	**285,843**	**232,486**
Capital instruments eligible as AT1 Capital	31,445	31,445
Additional Tier 1 Capital (AT1)	**31,445**	**31,445**
IRB Excess of loss allowances and provisions over expected losses	6,704	1,413
Equity instruments classified as subordinated loans	62,039	57,195
Tier 2 Capital	**68,743**	**58,608**
Total regulatory capital	**386,031**	**322,539**
Capital requirement	**125,761**	**115,039**
Solvency ratio (%)	**24.56%**	**22,43%**

* The solvency capital for 2022 does not include the deduction of the dividend payment paid in December

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)	2022	2021
Interest income calculated with the effective interest method	**211,421**	**70,679**
Other interest income	**139,549**	**14,788**
Financial assets held for trading	**92,372**	**12,364**
Debt securities	1,608	464
Derivatives – Held for trading	58,702	8,949
Derivatives – Held for risk management (not in hedge accounting)	32,062	2,951
Financial assets designated at fair value through profit or loss	**1**	**624**
Debt securities	1	624
Non-trading financial assets mandatorily at fair value through profit or loss	**6,109**	**3,565**
Loans and advances	6,109	3,565
Derivatives – Hedge accounting, interest rate risk	**31,108**	**-2,068**
Other	**9,959**	**303**
Interest income total	**350,970**	**85,467**
Interest expense calculated with the effective interest method	**-71,626**	**-7,277**
Other interest expenses	**-140,338**	**-10,273**
Financial liabilities held for trading	**-94,919**	**-11,722**
Derivatives – Held for trading	-60,840	-8,613
Derivatives – Held for risk management (not in hedge accounting)	-34,079	-3,109
Derivatives – Hedge accounting, interest rate risk	**-45,224**	**1,523**
Other	**-195**	**-74**
Interest expense total	**-211,964**	**-17,550**
Net interest income	**139,006**	**67,917**

Net interest income of the Bank increased by HUF 71,089 million compared to the previous year. However, the increase of the interest expenses is outstanding compared to the previous year and the increase of the interest income is even higher.

The interest income calculated with the effective interest method increased significantly (HUF 140,742 million increase) due to the high interest rate environment of 2022, mainly due to the increase in interest income from customer loans and interbank exposures, especially to NBH, and additionally due to higher interest income on customer overdrafts and loans.

The interest expense calculated with the effective interest method increased by HUF 64,349 million, due to the higher interest paid after the customer and inter-bank deposits.

The interest income from securities measured through other comprehensive income (mainly the interest of the mortgage bonds and government securities) and the amortization of discounts and premiums related to these securities caused further increase in interest income (HUF 10,302 million).

The net interest income was decreased by the interest income from derivatives (HUF 4,335 million decrease in trading interest income), this decrease in the income was partly offset by the interest income on debt securities designated at fair value through profit or loss and trading debt securities, as well (HUF 521 million increase in interest).

At the same time, there was a HUF 2,546 million increase in interest from loans mandatorily measured at fair value through profit or loss, due to disbursements of childbirth incentive loans.

The net interest income from derivatives in cash flow and fair value hedges decreased (HUF 13,571 million interest decrease).

(HUF million)	**2022**	**2021**
Interest income calculated with the effective interest method	**211,421**	**70,679**
Financial assets at fair value through other comprehensive income	**18,222**	**7,920**
Debt securities	18,222	7,920
Financial assets at amortised cost	**193,199**	**62,759**
Debt securities	19,411	3,700
Loans and advances	170,866	57,431
Leasing receivables	2,860	1,560
Other assets	62	68
Interest expense calculated with the effective interest method	**-71,626**	**-7,277**
Financial liabilities at amortised cost	**-71,626**	**-7,277**
Deposits	-65,206	-4,937
Subordinated liabilities	-2,044	-1,690
Debt securities issued	-3,664	-40
Leasing liabilities	-712	-610
Net interest income calculated with the effective interest method	**139,795**	**63,402**

(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)	2022	2021
Fee and commission income		
IFRS 15 revenues		
Payment and bank card services	45,053	36,725
Margin included in foreign exchange conversions and other transactions	22,916	15,604
Outsourced currency exchange activity	17,606	9,772
Security issuance fees and transfer commissions	5,541	5,269
Fund management	3,580	2,548
Services as agent	1,056	1,044
Custody	908	859
Corporate finance	286	399
Asset management	16	109
Clearing and settlement	26	0
Other	1,858	1,664
Total IFRS 15 revenues	**98,846**	**73,993**
IFRS 9 revenues		
Loan servicing activities	272	168
Loan commitments given	4	4
Financial guarantees given	4,134	2,956
Loans granted	405	572
Total IFRS 9 revenues	**4,815**	**3,700**
Total fee and commission income	**103,661**	**77,693**
Fee and commission expense		
Payment and bank card services	-5,991	-4,831
Margin included in foreign exchange conversions and other transactions	-209	-137
Outsourced currency exchange activity	-17,091	-9,409
Securities	-723	-641
Services of agents	-102	-54
Custody	-920	-725
Clearing and settlement	-86	-63
Loan servicing activities	-227	-295
Loan commitments received	0	-12
Financial guarantees received	-2,487	-1,512
Other	-2,485	-2,221
Total fee and commission expense	**-30,321**	**-19,900**
Net income from commissions and fees	**73,340**	**57,793**

The Group's net commission income increased by HUF 15,547 million compared to previous year which is mainly due to the increase of fees in payment services and in foreign exchange conversions.

Within payment services fees, the fees related to transfer and other payment transactions and credit cards increased significantly.

The Group's transaction fees related to the foreign exchange transactions and other securities increased by HUF 7,240 million. Within this, the Group realized extraordinary result on individually priced fixings, spot transactions, but along this card and Direktnet transactions were also significant. The transaction fee result built into transactions on securities further increased the fee income.

The Group recognised a HUF 1,222 million higher commission income in 2022 through the distribution of investments units.

The Bank transferred its trading activities related to non-retail Hungarian government securities and FX spot transactions to its parent bank for optimization purposes. As a result, the securities distribution fee income directly from customers decreased, but this was significantly compensated by the fee received from the parent bank for portfolio transfer.

(9) Net trading income and fair value result

Gains and losses from financial assets and liabilities held for trading

(HUF million)	2022	2021
Derivative instruments	**49,456**	**11,040**
Derivatives held for trading	9,320	2,248
Derivatives held for risk management purposes, without hedge accounting	40,136	8,792
Equity instruments	26	0
Debt securities	-118	-306
Other financial liabilities	-9,675	671
Gains or (-) losses on financial assets and liabilities held for trading, net	**39,689**	**11,405**

Profit recorded on derivatives held for trading purposes increased by HUF 7,072 million. The main reason for this was the increase in realized and unrealized profit recorded on FX swaps, forwards and futures transactions in the amount of HUF 7,002 million.

The profit of 'Derivatives held for risk management purposes, without hedge accounting' (derivatives concluded for economic hedging purposes) increased by HUF 31,345 million, which was caused by an increase in profits on FX swaps, forwards and futures transactions (HUF +26,164 million) and an increase in profits (HUF +5,180 million) recorded on single currency and cross-currency interest rate swaps (FRA, IRS, CCIRS, OSP) transactions.

Last year's decrease in earnings of debt securities was improved by HUF 188 million, which is the effect of a 45% decrease in realized exchange rate gains and losses, in detail: other bonds modified the result by HUF -163 million, treasury bills by HUF -161 million, while government bonds by HUF +1 349 million.

The change in other financial liabilities was caused on the one hand by a decrease in the currency conversion margin of HUF -4,808 million on the other hand by an increase in the loss realized on spot transactions (-5,538 million HUF).

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

(HUF million)	2022	2021
Equity instruments	35	13
Debt securities	66	35
Loans and advances	-8,913	-6,364
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**-8,812**	**-6,316**

'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 2022, the revaluation result of childbirth incentive loans decreased the gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss by HUF -9,237 million.

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

(HUF million)	2022	2021
Debt securities	-6	-614
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-6**	**-614**

In 2022, the total amount of line 'Debt securities' includes gains or losses recognised on government bonds.

(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)	2022	2021
Fair value changes of the hedging instrument (including effects of discontinuation) in fair value hedges	-36,203	-18,407
Fair value changes of the hedged item attributable to the hedged risk in fair value hedges	34,476	19,846
Ineffectiveness in profit or loss from cash flow hedges	-53	-641
hereof: existing hedges	777	-424
discontinued hedges	-830	-217
Gains and losses from hedge accounting, net	**-1,780**	**798**

Net gain arising from fair valuation of interest rate swaps and cross-currency interest rate swaps hedging purchased bonds amounted to HUF 70,312 million in 2022 (in 2021 HUF 31,448 million). Loss from fair valuation of interest rate swaps hedging received deposits amounted to HUF 6,381 million in 2022 (in 2021 HUF 5,971 million loss). On interest rate swaps, hedging received deposit portfolios, a fair valuation loss of HUF 120,439 million was recognised in 2022 (in 2021 HUF 59,470 million loss). 2022 net fair valuation gain on interest rate swaps, hedging loans advanced, amounted to HUF 13,598 (in 2021 HUF 3,315 million gain). In 2022, loss on fair valuation of interest rate swaps, hedging issued bonds involved in hedge accounting, amounted to HUF 4,794 million (in 2021 HUF 86 million loss), out of which HUF 4,728 million loss relates to MREL bond issue in 2022. In relation to interest rate swaps, hedging loan portfolio, in 2022 a loss of HUF 11,501 million (in 2021 a gain of 12,357 million) was recognised in gains and losses from hedge accounting.

In 2022, a fair valuation result of HUF -70,723 million (in 2021 HUF -29,887 million) was recognised on purchased bond, HUF 6,366 million (in 2021 HUF 5,952 million) on hedged received deposits, HUF -13,398 million (in 2021 HUF -3,219 million) on hedged loans, HUF 68 million (in 2021 HUF 78 million) on hedged bonds issued before 2022 and HUF 4,700 million on MREL bonds issued in 2022. On hedged received deposit portfolio a fair valuation result of HUF 118,848 million (in 2021 HUF 59,272 million), in relation to hedged loan portfolio HUF -11,383 million (in 2021 HUF -12,350 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 even more exaggerated by the significant increase in yields experienced also in 2022. Whereas 3-months BUBOR was in the range of 0.75% — 4.21% in 2021, it was in the range of 4.21 — 16.18% in 2022. Swap rates of 5 years HUF interest rate swaps fluctuated in the same periods within the range of 1.05% — 4.72% (2021) and 4.72% — 11.73% (2022).

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:

31.12.2022	**Maturity**			
(HUF million)	**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

31.12.2021	**Maturity**			
(HUF million)	**0-3 months**	**3-12 months**	**1-5 years**	**over 5 years**
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	10,584	116,700	74,313	44,065
Average fixed interest rate	0,39%	1,22%	1,63%	2,14%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	8,994	17,476	0
Average HUF/EUR exchange rate	-	363,50	367,98	-

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:

31.12.2022 (HUF million)	Notional amount	Carrying amount Assets	Carrying amount Liabilities	Changes in fair value in 2022 used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	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**

31.12.2021 (HUF million)	Notional amount	Carrying amount Assets	Carrying amount Liabilities	Changes in fair value in 2021 used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	245,662	6,575	6,095	-98	305	-375	189
Interest rate risk hedge total	**245,662**	**6,575**	**6,095**	**-98**	**305**	**-375**	**189**
Interest rate risk / Currency risk							
HUF/EUR Cross currency interest rate swaps (CCIRS)	26,470	178	181	-240	289	-49	30
Interest rate risk / Currency risk hedge total	**26,470**	**178**	**181**	**-240**	**289**	**-49**	**30**
Portfolio cash flow hedges total	**272,132**	**6,753**	**6,276**	**-338**	**594**	**-424**	**219**

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 2022	Cash flow hedge reserve 31.12.2022 existing hedges	Cash flow hedge reserve 31.12.2022 discontinued hedges*
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**

(HUF million)	Changes in fair value used for calculating hedge ineffectiveness in 2021	Cash flow hedge reserve 31.12.2021 existing hedges	Cash flow hedge reserve 31.12.2021 discontinued hedges*
Interest rate risk			
Loans	-6,292	-5,337	0
Deposits	6,630	5,716	-5
Interest rate risk hedge total	**338**	**379**	**-5**
Interest rate risk/Currency risk			
Loans	234	214	0
Deposits	55	-50	7
Interest rate risk/Currency risk hedge total	**289**	**164**	**7**
Hedged items in cash flow hedges total	**627**	**543**	**2**

*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 2022, HUF 11,219 million gain (in 2021 HUF 813 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 31.12.2021 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 2022 or 2021. In 2022, HUF 830 million loss (in 2021 HUF 217 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 2022, HUF 777 million gain (in 2021 HUF 424 million loss) was recognised in the same line relating to the ineffectiveness of hedging instruments designated in cash flow hedging relationships existing at 30.12.2022.

Fair value hedges

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

31.12.2022	**Maturity**			
(HUF million)	**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	-

31.12.2021	Maturity			
(HUF million)	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased HTCS bonds				
Nominal	6,000	22,750	146,592	98,207
Average fixed interest rate	1,06%	0,56%	1,13%	0,95%
Interest rate swaps (IRS) hedging purchased HTC bonds				
Nominal	0	0	37,735	101,375
Average fixed interest rate	-	-	0,37%	1,63%
Interest rate swaps (IRS) hedging loans				
Nominal	2,540	6,663	90,053	33,928
Average fixed interest rate	0,51%	0,33%	0,49%	1,16%
Interest rate swaps (IRS) hedging deposits				
Nominal	0	0	46,088	0
Average fixed interest rate	-	-	1,46%	-
Interest rate swaps (IRS) hedging issued bonds				
Nominal	0	0	658	0
Average fixed interest rate	-	-	6,19%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	90,485	64,815	603,756	367,311
Average fixed interest rate	0,43%	0,62%	0,72%	1,91%
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	498	7,530	41,085	49,865
Average fixed interest rate	0,37%	0,91%	1,12%	1,49%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging HTCS purchased bonds				
Nominal	0	0	0	18,543
Average CZK/EUR exchange rate	-	-	-	25,37

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:

31.12.2022		Carrying amount			
(HUF million)	**Nominal**	**Assets**	**Liabilities**	**Changes in fair value in 2022 used for calculating hedge in-effectiveness**	**Hedge ineffectiveness recognised in profit or loss**
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**

31.12.2021 (HUF million)	Nominal	Carrying amount Assets	Liabilities	Changes in fair value in 2021 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased HTCS bonds	273,549	19,387	1,563	24,583	1,608
Interest rate swaps (IRS) hedging purchased HTC bonds	139,110	5,548	155	6,910	-38
Interest rate swaps (IRS) hedging loans	133,184	2,483	95	3,316	97
Interest rate swaps (IRS) hedging deposits	46,088	0	5,667	-5,972	-19
Interest rate swaps (IRS) hedging issued bonds	658	21	0	-86	-8
Interest rate risk hedge total	**592,589**	**27,439**	**7,480**	**28,751**	**1,640**
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased HTCS bonds	18,543	0	494	-44	-9
Interest rate risk / Currency risk hedge total	**18,543**	**0**	**494**	**-44**	**-9**
Micro fair value hedges total	**611,132**	**27,439**	**7,974**	**28,707**	**1,631**
Portfolio fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging deposit portfolios	1,126,367	6,936	60,999	-59,478	-206
Interest rate swaps (IRS) hedging loan portfolios	98,978	12,158	850	12,358	8
Interest rate risk hedge total	**1,225,345**	**19,094**	**61,849**	**-47,120**	**-198**
Portfolio fair value hedges total	**1,225,345**	**19,094**	**61,849**	**-47,120**	**-198**
Hedging instruments in fair value hedges total	**1,836,477**	**46,533**	**69,823**	**-18,413**	**1,433**

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:

31.12.2022	**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**		
(HUF million)	**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**

31.12.2021	**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 2021 used for calculating hedge ineffectiveness**
			Assets		**Liabilities**		
(HUF million)	**Assets**	**Liabilities**	**existing hedges**	**discontinued hedges**	**existing hedges**	**discontinued hedges**	
Purchased HTCS bonds	254,355	0	-17,955	0	0	0	-22,939
Purchased HTC bonds	127,534	0	-6,472	0	0	0	-6,948
Loans	122,863	0	-2,445	100	0	0	-3,219
Deposits	0	40,354	0	0	-5,752	0	5,952
Issued bonds	0	689	0	0	5	0	78
Deposit portfolio	0	743,110	0	0	-57,868	0	59,272
Loan portfolio	65,867	0	-12,917	0	0	0	-12,350
Hedged items in fair value hedges total	**570,619**	**784,153**	**-39,789**	**100**	**-63,615**	**0**	**19,846**

*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 2022, gain from fair value changes of hedged items in designated fair value hedging relationships attributable to the hedged risk amounted to HUF 34,476 million gain (in 2021 HUF 19,846 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 loss of HUF 36,203 million in 2022 in relation to derivatives designated as hedging instruments in fair value hedges (in 2021 a loss of HUF 18,407 million), presented in the statement of comprehensive income line item 'Net gains/losses from hedge accounting'.

(11) Net gains/losses on financial instruments

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

(HUF million)	Note	2022	2021
Financial instruments held for trading		**37,215**	**12,119**
Net interest income	(7)	-2,547	642
Realised and unrealised gains and losses	(9)	39,689	11,405
Dividend income		73	72
Net gains and losses from hedge accounting		**-15,896**	**253**
Net interest income	(7)	-14,116	-545
Realised and unrealised gains and losses	(10)	-1,780	798
Non-trading financial instruments mandatorily at fair value through profit or loss		**-2,700**	**-2,748**
Net interest income	(7)	6,109	3,565
Realised and unrealised gains and losses	(9)	-8,812	-6,316
Dividend income		3	3
Financial instruments designated at fair value through profit or loss		**-5**	**10**
Net interest income	(7)	1	624
Realised and unrealised gains and losses	(9)	-6	-614
Financial instruments at fair value through other comprehensive income		**17,889**	**9,114**
Net interest income	(7)	18,222	7,920
Impairment	(6)	-578	196
Realised and unrealised gains and losses		245	998
Financial instruments at amortised cost		**109,047**	**46,636**
Net interest income	(7)	120,897	54,879
Impairment loss	(6)	-5,650	-6,684
Realised and unrealised gains and losses		-6,200	-1,559
Net gains or losses on financial instruments		**145,550**	**65,384**

(12) Other operating income and expenses

(HUF million)	2022	2021
Gain on disposal of intangibles, property and equipment	14	-1
Gain on disposal of inventory	72	252
Operational fees	48	48
Income related to damages	7	16
Rental income from investment property	88	50
Professional fees	88	113
Income from accounting services	73	81
Income from other non-banking activities	396	207
Other	297	1,097
Other operating income total	**1,083**	**1,863**
Transaction fee and other taxes	-23,556	-18,278
Expenses related to damages	-180	-86
Expert fees	-68	-75
Other provisions	148	-173
Expenses from other non-banking activities	-404	-126
Other expenses	-371	-169
Other operating expenses total	**-24,431**	**-18,907**

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.

in 2022, the Group recognised HUF 317 million (2021: HUF 520 million) in other income that represents revenue from contracts with customers (IFRS 15).

(13) *Impairment of non-financial assets*

Development of impairment of non-financial assets:

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

(HUF million)	Opening 01.01.2021	Additions	Reversals	Closing 31.12.2021
Other non-financial assets	-62	-34	59	-37
Impairment on non-financial assets total	**-62**	**-34**	**59**	**-37**

The Impairment of non-financial assets line shows the impairment of the Properties obtained against receivables.

(14) *Other result*

(HUF million)	2022	2021
Modification gains or losses, net	-6,227	-1,554
Impairment on non-financial assets	-2	-34
Other result	**-6,229**	**-1,588**

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 Group recognises a one-time change in gross carrying amount through profit or loss, from which HUF -294 million (2021: HUF -725 million) was loss related to modification related to repayment moratoria. The loss from interest stop was HUF 6,532 million (2021: HUF 962 million).

Losses arising from cash flow changes due to payment moratoria are presented above under section *Contract modifications and expected credit losses* of Note *(6,2) Credit risk.*

In 2022, the NBH decided that Raiffeisen Autó Lízing 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)	2022	2021
Salaries	-28,290	-23,896
Social security contributions	-4,290	-4,310
Other employee benefits	-1,375	-1,302
Total	**-33,955**	**-29,508**

	2022		2021	
(HUF million)	Headcount (person)	Salaries	Headcount (person)	Salaries
Full time	2,689	-27,067	2,640	-22,498
Part time	236	-1,101	234	-1,304
Pensioners	22	-122	15	-94
Total	**2,947**	**-28,290**	**2,889**	**-23,896**

(16) Other administrative expenses

(HUF million)	2022	2021
Office space expenses rental, maintenance, other	-3,724	-2,735
IT cost	-5,100	-4,945
Legal, advisory and consulting expenses	-3,925	-3,441
Advertising, PR and promotional expenses	-3,418	-2,761
Deposit insurance fees	-3,810	-1,325
Communication expenses	-1,782	-1,610
Office supplies	-248	-185
Car expenses	-355	-252
Security expenses	-283	-158
Travelling expenses	-84	-44
Training expenses for staff	-284	-272
Expenses for leases	-224	-318
Sundry administrative expenses	9	-598
Total	**-23,228**	**-18,644**

The increase in IT costs is due to the increase of maintenance and support costs of more and more complex systems related to speed up the delivery of the project. Due to the actions implemented because of the COVID, other administrative expenses were recognised in the amount of HUF 27 million (2021: HUF 203 million).

(17) Bank tax and other special levies

(HUF million)	2022	2021
Surtax of financial institutions and surtax of credit institutions	-23,717	-4,811
Resolution Funds	-1,429	-1,978
Bank tax and other special levies	**-25,146**	**-6,789**

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% (2021: 0,15%) for the portion of tax base not exceeding HUF 50 billion and 0,20% (2021: 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 surtax amounted to HUF 6,002 million in 2022 (in 2021 HUF 4,752 million).

The Group pays extra-profit surtax based on the net sales revenue after 2022 and 2023. The tax base of this tax liability is based on the net sales revenue of the preceding tax year of the tax year in question. The extra-profit tax rate is 10% in 2022 and 8% in 2023. The surtax is payable in two equal instalments in 2022 (10 October 2022, 10 December 2022) and three equal instalments in 2023 (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 was HUF 17,648 million in 2022.

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 Group recognised the payable extra surtax due to the pandemic as a single liability, and it was paid in 2020, so this liability is not presented in the financial statement. Since the Group is entitled to a tax retention related to the normal surtax until 2025, the Group 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 advanced payment for the normal surtax of credit institutions.

(18) Income tax

Income tax expense recognised to profit or loss

(HUF million)	2022	2021
Current tax expense	**10,997**	**5,736**
Corporate income tax	3,452	1,578
Local business tax	6,558	3,614
Innovation contribution	987	544
Deferred tax expense/-income	**-2,271**	**-1,823**
Origination and reversal of temporary differences	55	136
Changes in the tax effect of tax losses	-2,326	-1,959
Income tax expense	**8,726**	**3,913**

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 2022 and 2021. The tax base of corporate income tax differs from the tax base of local business tax and innovation contribution.

Reconciliation of effective tax rate

	2022		2021	
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		80,841		40,647
Expected tax rate calculated with Group's applicable tax rate	9,00%	7,276	9,00%	3,658
Tax effect of tax base adjusting items	**1,68%**	**1,357**	**-9,60%**	**-3,903**
Tax effects related to tax losses:				
- usage of previously not recognised tax losses	-4,00%	-3,231	-3,65%	-1,483
- change in previously unrecognised tax losses	-2,88%	-2,326	-4,82%	-1,959
Other	8,55%	6,914	-1,13%	-461
Other income taxes – local business tax, innovation contribution	0,12%	93	10,23%	4,158
Income tax expense total	**10,79%**	**8,726**	**9,63%**	**3,913**

Income taxes recognised in other comprehensive income

(HUF million)	2022 Before tax	2022 Tax expense/ benefit	2022 After tax	2021 Before tax	2021 Tax expense/ benefit	2021 After tax
Items that will not be reclassified to profit or loss						
Changes in fair value reserve (equity instruments)	35	-1	34	-71	65	-6
Items that will not be reclassified to profit or loss – total	**35**	**-1**	**34**	**-71**	**65**	**-6**
Items that the Group reclassified or will reclassify to profit or loss						
Changes in hedge reserve						
Effective portion of fair value changes	10,390	-935	9,455	594	-53	541
Net amount reclassified to profit or loss	831	-75	756	219	-21	198
Change in fair value reserve (debt instruments)						
Changes in fair value	-3,843	346	-3,497	383	-34	349
Net amount reclassified to profit or loss	-282	25	-257	-1,852	167	-1,685
Items that the Group reclassified or will reclassify to profit or loss – total	**7,096**	**-639**	**6,457**	**-656**	**59**	**-597**
Foreign currency translation reserve for foreign operations			-18			0
Total	**7,131**	**-640**	**6,473**	**-727**	**124**	**-603**

Movements in deferred tax balances

(HUF million)	Net balance 01.01.2022	Recognised in profit or loss	Recognised in other comprehensive 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**

(HUF million)	Net balance 01.01.2021	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31.12.2021 Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	36	-34	0	2	2	0
Non-trading financial assets mandatorily at fair value through profit or loss	-3	-1	0	-4	0	-4
Investment securities – at fair value through other comprehensive income	-378	0	197	-181	0	-181
Derivatives*	19	0	-73	-54	0	-54
Loss allowances for expected credit losses	352	-99	0	253	253	0
Tax losses carried forward	1,484	1,959	0	3,443	3,443	0
Loss allowances for trade receivables	5	-2	0	3	3	0
Other assets and liabilities	0	0	0	0	0	0
Net deferred tax asset/liability before offsetting				**3,462**	**3,701**	**-239**
Offsetting					-235	235
Tax assets/Tax liabilities	**1,515**	**1,823**	**124**	**3,462**	**3,466**	**-4**

*Derivatives are presented net

In 2022, HUF 5,101 million (2021: HUF 3,466 million) deferred tax asset was recognised which comprises of the following items:

- HUF 258 million (2021: HUF 258 million) was recognised due to temporary differences which modify the tax base and are expected to reverse in the future,
- HUF 5,768 million (2021: HUF 3,443 million) was recognised for the balances of tax losses carried forward from previous years which are expected to be utilised by the Group,
- HUF -1,078 million (2021: HUF -235 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 2022, HUF 8 million (2021: HUF 4 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	2022	2021
12.31.2030	22,990	93,411
Total	**22,990**	**93,411**

The Group has HUF 22,990 million (2021: HUF 93,411 million) carry forwards of unused tax losses on 31 December 2022 that are not expected to be utilised in the future, which can 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 5,101 million deferred tax asset is recognised in respect of 2023 and 2024.

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

	31.12.2022			31.12.2021		
(HUF million)	**HUF**	**Foreign currency**	**Total**	**HUF**	**Foreign currency**	**Total**
Cash and cheques	39,958	12,822	52,780	25,381	28,710	54,091
National Bank of Hungary	669,554	19,214	688,768	399,910	0	399,910
Other banks	4,909	38,456	43,365	3,776	24,712	28,488
Total	**714,421**	**70,492**	**784,913**	**429,067**	**53,422**	**482,489**

Current account with National Bank of Hungary (NBH) contains the minimum reserves. The average balance of minimum reserve was HUF 84,667 million (2021: HUF 25,362 million). The amount of minimum reserve is the amount of reserve-bearing instruments multiplied by the minimum reserve rate.

From 1 October 2022 onward, the modified regulation contains both daily and monthly compliance. The minimum reserve ratio is 5% with daily compliance requirements. Above the 5% minimum rate, an additional optional percentage rate of up to 5% has been introduced. For the optional reserve requirement level, the regulation requires compliance on a monthly average basis. The Bank has chosen a rate of 8%.

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 and liabilities arising from repurchase (placement) transactions entered into with the NBH.

The Group can use its minimum reserve during its daily operation as long as the daily, respectively monthly average of the reserve exceeds the legislative limit. Based on this reasoning, the minimum reserve is presented as cash in the cash-flow statement.

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

Financial assets held for trading

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**

31.12.2021 **(HUF million)**	**Nominal value of derivatives**	**Carrying amount**
Derivative instruments	**1,522,473**	**65,527**
hereof: economic hedge	*393,409*	*29,622*
Interest rate	552,641	43,412
Equity	0	92
Currency	969,832	22,023
Equity instruments		**6,141**
Debt securities		**43,274**
Government bonds and treasury bills		42,219
Corporate and other bonds		977
Bank bonds		78
Financial instruments held for trading total	**1,522,473**	**114,942**

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, since then there have been no new deals. As at 31.12.2021 the carrying amount of these swaps was HUF 26,127 million asset (HUF 11,946 million asset as at 31.12.2021). Fair valuation result recognised in relation to MIRSs amounted to HUF 12,070 million gain in 2022 (HUF 13,618 million gain in 2021) and was presented in the statement of comprehensive income line item *’Net trading income and fair value result’*.

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

31.12.2022 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Negative fair value changes due to changes in credit risk – non-performing exposures
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**

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Negative fair value changes due to changes in credit risk – non-performing exposures
Equity instruments	**493**	**0**	**50**	**543**	**0**
Debt securities	**1,091**	**0**	**-464**	**627**	**0**
Bank bonds	1,091	0	-464	627	0
Loans and advances	**102,495**	**183**	**-4,907**	**97,771**	**-370**
Non-trading financial assets mandatorily at fair value through profit or loss total	**104,079**	**183**	**-5,321**	**98,941**	**-370**

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, within this the amount of childbirth incentive loans mandatorily measured at fair value through profit or loss reached HUF 96 billion by year-end (2021: HUF 79 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 at 31.12.2022.

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Accumulated negative fair value change from change in credit risk (non-performing assets)
Debt securities	**202**	**1**	**-8**	**195**	**0**
Government bonds and treasury bills	202	1	-8	195	0
Financial assets designated at fair value through profit or loss	**202**	**1**	**-8**	**195**	**0**

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

(21) Placements with banks

	31.12.2022					31.12.2021				
	Less than 1 year		Over 1 year			Less than 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total

National Bank of Hungary	253,874	0	0	0	253,874	830,183	0	0	0	830,183
Other Banks	758	51,537	0	7,726	60,021	1,952	41,966	0	12,773	56,691
Impairment losses	-3	0	0	-2	-5	0	-1	0	-1	-2
Placements with banks total	**254,629**	**51,537**	**0**	**7,724**	**313,890**	**832,135**	**41,965**	**0**	**12,772**	**886,872**

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 contain mostly short-term placements with a balance of HUF 253,874 million (2021: HUF 830,144 million). Other placements with banks increased by HUF 3,327 million during 2022 compared to the previous 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 442 billion 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 306 billion 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 159 billion as collateral for its liabilities in 2022 (2021: HUF 152 billion).

In 2022, the Group recognised HUF 3,834 million loss in other comprehensive income in relation to securities measured at fair value through other comprehensive income (2021: HUF 1,599 million loss) and reclassified HUF 282 million loss from other comprehensive income to profit or loss (2021: HUF 87 million loss)

National Bank Hungary (NBH) launched the Bond Funding for Growth Scheme (NKP) 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 could purchase securities in the amount of HUF 1,550 billion. The program ended in December 2021. NKP bonds were purchased in 2022 and 2021 as well.

Investment securities measured at amortised cost

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**

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses*	Discount/ Premium	Loss allowance	Carrying amount
Debt securities						
Government bonds and treasury bills	125,060	1,069	-1,055	-2,343	-8	122,723
Corporate and other bonds	76,327	581	-5,178	201	-175	71,756
Bank bonds	31,291	60	-239	-1	-3	31,108
Investments in securities at amortised cost total	**232,678**	**1,710**	**-6,472**	**-2,143**	**-186**	**225,587**

* The disclosed amounts arise from hedge accounting,

Investment securities measured at fair value through other comprehensive income

31.12.2022 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments	**35**	**0**	**30**	**0**		**65**
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**

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments	**39**	**0**	**24**	**0**		**63**
Shares in limited liability companies	20	0	23	0		43
Shares in companies limited by shares	19	0	1	0		20
Debt securities	**367,487**	**2,025**	**-15,958**	**-1,532**	**-125**	**351,897**
Government bonds and treasury bills	145,006	1,158	-2,496	-1,728	-10	141,930
Corporate and other bonds	36,753	867	-6,478	196	-115	31,223
Bank bonds	185,728	0	-6,984	0	0	178,744
Financial assets at fair value through other comprehensive income total	**367,526**	**2,025**	**-15,934**	**-1,532**	**-125**	**351,960**

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

(23) *Investments in unlisted securities*

(HUF million)	Ownership interest % 31.12.2022	Ownership interest % 31.12.2021	Carrying amount 31.12.2022	Carrying amount 31.12.2021
RC Gazdasági és Adótanácsadó Zrt,	20.00%	20,00%	1	5
Garantiqa Hitelgarancia Zrt,	0.16%	0,16%	15	15
SWIFT	0.01%	0,01%	49	38
Pannon Lúd Mezőgazdasági és Szolgáltató Kft,	-	0,89%	0	5
Investments in unlisted securities total			**65**	**63**

Unlisted investment securities are included in the statement of financial position line item *'Financial assets at fair value through other comprehensive income'*.

(24) *Property and equipment, intangible assets and goodwill*

	Gross carrying amount					Accumulated depreciation/amortization					Carrying amount
(HUF million)	**01.01.2022**	**Additions**	**Disposals**	**Reclassifications**	**31.12.2022**	**01.01.2022**	**Additions**	**Disposals**	**Reclassifications**	**31.12.2022**	**31.12.2022**
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**

	Gross carrying amount					Accumulated depreciation/amortization					Carrying amount
(HUF million)	**01.01.2021**	**Additions**	**Disposals**	**Reclassifications**	**31.12.2021**	**01.01.2021**	**Additions**	**Disposals**	**Reclassifications**	**31.12.2021**	**31.12.2021**
Property, plant and equipment											
Property	39,719	2,625	-483	3	41,864	-12,915	-3,362	482	0	-15,795	26,069
Plant and equipment	19,288	2,352	-909	-7	20,724	-12,295	-1,681	889	0	-13,087	7,637
Property, plant and equipment total	**59,007**	**4,977**	**-1,392**	**-4**	**62,588**	**-25,210**	**-5,043**	**1,371**	**0**	**-28,882**	**33,706**
Intangible assets											
Software	59,002	6,135	-1,106	4	64,035	-40,425	-4,765	1,104	0	-44,086	19,949
Other intangible assets	1,750	0	0	0	1,750	-638	-24	0	0	-662	1,088
Intangible assets total	**60,752**	**6,135**	**-1,106**	**4**	**65,785**	**-41,063**	**-4,789**	**1,104**	**0**	**-44,748**	**21,037**

The Group recognised expenses amounting to HUF 1,977 million in the carrying amount of intangible assets, in course of developing intangible assets in 2022 (2021: HUF 1,722 million). As at 31 December 2022, property includes HUF 23,163 million (2021: HUF 22,324 million) and plant and equipment includes HUF 68 million (2021: HUF 129 million) right-of-use assets. The Group presented goodwill under intangible assets in its books in the amount of HUF 1,035 million (2021: 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-year extension options were recorded. In case of contracts with shorter term, 1- or 2-year extension options were recorded. The contracts with indefinite term have a one-year notice period.

The Bank moved into a new head office in 2020, therefore the existing head office rental contracts were terminated with effect from 31 December 2019. The Group classified the previous head office lease as short-term lease applying the practical expedient allowed by the standard on transition, thus no right-of-use asset and lease liability were recognised on transition in connection to that lease contract, The contract for new head office has been recorded in June 2020 with an original term of 10 years extended with a 5-year 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, extension options were not recorded in the contracts.

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.):

	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount
(HUF million)	**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**

	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount
(HUF million)	**01.01.2021**	**Additions**	**Disposals**	**31.12.2021**	**01.01.2021**	**Additions**	**Disposals**	**31.12.2021**	**31.12.2021**
Right-of-use asset									
Property	26,992	1,973	-16	28,949	-3,779	-2,861	15	-6,625	22,324
Vehicles	434	-17	-67	350	-208	-67	54	-221	129
Right-of-use asset total	**27,426**	**1,956**	**-83**	**29,299**	**-3,987**	**-2,928**	**69**	**-6,846**	**22,453**

Lease liabilities

The Group presents lease liabilities within 'Financial liabilities measured at amortised cost'. The maturity analysis for lease liabilities as at 31 December 2022 is as follows (undiscounted cash flows):

(HUF million)	31.12.2022	31.12.2021
Less than 1 year	4,224	3,050
Between 1 and 5 years	15,966	11,446
More than 5 years	12,451	14,448
Total	**32,641**	**28,944**

Amounts presented in the Statement of cash flows

In 2022, the total cash outflows related to lease contracts amounted to HUF 3,534 million (2021: HUF 2,938 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)	31.12.2022	31.12.2021
Interest expense on lease liabilities	712	610
Expenses relating to short-term leases	200	231
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	42	65
Total	**954**	**906**

In 2022, the Group recognised expenses related to leases within the administrative expenses with the amount of HUF 954 million (2021: HUF 906 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)	31.12.2022	31.12.2021
Vehicles leasing	45,201	39,090
Real estate leasing	1,051	6,834
Equipment leasing	13,630	15,284
Finance leases per balance sheet	**59,882**	**61,208**

In 2022, HUF 2,801 million (2021: HUF 1,563 million) was presented in the income statement under '*Other interest income*'. 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

(HUF million)	31.12.2022 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**

(HUF million)	31.12.2021 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	19,892	18,062	11,505	8,279	3,446	4,714	65,898
Unearned finance income	1,657	1,151	702	371	157	195	4,233
Net present value of minimum lease payments	**18,235**	**16,911**	**10,803**	**7,908**	**3,289**	**4,519**	**61,665**
Accumulated allowance for uncollectible minimum lease payments	123	146	87	64	27	10	457
Finance leases per balance sheet	**18,112**	**16,765**	**10,716**	**7,844**	**3,262**	**4,509**	**61,208**

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)	31.12.2022	31.12.2021
Prepayments and accrued income	4,240	2,953
Materials and inventories	258	226
Repossessed assets	849	852
Tax receivables	2,592	3,453
Other assets	385	132
Other assets total	**8,324**	**7,616**
thereof: loss allowance	-22	-37

In 2022, the balance of other asset increased by HUF 708 million, this change was mainly due to the increase of prepayments and accrued income and to the decrease of the tax receivables.

In 2020, due to the pandemic situation, the government introduced the extra surtax levied on credit institutions which had to be paid in three equal instalments. However, with this amount presented as a receivable, the credit institution may decrease its 'normal' surtax obligation determined by the extra surtax act in a form of tax retention. This caused the decrease of the tax assets in 2022.

Furthermore, the decrease in advances to suppliers (HUF -337 million) was offset by an increase in accrued (unrealised) foreign exchange gains on spot and FRA transactions (HUF 537 million).

Within accruals, the amount of accrued income according to IFSR 15 is HUF 3,991 million (2021: HUF 3,504 million).

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

31.12.2022 **(HUF million)**	**Nominal value of derivatives**	**Book value**
Derivative instruments held for trading	**1,835,497**	**143,779**
hereof: economic hedge	*299149*	*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**

31.12.2021 **(HUF million)**	**Nominal value of derivatives**	**Book value**
Derivative instruments held for trading	**1,257,638**	**52,074**
hereof: economic hedge	*272781*	*17,082*
Interest rate	471,569	33,345
Equity	1	103
FX	786,068	18,626
Total derivative instruments	**1,257,638**	**52,074**
Short positions		6,428
Total short positions		**6,428**
Total financial liabilities at fair value through profit/loss	**1,257,638**	**58,502**

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:

31.12.2022 (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**

31.12.2021 (HUF million)	Financial liabilities held for trading	Financial liabilities at amortised cost	Total
Deposits from banks	0	491,295	**491,295**
Deposits from customers	0	2,870,117	**2,870,117**
Subordinated liabilities	0	57,333	**57,333**
Debt securities issued	0	689	**689**
Derivative liabilities	52,074	0	**52,074**
Short positions	6,428	0	**6,428**
Other financial liabilities	0	31,304	**31,304**
Total	**58,502**	**3,450,738**	**3,509,240**

(29) Deposits from banks and deposits from customers

Deposits from banks

	31.12.2022					31.12.2021				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	63,578	43,139	249,773	150,476	506,966	30,888	17,869	285,875	136,205	470,837
Non resident	14,256	3,996	0	0	18,252	19,705	128	0	625	20,458
Deposits from banks total	**77,834**	**47,135**	**249,773**	**150,476**	**525,218**	**50,593**	**17,997**	**285,875**	**136,830**	**491,295**

Deposits from customers

	31.12.2022					31.12.2021				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	1,633,622	1,131,280	5,547	875	2,771,324	1,888,765	873,766	5,366	830	2,768,727
Non resident	70,935	66,757	0	7	137,699	54,736	45,579	0	1,073	101,388
Deposits from customers total	**1,704,557**	**1,198,037**	**5,547**	**882**	**2,909,023**	**1,943,501**	**919,345**	**5,366**	**1,903**	**2,870,115**

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

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

Deposits insured by National Deposit Insurance Fund (indemnified amount) was HUF 1,094 billion at the end of 2022 (2021: HUF 1,034 billion).

(30) *Debt securities issued*

(HUF million)	31.12.2022 Par value	31.12.2022 Carrying amount	31.12.2021 Par value	31.12.2021 Carrying amount
Measured at amortised cost	**195,849**	**194,100**	**627**	**689**
fix	195,849	194,100	627	689
Total debt securities issued	**195,849**	**194,100**	**627**	**689**

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 a nominal value of HUF 195 billion. The purpose of issuing MREL (Minimum Requirement for Own Funds and Eligible Liabilities) bonds is to enable the Group to keep sufficient funding of adequate quality in accordance with the European Union's bank resolution and recovery directive. The bonds are callable, and at the interest is fix at the beginning and later it will be changed to variable.

Debt securities insured by National Deposit Insurance Fund (indemnified amount) was HUF 724 million at the end of 2022 (2021: HUF 684 million).

(31) *Subordinated liabilities*

31.12.2022 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
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**

31.12.2021 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	28.02.2020	40	EUR	3,13	27.02.2032	14,802
Raiffeisen Bank International AG	28.02.2020	50	EUR	3,00	28.02.2031	18,499
Raiffeisen Bank International AG	28.02.2020	50	EUR	2,88	28.02.2030	18,497
Raiffeisen Bank International AG	27.03.2020	15	EUR	3,13	31.03.2027	5,535
Subordinated liabilities total		**155**				**57,333**

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)	31.12.2022	31.12.2021
Deferred income and accrued expenses	7,079	4,210
Tax liabilities	4,986	3,251
Sundry liabilities	111	37
Other liabilities total	**12,176**	**7,498**

Within other liabilities, the main increase is related to accruals, including accrued fees (HUF 1,639 million). This significant increase is due to the accrual of fees related to transfer of the trading activities of non-retail securities and spot transactions to the parent bank. There was also an increase in the accrued foreign exchange losses on spot and FRA transactions (HUF 628 million).

The line item ‘Tax liabilities’ compromises of liabilities other than income tax liabilities. Tax liabilities increased by HUF 1,859 million compared to 2021, due to higher VAT payment obligation..

Within accruals, the amount of accrued income according to IFSR 15 is HUF 1,460 million (2021: HUF 50 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 01.01.2022	**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**

(HUF million)	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2021	**128**	**1,238**	**2,236**	**3,602**
Additions, including increases in existing provisions	72	510	4,635	5,217
(-) Amounts used	-80	-1	-3,490	-3,571
(-) Unused amounts reversed during the period	0	-720	-40	-760
Other movements	0	0	0	0
Closing balance 31.12.2021	**120**	**1,027**	**3,341**	**4,488**

(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 2022 and 31 December 2021.

Profit or loss from discontinued operations

Discontinued operation is a part of the Group either sold or classified as held for sale, The Group did not have discontinued operation in 2022.

(35) Share capital

Shareholder structure of the Group was as follows as at 31.12.2022 and 31.12.2021:

	31.12.2022			
Shareholder	Type of share	Number of shares	Par value	Total (HUF million)
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Total		**5,000,009**	**0**	**50,000**

	31.12.2021			
Shareholder	Type of share	Number of shares	Par value	Total (HUF million)
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
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 2022 and 31 December 2021.

On 21 December 2022, the Group's sole shareholder decided to pay a dividend in advance of HUF 20,132 million, which the Bank paid on 28 December 2022. The Group did not pay dividends from its 2021 earnings.

(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

31.12.2022 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 Tier1 loan total						**31,445**

31.12.2021 Lender	Borrowed on	Amount in original currency (million)	Original currency	Interest rate	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	13,03,2019	100	EUR	9,00%	Without maturity	31,445
Additional Tier1 loan total						**31,445**

The Management Board of the Bank decided on 4 March 2019 to privately issue bonds qualifying for subordinated additional tier 1 capital instrument (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. In 2022, the Group paid HUF 3,527 million (2021: HUF 3,127 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 realised in equity, in line item *'Retained earnings'* (a reclassification between accumulated other comprehensive income and retained earnings).

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

(39) Other reserves

The general reserve is included under *'Other reserves'*, in accordance with Act CCXXVII of 2013, chapter 38 section 83, According to these prescriptions, a credit institution shall transfer 10% of its net profit for the period to general reserve. As a re-appropriation within equity the Group set up general reserve amounting to HUF 7,223 million in 2022 (2021: HUF 3,656 million).

(40) Retained earnings

The line item *'Retained earnings'* includes undistributed profit or loss of the current and previous periods.

(41) Contingent liabilities and commitments

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

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

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

31.12.2022	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
(HUF million)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loan commitments	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**

31.12.2021	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
(HUF million)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loan commitments	213,874	84,412	3,632	508	895	1,430
Financial guarantees given	118,346	18,817	8,978	97	59	421
Other guarantees and commitments	149,469	22,722	2,927	129	44	963
Total	**481,689**	**125,951**	**15,537**	**734**	**998**	**2,814**

*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 confirmed by the observable inputs.

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

The transfers between the fair value hierarchy levels are registered 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

31.12.2022	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
(HUF million)	**Level 1**	**Level 2**	**Level 3**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value								
Financial assets held for trading total	**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	**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	**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	**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	**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**
Financial liabilities at fair value								
Financial liabilities held for trading total	**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	**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**

31.12.2021	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
(HUF million)	**Level 1**	**Level 2**	**Level 3**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value								
Financial assets held for trading total	**48,627**	**66,315**	**0**	**24,956**	**0**	**96**	**66,040**	**0**
Derivative instruments	0	65,527	0	25,062	0	0	66,150	0
Equity instruments	6,141	0	0	0	0	24	0	0
Debt securities	42,486	788	0	-106	0	72	-110	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**1,170**	**97,771**	**4**	**-6,365**	**0**	**-414**	**-4,921**
Equity instruments	0	543	0	13	0	0	50	0
Debt securities	0	627	0	-9	0	0	-464	0
Loans and advances	0	0	97,771	0	-6,365	0	0	-4,921
Financial assets designated at fair value through profit or loss total	**195**	**0**	**0**	**0**	**0**	**-8**	**0**	**0**
Debt securities	195	0	0	0	0	-8	0	0
Financial assets at fair value through other comprehensive income total	**295,452**	**56,445**	**63**	**-9,362**	**3**	**-6,718**	**-9,239**	**23**
Equity instruments	0	0	63	-77	3	0	0	23
Debt securities	295,452	56,445	0	-9,285	0	-6,718	-9,239	0
Hedging derivative instruments	**0**	**53,286**	**0**	**49,741**	**0**	**0**	**55,203**	**0**
Financial assets at fair value total	**344,274**	**177,216**	**97,834**	**65,339**	**-6,362**	**-6,630**	**111,590**	**-4,898**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**58,502**	**0**	**14,335**	**0**	**0**	**52,593**	**0**
Derivatives	0	52,074	0	14,335	0	0	52,593	0
Short positions	0	6,428	0	0	0	0	0	0
Hedging derivative instruments	**0**	**76,099**	**0**	**68,453**	**0**	**0**	**79,771**	**0**
Financial liabilities at fair value total	**0**	**134,601**	**0**	**82,788**	**0**	**0**	**132,364**	**0**

Fair value hierarchy: financial instruments measured at amortised cost

31.12.2022			Fair value hierarchy		
(HUF million)	Carrying amount	Fair value	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**
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**

31.12.2021			Fair value hierarchy		
(HUF million)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	225,587	223,677	152,208	71,469	0
Loans and advances	2,384,597	2,411,815	0	0	2,411,815
Financial assets at amortised cost total	**2,610,184**	**2,635,492**	**152,208**	**71,469**	**2,411,815**
Financial liabilities at amortised cost					
Deposits	3,418,743	3,421,637	0	0	3,421,637
Debt securities issued	689	710	0	710	0
Other financial liabilities	6,066	5,998	0	0	5,998
Financial liabilities at amortised cost total	**3,425,498**	**3,428,345**	**0**	**710**	**3,427,635**

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.

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

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

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

Quoted market prices are used for exchange-traded securities and listed debt instruments. The fair values of Hungarian government bonds and corporate bonds classified as held for trading, designated at fair value through profit and measured at fair value through other comprehensive income are measured based on market prices available in the Bloomberg Front-End System.

The fair value of the securities is the market price quoted on the stock exchange (if such price exists), If no quoted price exists, price available from OTC markets is used; otherwise, the fair value is the present value of the discounted contractual cash flows at the valuation date.

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

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

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

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

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

v. *Derivative instruments (level 1 and level 2)*

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

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

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

The fair values of forward exchange transactions are computed 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.

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

Fair values of fixed rate debt securities issued and designated in hedge relationships are calculated as the present value of future cash flows.

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 01.01.2022**	**Exchange differences**	**Origina-tions/ purchases**	**Payments**	**Sales**	**Settlements**	**Gains/losses in profit or loss**	***Hereof: unreal-ised gains/losses***	**Gains/losses in other com-prehensive income**	**Closing balance 31.12.2022**
Non-trading financial assets mandatorily at fair value through profit or loss										
Loans and advances	97,771	0	0	43,567	0	-7,040	-8,848	*-8,899*	0	125,450
Non-trading financial assets mandatorily at fair value through profit or loss total	**97,771**	**0**	**0**	**43,567**	**0**	**-7,040**	**-8,848**	***-8,899***	**0**	**125,450**
Financial assets at fair value through other comprehensive income										
Equity instruments	63	1	0	0	0	0	0	*0*	1	65
Financial assets at fair value through other comprehensive income total	**63**	**1**	**0**	**0**	**0**	**0**	**0**	***0***	**1**	**65**

(HUF million)	**Opening balance 01.01.2021**	**Exchange differences**	**Origina-tions/ purchases**	**Payments**	**Sales**	**Settlements**	**Gains/losses in profit or loss**	***Hereof: unreal-ised gains/losses***	**Gains/losses in other com-prehensive income**	**Closing balance 31.12.2021**
Non-trading financial assets mandatorily at fair value through profit or loss										
Loans and advances	66,671	0	0	40,694	0	-3,314	-6,280	*-6,365*	0	97,771
Non-trading financial assets mandatorily at fair value through profit or loss total	**66,671**	**0**	**0**	**40,694**	**0**	**-3,314**	**-6,280**	***-6,365***	**0**	**97,771**
Financial assets at fair value through other comprehensive income										
Equity instruments	60	2	0	0	0	0	0	*0*	3	63
Financial assets at fair value through other comprehensive income total	**60**	**2**	**0**	**0**	**0**	**0**	**0**	***0***	**3**	**63**

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

31.12.2022	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
(HUF million)	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt securities	Loans and advances
Total gains or losses in profit or loss:	**0**	**0**	**-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

31.12.2020	Non-trading financial assets mandatorily at fair value through profit or loss			Financial assets at fair value through other comprehensive income		
(HUF million)	Equity instruments	Debt securities	Loans and advances	Equity instruments	Debt securities	Loans and advances
Total gains or losses in profit or loss:	**0**	**0**	**-2,800**	**0**	**0**	**0**
Net trading income and fair value result	0	0	-6,364	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**3**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**-2,801**	**0**	**0**	**0**
Net trading income and fair value result	0	0	-6,365	0	0	0
Other interest income	0	0	3,563	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:

31.12.2022 (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**				

31.12.2021 (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	97,771	a)	b)	c1)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	**97,771**				
Financial assets at fair value through other comprehensive income					
Equity instruments	63	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	**63**				

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 NPLs: Discounted Cash Flows
b)	Performing: Retail: estimated cash flows in case of 'babyloan' product Non-retail: funding curves (for liquidity costs) NPL: Retail: distressed CF (based on customer specific BEEL) estimated by workout/retail risk Non-retail: recovery estimated by workout
c1)	Performing: Retail: estimated average monthly instalment for baby loans between HUF 2001-783742 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 NPL: Retail: stressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100 %
c2)	Performing: Retail: risk-free yield curve: 7.55% - 14.19% Non-retail: risk-free yield curve: 8.62% - 16.17% 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 credit spread range (CDS curve): +216.78 - +965.9 for CDS at valuation; +0% - +44.46 for CDS at issuance NPL: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100 %
d)	If the 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.
e)	Dividend discount model
f)	Length of high-growth period Growth rate in stable growth period Beta for stable growth period
g)	Length of high-growth period: 1 - 15 years Growth rate in stable growth period: 0 - 5% Beta for stable growth period: 0.8 - 1.2
h)	Increasing high-growth period affects the FV negatively. If growth rate increases, so does the FV. FV increases with a decreasing beta.

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

Financial instruments at amortised cost:

31.12.2022 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**
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**		

31.12.2021 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**
Financial assets at amortised cost			
Loans and advances	2,411,815	discounted CF	discount curve
Financial assets at amortised cost total	**2,411,815**		
Financial liabilities at amortised cost			
Deposits	3,421,637	discounted CF	discount curve
Other financial liabilities	5,998	no valuation	not applicable
Financial liabilities at amortised cost total	**3,427,635**		

(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

31.12.2022 (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
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

31.12.2021 (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	45,989	1,372	0	11	0
hereof: non-performing	*0*	*0*	*0*	*0*	*0*
Financial assets total	**45,989**	**1,372**	**0**	**11**	**0**
Financial liabilities					
Deposits	62,859	1,973	0	1,018	0
Financial liabilities total	**62,859**	**1,973**	**0**	**1,018**	**0**
Nominal value of loan commitments, financial guarantees given and other contingencies given	3,460	1,530	0	6	0
Nominal value of loan commitments, financial guarantees and other contingencies received	3,184	0	0	0	0
Nominal value of derivatives	4,019,887	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 an increase in interbank deposits (+ HUF 16,521 million), a decrease in the balance of active repo agreements (- HUF 5,382 million) and the result of the booked dividend advance (HUF 19,980 million).
- The change in the line 'Deposits' was largely affected by a decrease of HUF 2,908 million in loro accounts and an increase in subordinated debt (HUF 4,954 million).
- In 2022, the balance in the line *'Nominal value of loan commitments, financial guarantees given and other contingencies given'* has decreased by HUF 534 million. This change is related to guarantees issued with other coverage.
- Loan commitments, financial guarantees and other contingencies received have decreased by HUF 520 million in relation to the parent company.
- In the line of *'Nominal value of derivatives'* the nominal value of derivatives pay leg.

The value of deposits against subsidiaries decreased by HUF 1,372 million, mainly due to the merge/cessation of the subsidiaries.

Income and expenses from transactions with related parties

2022 (HUF million)	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
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**

2021 (HUF million)	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
Interest income	6,090	27	0	0	0
Interest expense	-5,465	-1	0	0	0
Dividend income	0	342	0	0	0
Fee and commission income	471	9	0	3	0
Fee and commission expense	-415	0	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair value through profit and loss	-62	0	0	0	0
Total	**619**	**377**	**0**	**3**	**0**

The remuneration of key management personnel amounted to HUF 1,360 million in 2022 (2021: HUF 906 million) which were short-term employee benefits.

The line item *'Dividend income'* contains dividend received from Raiffeisen Biztosításközvetítő Kft (HUF 307 million).

(44) Investments in subsidiaries

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

Subsidiaries	Ownership interest 31.12.2022	Ownership interest 31.12.2021	Residence of the Company	Brief description of activities
Raiffeisen Corporate Lízing Zrt,	100%	100%	1133 Budapest, Váci út 116-118.	Finance leasing
Raiffeisen Biztosításközvetítő Kft,	100%	100%	1133 Budapest, Váci út 116-118,	Activities of insurance agents and brokers
SCT Kárász utca Ingatlankezelő Kft,	100%	100%	1133 Budapest, Váci út 116-118,	Management of real estate on a fee or contract basis
Raiffeisen Befektetési Alapkezelő Zrt,	100%	100%	1133 Budapest, Váci út 116-118,	Fund management activities
RB Szolgáltató Központ Kft,	100%	100%	4400 Nyíregyháza, Sóstói út 31/b	Other financial auxiliary activities
Raiffeisen Autó Lízing Kft,	100%	100%	1054 Budapest, Akadémia u, 6,	Leasing of cars and light motor vehicles
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft,	100%	100%	1054 Budapest, Akadémia u, 6,	Real estate development

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

(HUF million)	Cost 01.01.2022	Increase	Decrease	Cost 31.12.2022	Fair value correction 01.01.2022	Increase	Decrease	Fair value correction 31.12.2022	Carrying amount 01.01.2022	Carrying amount 31.12.2022
Raiffeisen Biztosításközvetítő 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**

(HUF million)	Cost 01.01.2021	Increase	Decrease	Cost 31.12.2021	Fair value correction 01.01.2021	Increase	Decrease	Fair value correction 31.12.2021	Carrying amount 01.01.2021	Carrying amount 31.12.2021
Raiffeisen Biztosításközvetítő Kft,	5	0	0	5	0	0	0	0	5	5
Raiffeisen Energiaszolgáltató Kft,	100	0	-100	0	0	0	0	0	100	0
Raiffeisen Autó Lízing Kft,	42	0	0	42	-27	0	0	-27	15	15
Raiffeisen Ingatlan Üzemeltető és Szolgáltató Kft,	3	0	0	3	0	0	0	0	3	3
Total	**150**	**0**	**-100**	**50**	**-27**	**0**	**0**	**-27**	**123**	**23**

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 (2022: 0) and 15 open-end (2021: 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)	2022	2021
Managed funds	**371,940**	**235,722**
Open-end funds	371,940	235,722
Net fee and commission income from funds	3,585	2,323
Deposits from funds	20,883	37,630
Interest income and expense on deposits from funds	-203	69

There were no fix term funds among open-end funds in the last two years. Both term deposits and demand deposits are reported under Deposits from funds. In 2022 and 2021, the Group realised more interest income than interest expense on deposits from funds. This is due to the Bank 'paying' negative interest after demand deposits in EUR.

(46) *Changes in the financing activities*

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

		Liabilities			Equity						
	Note	Debt securities	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	AT1 instruments issued	Retained earnings	Reserves	NCI	Total
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**

	Note	Liabilities			Equity						Total
		Debt securities	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	AT1 instruments issued	Retained earnings	Reserves	NCI	
Restated balance as at 1 January 2021		**727**	**56,732**	**25,628**	**50,000**	**113,445**	**31,445**	**37,330**	**14,319**	**0**	**329,626**
Changes from financing cash flows											
Proceeds from issue of debt securities	(30)	0	0	0	0	0	0	0	0	0	**0**
Repayment of debt securities at maturity	(30)	0	0	0	0	0	0	0	0	0	**0**
Payment of lease liability	(25)	0	0	-2,328	0	0	0	0	0	0	**-2,328**
Dividends and coupon on equity instruments paid*	(35)	0	0	0	0	0	0	-3,127	0	0	**-3,127**
Total changes from financing cash flows		**0**	**0**	**-2,328**	**0**	**0**	**0**	**-3,127**	**0**	**0**	**-5,455**
The effect of changes in foreign exchange rates		**0**	**601**	**206**	**0**	**0**	**0**	**0**	**0**	**0**	**807**
Changes in fair value		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-727**	**0**	**-727**
Other changes		**-52**	**-7**	**22**	**0**	**0**	**0**	**0**	**123**	**0**	**86**
Liability-related											
Interest expense	(7)	14	1,690	610	0	0	0	0	0	0	**2,314**
Interest paid	(7)	0	-1,683	-607	0	0	0	0	0	0	**-2,290**
Total liability-related other changes		**14**	**7**	**3**	**0**	**0**	**0**	**0**	**0**	**0**	**24**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**0**	**33,217**	**3,657**	**0**	**36,874**
Balance as at 31 December 2021		**689**	**57,333**	**23,531**	**50,000**	**113,445**	**31,445**	**67,420**	**17,372**	**0**	**361,235**

*In 2022, the Group paid HUF 3,527 million (2021: HUF 3,127 million) dividends on additional AT1 capital from retained earnings.

(47) Disclosures according to the Hungarian Accounting Law

i. 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).

ii. György István Zolnai, Chief Executive Officer (availability: 1133 Budapest, Váci Street 116-118) and Tibor Gáspár, Head of Accounting are obliged to sign these consolidated financial statements.

iii. The Group, as a financial institution, is obliged by regulation to have its financial statements audited according to the Act C of 2000 on Accounting and the auditor is Deloitte Könyvvizsgáló és Tanácsadó Kft. (registration number: 000083), the auditor in charge is Gábor Molnár (registration number: 007239). 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 2022 and in 2021:

(HUF million)	2022	2021
Audit fees	163	106
Other assurance services	94	12
Fees for non-audit services	6	5
Total	**263**	**123**

iv. Ther proposal for the approval of dividend submitted by the management contains a dividend of HUF 20,132 million.

(HUF million)	31.12.2022	31.12.2021
Retained earnings + Profit and loss after tax	128,828	67,420
Sources available for dividend payment	**128,828**	**67,420**

There were no received dividends (neither in 2022, nor in 2021) recognised 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, are eligible to increase the sources available for dividend payment.

(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).

31.12.2022 (HUF million)	Corpo-rate/Subsidi-aries	Retail/ Pri-vate/ 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**

31.12.2021 (HUF million)	Corpo-rate/Subsidi-aries	Retail/ Pri-vate/ SME	Bank/ Treasury	Other	Total
Assets					
Cash, accounts receivable from central banks and other demand deposits	147.060	0	289.514	45.915	482.489
Financial assets held for trading	0	0	114.942	0	114.942
Non-trading financial assets at fair value through profit or loss	1.261	97.139	0	541	98.941
Financial assets at fair value through profit or loss	0	0	195	0	195
Financial assets at fair value through other comprehensive income	30.731	80.187	241.042	0	351.960
Financial assets measured at amortised cost	1.032.822	455.061	1.175.368	7.257	2.670.508
Derivatives designated as hedging items	0	0	53.286	0	53.286
Change in fair value of items hedged in portfolio hedges of interest rate risk	0	0	-12.917	0	-12.917
Current tax assets	0	0	0	36	36
Investments in subsidiaries, joint ventures and associates	8	0	0	15	23
Property and equipment	0	0	54	33.652	33.706
Intangible assets	0	0	22	21.015	21.037
Deferred tax assets	0	0	0	3.466	3.466
Other assets	0	0	0	7.616	7.616
Assets in total	**1.211.882**	**632.387**	**1.861.506**	**119.513**	**3.825.288**
Liabilities					
Financial liabilities held for trading	0	0	58.502	0	58.502
Financial liabilities measured at amortised cost	1.198.585	1.579.747	590.100	82.306	3.450.738
Derivatives designated as hedges	0	0	76.099	0	76.099
Changes in fair value of items hedged in portfolio hedges of interest rate risk	0	0	-57.868	0	-57.868
Current tax liabilities	0	0	0	1.599	1.599
Liabilities included in disposal group classified as held for sale	0	0	0	9.034	9.034
Provisions	0	0	0	4	4
Other liabilities	0	0	3	7.495	7.498
Total liabilities	**1.198.585**	**1.579.747**	**666.836**	**100.438**	**3.545.606**
Equity	**0**	**0**	**0**	**279.682**	**279.682**
Equity capital and liabilities in total	**1.198.585**	**1.579.747**	**666.836**	**380.120**	**3.825.288**

2022 (HUF million)	Corpo-rate/Subsidi-aries	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**

2021 (HUF million)	Corpo-rate/Subsidi-aries	Retail/ Private/ SME	Bank/ Treasury	Other	Total
Net interest income	25.128	30.406	9.407	2.976	**67.917**
Dividend income	1.503	342	0	72	**1.917**
Net fee and commission income	17.197	35.432	5.475	-311	**57.793**
Net result from trading and fair value changes	-804	0	2.931	-1.886	**241**
Net gains/losses on hedge accounting	540	0	263	-5	**798**
Total income	**43.564**	**66.180**	**18.076**	**846**	**128.666**
Impairment	787	-4	210	0	**993**
Net gains/losses on derecognition of financial assets not at fair value through profit or loss	-16.716	-50.196	-2.893	-5.223	**-75.028**
Other operating result, Operating expenses	130	-1.683	0	-35	**-1.588**
Other income	-3.466	-2.604	-495	-224	**-6.789**
Bank taxes and other specific charges	-819	-4.782	18	-24	**-5.607**
Profit/loss from continuing operations before tax	**23.480**	**6.911**	**14.916**	**-4.660**	**40.647**
Tax expense or income relating to the result from continuing operations	0	0	0	-3.913	-3.913
Profit/loss from continuing operations after tax	**23.480**	**6.911**	**14.916**	**-8.573**	**36.734**
Profit/loss for the year	**23.480**	**6.911**	**14.916**	**-8.573**	**36.734**

(49) *Events after the reporting date*

The Group's sole shareholder decided on 21 December 2022 to pay an advance dividend of HUF 20,132 million that was paid on 28 December 2022 by the Group. On 09 February 2023, the NBH authorized the Group to settle the positive profit generated between the 01 January and 31 December 2022 into primary equity on individual and consolidated level. The board of directors of the Group proposed a dividend equal to the advance dividend of HUF 20,132 million from the profit of business year 2022, which is going to be approved by the owner on 30 March 2023. The final capital adequacy ratio considering the settlement and dividend was 23,28%.

The Group 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 with non-maturity.

(50) Abbreviations and terms used in the financial statements

AAC: At Amortised Cost

ALCO: Asset and Liability Committee

BEEL: Best Estimate of Expected Loss

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

BMT: Benchmark Test

BPV: Basis Point Values

CCIRS: Cross Currency Interest Rate Swap

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

FVTPL: at Fair Value Through Profit and Loss

Gap: the difference between assets and liabilities in the same repricing category

GDMA: Government Debt Management Agency

GVH: Hungarian Competition Authority

HAL: Hungarian 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

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 pandemical 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

Trading: primary objective is to realise short-term profits

VaR: Value at Risk

WCV: Weighted Collateral Value

Responsible Corporate Governance Statement of Raiffeisen Bank Hungary

Table of contents

(1.) Introduction

Raiffeisen Bank Zártkörűen Működő Részvénytársaság (registered office: 1133 Budapest, Váci út 116-118.; company registration number: 01-10-041042, hereinafter "Raiffeisen Bank" or the "Bank", together with its consolidated subsidiaries the "Group") was established in 1986 as a subsidiary of Raiffeisen Zentralbank Österreich Aktiengesellschaft ("RZB", legal predecessor of Raiffeisen Bank International AG – "RBI"; RBI and its fully consolidated subsidiaries together the "RBI Group").
The Bank is licensed by the National Bank of Hungary (MNB) to provide a number of financial services and ancillary financial services listed in Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (the "Banking Act") as well as certain investment services under Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Rules Governing Their Activities (the "Investment Services Act"). It operates as a universal bank, providing service(s) to corporate clients (large, medium and small enterprises) and municipalities, as well as to individuals, micro enterprises and entrepreneurs.
Raiffeisen Bank pays particular attention to the development and maintenance of a high level of corporate governance in line with the Hungarian and international legal requirements. A sound management system and organisational structure, accurate financial planning, responsible management and comprehensive control mechanisms provide a solid foundation/framework for prudent, transparent, efficient and effective operations, in order to maintain good governance the Bank continuously reviews and improves its corporate governance practices.
Like all organisations providing financial and investment services, the Bank's activities are subject to significant regulation by legal provisions and supervisory requirements and guidelines. As a result, all its operations are regulated in detail and constantly monitored by the authorities. Each internal control function (risk management, compliance activities, internal control system) must meet strict requirements and demonstrate its effectiveness not only in the internal corporate governance system but also to external public authorities. All this ensures a conscious, all-inclusive and controlled risk management activity, and reliable, accurate and monitored data reporting. Financial and investment activities therefore require complex and effective corporate governance practices that ensure responsible behaviour towards both clients and the owner (Sole Shareholder), as well as reliable and predictable operations and long-term profitability.

(2.) Regulatory framework

The Bank's corporate governance framework is defined primarily by the laws and regulations detailed in this chapter:

- Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (the "Banking Act")
- Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing Their Activities (the "Investment Services Act")
- Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse ("MAR")
- Decree 24/2008 (VIII.15.) of the Minister of Finance on the detailed rules of the disclosure obligations relating to publicly traded securities (the "PM Decree")
- Act V of 2013 on the Civil Code (the "Civil Code")
- Act C of 2000 on Accounting (the "Accounting Act")
- Act CXX of 2001 on the Capital Market (the "Capital Market Act")
- The Bank's Articles of Association as amended from time to time (available: registered office)
- The Bank Remuneration Policy as amended from time to time (available: https://www.raiffeisen.hu/raiffeisen-csoport/sajtoszoba/javadalmazasi-politika)

(3.) Organisational framework for governance, supervision and decision-making

The Bank is governed by a two-tier system consisting of the Board of Directors and the Audit Committee. The two-tier governance system allows the separation of the directing functions of the Bank's Board of Directors from the control/supervisory functions of the Audit Committee (governance structure).

The working organisation of the Bank is directed and controlled by the Chief Executive Officer and the Deputy Chief Executive Officers, in order to ensure that everything is done within the framework of the law and the Bank's Articles of Association, and in accordance with the decisions of the Sole Shareholder and the Board of Directors. Under the direction of the Chief Executive Officer, the division heads manage each of the central departments and functions, taking into account their logical and professional coherence (operational structure).
Ownership rights over the Bank is exercised by the Sole Shareholder as the ultimate decision-maker.

The Board of Directors, the Audit Committee and the Sole Shareholder are assisted by standing and ad hoc committees.

(3.1) Primary decision-making bodies

(3.1.1) Owner

Owner (Sole Shareholder) of the Bank on the reporting date:

Shareholder	Share capital	Ownership share
Raiffeisen CEE Region Holding GmbH	HUF 50,000,090,000 (fifty billion and ninety thousand Hungarian forints)	100%

a) shares

The share capital of the Bank consists of 5,000,009 (five million and nine) common shares of series 'T' with a face value of HUF 10,000 (ten thousand) each. The Bank's share capital is the sum of the face value of all its shares.

The Bank's shares are registered, dematerialised shares. Common shares issued by the Bank carry the full rights of shareholders granted by law and the Articles of Association.

The transfer of the dematerialised shares of the Bank shall be governed by the provisions of the Civil Code, the Capital Market Act and the Articles of Association. Dematerialised shares may be acquired or transferred only and exclusively by way of the debiting or crediting of the relevant securities account.

The transfer of any registered shares of the Bank shall be subject to the approval of the Board of Directors. Consent to the transfer of shares may be refused if the shares in question are to be acquired by a competitor of the Bank. The intention to transfer must be notified in writing. In the absence of a statement from the Board of Directors within thirty days of receipt of the written notification, consent shall be deemed to have been given.

b) dividend

The Sole Shareholder may decide on the payment of dividends based on the proposal of the Board of Directors approved by the Audit Committee.

The Sole Shareholder of the Bank may decide on the payment of interim dividend between the approval of two consecutive annual accounts prepared according to the Accounting Act if:

- it may be ascertained on the basis of the interim balance sheet that the Bank has the funds required for dividend payment;
- such payment does not exceed the amount of the financial results after deduction of tax generated since the closing of the books concerning the business year covered by the latest accounts, plus any established and disposable profit reserve; and
- the adjusted equity of the Bank will not fall below the amount of its share capital as a result of the payment.

Interim dividend may only be paid if the Sole Shareholder undertakes to repay the interim dividend at the Bank's request in the event it is determined subsequently that, according to the accounts under the Accounting Act, no dividend payment would be legally possible.

c) supreme decision-making body

The powers of the supreme decision-making body are exercised by the Sole Shareholder. In matters falling within the competence of the supreme decision-making body, the Sole Shareholder shall decide in writing and the decision shall take effect upon communication to the Board of Directors.
The functions, powers and other rules applicable to the supreme decision-making body are laid down in the Articles of Association and applicable law.

(3.1.2) The Board of Directors

The Board of Directors is responsible for the Bank's overall operations, with its main tasks including approving the Bank's strategy, annual accounts, major organisational changes and regulations, and taking other important corporate decisions. Its key objectives and activities include increasing effectiveness and efficiency, managing risks, operating in full compliance with external regulations in every respect, i.e. ensuring the most effective application of business, ethical and internal control policies.

a) members of the Board of Directors

The Bank's Board of Directors is composed of three to eleven members appointed by the Sole Shareholder for a fixed term of office of up to five (5) years (re-election for additional terms is permitted).

At least two members of the Board of Directors shall be employed by the Bank (executive members). The number of the Board of Directors who are not employed by the Bank (non-executive members) must exceed the number of executive members. The Board of Directors may not take any valid decision if the non-executive members attending the meeting and entitled to vote are outnumbered by the executive members.

The Sole Shareholder can instruct the Board of Directors, and the members of the Board of Directors shall carry out such instructions.

The members of the Board of Directors must be natural persons, shall perform their duties in person, and may not be represented by proxy. The members of the Board of Directors run the Bank either on a mandate basis or in an employment relationship.

Members of the Board of Directors on the reporting date:

Members of the Board of Directors	**Start of mandate**	**End of mandate**	**Executive/non-executive member**
Andreas Gschwenter	01/05/2019	30/04/2024	non-executive
György István Zolnai	01/05/2019	30/04/2024	executive
Ferenc Kementzey	01/05/2019	31/03/2024	executive
Valerie Brunner	19/07/2019	31/03/2024	non-executive
Daniel Rath	19/07/2019	31/03/2024	non-executive
Hannes Andreas Cizek	01/08/2022	30/04/2024	non-executive
Elena Valeria Filipidescu	05/10/2022	30/04/2024	non-executive
Petro Merkulov	05/10/2022	31/03/2024	non-executive

b) Chairman of the Board of Directors

The Board of Directors shall elect its Chairman and, if necessary, a Vice-Chairman from among its members for a maximum term of five years. Such mandate may be revoked by the Board of Directors at any time.

c) Chief Executive Officer and Deputy Chief Executive Officer(s)

The working organisation of the Bank is directed and controlled by the Chief Executive Officer and the Deputy Chief Executive Officer(s), appointed by the Board of Directors from among its members for any term and subject to any conditions, within the limits of the law and the Articles of Association, and in accordance with the decisions of the Sole Shareholder and the Board of Directors. The Board of Directors is also entitled to recall the Chief Executive Officer and Deputy Chief Executive Officer(s).

The Chief Executive Officer and the Deputy Chief Executive Officer(s) are employees of the Bank, and employer's rights are exercised over them by the Board of Directors. The Chief Executive Officer is responsible for deciding all matters that are not the exclusive responsibility of the Sole Shareholder or the Board of Directors, as well as any matters that the Board of Directors has delegated to him.

The appointment of the Chief Executive Officer and the Deputy Chief Executive Officer(s), their number and the professional requirements imposed on them shall be governed by Articles 155-156 of the Banking Act.

d) functioning of the Board of Directors, rights and obligations of its members

The Board of Directors is responsible for the management of the Bank, conducts the Bank's affairs, represents the Bank before courts and other authorities and in dealings with third parties, and is composed of the Bank's executive officers. The powers and duties of the Board of Directors and its operating procedures are set out in the Articles of Association of the Bank and the Rules of Procedure of the Board of Directors.

The Board of Directors shall ensure that the Bank's accounts are properly kept. The Board of Directors is responsible for presenting the Bank's annual accounts under the Accounting Act and the proposal for the appropriation of profit after tax. The executive member are liable for the preparation of the annual accounts and the non-executive members of the Board of Directors are liable for the review of the annual accounts.

The members of the Board of Directors shall perform their duties in the best interests of the Bank and in that capacity shall be subject to the law, the Articles of Association and the decisions of the Sole Shareholder.

e) Rules of Procedure and meetings of the Board of Directors

The Board of Directors meets as necessary, but at least once a quarter. Meetings of the Board of Directors shall be convened and prepared by the Chairman or the Vice-Chairman. The meeting must be convened in writing at least 15 days before the date set for the meeting, specifying the agenda, place and time.

The Chairman of the Board of Directors is obliged to convene a meeting of the Board of Directors if the Chief Executive Officer or one of the Deputy Chief Executive Officers or two members of the Board of Directors so request. The Chairman of the Board shall have the discretion to determine the place, date and agenda of the meeting, of which he shall notify the stakeholders at least 15 days before the date set for the meeting.

Meetings of the Board of Directors shall be conducted by the Chairman of the Board of Directors or, in his absence, by the Vice-Chairman. If neither the Chairman nor the Vice-Chairman is present at a meeting of the Board of Directors, the members of the Board of Directors present shall elect a Chairman from among their number.

The quorum for a meeting of the Board of Directors shall be at least two members of the Board of Directors less than the total number of members of the Board of Directors. If a quorum is not reached, a quorum shall consist of a majority of the members of the Board of Directors in office at a new meeting of the Board of Directors convened more than 24 hours after but within the tenth day of the original date.

Decisions of the Board of Directors shall be taken by a majority of the votes of those present, unless a stricter majority is required by law or by the Articles of Association. The Board may as well take decisions by written vote without holding a meeting.

Minutes shall be taken of the meetings of the Board of Directors.

f) conflicts of interest

With the exception of shares in a public limited company, a member of the Board of Directors may not acquire shares in or hold a management position in a company which carries on the same main business as the company, unless the Sole Shareholder has given its consent.

A member of the Board of Directors and his or her relatives may not, except in the ordinary course of everyday business, conclude contracts relating to the Bank's activities in his or her own name or for his or her own account, unless the Sole Shareholder has given its prior written consent.

Members of the Board of Directors and their relatives may not be elected to the Audit Committee of the Bank.

(3.1.3) Remuneration Committee

The Remuneration Committee is a committee set up by the Board of Directors in order to help to develop remuneration principles, propose a remuneration system, and monitor the same.

Members of the Remuneration Committee:

- Andreas Gschwenter (chairman);
- Petro Merkulov (member); and
- Daniel Rath (member).

(3.1.4) Risk Committee

The Risk Committee is a committee set up by the Board of Directors to support the Bank's decision making, provide opinion on the Bank's risk strategy and risk appetite, and support the monitoring of the implementation of the risk strategy.

Members of the Risk Committee:

- Elena Valeria Filipidescu (chairman);
- Petro Merkulov (member); and
- Daniel Rath (member).

(3.2) Secondary decision-making bodies

Secondary decision-making power is a power delegated by the primary decision-making bodies. The Bank's operational secondary decision-making body is the Management Meeting, which acts as an executive body.

The Committees and Meetings are bodies set up above the Bank's operational departments in accordance with the requirements of external and internal regulations in order to maintain the Bank's proper functioning. Their permanent members and ad hoc invitees work within a predefined framework. The decisions taken are binding for all the areas concerned.

Additional internal decision-making forums may be established with the approval of the relevant Deputy Chief Executive Officer or Head of Department. The functioning of these decision-making bodies and the implementation of the decisions taken shall be the responsibility of the head of the relevant area.

(3.3) Supervisory bodies

(3.3.1) Audit Committee

The Audit Committee is a supervisory body performing the functions of the supervisory board and the audit committee under the Civil Code.
The Audit Committee, elected by the Bank's Sole Shareholder, supervises the management of the Bank with a view to safeguarding the Bank's interests (functions of the supervisory board under the Civil Code), and also performs the functions of audit committee (as stipulated under the Civil Code)d, monitoring the operation of the organisation's internal control system. The powers and duties of the Audit Committee are set out in the Civil Code, the sectoral legislation, the Bank's Articles of Association and the Rules of Procedure of the Audit Committee.

a) members of the Audit Committee

The Audit Committee continuously monitors the management activities of the Bank's Board of Directors. The Audit Committee consists of at least three but no more than fifteen members appointed by the Sole Shareholder for a fixed term of up to five (5) years (re-election for additional terms is permitted/possible).

The Audit Committee acts as a body. The Audit Committee shall elect a Chairman and, if necessary, a Vice-Chairman or Vice-Chairmen from among its members.

Only natural persons may be members of the Audit Committee, who must act in a personal capacity, and may not be represented by proxy. The members of the Audit Committee shall be independent of the Board of Directors and may not be instructed in that capacity. The members of the Audit Committee, with the exception of the employee delegate, perform this activity on a mandate basis.

Members of the Audit Committee on the reporting date:

Members of the Audit Committee	Start of mandate	End of mandate	Executive/non-executive member
Georg Feldscher	01/05/2019	31/03/2024	independent member
Katalin Igaz	01/05/2019	30/04/2024	independent member
dr. Mercedes Tóth-Szabó	01/05/2019	30/04/2024	employee delegate

b) Chairman of the Audit Committee

All meetings of the Audit Committee shall be convened and conducted by the Chairman.

Within ten days of the meeting of the Audit Committee, the Chairman of the Audit Committee shall send to the National Bank of Hungary the minutes, submissions and reports relating to the agenda items discussed by the Audit Committee which concern serious violations of the Bank's internal regulations or serious irregularities in management and leadership.

c) employee representation

The Bank has a Works Council and one of its members is also a member of the Audit Committee (employee delegate).
The employee delegate on the Audit Committee has the same rights and obligations as the other members. If the opinion of the employee delegate differs unanimously from the majority position of the Audit Committee, the minority position of the employees shall be made known to the Sole Shareholder.

d) functioning of the Audit Committee

The Audit Committee is responsible for monitoring the Board of Directors with a view to safeguarding the Bank's interests.

The Audit Committee may request information from members of the Board of Directors or employees of the Bank, inspect the Bank's books, documents and accounting records, examine the Bank's payment accounts, cash, securities and contracts and have them examined by an expert.

The Audit Committee must examine all relevant business policy reports.
The Sole Shareholder may only decide on the annual accounts under the Accounting Act and the appropriation of after-tax profit after receiving a written report from the Audit Committee.

e) Rules of Procedure of the Audit Committee

The Audit Committee shall have a quorum if two-thirds of its members, but at least three members, are present, and its decisions are taken by a majority of votes cast. Acting as an Audit Committee, it takes decisions unanimously.

The Audit Committee sets its own Rules of Procedure, which are approved by the Sole Shareholder.
The Audit Committee meets as necessary, but at least twice a year. If the number of members of the Audit Committee falls below three or if there is no one to convene a meeting, the Board of Directors shall notify the Sole Shareholder and initiate a resolution to restore the proper functioning of the Audit Committee.

The main task of the Audit Committee is to ensure that the Bank has a comprehensive and effective control system, and to manage the internal audit organisation. It also has the task of auditing the Bank's annual and interim financial reports, making proposals for the supreme decision-making body to adopt the documents, reports and annual accounts audited by it, and the proposal for the appropriation of after-tax profit, and making proposals for the appointment and remuneration of the auditor to be elected.

(3.3.2) Nominating Committee

The Nominating Committee is a committee established by the Audit Committee to formulate the principles for the selection of members of the Bank's management bodies and to nominate candidates accordingly, as well as propose principles and framework for assessing compliance with the requirements set for the Bank's and the Group's management body members, executive officers and key personnel.

Members of the Nominating Committee:
- Georg Feldscher;
- Katalin Igaz; and
- dr. Mercedes Tóth-Szabó.

(3.3.3) Statutory auditor

The powers and duties of the auditor elected by the Sole Shareholder and mandated by the Board of Directors are governed by the Civil Code, the Banking Act, the Act on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors, and the Bank's Articles of Association.

The Bank's Sole Shareholder, members of the Board of Directors, members of the Audit Committee, or their relatives, may not be the Bank's statutory auditor. An employee of the Bank may not be the Bank's auditor during the term of his/her employment and for three years after the termination of his/her employment. The person responsible for the audit may not perform any other work for the Bank on the basis of another mandate, and the audit firm may only perform other work if the subject of the mandate does not affect the auditor's duties.

The Bank's statutory auditor:
Deloitte Könyvvizsgáló és Tanácsadó Kft. (registered office: 1068 Budapest, Dózsa György út 84/C; company registration number: 01-09-071057)
start of mandate: 15 May 2021

end of mandate: 31 May 2025

Natural person auditor:
name: Gábor Molnár
address: 1031 Budapest, Muzsla utca 8.
certificate number: 007239
start of mandate: 15 May 2021
end of mandate: 31 May 2025

Substitute natural person auditor:
name: Attila Molnár
address: 1147 Budapest, Istvánffy utca 41.
certificate number: 007379
start of mandate: 15 May 2021
end of mandate: 31 May 2025

(3.4) Corporate governance practices in relation to conflicts of interest

The Bank is not aware of any undisclosed, unmanaged conflicts of interest between the duties of the members of the Audit Committee and/or the Board of Directors of the Bank and their private or other interests.

In addition, the Bank has internal provisions on prudential requirements and compliance rules concerning credit institutions under Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) (taking into account the relevant Hungarian provisions under Act V of 2013 on the Civil Code and the Banking Act) and the Joint Guidelines of ESMA and EBA on the assessment of the suitability of directors and key management personnel.

The Bank aims to prevent conflicts of interest that could adversely affect the interests of the clients or the Bank. If a conflict of interest is identified in relation to members of the Board of Directors and/or the Audit Committee, appropriate procedures shall be applied to manage and disclose such conflict of interest. The guidelines and rules also cover actual or potential conflicts of interest that may affect the Bank, the employees themselves (including management), the employees' spouses/domestic partners, children or other family members living in the same household, if these persons have close links with the Bank or with other customers or contractual partners (in particular suppliers) or with issuers of financial instruments.

Each member of the Board of Directors undertakes to avoid any personal conflict of interest and undertakes to inform the other members of the Board of Directors if he/she identifies a conflict of interest in relation to himself/herself. For the avoidance of doubt, holding different positions in companies belonging to the RBI Group does not create a conflict of interest.

No member of the Board of Directors or the Audit Committee has any actual or potential conflict of interest between his or her duties with the Bank and his or her private or other interests or duties. The members of the Board of Directors or the Audit Committee may, in the ordinary course of business, enter into arm's length transactions with the Group.

As of the date of the 2022 Annual Report, the Bank is not aware of any conflict of interest between the duties of the Bank's administrative, management and supervisory bodies (including the Bank's Board of Directors and Audit Committee) and the members' private interests and/or other duties.

(3.5) System of internal controls

The internal control system, alongside responsible governance, is a key pillar of the internal lines of defence, which helps to ensure prudent, reliable and efficient operations in compliance with the law and internal regulations, to protect the economic interests and social objectives of customers and the Sole Shareholder, and to maintain confidence in the Bank.

Internal control functions are independent of each other and of the areas they supervise and control. Internal control functions are expected to operate in a way that supports senior management in making informed decisions.

The Bank identifies three broad areas as the pillars of internal control: audit; risk management and compliance.

(3.5.1) Audit

The internal control system covers all processes, organisational units, business areas and activities, including outsourced activities. The Bank's control system is implemented at several interdependent control levels.

Internal Audit Department monitors the Bank's activities by carrying out reviews approved by the Audit Committee and included in its annual and medium-term risk-based internal audit work plan. In addition to the approved annual plan, only the Audit Committee, the Board of Directors, the Bank's Management, RBI Group Internal Audit and the Head of Internal Audit may set mandatory tasks for the internal audit staff. Internal Audit regularly reports the results of its audits to Management and the Audit Committee. The department communicates and cooperates as necessary with external audit bodies, authorities and professional associations.

The main areas of activity of the Internal Audit Department include among others: (a) reviewing the Bank's activities to ensure that the results are consistent with the organisational and business objectives; (b) regularly assessing the effectiveness, consistency with the objectives and suitability of the Bank's risk management, governance and control processes; and (c) providing objective information to the audited area, Management and the Sole Shareholder on weaknesses in the internal control system and the resulting risks, and making recommendations for improvements to the internal control system.

The Bank's Management shall ensure the full investigative powers and independence of the internal audit function. Internal Audit and its members have no authority to take action in the area investigated by them or responsibility for the facts they uncover, but they have unlimited powers of investigation in the areas they investigate. Internal Audit materials and documents are classified as confidential or secret. Except for external audit bodies, only members of the Audit Committee, members of Management, and RBI Group Internal Audit have access to Internal Audit materials.

(3.5.2) Risk management

The Bank has detailed risk management policies covering all types of risk (credit, country, counterparty, market, liquidity, operational, compliance), in line with the legislation governing prudent banking operation. Information on risk management practices, the limits applied and compliance with those limits is disclosed in the annual report and in the information required to be published under the CRR. The Group's risk management strategy and the risk policies required by the Banking Act are approved by the Bank's Board of Directors.

There are five major risk management departments operating at the Bank: (i) Credit Risk Management; (ii) Retail and SME Risk Management; (iii) Integrated Risk Department; (iv) Collection Department; and (v) Special Cases.

Credit Risk Management Department

The Bank's risk analysis, risk management and collateral management functions are completely separate and independent from the business areas. Individual credit risk is analysed, rated, assessed and monitored by Credit Risk Management (CRM). Measuring credit risk at portfolio level is a shared competence and responsibility between Credit Risk Management and Integrated Risk Department (IRD). Market (interest rate, exchange rate, liquidity) and operational risks are also analysed by Integrated Risk Department.[1]

Retail and SME Risk Management Department

The department is responsible for the integrated, centralised analysis and risk management of the Bank's standard and scoring-based mass products and client segments managed at portfolio level.

It provides risk management support to four business lines (retail, private banking, small business and corporate) and to the Bank's leasing subsidiary, and participates in the related product, process and system development works.

Integrated Risk Department

The main objective of the department is to strengthen the financial stability and competitiveness of the Group by identifying the Group's exposure to market, credit, operational, fraud, reputational and strategic risks, developing and validating models to ensure the correct pricing and coverage by capital of risks, and providing analyses to support the optimal diversification of the Bank's portfolios.

The department is responsible for the Credit Risk Control Unit (CRCU) function as defined in Article 190 of the CRR. This includes the design or selection of the rating systems used for the calculation of capital requirements under the Basel II-III convention (and the relevant EU regulation and directive, as well as Hungarian legislation), the professional management of their operation and the assessment of their performance.

[1] The credit assessment and rating of standard product-based financing is not the responsibility of Credit Risk Management.

Collection Department

The primary task of Collection Department is to manage the Bank's delinquent retail (PI), private and SME customers, to recover overdue receivables and thereby to maintain at the planned level and minimise the impairment allocated on expected losses, to develop recovery strategies, to estimate recovery data for the planning, to develop and monitor collection KPIs, and to plan capacities.

Special Cases Department

The Department is responsible for the management of the Bank's rated clients belonging to the medium-sized and large corporate and municipal segments, as well as those of its leasing and other subsidiaries. The primary objective of the department is to ensure the highest possible recovery on the cases it handles, proactively where possible, quickly, and taking into account the reasonable interests of the debtors.

(3.5.3) Compliance

In accordance with the relevant EU and Hungarian legal requirements and supervisory recommendations, the Bank has an independent organisational unit (Compliance Department) for the identification and management of compliance risks. The function has the appropriate regulatory documents in place: compliance strategy, compliance policy, regulations for the management of specific compliance risks, and work plan.

The core purpose of the Compliance Department is to identify, prevent and manage compliance risks. The department is an integral part of the internal lines of defence within the RBI Group. Its scope covers all subsidiaries of the Group, their employees, and it is responsible for all compliance-related issues affecting the Group. The department reports directly to the Chief Executive Officer.

The Compliance Department's main areas of activity include (a) ensuring the functioning of the internal control framework and the preparation and maintenance of the related policies; (b) implementing and operating the compliance strategy of the RBI Group; (c) establishing, operating and monitoring the Bank's and its subsidiaries' anti-money laundering and financial sanctions programmes; (d) operating a local whistle-blowing system; (e) establishing policies for the prevention of conflict of interest situations; (f) implementing and enforcing policies on the prohibition of insider trading and market manipulation and on the limitation of information flow, and operating a monitoring system; (g) fulfilling reporting obligations; and (h) communication with supervisory bodies.

(4.) The Bank's information management and disclosure policy

Having regular, reliable and comparable information is essential for the other participants of the money and capital markets to assess the Bank's performance. When disclosing information, the Bank shall ensure that the information is clear, understandable, correct and accurate.

The basic principle followed by the Bank in its disclosures is to comply with all its disclosure obligations in the form and within the time limits prescribed by law. As an issuer of publicly traded debt securities, the Bank is subject to the provisions set out in Chapter V of the Capital Market Act, in the PM Decree containing detailed rules on extraordinary information, in the relevant rules of the Budapest Stock Exchange, in the MAR and in the Banking Act.

The Bank has formulated its principles for the transactions and tradings of persons regarded as insiders in relation to securities (bonds) issued by the Bank and admitted to trading on a regulated market, taking into account the relevant legal provisions. The Bank will act in accordance with MAR and its policy on the handling of inside information in relation to the identification, handling and disclosure of information.

(5.) Remuneration policy

The Bank operates an objective, transparent, fair and legally compliant remuneration structure. The Bank's remuneration system is consistent with and promotes sound risk management, and shall not encourage the taking of risks beyond the risk tolerance of the credit institution.

The Bank aims to attract and retain a motivated, quality workforce and to reward employees in a way that enables the Bank and the RBI Group to meet future challenges in line with the principles of sound risk management.

The remuneration policy ensures the local implementation of the remuneration framework of the RBI Group for all categories of employees at the Bank, including the members of Management. In implementing its remuneration policy, the Bank distinguishes between the following categories of employees:

- Management;
- Employees eligible to an annual bonus; and
- Employees eligible for risk mitigation incentives.

(6.) Diversity policy

The Bank has developed a diversity policy in financial year 2022, which is currently being approved.

STATEMENT OF THE ISSUER

We, the undersigned representing Raiffeisen Bank Zrt. (address: HU-1133 Budapest, Váci út 116-118., hereinafter referred to as: „Bank") hereby declare that the annual report of 2022 stipulated in Section 54. § of Act CXX of 2001 on the Capital Market was prepared in accordance with the provisions of Act C of 2000 on Accounting and International Financial Reporting Standards and to our best knowledge.

The consolidated financial statements give a true and fair view of the assets, liabilities, financial status and profit of the Bank and the consolidated subsidiaries, furthermore the consolidated business report gives a true and fair view of the status, improvement and performance of the Bank and the consolidated subsidiaries including the main risks and uncertianty factors.

Budapest, 30 March 2023

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Raiffeisen BANK

Raiffeisen Bank Zrt.
Business report 2022

Content

(1) Macroeconomic environment in 2022

Obviously, one of the biggest challenge of the year was the inflation far above the long-term trends for the developed and developing economies. In the United State the demand shock due to the consumption regenerating really fast after the pandemic heated the inflation, while the supply was only able to slowly or not at all catch up with the rehabilitation. Labour market remained tight, which considerably accelerated the wage out-flow, triggering the FED on spring 2022 to begin a strong tightening. Of course, after mid-2021-reopening the CPI already exceeded the 2% mid-level target of the central bank and it continued the last year above 7%. The inflation peaked at 9.1% in June and it decreased to 6.5% until year-end. The 0.25% base rate in March was increased by the FED in seven stages to 4.5% by December 2022, but in order for the continuous decrease of the inflation it envisaged further tightening actions for 2023. At the end of 2022, the market expected the base interest to peak at 5% in the middle of 2023, while the consumption to be cooled by the fall back of the growth. After the strong 5.9% growth in 2021, the American economic remained above the expectations with 2.1% growth during 2022, but in the next years it is expected to underperform. The growth consensus on the market for 2023 is way below 1%.
In the European Union, especially in the euro area – which from 2023 has 20 member states – has suffered from the over-demand and under-supply after the pandemic, which was worsened by the trust issues due to Ukrainian war and the energy crisis throughout the year. The cost-side inflation has knocked out the economic way more than seen in the Unites States through the multiplication of natural gas and electricity prices, which pushed the inflation up to 10.6% by October. The ECB, just like the FED started to increase the base interest with slower dynamic because it identified the main difference between the two regions the European energy crisis. The base rate started to increase in the second half of the year from its record-low -0.5% level and closed the year after four never-seen-before increases at 2%, which, based on the market prices, is still 150 bp lower than the peak estimated for mid-2023. Despite the high inflation, the consumption remained bulletproof throughout the year, due to the above average level of savings. It is not a unique phenomenon it can be observed worldwide after the coronavirus pandemic. Nevertheless, the growth momentum of the euro area is expected to considerably decline in 2023. The 2022 GDP-growth, after the 5.3% in 2021, is expected to be over or at least near to 3% but in 2023 only between 0-1%.

(1.1) Hungarian economy

Hungary's economic growth remained above the expectations for the whole year. The GDP increased in the first three quarters by 6.1% year-on-year based on the season and calendar-effects adjusted and balanced data. Based on quarter-to-quarter comparison, while in the first quarter it increased by 1.6%, in the second quarter it increased by only 0.8%, and it turned in the third quarter to 0.4% decrease. The energy-crisis impacting a large part of the continent played a significant role in the third quarter decrease and in the deceleration for the whole year along with the exceptional drought, which reduced the contribution of the agricultural growth already in the first, but even more in the second and third quarter of the year. Behind the 6.1% economic growth for the first three quarter the contribution of the agriculture, the forestry and the fishing to the GDP change was -1.1 percentage points. The industry supported the yearly growth by 1.2% – from which the processing industry contributed 1.1 percentage points and the construction industry 0.2 percentage points – and the services together supported it by 5 percentage points. From 2018, the agriculture has not been able to substantially contribute the Hungarian economy's growth, but its performance in the period from January to September 2022 had an unprecedented impact on decelerating it. On the usage side, the consumption of the households contributed to the 6.1% GDP growth by 4.6 percentage points, the community consumption by 0.2 percentage points, the investments by 1.7 percentage points and the external trade also by 0.2 percentage points. The labour market was characterized by turgidity in 2022 as well. With decreasing economic growth, along bottlenecks the unemployment indicators minimally increased, but still remained under their long-term average. In June 2022, the unemployment rate for the age group between 15-74 decreased in its three-month average to 3.3%, which is near to a record-low level. In the second part of the year, it increased from that level though but not substantially. The average for the period between October and December was 3.9%, which is only 0.2% higher as for the same period of 2021. The activity rate was 66.9% at year-end, the employment rate was 64.3%, which means a 0.6% and a 0.4% increase in one year. The gross average earnings of the full-time employed were by 16.8% higher in November 2022, for the period between January and November 17.5% higher than its previous year's level. Such strong wage outflow has not been seen for the last two decades.

Similar growth, that has not been seen for a long time, characterized the consumer prices in 2022 as well. Due to the European energy crisis and the extraordinary drought along with the particularly unfavorable yields on agricultural products the inflation increased significantly almost for all, not only for the hectically changing consumption segments. In December 2022, the index for consumer prices was 24.5%. Behind this, the yearly price increase was 44.8% for food, 55.5% for household energy, 13.6% for durables and on average 13.4% for alcohol and tobacco. The inflation for services was 9.5%. The core inflation was 24.8%. These factors altogether resulted in a yearly 14.5% inflation and 15.7% core inflation for 2022. By the end of 2022, based on the government's GDP estimation for 2022 Hungary's

sovereign debt decreased to 73.5%, its fiscal deficit decreased to 6.1%. According to Raiffeisen Bank's forecast, after the 2021 7.1% the Hungarian economy could still grow over 4% in the past year, however in 2023 the GDP growth can fall back to near 1% before gaining momentum again in 2024.
The Hungarian Forint further weakened to a significant extent compared to all of the main foreign currencies, which is mainly due to the energy crisis, Hungary's extra high exposure to the Russian energy sources, the temporary significant worsening of the exchange ratio and the external balance, along with the increased risk around the ability to access external financing. The EUR/HUF exchange rate started the year at 370 and finished it at 400, but it fluctuated in the year in an even wider range between 350 and 430. The mitigation of the depreciation was supported by start of the normalization of the energy market, moreover by the extraordinary increase of the domestic effective interest level (10.6% in case of the base rate, and from mid-October a further 500 basis points in case of the new benchmark asset's rate), and furthermore settling the currency need of the Hungarian energy-importers from the national bank's foreign currency reserve. At the end of 2022 the benchmark interest level was 18%, which by the end of 2023 can return to a single-digit figure along with the inflation according to the market's and Raiffeisen Bank's expectations and can further decrease in 2024-2025.

(1.2) The banking sector

In the first three quarter of 2022, according to NBH's data the banking sector recorded a HUF 562 billion profit after taxation on consolidated level, which takes 88% of last year's result. The net interest income was 45% higher than last year, the net fee income showed a little less, 23% growth.
The operating costs increased by 32% compared to the same period of last year. The net loss allowance and the risk provision recorded almost quadrupled, contributing significantly to the decrease of the banking sector's result.
The sector's net assets were HUF 82,710 billion, which means a 24% increase compared to the same period of last year based on the data. The corporate loans increased by 29%, the retail loans by 15% compared to the same period of last year. The balance of deposits from customers increased significantly as well, the total balance of deposits from retail and non-financial companies increased by 22% compared to the same period of last year.
The ratio of non-performing loans increased slightly from 3.0% to 3.4% compared to the same period of last year. The cost-income ratio was 59.8% for the first three quarter of 2022, which is slightly worse than last year's 58.8%. The RoE and RoA ratios have worsened too, the RoE decreased to 10.1% (from 12.8%), RoA decreased to 0.9% (from 1.3%). The liquidity status and the capital adequacy of the sector is appropriate.

(*For the data please see the publication by the NBH https://statisztika.mnb.hu/publikacios-temak/felugyeleti-statisztikak/penz--es-hitelpiaci-szervezetek/hitelintezeti-aktualis-publikaciok)

(2) Non-financial report

For the short presentation of the company's business model the please see Section 4. 'Presentation of the business segments' performance'.
The key non-financial performance indicators, which are important for the given business segments are included in Section 4. 'Presentation of the business segments' performance' as well.
The descriptions of the company's policies followed in respect of environmental protection, social and employment matters, respecting the human rights, fighting against corruption and bribery, with references to the implemented control procedures, the results of them, along with the risks in the listed areas that might have disadvantageous effects are included in the following sections:

- 7.4 Fraud risk management
- 8. Environmental protection
- 9. Employment policy
- 10. Compliance activity

The services authorized beyond the regulatory audit that are to be disclosed in the business report and were provided by the auditor to the entity and the companies controlled by it are included in section 12.

(3) Business activity

(3.1) Balance sheet

The Bank's total assets increased by 13% (HUF 489 billion) in 2022, its market share has decreased during the year, from 6.25% at 2021 year-end to 6.03%. The growth of balances seen in the previous years continued in 2022, client assets increased significantly while client liabilities more moderately.

(HUF million)	31.12.2022	31.12.2021	Change
Total assets	4,307,419	3,818,258	13%
Loans	1,824,088	1,528,915	19%
Deposits	2,909,737	2,868,039	1%

The Bank increased its lending activity in both the retail and corporate segment.
The Bank's loan/deposit ratio increased to 63% in 2022 from 53% in the previous year, thanks to a significantly higher growth of loans compared to customer deposits. This is in line with the investment environment, influenced by the current inflation and interest rate levels, a trend that is typical for the sector as a whole.

The Bank's solvency capital slightly increased, its solvency capital ratio remained at the same level as at year-end 2021 - therefore the Bank's capital level is appropriate.

(HUF million)	31.12.2022	31.12.2021	Change
Regulatory capital	358,045	317,705	13%
Solvency ratio (%)	23.79%	22.94%	4%

(3.2) Profit or loss

Profit or loss item	31.12.2022-31.12.2021	31.12.2021-31.12.2020	Change	
	HUF million	HUF million	HUF million	%
Net interest and dividend income	139,021	69,400	69,621	100%
Net fee income	71,449	56,530	14,919	26%
Operating costs*	-63,379	-55,581	-7,798	14%
Risk costs**	-6,938	-5,152	-1,786	35%
Other result	-59,596	-24,936	-34,660	139%
Profit before tax	**80,557**	**40,261**	**40,296**	**100%**
Income tax	-8,328	-3,694	-4,634	125%
Profit after tax***	**72,229**	**36,567**	**35,662**	**98%**

* The line includes personal expenses, other administrative expenses, depreciation and amortization, the fees paid to OBA and BEVA are presented in other result.
** The line includes other provisions in addition to the impairment of financial assets.

The Bank recognised HUF 72.2 billion for the business year 2022, therefore almost doubled its profit compared to 2021.

The main components of the profit are the following:

- The net interest income contributed mostly to the profit increase, thanks to the increase of the Bank's interest-bearing assets and the higher forint interest rate environment.
- The other significant profit increasing component was the 26% increase in net fee income, due to the increase in fee income embedded in clients' FX conversion transactions and other security transactions and the increase in fee income on settlement services.
- The risk cost became HUF 1.8 billion higher compared to 2021.
- The increase in the Bank's operating costs was mainly caused by the rise in wages and other operating expenses, driven by the high inflationary environment. In addition, deposit insurance premiums nearly doubled compared to the previous year due to the insolvency of a money market participant.

- In other result category, the loss that was higher than in last year was the result of the Bank's share from the extraordinary surtax charged on the banking sector, the government actions aiming to prohibit interest increases, the higher loss on revaluations and the higher transaction tax.
- In 2022, the Bank's tax liability based on its profit before tax increased by HUF 3,694 million compared to the previous year, mainly due to local business and corporate tax caused by higher revenue.

Since the Bank's profit increased by HUF 36 billion, it significantly increased the return on equity, which changed to 20.5%. Furthermore, the cost-income ratio further improved compared to last year, which decreased from 50% to 34%.

(3.3) Events after the reporting date

The Bank's sole shareholder decided on 21 December 2022 to pay an advance dividend of HUF 20,132 million that was paid on 28 December 2022 by the Bank. On 9 February 2023 the NBH authorized the Bank to settle the positive result generated between 1 January and 31 December 2022 into primary equity at individual and consolidated level before the decision of the general meeting accepting 2022 financial statements. The board of directors of the Bank proposed a dividend payment of HUF 20,132 million from the profit of business year 2022, which is approved by the owner on 30 March 2023. The final capital adequacy ratio considering the settlement and dividend is 23.79%.

The Bank issued bonds with a total nominal value of EUR 40,000,000 (200 pieces with a nominal value of EUR 200,000 each) named as Raiffeisen EUR AT1 (ISIN number: HU0000362199) with value date of 25 January 2023. The bonds are additional tier 1 capital instruments without maturity, marketed privately.

(4) Presentation of the business segments' performance

(4.1) Corporate and Investment Banking business segment

The Bank'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 Bank achieved a portfolio growth in line with the market trends in project financing and syndications. In 2022 the increase in the assets was predominantly due to non-property project and syndicated financing activity. The expansion of the lending portfolio was realised with conservative business policy and risk taking. Overall, the loan portfolio remained of excellent quality even during the pandemic.

In 2022, the Bank's Trade, Export and Agricultural Finance (TFA) continued to achieve excellent performance, despite market difficulties (Russian-Ukrainian war, energy crisis, raw material price and other cost increases). Despite the expiry or suspension of previous grant schemes during the year, it maintained its leading position in the market for refinancing and interest rate subsidies provided by Eximbank. The agricultural market has been affected by the unfavorable effects of the drought and price rises, but the Bank has maintained its market share in this area too. Despite these difficulties, the TFA area increased its asset portfolio by over 15% and closed well above its targets.
The increase of the stock of guarantees and letter of credits continued and reached over 20% on a year-on-year basis again this year. The results have been achieved through the acquisition of some large clients and a fast, flexible and constructive client service practice, which was highly appreciated by clients according to feedbacks. The Factoring segment of the Bank practically repeated its performance of the previous year. As the majority of their clients are mainly financed in HUF, the significant increase in HUF interest rates a decrease in the utilisation of factor facilities was experienced. After the highest growth rate in the domestic factor market in the previous years, maintaining the level of the previous year is reassuring.
Important part of the Bank's client service model is to finance municipalities, entities owned by municipalities, non-profit entities, associations, condominiums and other communities as well as to provide complete, advanced financial services to clients. Significant part of services are investment and development loans to municipalities, associations and condominiums. It supports the services provided to these clients by ongoing development of digital channels, maintaining immediate payment transaction services, and providing QR code-based payment opportunity. Digital developments ensure effective client servicing and facilitate the use of ASP services for municipalities.

The Financial Institutions and Custody segment continued its growing trend in 2022 particularly in terms of loan and deposit balances and the number of active clients and it maintained its custody portfolio despite the negative market conditions and the increased competition.

Thanks to the Bank's Cash, FX and Capital Market Department – according to the statistics of the National Bank of Hungary – it was the bank with the biggest FX turnover in Hungary also in 2022 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 2022.

(4.2) Retail clients

The year 2022 brought a number of challenges for the Retail segment (Russian-Ukrainian war, dynamically rising inflation, high volatility in the foreign exchange market, etc.), but the business unit nevertheless ended the year with outstanding results: the number of mass retail customers increased by 7% and the number of Premium Banking customers by 22% compared to 2021, revenues were significantly above plan and Raiffeisen Bank's NPS (Net Promoter Score) was one of the highest amongst universal banks (2022 H1 NPS: 33).
The high acquisition results were partly due to external market conditions, partly due to successful marketing campaigns and the ongoing development of services. Throughout the year, the Bank has put a strong emphasis on marketing activities to support customer acquisition through various channels, including bank account opening promotions, renewed customer referral programs and special promotions for our Yelloo account for the young age group (18-25 years). In addition, several educational campaigns have been conducted, which have contributed to increasing customer usage of accounts and digital services. The Bank's Loyalty Programme has also become increasingly popular, offering existing customers a range of discounts with commercial and service partners.

In 2022, savings and investment products also gained significance among retail customers. In order to serve customer needs, the Bank renewed its regular savings product, with the name Reflex Savings Programme, in November 2022 and launched the development of additional savings products. From 1 April 2022, the Bank started selling insurance products as a dependent single agent and introduced the Income Protection Group Insurance product, which was successfully sold.
This year, the Bank continued its digital enhancements across a number of platforms to provide customers a modern, high quality customer experience in their day-to-day financial management. The focus of its digital strategy is to continuously expand the capabilities of the myRaiffeisen mobile application and the range of products available online. These developments have led to a significant increase in both online account openings and online loan applications.

Investor appetite among clients started to recover at the end of April 2022. In line with the change in the market interest rate environment, interest in investment funds increased significantly in the second half of the year, while demand for government bonds fell to a lesser extent.

The business unit continued its successful retail lending business in 2022. Demand for retail mortgage and personal loans was strong in the first half of the year, driven by the NBH's Green Loan Programme. Demand for the Baby Loan remained steady, while in December, due to uncertainty about the future of the product, strong customer demand led to record disbursements. The adverse change in macroeconomic conditions certainly could not be avoided, demand for loans fell significantly in the second half of the year, mainly due to high interest rates and real wages that started to fall.
In the area of lending, despite all the external challenges, the priority remains to maximise the service to customers where security and predictability are key. Another key strategic focus is digitalisation, where the launch of a completely online application process for joining customers for personal loans should be highlighted. This channel has been available to existing customers for some time and has been increasingly used by customers month after month. The completely online application process is now also available for the overdraft product for customers with an existing banking relationship and its success is also a realistic expectation for the future.
Overall, the Bank had a successful year in retail lending and made significant progress in digital lending. The Bank is confident that this can be sustained in the period ahead despite the difficult external conditions that are yet to come, although this may be challenged by a potentially stagnant yield environment at high levels.

The Bank's market share of retail loans continued to increase slightly, reaching 5.6% at the end of 2022.

In 2022, the main targets of the small entities segment were new client acquisitions, the introduction of innovative payment solutions and new loan products. Maintaining quality client service in small entity client relationships and building relationships as partners were still in the small entities segment's strategic focus in 2022. Thanks to this, the number of new micro clients increased by 29%, resulting the 3rd place in the ranking of small entities acquisitions, which is a very good result considering the size of the branch network. It contributed to the double-digit growth of revenues. The success in acquisitions was partly due to external factors (e.g. market events, changes in the taxation of individual businesses) and partly due to the Bank's successful customer acquisition activities (increased MGM programme, acquisition campaigns).

The Bank was one of the first in the market to introduce the Széchenyi Card MAX programme loan products in August 2022 and was third in sales of Széchenyi products according to KAVOSZ statistics.
Raiffeisen Bank has supported the use of banking services for its small entities segment by continuously developing digital channels (VideoBank service/myRaiffeisen mobile application, SME On account opening), providing innovative payment solutions (Scan&Go mobile payment application, QR code payment and payment application) and expanding its card acceptance service (myPOS bank card acceptance), ensuring efficient and convenient service for small business customers. This is confirmed by the fact that the satisfaction of small business customers reached one of the highest levels among universal banks in the NPS survey in 2022.

(4.3) Private Banking Clients

Friedrich Wilhelm Raiffeisen Private Banking aims to protect its clients' family wealth, increasing it and maintaining it from generation to generation. The Bank provides, with the help of the professional work of it's experienced advisors safety, comfort, discretion and customized individual solutions to its clients.
Friedrich Wilhelm Raiffeisen Private Banking closed an extraordinary successful year in 2022. Thanks to the honored trust of its clients the amount of total managed assets reached over HUF 821 billion, which is a more than 7% increase in a year. This increase further strengthens the Bank's market position.

It is impossible to provide and maintain the satisfaction of special private clients without customized individual solutions and the highest standards of service. Accordingly, Friedrich Wilhelm Private Banking invested substantial amounts also in 2022 to introduce new products and services and to develop IT systems and advisor knowledge. In the recent period, digitalisation has been a key focus, not only allowing customers to manage their finances undisturbed and independently but employees are also available to assist them even from remote locations. During 2022, the Bank has put a strong emphasis on reducing administrative costs, which has led to a significant reduction in the use of paper and the number of documents to be signed.
The client services of Friedrich Wilhelm Raiffeisen Private Banking lies on 4 pillars: offering long-term financial solutions combined with active investment advisory, availability of dedicated, highly trained advisors, supporting the work of investment advisors with modern IT tools and allocating assets based on risk and return optimization.

(4.4) Financial institutions

The financial institutions segment is of strategic priority for the Bank. The asset portfolio further increased in 2022 like in previous year, keeping a moderate risk weighted assets and capital need character. The deposit balance increased significantly due to the appropriate handling of changes in the market. Besides interest income increase in commissions also contributed to over-the-plan results. The segment is still characterized by secure funding and stable long-term client relationships. The risk costs of the segment is very moderate and its cost/income ratio is at a record low level.
The main target group of the segment are domestic insurers, investment fund managers, funds and domestic and international financial institutions and investment service providers, which are supported with new innovative solutions, products to serve fast and securely their clients in cash management and treasury operations. Besides the mentioned factors the domestic and international banking relationships were in focus as well, along with – considering the Bank's strategy, furthermore adhering to strict compliance principles – international payment service providers and Raiffeisen Bank Zrt.'s contracted currency exchange brokers. Since 2021 Raiffeisen Bank Zrt's Financial Institutions department provides professional support for intragroup servicing of payment service providers (PSP).
The Banking Group provides a unique custodian market solution in its Vienna headquarter with the support of strengthened group level management to provide custody services for and to settle clients' investments directed to Central and Eastern Europe. 2022 was a successful year for also the custodian segment of the Bank. Despite negative market impacts and strengthening competition it managed its custody portfolio successfully and held in terms of both client relationships and volume.
In the rising interest rate environment and changing regulatory environment, there was a particularly strong demand amongst institutional investor clients for the appropriate management of investments and financial sources. Amongst partners and clients, due to increased market volatility, the demand for services offered by the Cash, FX and Capital Market Trading Department increased. The Bank takes a leadership role in a number of internal projects as well as in projects concerning the whole Hungarian capital market. Both the clients' and the profession's clear positive feedbacks prove that Raiffeisen Bank is one of the strongest brands in the regional money and capital markets and in servicing financial institutions.

(4.5) Subsidiaries

Raiffeisen Corporate Lízing Zrt.

Finance lease within Raiffeisen Lízing Group which is provided only to clients who do not qualify as consumers in order to finance the purchase of assets, vehicles and equipment, has been concentrated since 2014 at the Company, which is 100% owned by the bank.

After the economic downturn due to covid, the Company expected in 2022 the ramp up of investments, however the Russian-Ukrainian war worsened the shortage of spare parts due to supply chain disruptions. Although several grant schemes were available in the first half of the year, the lack of assets represented a bottleneck in several cases.

The Company has had a substantial share in the area of asset financing in the medium and large enterprise segment, primarily through serving the need for lease financing of banking clients. A big challenge of the past year was the successful introduction of competitive leasing constructions aiming to service small enterprises as well as designing of standard leasing products that can also be offered to micro enterprises.

The Company continued with its strategy started earlier in which, besides lease financing of vehicle and/or asset investments of medium and large enterprise clients, a more significant role will be given to enhancing the lease financing of micro and small enterprises segment, introduction of new – primarily vendor – sales channels, maintaining the good quality of the portfolio and keeping costs at a low level through cost-efficient operation and to increasing profitability.

Raiffeisen Autó Lízing Kft.

The Company is 100% owned subsidiary of Raiffeisen Corporate Lízing Zrt.. The popularity of operating lease dropped back significantly due to the accounting method prescribed by IFRSs and due to the availability of finance leases with preferential interest conditions (NHP, EXIM, KAVOSZ) and as a consequence of that a decrease occurred in the vehicle and asset financing provided without fleet service. The Company does not put an emphasis on concluding new businesses in operating leasing arrangements.

Raiffeisen Biztosításközvetítő Kft.

It is 100% owned by the Bank. The main activity of the Company is insurance brokerage, primarily for the member firms of Raiffeisen Banking Group.

At the beginning the main source of revenue of the Company stemmed from small and medium enterprise segment but later it began to sell its insurance products also in large enterprise and leasing segment as well.

The Bank has started to operate as a dependent single agent effective from 1 April 2022. From this date, in addition to the products transferred from the Company, the Bank will also manage the portfolio of insurance policies currently actively sold by the Bank, and therefore the Bank will also realise the commission income related to these products.

The Company manages the portfolios of insurance policies sold until 1 April 2022 and also acts as an intermediary for insurance policies linked to Raiffeisen Corporate Lízing Zrt. products. This restructuring had a significant impact on the achievement of the commission fee income plans.

RB Szolgáltató Központ Kft.

The Company was founded by the Bank in order to open a banking operating center in Nyíregyháza. Its activity began as call center and sales activity and that extended to phone collection, credit assessment and banking operation activities.

The Company finances asset purchases necessary to its operation from investment loan, its financial situation and liquidity is stable, its operation is profitable.

The number of the Company's employees increased to over 400. It operates with improving its processes and further improving the quality of its service. In accordance with the group's strategy, it moved in June 2022 to a new headquarter after which the colleagues can perform their banking operations tasks in a more modern working environment, better supporting the processes.

Raiffeisen Befektetési Alapkezelő Zrt.

The Company is a 100% owned subsidiary of the Bank.

In 2022, the Company's managed assets continuing the trend of 2021, rose dynamically and well above the market average. The main part of the increase in managed assets was realised in the second half of the year, driven by strong investor interest in the short bond fund segment. At the same time, mixed and equity funds, which have been the hit products of recent years, performed much more modestly.

The Company's operating result developed favorably in which, besides increase in revenues, costs kept under control played also a role.

The Company completed the restructuring of its product set in past years, in order to adopt to the challenges imposed by the market. The first step of this was setting up in cooperation with the Austrian fund manager of Raiffeisen Group three funds aiming at different risk levels and equipped with active portfolio management and strict risk management. As a result of the next step in the restructuring, the Company now manages four funds with an ESG focus and is in the

process of launching a further similar fund, which will ensure that clients have a choice between traditional and ESG products in all major asset classes. Assets managed in the ESG segment were stagnated in 2022, while assets managed in the real estate segment grew slightly.
The success of the Company is signaled by its operations having been awarded with a number of prizes in the past years.

SCT Kárász utca Kft.
A 100% owned subsidiary of the Bank. The activity of the Company is facility management.
In May 2022, the Company acquired 100% of the shares of DAV Property Kft. and Ötödik Vagyonkezelő Kft. belonging to the RBI Group and a decision was made on the merger of these companies. This was done with effect from 30.09.2022. Its 2021 and 2022 business activity is focused on the management of the properties it owns.

Raiffeisen Ingatlan Üzemeltető Kft.
It is a 100% owned subsidiary of Raiffeisen Befektetési Alapkezelő Zrt.. The activity of the Company is facility management, for example managing shopping centers, office buildings, industrial and commercial properties, banking branch offices. It performed also in 2022, in the name of its largest client Raiffeisen Ingatlan Alap, complete financial and technical management and renting-out activity.

DAV Property Kft.
In recent years, the Company was a subsidiary of the RBI Group incorporated in Hungary, 100% share of which was acquired on 24.05.2022 by SCT Kárász utca in a sale transaction. The Company had no operations in the business years' 2021 and 2022, therefore SCT Kárász utca Kft, as its single owner decided to merge the Company into itself. The merge-in was concluded with an effective date of 30.09.2022.

Ötödik Vagyonkezelő Kft.
In recent years, the Company was a subsidiary of the RBI Group incorporated in Hungary, 100% share of which was acquired on 24.05.2022 by SCT Kárász utca in a sale transaction. The Company had no operations in the business years' 2021 and 2022, therefore SCT Kárász utca Kft, as its single owner decided to merge the Company into itself. The merge-in was concluded with an effective date of 30.09.2022.

(5) Corporate governance statement

Responsible corporate governance is a fundamental tool of the foremost goals of the Bank, 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. full complies with relevant legislations and HNB's instructions and recommendations. The Bank'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 Bank continuously revises and improves its corporate governance practice.

(6) Use of financial instruments

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

In accordance with the requirements of IFRSs and Accounting Law the Bank 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 Bank'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 <u>amortised cost,</u> 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank would receive in case of selling an asset or the Bank 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 Bank 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 Bank 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 Bank measures its deposits at amortised cost. Certain structured deposits contain embedded derivatives which are separated from the deposits by the Bank. The Bank measures the embedded derivatives at fair values with its changes recognised in profit or loss.
The Bank 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 Bank values the embedded derivative which is separated from the host contract.

Hedge accounting

The Bank designated certain derivative instruments held for risk management purposes as hedging instruments designated in hedge accounting. At inception of the hedge the Bank 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 Bank 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 precent range.

(7) 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.

(7.1) 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 Bank, the act on financial institutions and other legislations and the framework defined by the Bank'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 Bank still did not experience any systematic portfolio deterioration in the corporate segment, the NPE rate 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 is only 1.9%. 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 side, therefore the Bank carries out strengthened and intensive monitoring activities related to these dimensions from October 2021. In retail segment, the portfolio remains stable with low default rates, however the Bank is prepared to manage the risks mainly arising from inflation, increase of energy prices and changes in the interest rate environment.

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 Bank pays particular attention to identifying debtors presumably facing payment difficulties also during the term of the moratorium. In relation to clients opting in to moratorium2 starting in 2021, then 3 and 4 and in relation to clients opting-in to agricultural moratorium in the second half of 2022, the Bank 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 moratorium4 will resume its repayments in accordance with the relevant new loan schedule at the end of 2022. The Bank assessed clients entering into moratorium2 also in the retail segment. Clients in case of whom the Bank 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 moratorium2. The Bank followed the same procedure in assessing clients' financial situation during 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 risk management procedures of the Bank 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 Bank 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 related microsegment is calculated using the standard methodology.

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

The Bank reacted also in its credit policy to the changes caused by coronavirus: in judging riskiness of industries, besides higher granularity, the volume/probability of short-term effects and expected mid-term recovery plays a particular role. Financing activity is aimed at 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 Bank acted with particular care also in determining impairment and recognised additional impairment if necessary. In 2022, in the corporate segment, the most important risks covered by additional impairment model are the drastic increase in energy prices, the limited availability of energy sources (especially gas reserves), the refinancing risk caused by interest rate environment and inflation, besides these, the crisis of supply chains, regulatory risk and shrinking demand were also considered as additional risk factors. The Bank continuously revises and if justified adjusts the adequate level of related reserves.

From 2022, the Bank will pay more attention to environmental sustainability aspects during corporate risk management, which will be ensured by supplementing both the sector-level credit policies and customer rating criteria to that direction.

In the retail segment in March 2020 the Bank 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. Besides that, considering the „Management circular on the usage of macroeconomic information and factors triggering significant increase in credit risk in the application of IFRS 9 standard" of NBH the Bank decided in November 2020 on the application of portfolio level management corrections, so called overlays. Moreover, it is important that during 2021 and 2022 the Bank comprehensively investigated the changes in the income situation of clients, thereby forward-lookingly preparing for the potential problems. The Bank made management corrections at the portfolio level in micro and small business segments several times during 2022 due to the effect of risks in the energy market and the increasing challenges regarding liquidity and profitability.

(7.2) Operational risk management

All organisational units participate actively in managing and as necessary decreasing the level of operational risk (department, region, subsidiary). The Bank 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 Bank'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 Bank implemented those standards that comply with the requirements imposed by the advanced measurement method.
The Bank continues to efficiently operate the operational risk framework AMA (Advanced Measurement Approach) introduced in 2016.

(7.3) Market and liquidity risk management

Market and liquidity risk is managed within the Bank 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 Bank 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 Bank'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 Bank 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.

(7.4) Fraud risk management

Fraud risk is a dominant element of operational risks. In order to increase the efficiency of fraud risk management, the Bank 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 Bank's fraud transaction monitoring system is also 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.

(8) Environmental protection

Making the Bank's shared use car park even greener continued in 2022, as 2 new plug-in hybrid and 2 full hybrid vehicles were purchased. A photovoltaic solar park with an installed capacity of 42 kwp was installed on the RBSC building. After the installation, the solar panels will produce about a quarter of RBSC's annual electricity need, which – according to preliminary calculations – will be fully used by the service center. The replacement of branch network's mechanical equipment and energy efficient mechanical and lighting (LED installation) investments continued in 2022 as well, and it will not end in 2023, mainly related to branch redesign. In the current circumstances, when the price of energy carriers has risen to unprecedented heights, increasing energy efficiency has become even more important.
In 2023, the Bank will ensure the electricity supply of the AGORA headquarters by purchasing pure green electricity, thereby contributing to the reduction of the Bank's carbon footprint. Adding 6 new plug-in hybrid and 2 full hybrid vehicles into the fleet serves the same purpose this year.

In 2023, the Environment-focused Management Systems (EMS) of ISO14001 standard was implemented in the Bank's area, that helps to create a more reliable basis for sustainable development initiatives. This year's plans include the expansion of selective waste collection to all members of the branch network.

(9) Employment policy

The Bank is one of the dominant employers in the financial sector: at the end of December 2022 the average statistical number of employees was 2,456. It is especially important for the Bank that is operates 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 Bank'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 Bank 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 the benefit most fitting their personal needs.
All employees are covered by the performance development process operated by the Bank, 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 Bank 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 employees of the Bank spent on average 0.36 day at training and development events, in programmes they spent 2.6 days (without e-learning). 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 Bank supports the colleagues in successful and effective coping with everyday performance challenges and stress situations with community building and employee well-being programmes.
The Bank 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 Bank, ensuring consideration of employee interests.
With the introduction of the flexible working framework in 2020, the Bank 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.

(10) Compliance activity

In accordance with the regulations and the requirements of NBH the Bank operates for exploring and managing compliance risks – as part of the internal defence lines – an independent orgainsational 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
- Organising and operating anti-corruption measures within the group
- Fighting against money-laundering and financing international terrorism, as well as organising, governing and coordinating 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 organisational 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 defence and the underlying EBA (GL44) guideline.

(11) Research and development

The Bank performs R&D activity in developing applications in relation to finance services and implementing business and risk management modelling.

(12) Fees charged by the auditor

The following net amounts of services were charged in 2021 and 2022 by Deloitte Könyvvizsgáló és Tanácsadó Kft. and by Deloitte Üzletviteli és Vezetési Tanácsadó Zrt:

(HUF million)	31.12.2022-31.12.2021	31.12.2021-31.12.2020
Audit of the financial statements	145	92
Other assurance services	93	12
Other non-audit services	6	5
Total	**244**	**109**

(13) Introduction of branch offices

The Bank serves its clients as at 31.12.2022 with the following branches:

1015 Budapest, Széna tér 1/a.
1024 Budapest, Lövőház u. 2-6.
1036 Budapest, Bécsi út 136.
1037 Budapest, Montevideo u. 16/b.
1037 Budapest, Szépvölgyi út 41.
1045 Budapest, Árpád út 183-185.
1051 Budapest, Vörösmarty tér 4.
1055 Budapest, Szent István körút 27.
1061 Budapest, Andrássy út 1.
1062 Budapest, Váci út 1-3.
1066 Budapest, Teréz krt. 12.
1072 Budapest, Rákóczi út 44.
1085 Budapest, Üllői út 36.
1087 Budapest, Kerepesi út 9.
1106 Budapest, Örs vezér tere 25.
1114 Budapest, Bocskai út 1.
1115 Budapest, Etele út 68.
1117 Budapest, Hunyadi János út 19.
1123 Budapest, Alkotás utca 55-61.
1126 Budapest, Királyhágó tér 8-9.
1133 Budapest, Váci út 116-118.
1139 Budapest, Váci út 81.
1148 Budapest, Örs vezér tere 24.
1152 Budapest, Szentmihályi út 137.
1173 Budapest, Ferihegyi út 74.
1181 Budapest, Üllői út 417.
1203 Budapest, Kossuth Lajos utca 21-29.
1211 Budapest, Kossuth Lajos u. 85.

2030 Érd, Budai út 22.
2040 Budaörs, Templom tér 22.
2100 Gödöllő, Gábor Áron u. 5.
2310 Szigetszentmiklós, Vak Bottyán u. 18.
2400 Dunaújváros, Vasmű út 39.
2500 Esztergom, Kossuth Lajos u. 14.
2600 Vác, Széchenyi u. 28-32.
2800 Tatabánya, Fő tér 20.
2900 Komárom, Mártírok útja 14.
3200 Gyöngyös, Fő tér 12.
3300 Eger, Jókai Mór utca 5.
3525 Miskolc, Erzsébet tér 2.
3527 Miskolc, Bajcsy Zs.u. 2-4.
4024 Debrecen, Piac u. 18.
4026 Debrecen, Péterfia utca 18.
4400 Nyíregyháza, Korányi Frigyes u. 5.
4400 Nyíregyháza, Kossuth tér 7.
5000 Szolnok, Szapáry út 22.
5600 Békéscsaba, Andrássy út 19.
6000 Kecskemét, Kisfaludy u. 5.
6200 Kiskőrös, Petőfi S. tér 8.
6500 Baja, Dózsa György út 12.
6720 Szeged, Széchenyi tér 15.
6720 Szeged, Széchenyi tér 3.
6722 Szeged, Kossuth Lajos sugárút 9-13.
6800 Hódmezővásárhely, Kossuth tér 6.
7100 Szekszárd, Széchenyi utca 37-39.
7400 Kaposvár, Berzsenyi utca 1-3.
7621 Pécs, Bajcsy Zs u. 11.
7621 Pécs, Irgalmasok útja 5.
8000 Székesfehérvár, Palotai út 1.
8000 Székesfehérvár, Távírda utca 1.
8200 Veszprém, Mindszenty József u. 2.
8360 Keszthely, Széchenyi utca 1-3.
8400 Ajka, Szabadság tér 4.
8500 Pápa, Fő tér 15.
8800 Nagykanizsa, Deák tér 11-12.
8900 Zalaegerszeg, Kossuth u. 21-23.
9022 Győr, Arany János utca 28-32.
9024 Győr, Vasvári P. út 1/a.
9200 Mosonmagyaróvár Fő u. 26.
9400 Sopron, Széchenyi tér 14-15.
9431 Fertőd, Fő u. 12.
9700 Szombathely, Fő tér 36.

(14) Key financial indicators

(HUF million)	31.12.2022	31.12.2021
Main profitability and efficiency indicators		
Number of branch offices	72	66
Net interest income	138,056	67,000
Net fee and commission income	71,449	56,530
Operating costs	66,887	55,605
Cost/income ratio (without transaction fees and taxes)	31.94%	43.51%
Impairment	-7,229	-5,386
Business year profit	72,229	36,567

Return on equity (ROE)	22.98%	14.05%
Return on investment (ROI)	1.68%	0.96%
Net interest margin	3.45%	1.94%
Impairment ratio	0.38%	0.34%
Total assets	4,307,419	3,818,258
Receivables from customers (gross)	1,892,467	1,587,439
Customer deposits	2,909,737	2,868,039
Loan/deposit ratio	65.04%	55.35%
Bank deposits	514,060	489,336

Main risk indicators		
Loss allowance on receivables from customers	68,380	58,524
Non-performing loans	60,448	66,530
Ratio of non-performing loans	3.19%	4.19%
Coverage ratio of non-performing loans	113.12%	87.97%
Impairment ratio	0.38%	0.34%

Ratios related to solvency capital		
Common Equity Tier 1 (CET1)	258,904	229,065
Additional Tier 1 capital (AT1)	31,445	31,445
Tier 2 capital (T-2)	67,696	57,195
Solvency capital	358,045	317,705
Risk weighted asset	1,505,262	1,384,976
CET1 capital adequacy ratio	17.20%	16.54%
T1 capital adequacy ratio	19.29%	18.81%
Total capital adequacy ratio	23.79%	22.94%
Gearing ratio	6.81%	6.69%

Main liquidity indicators		
Liquidity coverage ratio (LCR)	188.2%	317.10%
High quality liquid assets	1,168,139	736,980
Net liquidity outflow	620,569	232,448
Net stable funding ratio (NSFR)	129.23%	147.32%

Date: 30.03.2023

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Raiffeisen Bank Zrt.
Separate Financial Statements
31st December 2022

Table of content

I. Primary separate financial statements

A. Statement of profit or loss

(HUF million)	Notes	2022	2021
Interest income calculated with the effective interest method	(7, 11)	210,307	69,668
Other interest income	(7, 11)	139,549	14,788
Interest expenses	(7, 11, 25)	-211,800	-17,456
Net interest income	(7, 11, 25)	138,056	67,000
Dividend income	(11)	965	2,400
Fee and commission income	(8)	101,821	76,446
Fee and commission expenses	(8)	-30,372	-19,916
Net fee and commission income	(8)	71,449	56,530
Net trading income and fair value result	(9, 11)	476	217
Net gains/losses from hedge accounting	(10, 11)	-1,780	669
Net gains/losses from derecognition of financial assets not measured at fair value through profit or loss	(11)	264	993
Other operating income	(12)	682	1,386
Other operating expenses	(12)	-23,896	-18,325
Staff expenses	(15)	-30,381	-26,567
Other administrative expenses	(16, 25)	-26,057	-20,752
Depreciation and amortisation	(24)	-10,752	-9,587
Other result	(13, 14)	-6,326	-1,588
Levies and special governmental measures	(17)	-24,914	-6,729
Impairment losses on financial assets	(6, 11)	-7,229	-5,386
Profit before tax from continuing operations		**80,557**	**40,261**
Tax expense or (-) income related to profit or loss from continuing operations	(18)	-8,328	-3,694
Profit after tax from continuing operations		**72,229**	**36,567**
Profit for the year		**72,229**	**36,567**

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Date: 30.03.2023

B. Statement of profit and loss and other comprehensive income

(HUF million)	Notes	2022	2021
Profit for the year		**72,229**	**36,567**
Other comprehensive income	**(37)**	**6,463**	**-575**
Items that will not be reclassified to profit or loss	**(37)**	**7**	**22**
Fair value changes of equity instruments measured at fair value through other comprehensive income	(37)	8	-43
Income tax relating to items that will not be reclassified to profit or loss	(18, 37)	-1	65
Items that may be reclassified to profit or loss	**(37)**	**6,456**	**-597**
Cash flow hedges (effective portion)	(10, 37)	11,219	813
Valuation gains or (-) losses taken to equity	(10, 37)	10,388	594
Transferred to profit or loss	(10, 37)	831	219
Debt instruments at fair value through other comprehensive income	(37)	-4,124	-1,469
Valuation gains or (-) losses taken to equity	(37)	-3,842	-1,556
Transferred to profit or loss	(37)	-282	87
Income tax relating to items that may be reclassified to profit or (-) loss	(18, 37)	-639	59
Total comprehensive income for the year	**(37)**	**78,692**	**35,992**

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Date: 30.03.2023

C. Statement of financial position

(HUF million)	Notes	31.12.2022	31.12.2021
Cash, cash balances at central banks and other demand deposits	(6, 19)	784,913	482,489
Financial assets held for trading	(6, 20, 42)	183,111	114,942
Non-trading financial assets mandatorily at fair value through profit or loss	(6, 20, 42)	125,838	98,398
Financial assets designated-at fair value through profit or loss	(6, 20, 42)	0	195
Financial assets at fair value through other comprehensive income	(6, 22, 23, 42)	305,850	351,955
Financial assets at amortised cost	(6, 21, 42)	2,669,950	2,664,193
Derivatives – Hedge accounting	(10, 42)	191,077	53,286
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42)	-24,300	-12,917
Investments in subsidiaries, joint ventures and associates	(44)	1,850	1,850
Property and equipment	(24)	34,974	33,283
Intangible assets	(24)	21,370	19,744
Deferred tax assets	(18)	5,099	3,463
Other assets	(26)	7,687	7,377
Total assets		**4,307,419**	**3,818,258**
Financial liabilities held for trading	(6, 27, 28, 42)	145,730	58,503
Financial liabilities measured at amortised cost	(6, 25, 28, 29, 30, 31, 42)	3,714,806	3,445,949
Derivatives – Hedge accounting	(10, 42)	242,488	76,099
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10, 42)	-177,653	-57,868
Tax liabilities	(18)	5,546	1,565
Provisions	(6, 33)	12,928	10,146
Other liabilities	(32)	11,721	7,164
Total liabilities		**3,955,566**	**3,541,558**
Share capital	(6, 35)	50,000	50,000
Share premium	(6, 36)	113,445	113,445
Equity instruments issued other than share capital	(40)	31,445	31,445
Accumulated other comprehensive income	(6, 37)	8,852	2,389
Retained earnings	(6, 39)	53,667	27,862
Other reserves	(6, 38)	22,215	14,992
Profit or loss	(6)	72,229	36,567
Total equity		**351,853**	**276,700**
Total liabilities and total equity		**4,307,419**	**3,818,258**

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department

Date: 30.03.2023

D. Statement of changes in equity

				Other comprehensive income not to be reclassified	Other comprehensive income to be reclassified				
Sources of equity changes	**Share capital**	**Share premium**	**AT1 instruments issued**	**Fair value changes of equity instruments measured at fair value through OCI***	**Cash flow hedges [effective portion]**	**Debt instruments at fair value through OCI***	**Retained earnings**	**Other reserves**	**Total**
Notes	(35)	(36)	(40)	(37)	(37)	(37)	(39)	(38)	
Opening balance [current period]	**50,000**	**113,445**	**31,445**	**25**	**545**	**1,819**	**64,429**	**14,992**	**276,700**
Profit or (-) loss	0	0	0	0	0	0	72,229	0	**72,229**
Other comprehensive income	0	0	0	7	10,209	-3,753	0	0	**6,463**
Total comprehensive income for the year	**0**	**0**	**0**	**7**	**10,209**	**-3,753**	**72,229**	**0**	**78,692**
Settled payments on equity instruments	0	0	0	0	0	0	-3,527	0	**-3,527**
Total contributions and distributions	**0**	**0**	**0**	**0**	**0**	**0**	**-3,527**	**0**	**-3,527**
Transfers among components of equity	0	0	0	0	0	0	-7,223	7,223	**0**
Other increase or (-) decrease in equity	0	0	0	0	0	0	-12	0	**-12**
Total other equity transactions	**0**	**0**	**0**	**0**			**-7,235**	**7,223**	**-12**
Closing balance [current period]	**50,000**	**113,445**	**31,445**	**32**	**10,754**	**-1,934**	**125,896**	**22,215**	**351,853**

*OCI (Other Comprehensive Income)

Date: 30.03.2023

Sources of equity changes	Share capital	Share premium	AT1 instruments issued	Other comprehensive income not to be reclassified	Other comprehensive income to be reclassified		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*			
Notes	(35)	(36)	(40)	(37)	(37)	(37)	(39)	(38)	
Opening balance [31.12.2021]	**50,000**	**113,445**	**31,445**	**3**	**-195**	**3,156**	**34,510**	**11,336**	**243,700**
Profit or (-) loss	0	0	0	0	0	0	36,567	0	**36,567**
Other comprehensive income	0	0	0	22	740	-1,337	0	0	**-575**
Total comprehensive income for the year	**0**	**0**	**0**	**22**	**740**	**-1,337**	**36,567**	**0**	**35,992**
Settled payments on equity instruments	0	0	0	0	0	0	-3,127	0	**-3,127**
Total contributions and distributions	**0**	**0**	**0**	**0**	**0**	**0**	**-3,127**	**0**	**-3,127**
Transfers among components of equity	0	0	0	0	0	0	-3,656	3,656	**0**
Other increase or (-) decrease in equity	0	0	0	0	0	0	135	0	**135**
Total other equity transactions	**0**	**0**	**0**	**0**			**-3,521**	**3,656**	**135**
Closing balance [31.12.2021]	**50,000**	**113,445**	**31,445**	**25**	**545**	**1,819**	**64,429**	**14,992**	**276,700**

*OCI (Other Comprehensive Income)

Date: 30.03.2023

E. Statement of cash flows

(HUF million)	Notes	2022	2021
Profit or loss for the period		**72,229**	**36,567**
Cash flows from operating activities			
Adjustments for:			
Depreciation and amortisation	(24)	10,752	9,587
Net impairment loss on non-financial assets	(13)	2	34
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(11)	5,557	7,520
Net interest income	(11)	-138,056	-67,000
hereof: amortization, accruals and unwinding		-741	5,046
Net gains or (-) losses from derecognition of non-financial assets	(12)	-7	4
Other		8,111	1,516
Income tax expense	(18)	8,328	3,694
		-105,313	**-44,645**
Changes in operating assets and liabilities:			
Change in financial assets held for trading	(20)	-51,738	-29,110
Change in non-trading financial assets mandatorily at fair value through profit or loss	(20)	-27,625	-31,089
Change in financial assets at fair value through other comprehensive income	(22)	40,798	159,574
Change in financial assets at amortised cost	(22)	213,639	-286,254
Change in derivatives (assets) – Hedge accounting	(10)	-64,381	-41,037
Change in other assets	(26)	2,505	833
Change in financial liabilities held for trading	(27)	75,195	7,590
Change in financial liabilities measured at amortised cost	(29)	68,587	571,370
Change in derivatives (liabilities) – Hedge accounting	(10)	90,081	57,917
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(10)	-108,402	-46,978
Change in other liabilities, provisions and liabilities held for sale	(32, 33, 34)	7,340	-713
		245,999	**362,103**
Interest received	(7, 11)	270,929	87,507
Interest paid	(7, 11)	-133,614	-15,461
Dividend received	(42)	965	2,400
Income tax paid	(18)	-6,622	-3,695
Net cash used in operating activities		**344,573**	**424,776**
Cash flows from investing activities			
Purchases of securities	(20, 22)	-252,898	-137,936
Disposals of securities	(20, 22)	9,319	86,178
Proceeds from the sale of other investments	(22)	0	650
Acquisition of property equipment	(24)	-5,762	-2,747
Proceeds from the sale of property and equipment	(24)	1,741	11
Acquisition of intangible assets	(24)	-6,543	-6,064
Net cash from investing activities		**-254,143**	**-59,908**
Cash flows from financing activities			
Issuance and repurchase of issued debt securities	(30)	199,118	0
Repayment of issued debt securities at maturity	(30)	0	0
Payment of lease liabilities	(31)	-3,409	-2,243
Dividend paid	(35)	-3,527	-3,127
Net cash used in financing activities	**(45)**	**192,182**	**-5,370**
Net increase/decrease of cash, cash balances at central banks and other demand deposits		**282,612**	**359,498**
Cash, cash balances at central banks and other demand deposits on 1 January		**482,489**	**121,791**
Net effect of exchange rate changes		19,812	1,200
Cash, cash balances at central banks and other demand deposits on 31 December	**(19)**	**784,913**	**482,489**

Date: 30.03.2023

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

Apart from the financial statements, the Bank also prepares and discloses consolidated financial statements for the Bank and its subsidiaries (together referred to as the 'Group') in accordance with the Hungarian Accounting Law. The website of the financial statements can be found at: https://www.raiffeisen.hu/raiffeisen-csoport/sajtoszoba/penzugyi-adatok.

György István Zolnai Chief Executive Officer (availability: 1133 Budapest, Váci Street 116-118.) and Tibor Gáspár Head of Accounting Department are obliged to sign these 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 Bank's financial statements have been 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 Bank has applied International Financial Reporting Standards for the first time in its individual financial statements as at the opening balance sheet date of 1 January 2016. The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by EU.

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

These financial statements were authorised for issue on 30 March 2023.

(2.2) Basis of measurement

The 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;
- assets and liabilities that are hedged are measured at fair value only in respect of the risk that is hedged;
- other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or – if applicable –, at cost less accumulated depreciation and impairment losses.

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

The selection, development, application and disclosure of critical accounting policies and accounting estimates are agreed with the Supervisory Board of the 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 epidemy 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 financial statements are presented in Hungarian Forints, which is the Bank's functional currency. Except as indicated, financial information is presented in Hungarian Forints rounded to the nearest million.

(3) *Changes in accounting policies*

Amendments to standards and interpretations introduced in 2022 have no or insignificant effect on the Bank's financial statements.

(4) *Significant accounting policies*

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

(4.1) *Presentation of financial statements*

These financial statements include the financial statements of the Bank.

(4.2) *Foreign currency transactions*

Items included in the financial statements of all entities in the Bank 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 the Bank's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The Bank uses the exchanges rates published by National Bank of Hungary.

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

(4.3) *Intangible assets*

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

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. 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.

(4.4) 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 Bank 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 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 owner or by a lessee under financial lease) to earn rentals or for capital appreciation or both. The Bank applies cost model as valuation method for investment property. The Bank 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 Bank 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 Bank 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 Bank 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 Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Bank acting as a lessee

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

The Bank 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 Banks'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 Bank 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 Bank 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 under a purchase option if the lessee is reasonably certain to exercise that option; and
- penalties for early termination of a lease if the lease term reflects the exercise of an early termination option by the lessee.

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

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

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

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

(4.5) *Assets obtained against receivables*

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

If the Bank has a purchase right over the property, the Bank's claim may be enforced against the property. In this case, the Bank 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 Bank 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 Bank 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'*.

(4.6) *Investments*

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

A subsidiary is an entity which is controlled by the Bank, in the sense that, the parent company is entitled to the variable positive returns generated by the investee company, bears the consequences of the negative returns and is able to control its operations and thus influence returns through its decisions.

An associate is an entity over which the Bank has significant influence without having control. The Bank had no such participations in 2022 and 2021.

The Bank's interests over which it has at least a significant influence are disclosed under *'Investments in subsidiaries, joint ventures and associates'*. The Bank recognises these investments at cost - using the treatment allowed by IAS 27 - less accumulated impairment losses, if required. If impairment loss or other profit or loss item (e.g. reduction of capital) is recognised while holding the investment, it is recognized against other comprehensive income.

Non-trading equity instruments over which the Bank has neither joint control nor significant influence are presented in *'Financial assets measured at fair value through other comprehensive income'*.

(4.7) *Cash and cash equivalents*

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

The classification of the mandatory reserve as cash is described in the additional note called (19) *Cash, claims on central banks and other demand deposits*.

(4.8) *Determination of fair value*

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

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

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

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

(4.9) *Financial instruments*

(4.9.1) *Recognition and initial measurement*

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

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

At initial recognition, the Bank 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 Bank 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 Bank 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 Bank 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.

(4.9.2) *Classification and subsequent measurement*

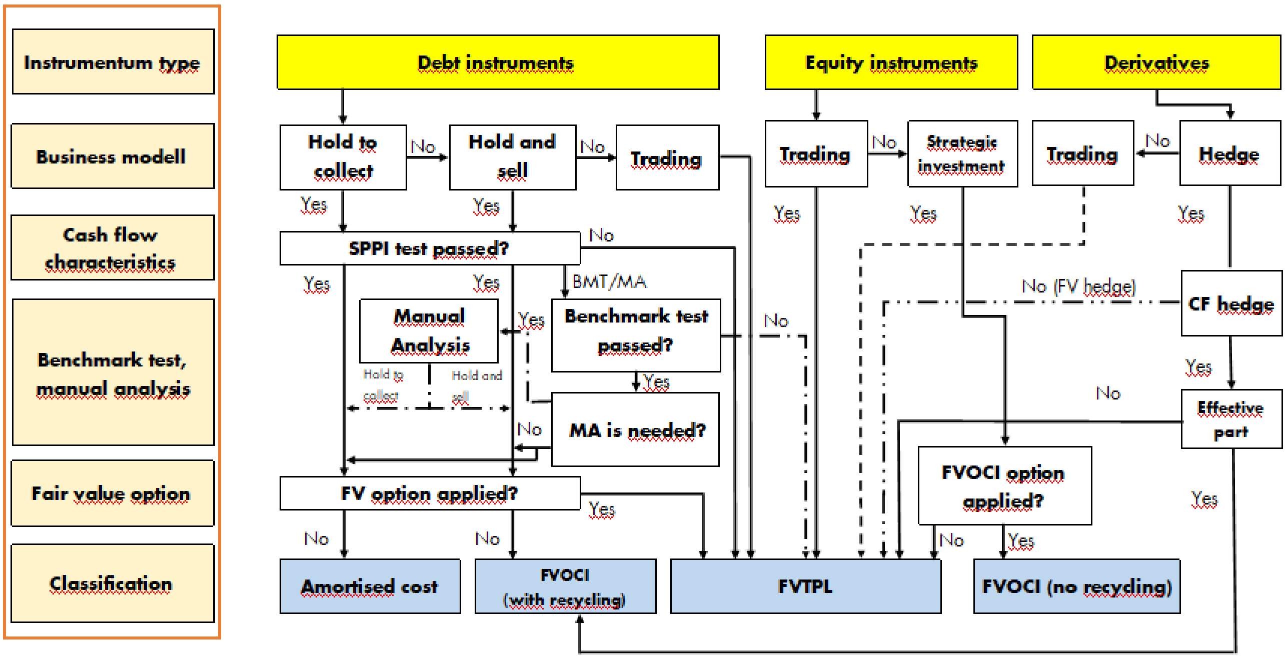
i. Classification and measurement of financial

At initial recognition, the Bank 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 as follows:

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

The following chart illustrates the methodology discussed above:



Business model of financial assets

The business model is determined on a portfolio basis as it best reflects the Bank'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 Bank 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 Bank'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 and sell' business model).

Hold-to-collect business model

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

The following examples of sales may be consistent with the hold-to-collect business model:

- the sales are due to an increase in the credit risk of a financial asset;
- the sales are infrequent (even if significant), or are insignificant individually and in aggregate (even if frequent);
- the sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

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

Hold to collect and sell business model

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

Other business models

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

Analysis of contractual cash flow characteristics

The Bank 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 profit margin. This also means that the contractual terms need to be examined, whether they introduce features that change the timing or amount of contractual cash flows. The Bank considers the following factors:

- contractual features that change the timing or amount of contractual cash flows;
- gearing;
- prepayment and prolongation options;
- contractual terms that limit the Bank'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); and
- contractual terms that modify the time value of money element – e.g. the interest rate is reset on a regular basis.

The Bank 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 Bank primarily performs the analysis of contractual cash flow characteristics by clasterisation of financial assets. The analysis of contractual cash flow characteristics of contracts not clasterised is performed individually.

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

Classification

At amortised cost

The Bank 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 Bank measures its debt instruments at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-and-sell) and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The Bank 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 Bank makes this election on an instrument-by-instrument basis.

At fair value through profit and loss

All other financial assets – i.e. not at amortised cost or at fair value through other comprehensive income – are measured at fair value through profit and loss (FVTPL).

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

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

The Bank cannot reclassify a financial liability after initial recognition.

(4.9.3) *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 Bank 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 Bank applies IAS 39 to the accounting for designated hedging relationships.

The Bank holds structured issued bonds that contain both a liability component and an embedded derivative whose values are interdependent. Embedded derivatives are separated when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative meet the definition of a stand-alone derivative, if they were in a separate contract; and the combined contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the consolidated profit or loss.

Derivatives embedded in financial assets that are in the scope of IFRS 9 are never separated. In this case the entire hybrid instrument is assessed for classification as part of the SPPI test.

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

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

(4.9.4) *Hedge accounting*

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank 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 Bank 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 moratoria. In case of loans that are eligible for the repayment moratoria and are also designated as a hedged instrument, the Bank manages the modified interest risk of the new cash flow profile with derivative instruments. The Bank 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 as part of the recalculated effective interest rate of the item over its remaining term.

The Bank hedges fixed-rate loans, deposits, fixed-rate issued bonds and purchased bonds in fair value hedge relationships with interest rate swaps and cross currency interest rate swaps. Hedge accounting is applied on micro and on macro (portfolio) level as well. Under the latter case, a portfolio of (modelled) current account balances and a portfolio of fixed rate loans are designated as hedged items.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, the portion of the gain or loss less accrued interest on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss under *'Net gains/losses from hedge accounting'*. Interest income or expense of the derivative is reported as '*Net interest income*'.

The Bank applies cash flow hedge accounting using interest rate swaps and cross currency interest rate swaps where the hedged portfolio is a Bank 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 Bank 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 Bank expects that all or the portion of the loss in the other comprehensive income will not be recoverable then it reclassifies that amount immediately to profit or loss as *'Net gains/losses from hedge accounting'*.

Sources of ineffectiveness

The Bank 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 in hedge relationship. The derivative counterparty's credit risk is not offset by the hedged item. This risk is minimised by entering into derivatives only with high credit quality counterparties.
- Different amortisation profiles on hedged item principal amounts and interest rate swap notionals.
- In some cases, the discounting curve is different on the hedged item and the derivate deal for the purposes of calculation of fair value.
- Ineffectiveness might arise due to different starting/maturity date between the hedged item and the hedging instrument.

Interest rate benchmark reform

The reform of interest rate benchmarks such as interbank offered rates (IBORs) caused changes to financial reporting requirements under IFRS Standards. The International Accounting Standards Board (the Board) tackled the changes in two phases.

Phase 1 amended specific hedge accounting requirements where uncertainty could arise in the run-up to the transition. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

The Bank considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate

is contractually specified; and/or
- the timing or amount of interest rate benchmark-based cash flows of the hedging instrument is uncertain.

The Bank has no hedged items with an interest rate benchmark subject to the reform. The Bank has concluded that as at 31 December 2022 and as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

Phase 2 addressed potential financial reporting issues that may arise when IBORs are either reformed or replaced. When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Bank amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. Since the Bank has no hedged items with an interest rate benchmark subject to the reform, the hedge designation is amended only to updating the description of the hedging instrument subject to the reform. The Bank amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

(4.9.5) *Impairment of financial assets*

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

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

The Bank does not recognise impairment for equity instruments.

Recognition of expected credit loss

In terms of expected credit losses, the Bank 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, 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)

For financial instruments classified to Stage 2 the recognition of lifetime expected credit loss is required. Lifetime expected credit losses are credit losses arising from potential default events during the entire life of the financial instruments.

Credit-impaired financial instruments (Stage 3 classification)

Those exposures are classified as credit-impaired where there is objective evidence that the debtor will not be able to meet its payment obligations towards the Bank. For financial instruments classified as Stage 3, the recognition of lifetime expected credit loss is required (see the definition above).

Purchased or originated credit impaired financial instruments (POCI classification)

POCI financial assets are those which are classified as credit-impaired at initial recognition. For the Bank, 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 Bank applies this qualification only in case of investment grade rated government securities, for which the Bank always recognises 12-month expected credit losses, even if their credit risk has increased significantly since initial recognition. The Bank classifies government securities as investment grade for which external credit rating agencies gave AAA and BBB- (Standard &Poor's, Fitch), and Aaa and Baa3 (Moody's) qualification.

Significant increase in credit risk (transfer to Stage 2)

The Bank 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 Bank applies quantitative criteria as primary indicators related to the significant increase in credit risk for all its portfolios. For the quantitative classification, the Bank compares the actual and initial probability of default for the remaining maturity of the asset. The increase in probability of default (PD) differs for each segment (it is 250% for non-retail segment, but can decrease to minimum 150% for transactions with a maturity of over one year, in line with the regulations 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 Bank uses qualitative criteria as secondary indicators. The transfer to Stage 2 is carried out if the following criteria are met:

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

- renegotiation because of financial difficulties;
- past-due for more than 30 days;
- the client requires special treatment because of its credit risk status,
- in line with the provisions of IFRS and Bank instructions in case of contracts where the Bank identifies significantly increased credit risk, which cannot be detected using other Stage 2 indicators, nor assessed with statistical models: by 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 review of the significant increase of credit risk includes forward looking information and is carried out quarterly for each non-retail portfolio of the Bank.

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

- renegotiation because of financial difficulties;
- expert judgement;
- past-due for more than 30 days;
- default event at another transaction of the client,
- the transaction or client is rated under the IRB methodology but falls to the unclassified category.

The review of the significant increase of credit risk includes forward looking information and is carried out monthly for each retail portfolio of the Bank 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 Bank considers a debt instrument defaulted if it meets one of the following criteria:

Quantitative criteria

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

A payment delay is considered material, if the overdue amount reaches HUF 165,000 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 Bank terminates the financing agreement with immediate effect;
- the Bank restructures the obligation with material losses due to existing financial difficulties in line with the above mentioned materiality limit;
- the Bank suffers credit losses due to the client, or it sells the asset with losses due to financial difficulties (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 Bank 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 Bank classifies every transaction that meets the default definition of IFRS as non-performing and categorises them as Stage 3 for impairment and provision calculation purposes.

The criteria mentioned above are applied for non-retail debt instruments of the Bank 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 Bank's models relating to probability of default (PD), exposure at default (EAD), and loss given default (LGD).

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

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 two repayment moratoria 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 agricultural finance exposures, as well as the SME benchmark interest rate stop (detailed in section 5.2), the Bank assessed individually the possible worsened liquidity and financial position, and in such situations the client affected with the moratoria were considered restructured and performed an impairment test to detect the probable non-performance. In case of clients detected in the impairment test the Bank 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 concluded, and the client was transferred to Stage3. The tests described above were performed separately for clients participating in the moratorium (2, 3, 4 and agricultural) and the SME interest rate stop.

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

In case of retail clients, the Bank considers a debt instrument arising from a financing agreement as defaulted in line with the definition of credit-impaired, when one or more of the following criteria are met:

Quantitative criteria

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

A payment delay is considered material, if the delay related to the financing agreement reaches the HUF equivalent of EUR 100 and 1% compared to the total (delayed and non-delayed) exposure from the transactions (in case of micro companies 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. A retail client turns into default due to expected non-payment in the following cases:

- the debtor passed away;
- the debtor committed a fraud;
- legal claim enforcement procedure (bankruptcy, liquidation) starts against the micro enterprise client;
- the Bank 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 3 months, or in case of restructured loans for 1 year, and the client fulfils all other conditions to be classified out of the 'defaulted' category.

The Bank 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 Bank.

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 Bank 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 Bank calculate a present value for the reporting date. Then the calculated amount of expected credit losses is weighted based on a forward-looking scenario.

The Bank 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 expected recoveries are calculated on a client basis and the experts provide estimates in more scenarios and the probability-weighted averages of the different cash flows from the scenarios are considered in the present value calculations.
- In case of Stage 3 retail loans, the expected credit loss is calculated by adjusting statistical estimates for most likely expected loss (BEEL, Best Estimate of Expected Loss) to remove indirect costs, and conservative add-ons from those estimations.

Discount rate

The Bank 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.

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 Bank performed a chronological analysis and determined the most significant economic variables influencing credit risk and expected credit losses in case of each portfolio.

These economic variables and their impact on the probability of default, loss given default and exposure at default can vary across types of categories. While making this analysis, also expert estimations were used. The forecasts of the above economic variables ('base case economic scenario') is provided by Raiffeisen Research quarterly, giving the best estimates of those economic indicators for the following three years. 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 Bank applies a macroeconomic model based on these economic variables in order to estimate the probability of default. Based on this model the effect of forecasted change in PD is estimated for a 3-year period, then it returns to the original PD curve.

Besides the base economic scenario, a best case (optimistic) and a worst case (pessimistic) scenario is also provided by Raiffeisen Research, together with their weighting in order to grab the expected variance. The Bank 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 2022.

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 Bank'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 Bank.

Recognition of expected credit losses in the statement of financial position

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

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

(4.9.6) *Write-off of financial assets*

Loans and debt instruments are written off (partially entirely) if the Bank has no reasonable expectations of recovering a financial asset or a portion thereof. Generally, this is the case if the Bank 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 Bank 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 Bank is zero in a liquidation procedure based on the ranking order of creditors

The Bank 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 the operating cash flows of the client. In these cases, partial write-off is applied to the extent of the existing loss allowance. The legal claim towards the client remains the contractual receivable amount before write-off.

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 only be written off, if the recoverable amount 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 '* (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.

(4.9.7) *Derecognition of financial assets and liabilities, other than contract modifications*

The Bank 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 Bank is recognised as a separate asset or liability.

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

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

In transactions in which the Bank 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 Bank retains substantially all the risks and rewards, the rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate in the balance sheet items of placements with banks, other assets, deposits or other liabilities depending on the nature and direction of the transaction. In transfers in which control over the financial asset is retained, the Bank 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 Bank 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 Bank enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical securities at a certain date in the future at a fixed price. Securities purchased subject to commitments to resell them at future dates are not recognised as securities. The amounts paid are presented in the statement of financial position line item *'Financial assets at amortised cost'* and disclosed as collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised and measured in the statement of financial position as part of the securities portfolio. The proceeds from the sale of the securities are included in the statement of financial position line item *'Financial liabilities at amortised cost'*. The difference between the sale and repurchase considerations is recognised on an accrual basis over the term of the transaction and is included in interest income or expense, respectively.

The Bank securitizes certain financial instruments by classifying the related risks in 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 security. In this case, a true transfer of receivables takes place, and the assets and risks are fully or partially excluded from the balance sheet of the initiator. In case of synthetic securitisation, the transfer of risk is achieved by the use of risk transfer credit derivatives or guarantees, and the exposures being securitised remain exposures of the Bank.

On 23 December 2022, the Bank entered into 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, while the credit risk of the junior and senior tranches is retained by the Bank. Since the rights to the cash flows from the loans were retained by the Bank, and all or substantially all risks and rewards from parts of all affected loans were retained, the loans are not derecognised from the statement of financial position according to IFRS 9.

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

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

(4.9.8) *Modification of financial assets and liabilities*

i. Modification of financial assets and liabilities

Financial assets

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

The Bank evaluates significance based on qualitative and quantitative criteria:.

Qualitative criteria:

- change of currency, when the contract does not allow drawdowns 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 parameter 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 (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 by EUR 100,000, in case of retail assets by EUR 2,000 EUR (considering the larger of the 2 criteria).

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

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

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

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

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

(4.9.9) *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) *Deposits, debt securities and subordinated liabilities*

Deposits, debt securities issued and subordinated liabilities are the Bank'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.

(4.11) *Provisions for contingent liabilities*

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

Contingent liabilities, which include commitments and certain issued guarantees, 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 Bank.

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

All contingent liabilities are presented in the statement of financial position whether or not the economic outflows related to the settlement of the obligation are probable or not.

(4.12) *Financial guarantees*

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The amount of financial guarantee liability subsequently is the higher of the provision for expected credit losses in line with the rules of the IFRS 9 and its 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 c*ommitments.*

(4.13) *Interest income and interest expense*

Interest income and expenditure on financial instruments, calculated using the effective interest method are presented in the line item '*Interest income calculated with the effective interest method*', negative interest on demand deposits at the National Bank of Hungary and on financial liabilities is presented in the line item *'Other interest income'* and interest on financial liabilities as well as negative interest on financial assets is presented in the line item '*Interest expenses*' in the statement of profit or loss. Interest income and expense for financial instruments measured at fair value through profit or loss in trading book and classified as held for trading, as well as derivative instruments designated for risk management purposes are presented in '*Other interest income*' and '*Interest expenses*'. Interest income for loans measured at fair value through profit or loss is presented in '*Other interest income*' and interest expense for deposits measured at 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 result the interest result only contains realised and unrealised interest results from derivatives.

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life (or a sometimes a shorter period) of the financial asset or financial liability to the net carrying amount of a financial asset or a financial liability. The effective interest rate is determined at the initial recognition of the financial asset or financial liability and is revised in case of financial instruments with a floating interest when the floating interest rate is periodically reset. When calculating the effective interest rate, the Bank 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 Bank 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.

(4.14) *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 Bank 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 Bank provides for its client 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 Bank'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 Bank 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 Bank 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 banking cards

The Banks's services include issuing banking cards for its clients and other 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 banking card transactions.

A typical fee income is the yearly banking card usage fee, which depends on the type of the banking card. The yearly fees are typically charged in advance.

Fees related to services provided continuously are accounted for over the time period the service is provided. Transaction based fees related to issued banking 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 Bank 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 Bank reclassifies them monthly to its commission income. Such margins can be charged in relation to spot and forward transfers, conversions, banking 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 Bank does this type of activity for its clients also through currency exchange brokers. Given that if the Bank 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 securities issuance

In course of its investment management services, the Bank provides securities account management services for its clients. The Bank 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 Bank's clients, which are determined as a percentage of the transaction volume. These fees typically relate to affecting the transaction and are accounted for in the current month.

Insurance premiums

The Bank mediates insurance services for its clients. The Bank 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

By custodian, corporate finance businesses, asset management and other services are presented financial commissions not yet mentioned and items related to other services. In cases when services are provided continuously (for example fees for protecting credit collateral, safe fees) the practice is also to account for the income 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 (for example providing information, other financial services related activities).

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

Non-credit institution services related fee incomes

Items of fee income accounted for under IFRS 15 are also presented under Other operating income of the Bank, however these are not connected to the Bank'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 Bank does not disclose the value of the outstanding performance obligations as at 31 December 2022 because the contracts with clients are either fixed terms for less than one year, are open term contracts with a cancellation period of less than one year or have terms that allow the Bank to recognise revenue in the amount it is entitled to bill.

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

(4.15) *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.

(4.16) *Other operating income and expense*

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

(4.17) *Dividend income*

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

(4.18) *Employee benefits*

The Bank 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 that are due to be settled within twelve months, short-term compensated absences, profit sharing plans, bonuses and non-monetary benefits.

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

Post-employment benefits include pension contributions to cover retirement pensions, based on a state pension scheme that requires continuous contributions.

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

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

(4.19) *Income tax*

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. The Bank considers the business tax and the innovation contribution as part of income tax.

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

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

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

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

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

(4.20) *Share capital*

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

(4.21) *Additional Tier 1 Capital*

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

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

(4.22) *Government grants*

Government grants are specific resources that relate to operating activities of the Bank 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 Bank 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 Bank 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 under the reporting period*

(5.1) *Standards not yet in use 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 3 'Business Combinations' - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)

  Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before Intended Use adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)

- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous Contracts - Cost of Fulfilling a Contract adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after 1 January 2022)

- Amendments to various standards due to 'Improvements to IFRSs (cycle 2018 -2020)' resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 28 June 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.)

The adoption of the above amendments to the existing standards has not led to any material changes in the Bank's financial statements.

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

At 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 and which are not yet effective:

- IFRS 17 'Insurance Contracts' including amendments to IFRS 17 adopted by the EU on 19 November 2021 (effective for annual 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 periods beginning on or after 1 January 2023)
- Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure of Accounting Policies (effective for annual 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 periods beginning on or after 1 January 2023)
- Amendments to IFRS 17 'Insurance contracts' - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023)

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, which were not endorsed for use in EU on the date of the publication of these financial statements:

- Amendments to IAS 1 'Presentation of Financial Statements' - Classification of Liabilities as Current or Non-Current (effective date has changed, Long-term liabilities with covenants (effective for reporting periods beginning on or after 1 January 2024)
- Amendments to IFRS 16 'Leases' - Lease liabilities on sale and leaseback (effective for annual periods beginning on or after 1 January 2016)
- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded)

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on its financial statements in the period of initial application.

(5.2) *Significant events in the reporting period*

Actions of the NBH

Following a decision of the NBH's Monetary Board, the regulations regarding minimum reserves have been changed from 1 October 2022. According to the amendment, the amount of minimum reserve, which previously equalled 1% of the corresponding liabilities will be substantially increased and will include both daily and monthly average compliance requirements. The minimum reserve ratio will be increased up to 5%, with daily compliance requirements to ensure a sustainable liquidity coverage. Above the 5% minimum rate, an additional optional percentage rate of up to 5% was introduced, allowing the NBH to provide additional liquidity and giving credit institutions the flexibility to deal with liquidity shocks. For the optional reserve requirement level, the regulation requires compliance on a monthly average basis. The amendments became effective with the monthly reserve period starting from 1 October 2022. The Bank chose a rate of 8%.

The NBH increased the base rate from 2.4% from the beginning of the year to 13% in several steps until 28 September 2022.

As a result of the significant weakening of the forint, the NBH announced on 14 October 2022 that it would increase the benchmark interest rate to 18% by introducing the overnight deposit rapid auction, which meant an immediate rate increase of 500 basis points. The interest rate on overnight secured loans increased to 25%. The one-week secured loan instrument was suspended. The base rate remained at 13%. The NBH also guaranteed to provide the more significant foreign currency liquidity needs arising from the hedging of energy imports in the upcoming months.

The NBH introduced a new deposit instrument in October 2022. The purpose of the instrument is to provide a long-term liquidity position of more than one week in order to reduce the volatility of short yields by extending the average maturity of the sterilised stock, thereby strengthening the monetary transmission. The deposit instrument has a maturity of up to 6 months and is considered being an eligible collateral for the NBH's lending operations.

Extra-profit tax

Credit institutions and financial enterprises are required to pay an extra-profit tax in 2022 and 2023 based on their net revenue according to Act C of 1990 on Local Taxes (hereinafter 'the Act C on Local Taxes'). The basis of the special tax is the net revenue determined on the basis of the financial statement of the preceding tax year. The rate of the tax is 10% in 2022 and 8% in 2023. The tax liability for the tax year 2022 must be paid in two equal instalments (between 10 October 2022 to 10 December 2022) and the liability for the tax year 2023 must be paid in three equal instalments (until 10 June 2023, until 10 October 2023 and until 10 December 2023). These directives for credit institutions and financial enterprises will be applicable for the first time for their first entire tax year beginning after 31 December 2021, covering 1 July 2022.

Repayment moratorium

The contracts expired under the repayment moratorium are prolonged. Due to the repayment moratorium in case of contracts under the repayment moratorium the Bank stopped collecting the repayments and the interest and fees due. In case of these contracts the principal, interest and fee obligations were postponed beyond the end of the moratorium and those will have to be paid under the term in equal instalments. After the end of the repayment moratorium the term must be prolonged so that the instalments after the end of the moratorium cannot exceed the instalments according to the original contract terms.

Repayment moratorium II. (moratorium 3, 1 November 2021 - 31 July 2022)

In 2021 the Government extended the repayment moratoria for particular society groups and enterprises with financial difficulties until 30 June 2022 (Government Decree nr. 637/2020. (XII.22.) about the modification of the Government Decree nr. 637/2020. (XII.22.) about special rules related of the repayment moratoria in connection with the emergency situation). From 1 November 2021 only those clients are able to participate in the repayment moratorium, who participate in the repayment moratorium on 30 September 2021 and declare between 1 October 2021 and 31 October 2021 on a form specified by the legislation their intention to continue participating in the moratorium (from 1 November 2021) and comply with eligibility conditions set by the legislation. The exact conditions for eligibility are determined by Section 5 of the Government Decree nr. 637/2020. (XII.22.). By Government Decree 216/2022 (17.VI.2022), the Government extended the moratorium period until 07 July 2022.

Repayment moratorium II.(moratorium 4, 1 August 2022 - 31 December 2022)

By Government Decree 216/2022 (17.VI.2022), the Government extended the moratorium period until 31 December 2022. As of 1 August 2022, clients that remained under moratorium at the end of July 2022 and requested an extension of the moratorium until 31 July 2022, in a declaration specified in the legislation, remained in moratorium.

In December 2022, the government announced that the number of clients in the moratorium had decreased significantly, therefore the moratorium will not be extended as it expires at the end of 2022. However, it was emphasised that the government would provide support to repay the debts, as repayments would not be allowed to increase after the termination of the moratorium.

Agricultural moratorium (from 01.09.2022 to 31.12.2023)

Due to the drought in 2022, Government Decree 23/2022 (VIII.8.) provides a payment moratorium for agricultural businesses (agricultural enterprises, self-employed entrepreneurs and farmers) from 1 September 2022 to 31 December 2023. The payment moratorium applies to loans already disbursed under contracts existing on 31 August 2022.

Interest cap

Retail benchmark interest rate stop (1 January 2022 – 30 June 2023)

On 24 December 2022 the Government Decree nr. 782/2021. (XII. 24.) 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 year, typically 3 or 6-months 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 1 17/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 before the entry into force of the decree

cannot be higher than the contractual benchmark interest rate effective on 27 October 2021.

The Bank 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 the decree for the affected loan contracts.

The Government extended the interest rate stop 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 fixed interest rates of up to 5 years of interest periods.

SME interest rate stop

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

Interest rate stop on bank deposits (until 31.03.2023)

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 after HUF on-demand deposits or deposits committed to maximum 1 year contracted until 31 March 2023 cannot exceed the latest auction average yield for treasury bills issued for a 3-month maturity published by the Government Debt Management Agency. The Decree applies to deposits of institutional investors and retail customers with a deposit amount of over HUF 20 million.

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 Circular regarding the scope of 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 classification 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, this Circular has only changed with regarding to the update of the macro parameters that guide the forward-looking information. In 2022, the Circular on the classification of loans was updated by the NBH to include expectations for the treatment of loans in moratorium 4 and the agricultural moratorium.

The Bank assesses its compliance with management circular as follows.

Corporate segment

The Bank 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 less than 9 months – in compliance with the EBA's report about the moratoria updated in December – in the first and second moratoria combined. If any single transaction of a client participated more than 9 month in the first and second moratoria combined, then the Bank performed the risk monitoring assessment in case the client was opting-in to moratoria 2 launched in 2021.

The transactions of clients already classified as Stage 2 or Stage 3 and participating at the start of moratorium 2 (launched in 2021) or agricultural moratorium (launched in 2022) 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 moratoria 2 (launched in 2021) , those client who notified the Bank during their risk monitoring that they do not intend to participate in the repayment moratorium II with any of their transactions and opted-out from the repayment moratorium 2 by declaration, the Bank did not establish financial difficulty and did not flagged the transaction as restructured. In respect of newly opted-in clients the Bank 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 Bank also performs an impairment test (impairment test considering the credit impaired trigger according to IFRS9) for the purpose of identifying potential non-performance.

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

At the launch of the moratorium 4, which started in 2022, the remaining performing clients, who were then 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 by multiple scenarios) method, using a conservative ('banker's case') approach.

To cover risks for which there is no sufficient information pool to assess increase in credit risk or to recalibrate models, but for which a significant increase in credit risk is likely, the Bank's management has recognised an overlay impairment for the first time in 2020, with quarterly review and value adjustments during 2021 and 2022.

Retail segment

In accordance with the NBH's management circular published on 21 January 2021 the Bank assumes that its clients participating for more than 9 month in the repayment moratoria have financial difficulties or they are likely to have a financial difficulties in the future, 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 leaving the moratorium. Moreover, the Bank assessed also for these clients 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 Bank did not have sufficient information to assess the increase in credit risk, the Bank's management recognised an overlay impairment for both moratorium 3 and moratorium 4 participating transactions to cover the risks, followed by regular quarterly reviews.

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

The interest benchmark rate reform

There is a global, overall interest benchmark reform in progress, which seek to change some particular interbank interest rates (IBOR) to alternative almost risk-free interest rates ('IBOR reform'). The substantial part of LIBOR interest rates ceased after 31 December 2021, except USD LIBOR for some maturities, which will be available until 20 June 2023. Instead of these risk-free alternative (transaction based or hybrid, partly based on other pricing) interbank interest rates were introduced in Europe along with Hungary. Apart from LIBOR, the EURIBOR will not cease, but its calculation method will be changed.

The Bank has substantial outstanding balances in some particular interbank benchmark interest rates, which are affected in the reform.

The main risk for which due to the IBOR reform the Bank is exposed are operating risks: i.e. renegotiation of loan contracts through bilateral negotiations, actualization of the contracts, updating the systems using IBOR yield curves, review of the operating controls in respect of the reform, regulatory risks. The financial risks are mainly related to interest risk.

The Bank launched a project managing the transition to the alternative yields. The transition is based on the RBI's methodology, but in two phases:

- In 2021 the reform of GBP, CHF, EUR, JPY LIBOR,
- In 2022 the reform of overnight, 1-month, 3-month USD LIBOR.

In the first phase enterprises, financial institutions, private individuals were affected in transition (no balance to retail clients). There was a mutual decision about the pricing methodology in the related business areas, but later modification was needed due to the different products and client needs.

The new benchmark interest rates used in the related portfolio are the following:

- EONIA -> €STR (Euro Short-Term Rate)
- GBP LIBOR -> SONIA (Sterling Overnight Index Average)
- CHF LIBOR -> SARON (Swiss Average Rate Overnight)
- USD LIBOR -> SOFR (Secured Overnight Financing Rate)
- JPY LIBOR -> TONAR (Tokyo Overnight Average Rate)

In case of the transactions the Bank applied a 5-day retrospective period but did not consider any credit adjustment spread. The LIBOR transactions were handled by the Bank to the contrary of the EU regulation. In case of bank accounts, the Bank neither applied the retrospective period nor the credit adjustment spread (except for in case of some credit institutions). The Bank did not apply a fallback clause, but some contracts were modified bilaterally.

The Bank notified the clients through mail or InternetBank.

In case of new products, the Bank applied the same methodology as in case of existing transactions.

The Bank applies the overnight SOFR for the transition from overnight, 1-month, and 3-month LIBOR, as in case of existing transactions. In case of interest-rate swaps contracted against USD LIBOR due to the fallback clause becoming effective after 06.30.2023 the interest rate of the variable leg will be determined based on SOFR + marge.

According to the parent bank's decision starting form the second half of 2022 the Bank can enter new USD deals (loan, deposit, derivatives) with variable interest only based on SOFR, or TermSOFR.

The Bank believes that a contract did not reprice to an alternative benchmark interest rate, if the contractual interest rate is still tied to a benchmark rate, which is affected by the IBOR reform, even in cases, when it contains a fallback clause for the termination of the IBOR benchmark rate currently in use.

(6) Financial risk management

(6.1) *Introduction and overview*

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

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

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

The Bank 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 Bank'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 Bank's lending, commercial financing and leasing activities; however, it also might arise from specific off-balance sheet products (e.g. guarantees) or from investment debt securities.

Credit risk management

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

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

Credit risk arises primarily from the non-performance risk related to banking activities involving retail and corporate clients, banks and municipalities as lenders. Non-performance risk is the risk that a client will not be able to fulfil its contractual financial obligations. However, credit risk might also arise from migration risk, from the concentration of lenders, credit risk mitigation techniques and from country risk.

Credit risk is the main risk factor within the Bank, which is also indicated by the internal and regulatory capital requirements. Thus, the Bank 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 Bank'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. In retail business, unit impairment is recognised on the level of product portfolios.

Impairment associated with the credit risk of loans and advances to clients and banks is recognised in the amount of expected credit loss and is based on group level standards. Impairment loss is recognised, if the present value of the principal and interest amounts expected to be repaid – taken any collateral into account – is lower than the carrying amount of the respective loan. Impairment on the portfolio level is calculated based on a valuation model that estimates cash flows expected from the loans in the portfolio based on historical loss experience, taking the economic environment and forecasts of future economic conditions into account.
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The Bank prepares integrated forecasts for provisions, impairment, capital requirement and profit and loss after tax and performs stress testing bi-annually. Based on expectations about the macroeconomic environment, we estimate default rates and their impact on the above amounts using statistical models. The period of the forecasts is 3 years and Pillar I and Pillar II capital adequacy is analysed in case of both expected and pessimistic scenarios. Starting from the current year, forecast period used for stress scenarios also covers 3 years.

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

The impact of the COVID-19 pandemic and increased geopolitical and energy market risks on restructuring and default recognition practices

The events that are under actions of the government decided until 31.03.2021 in order to mitigate the economic crisis, according to the guidelines of EBA[1] 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

[1] https://eba.europa.eu/eba-provides-clarity-banks-consumers-application-prudential-framework-light-covid-19-measures

crisis, or the general moratoria introduced by the Bank ('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 Bank is defined as a program, which is available for a clearly identifiable group of clients and in this group the client's financial and real economic difficulties are not investigated individually.

- Under the repayment moratoria - according to 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 Bank introduces special attention and monitoring for the closer tracking of some clients, therefore it does not indicate an automatic trigger for impairment testing.
- The Bank 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 4.9.5 Impairment of financial assets.

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

Compliance with sanctions

As a matter of policy, Raiffeisen Bank Hungary maintains policies and procedures to ensure compliance with embargoes and financial sanctions applicable to its activities. Furthermore, Raiffeisen Bank Hungary has implemented adequate monitoring and screening tools to ensure compliance with such policies related to all applicable sanctions, including but not limited to sanctions imposed by the UN, EU and US.

Retail segment

Lending framework and risk policy

Retail segment

The repayment moratorium introduced by the government from 19.03.2020 was extended until 30.10.2021 with unchanged conditions, and until 31.12.2022 with limited conditions. The Bank has regularly revised and amended the rules for taking this criterion into account in its lending decisions for new loans, to apply this factor in the judgement in the decisions. Moratorium 3 affected only 3% of the customers on a banking system level, and even less of the retail customer base. The initial need for credit scoring actions due to Covid-19 was slowly being phased out in parallel with the economic recovery towards the first half of 2022. As a result of the strong inflationary impact during the second half of the year, the Bank is taking a more cautious approach to lending to customers with lower earnings.

Micro- and SME segment

In general, given the situation due to COVID-19, the Bank tried to handle the micro and SME segment with due caution and attention. The Bank monitored and reviewed regularly to what extent their clients are affected and tried to collect more and better information. This practice has been continued in the year 2022, in the context of the Russian-Ukrainian conflict and the resulting negative economic events.

The process for collecting information during the credit assessment has been extended with the following, in addition to information available in the Bank's systems:

- A questionnaire for both segments was prepared extended with economic environment related questions, which must be attached to the credit proposals. The questionnaire focuses on the enterprise's operation, revenue prognoses, level of own reserves, customer-supplier relationships, financing needs. In 2022, the questionnaire has been extended to include information on the changes in energy costs for businesses, the costs and availability of stocks and supplies, and labour. When scoring loans, we pay particular attention to the impact of increased costs on business performance in short and medium term, how customers can adapt to rising costs, whether they have the capacity to make energy-saving investments and what resources they can draw on to do so.
- In the micro segment in case of affiliated companies for loans over HUF 20 million, trial balance is requested in order to obtain well supported information on interim operations (in SE segment it has already been part of the risk analysis documentation).

The performance of the micro and SME segment is measured and analysed on a monthly basis taking into account the above detailed economic environment related considerations (risk profile). Based on the results of monitoring, we proactively initiate the restructuring of the financing for clients identified at a high risk, using available exit products.

Expected credit losses

In November 2020, the Bank - 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 did not reflect the real expected credit losses for the period after the moratoria.

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

In November 2021, the Bank again performed 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 Bank applied the portfolio level management overlay corrections, because in case of client who spent more than 9 month in the repayment moratoria and

- in retail segment does not keep its primary bank account by the Bank, or
- in microenterprises segment by clients who suffered more than 25% loss of turnover the Bank identified increased credit risk.

In 2021, the Bank recorded a HUF 2,772 million additional impairment related.

Corporate segment

Lending framework and risk policy

In case of the corporate segment, the Bank is regularly monitors and reviews to what extent its clients are affected by the current macroeconomic and geopolitical risks and is tries to collect more and better information. As a result of the portfolio screening, the Bank identified some particularly sensitive industries (e.g.: hotels, food service, vehicle production, companies with sensitivity due to interest rate or exchange rate changes) where the exposures, industry forecasts and possible outcomes were reviewed in detail and individually as well. The screening has still been running regularly ever since in case of the corporate segment.

The Bank's corporate and project finance portfolios have no significant cross-border financing towards Russia and Ukraine. The Bank has identified one client group which, in addition to its activities in Hungary, also has some independent activities in Russia, which activity is not financed by the Bank. The exposure to the identified client group does not exceed 1% of the corporate exposure. Indirect risks have not yet been identified as of 2022, but possible effects in 2023 cannot be completely excluded (e.g. future sanctions, disruption of supply chains of gas, oil).

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

1. Industrial segmentation 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 and 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 and are to 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 are only to be signed, 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 crutial in the decision.
    - Clients in low-risk industries: continuing of the normal business in line with the effective lending policy, however the risk management and approval process shall particularly focus on considering the client's potential vulnerability to COVID-19.

2. Update and review of the effective general corporate lending framework and 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 COVID-19 vulnerability point of view, regarding both the volume of supply/demand and the potential damage of the supply chain,

- the flexibility of the cost structure needs to be analysed, what fixed cost are to be expected for the next period,
- when assessing the client's financial situation, the 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 is only allowed if the increased debt repayment 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 validity and amounts of the limits in the credit proposals shall be reviewed and updated 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 kept, clients with missing or decreasing revenue easily could by 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 (especially in case of COVID-PWO status), the interest rate swaps concluded in relation to clients participating in the repayment moratoria can be modified between the client and the Bank based on bilateral agreement,
- bridging loans related to capital market transactions: the Bank does not accept new proposals,
- non-project-related unsecured finance for property developers: the Bank accepts proposals only with particular circumspection,
- real estate finance: the Bank accepts proposals only with particular circumspection.

3. Implementing rules for new transactions:
   - the Bank provides finance only for industries that were not mentioned as COVID-19 effected industries in point 2., and on selective basis,
   - the Bank applies the selective method 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 mainly it could be considered in case of low-risk industries, less influenced by the COVID-19, with detailed assessment of the client's ability to repay the debt considering the COVID-19.

Expected credit losses

The Banks' impairment recognition was influenced in many ways by the current market conditions. Stage 1 and Stage 2 impairments were 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 analysing department which were updated a number of times during the year. Furthermore, decline in the clients' financial situation and the resulting revised/worsening rating caused a higher level of impairment (where significant decline in rating occurred, transfer from Stage 1 to Stage 2 was performed). There was no deterioration in the risk profile of individual transactions in 2021 nor in 2022, so there has been no increase in impairment losses due to the impact of the prolonged effects of Covid-19, the geopolitical situation in the surrounding countries or the slowdown in the domestic economy.

Furthermore, the Bank concluded, that these above-mentioned market conditions created such a new situation, which cannot be managed with its already existing credit risk models with sufficient accuracy, and can only predict the expected credit loss with limitations. Therefore, the Bank has re-modelled the impact of macroeconomic data on impairment in 2022, adopting a new model that reflects the current situation more realistically and results in a more prudent level of provisioning. Alongside, the Bank applied the option of the 'post model adjustment' for the year 2022 and 2021.

The post model adjustment allocates impairment depending on how much they are exposed to these factors (supply chain difficulties, rising of the energy and material prices and labour shortages, increase of the interest environment). The model dynamically estimates deal-by-deal based on the above-mentioned risk-factors a ceteris paribus expected probability of rating worsening and a corresponding probability of default and an expected credit loss.

The Stage 2 indicators that are used for identifying increased credit risk profiles were supplemented with the risks not yet modelled too. Those clients were transferred to Stage 2 based on the sector-based Post Model Adjustment for which the model assumes a significant downgrade, so in this case expected credit loss covers the expected loss over the term. Clients entering the repayment moratoria – in case no other trigger for increased credit risk occurred – were not transferred automatically to Stage 2. However, if such client's rating significantly declined or its risk status was PWO or COVID-PWO then in their case Stage 2 classification was performed and impairment was recognised.

Process of credit rating

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

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

Internal credit rating categories are as follows:

- **Minimal risk:**

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

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

- **Excellent credit standing:**

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

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

- **Very good credit standing:**

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

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

- **Good credit standing:**

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

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

- **Average credit standing:**

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

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

- **Acceptable credit standing:**

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

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

- **Weak credit standing:**

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

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

- **Very weak credit standing:**

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

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

- **Doubtful / high default risk:**

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

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

- **Default:**

  Occurred 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 specific rule, 100% impairment is allocated to them by the Bank), uncoded transactions, transactions unrated due to data failure in a negligible number, childbirth incentive and employee loans under standard approach, and loans provided to small and medium sized 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.

31.12.2022 (HUF million)	Cash, cash balances at central banks and other demand deposits *	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Provisions***	Total
Cash	52,780	0	0	0	0	0	0	**52,780**
Placements with banks and central bank	732,133	0	0	0	0	533,985	0	**1,266,118**
Loans and advances to clients	0	0	125,450	0	0	1,693,784	0	**1,819,234**
Investment in debt securities	0	20,246	388	0	305,785	442,181	0	**768,600**
Equity instruments**	0	525	0	0	65	0	0	**590**
Loan commitments and financial guarantees	0	0	0	0	0	0	7,641	**7,641**
Derivative assets	0	162,340	0	0	0	0	0	**162,340**
Total	**784,913**	**183,111**	**125,838**	**0**	**305,850**	**2,669,950**	**7,641**	**4,077,33**

* This balance sheet line item contains receivables due from NBH 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'*.

31.12.2021 (HUF million)	Cash, cash balances at central banks and other demand deposits *	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Provisions***	Total
Cash	54,092	0	0	0	0	0	0	**54,092**
Placements with banks and central bank	428,397	0	0	0	0	1,007,462	0	**1,435,859**
Loans and advances to clients	0	0	97,771	0	0	1,431,144	0	**1,528,915**
Investment in debt securities	0	43,273	627	195	351,897	225,587	0	**621,579**
Equity instruments**	0	6,141	0	0	58	0	0	**6,199**
Loan commitments and financial guarantees	0	0	0	0	0	0	5,661	**5,661**
Derivative assets	0	65,528	0	0	0	0	0	**65,528**
Total	**482,489**	**114,942**	**98,398**	**195**	**351,955**	**2,664,193**	**5,661**	**3,717,833**

* This balance sheet line item contains receivables due from NBH 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 Bank's exposures

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

	31.12.2022									
	Financial assets at amortised cost				Financial assets at fair value through other comprehensive income					
(HUF million)	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Placements with banks										
Minimal risk	5,634	0	0	0	0	0	0	0	0	**5,634**
Excellent credit standing	1,068,488	0	0	0	0	0	0	0	0	**1,068,488**
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**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	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	399	0	0	0	0	0	0	1,476	**5,105**
Excellent credit standing	9,076	363	0	0	0	0	0	0	1,391	**10,830**
Very good credit standing	460,268	12,126	0	0	0	0	0	0	10,643	**483,037**
Good credit standing	202,762	186,507	0	43	0	0	0	0	7,259	**396,571**
Average credit standing	266,312	128,246	0	314	0	0	0	0	5,441	**400,313**
Acceptable credit standing	89,473	148,979	0	642	0	0	0	0	1,592	**240,686**
Weak credit standing	36,765	85,940	0	535	0	0	0	0	601	**123,841**
Very weak credit standing	2,107	4,035	0	0	0	0	0	0	0	**6,142**
Doubtful / high default risk	4,377	26,864	0	909	0	0	0	0	243	**32,393**
Default	0	0	53,598	2,709	0	0	0	0	156	**56,463**

(HUF million)	31.12.2022 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Unrated	30,646	8,094	1,645	53	0	0	0	0	96,648	**137,086**
Gross carrying amount	**1,105,016**	**601,553**	**55,243**	**5,205**	**0**	**0**	**0**	**0**	**125,450**	**1,892,467**
Loss allowance	-11,133	-31,093	-23,796	-2,358	0	0	0	0	0	**-68,380**
Carrying amount	**1,093,883**	**570,460**	**31,447**	**2,847**	**0**	**0**	**0**	**0**	**125,450**	**1,824,087**
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	28,376	0	0	0	99	**62,335**
Very good credit standing	376,682	0	0	0	223,128	0	0	0	19,702	**619,512**
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	90	**14,837**
Acceptable credit standing	4,825	0	0	0	93	734	0	0	355	**6,007**
Weak credit standing	0	583	0	0	0	0	0	0	0	**583**
Very weak credit standing	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	**440,814**	**1,790**	**0**	**0**	**303,420**	**1,974**	**1,094**	**0**	**20,634**	**769,726**
Loss allowance	-372	-51	0	0	-182	-176	-345	0	0	**-1,126**
Carrying amount	**440,442**	**1,739**	**0**	**0**	**303,238**	**1,798**	**749**	**0**	**20,634**	**768,600**
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	185,498	4,059	0	0						**189,557**
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**
Weak credit standing	13,307	14,069	0	0						**27,376**
Very weak credit standing	1,298	11,322	0	0						**12,620**

(HUF million)	31.12.2022 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
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	**607,374**	**202,127**	**15,075**	**0**	**0**	**0**	**0**	**0**	**0**	**824,576**
Carrying amount (provision)	-1,739	-2,405	-3,497	0	0	0	0	0	0	**-7,641**
Derivative assets										
Minimal risk									0	**0**
Excellent credit standing									122,918	**122,918**
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**
Weak credit standing									585	**585**
Very weak credit standing									1	**1**
Doubtful / high default risk									0	**0**
Default									0	**0**
Unrated									73	**73**
Carrying amount									**162,340**	**162,340**

(HUF million)	31.12.2021 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Placements with banks										
Minimal risk	2,067	0	0	0	0	0	0	0	0	**2,067**
Excellent credit standing	1,329,537	0	0	0	0	0	0	0	0	**1,329,537**
Very good credit standing	88,358	15,002	0	0	0	0	0	0	0	**103,360**
Good credit standing	199	0	0	0	0	0	0	0	0	**199**
Average credit standing	402	0	0	0	0	0	0	0	0	**402**

(HUF million)	31.12.2021 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Acceptable credit standing	0	301	0	0	0	0	0	0	0	**301**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	1	0	0	0	0	0	0	0	0	**1**
Gross carrying amount	**1,420,564**	**15,303**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,435,867**
Loss allowance	-6	-2	0	0	0	0	0	0	0	**-8**
Carrying amount	**1,420,558**	**15,301**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,435,859**
Loans and advances to clients										
Minimal risk	14,631	4,029	0	0	0	0	0	0	999	**19,659**
Excellent credit standing	68,583	6,461	0	21	0	0	0	0	4,208	**79,273**
Very good credit standing	342,083	48,186	0	17	0	0	0	0	5,312	**395,598**
Good credit standing	201,838	80,686	0	159	0	0	0	0	4,187	**286,870**
Average credit standing	283,351	104,080	0	643	0	0	0	0	2,830	**390,904**
Acceptable credit standing	80,579	47,489	0	736	0	0	0	0	782	**129,586**
Weak credit standing	28,094	83,251	0	398	0	0	0	0	181	**111,924**
Very weak credit standing	3,299	11,280	0	174	0	0	0	0	45	**14,798**
Doubtful / high default risk	1,027	6,730	0	205	0	0	0	0	109	**8,071**
Default	0	1	59,011	3,661	0	0	0	0	276	**62,949**
Unrated	6,753	707	1,482	23	0	0	0	0	78,842	**87,807**
Gross carrying amount	**1,030,238**	**392,900**	**60,493**	**6,037**	**0**	**0**	**0**	**0**	**97,771**	**1,587,439**
Loss allowance	-3,327	-22,688	-29,345	-3,164	0	0	0	0	0	**-58,524**
Carrying amount	**1,026,911**	**370,212**	**31,148**	**2,873**	**0**	**0**	**0**	**0**	**97,771**	**1,528,915**
Investment in debt securities										
Minimal risk	0	0	0	0	32,103	0	0	0	0	**32,103**
Excellent credit standing	35,676	0	0	0	25,870	0	0	0	35,941	**97,487**
Very good credit standing	168,127	4,462	0	0	263,180	7,772	0	0	7,662	**451,203**
Good credit standing	7,761	0	0	0	13,191	0	0	0	0	**20,952**

(HUF million)	31.12.2021 Financial assets at amortised cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through profit and loss	Total
Average credit standing	6,874	0	0	0	8,649	0	0	0	119	**15,642**
Acceptable credit standing	2,873	0	0	0	1,258	0	0	0	373	**4,504**
Weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Very weak credit standing	0	0	0	0	0	0	0	0	0	**0**
Doubtful / high default risk	0	0	0	0	0	0	0	0	0	**0**
Default	0	0	0	0	0	0	0	0	0	**0**
Unrated	0	0	0	0	0	0	0	0	0	**0**
Gross carrying amount	**221,311**	**4,462**	**0**	**0**	**344,251**	**7,772**	**0**	**0**	**44,095**	**621,891**
Loss allowance	-156	-30	0	0	-86	-40	0	0	0	**-312**
Carrying amount	**221,155**	**4,432**	**0**	**0**	**344,165**	**7,732**	**0**	**0**	**44,095**	**621,579**
Loan commitments and financial guarantees										
Minimal risk	11,850	1,330	0	0						**13,180**
Excellent credit standing	37,859	3,357	0	0						**41,216**
Very good credit standing	129,830	43,915	0	0						**173,745**
Good credit standing	112,381	16,631	0	0						**129,012**
Average credit standing	139,412	26,773	0	0						**166,185**
Acceptable credit standing	47,475	16,987	0	0						**64,462**
Weak credit standing	15,337	9,541	0	0						**24,878**
Very weak credit standing	372	3,240	0	0						**3,612**
Doubtful / high default risk	66	1,204	0	0						**1,270**
Default	0	0	15,472	0						**15,472**
Unrated	2,089	2,973	65	0						**5,127**
Gross amount	**496,671**	**125,951**	**15,537**	**0**	**0**	**0**	**0**	**0**	**0**	**638,159**
Carrying amount (provision)	-736	-998	-3,927	0	0	0	0	0	0	**-5,661**
Derivative assets										
Minimal risk									1	**1**
Excellent credit standing									54,245	**54,245**
Very good credit standing									2,174	**2,174**
Good credit standing									2,824	**2,824**

(HUF million)	31.12.2021									
	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		
Average credit standing									5,179	**5,179**
Acceptable credit standing									378	**378**
Weak credit standing									627	**627**
Very weak credit standing									0	**0**
Doubtful / high default risk									4	**4**
Default									83	**83**
Unrated									13	**13**
Carrying amount									**65,528**	**65,528**

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

(HUF million)	31.12.2022 Financial assets at amortized cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks and clients									
Non-retail									
Central bank	942,734	0	0	0	-5	0	0	0	**942,729**
Sovereigns	8,785	9,421	0	0	-6	-3	0	0	**18,197**
Credit institutions	286,682	17,293	0	0	-43	-17	0	0	**303,915**
Financial corporates	69,692	2,728	0	0	-28	-2	0	0	**72,390**
Large corporates	694,492	438,409	33,608	0	-3,102	-10,283	-12,012	0	**1,141,112**
Small and medium enterprises	36,023	38,262	1,427	0	-119	-207	-295	0	**75,091**
Retail									
Private Individuals	284,232	104,618	16,680	5,190	-7,570	-18,328	-9,700	-2,358	**372,764**
hereof: mortgage loans	*234,496*	*72,757*	*11,291*	*5,016*	*-3,419*	*-8,688*	*-6,269*	*-2,235*	***302,949***
Micro enterprises	17,090	17,442	3,528	15	-308	-2,274	-1,789	0	***33,704***
Carrying amount	**2,339,730**	**628,173**	**55,243**	**5,205**	**-11,181**	**-31,114**	**-23,796**	**-2,358**	**2,959,902**

(HUF million)	31.12.2011 Financial assets at amortized cost Stage 1	Stage 2	Stage 3	POCI	Financial assets at fair value through other comprehensive income Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks and clients									
Non-retail									
Central bank	1,230,194	0	0	0	0	0	0	0	**1,230,194**
Sovereigns	14,919	0	0	0	-1	0	0	0	**14,918**
Credit institutions	184,292	15,303	0	0	-6	-2	0	0	**199,587**
Financial corporates	86,950	0	0	0	-16	0	0	0	**86,934**
Large corporates	602,538	268,323	32,338	0	-1,473	-9,451	-11,098	0	**881,177**
Small and medium enterprises	46,871	15,168	1,335	0	-180	-114	-279	0	**62,801**
Retail									
Private Individuals	258,040	101,099	22,210	6,037	-1,484	-12,144	-14,932	-3,164	**355,662**
hereof: mortgage loans	*201,006*	*75,567*	*15,988*	*5,780*	*-796*	*-8,288*	*-10,198*	*-2,958*	***276,101***
Micro enterprises	26,998	8,310	4,610	0	-173	-979	-3,036	0	***35,730***
Carrying amount	**2,450,802**	**408,203**	**60,493**	**6,037**	**-3,333**	**-22,690**	**-29,345**	**-3,164**	**2,867,003**

Information about the Bank'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 (SME's).

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 SME's having natural currency hedging.

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

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

No new SME contract 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 refinancing loan with predetermined rules from a different commercial bank within identical framework of the Loan Scheme.

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, prefinancing of grants, refinancing.

At 2022 year-end, the balance outstanding from the above-described FG Schemes was HUF 113,162 million (2021: the Bank had refinancing balance of HUF 134,426 million under the FG scheme).

Garantiqa Crisis Guarantee Scheme

In order to mitigate the negative economic effects of the coronavirus pandemic, the Garantiqa Hitelgarancia Zrt. introduced a scheme with favourable conditions named ‘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 indemnity).

Garantiqa Crisis 2 Guarantee Scheme

In order to deal with 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 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 Programme 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 (requesting, precluding, contracting, disbursing conditions), with which all the banks must comply. For the product the NBH provides refinancing as part of the FGS Go!. 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 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 Bank, 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 listed 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 GO! ended in 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 (requesting, precluding, contracting, disbursing 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 Card 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 Bank, it is only available for micro and small enterprises.

2. Széchenyi Liquidity Loan (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 Bank, it is only available for micro and small enterprises.

3. Széchenyi 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 listed 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 (GO)

The purpose of the loan is to provide log-term financing for enterprises' development, and investments in the operation areas of agricultural products production, agricultural post-harvest services provision, and activities related to forestry, game and fish farming, and thereby improve investment climate and maintain the competitiveness of enterprises and loan conversion on certain conditions. The investment loan for development will be granted to enterprises that meet the criteria for eligibility under temporary support title. For all loan transactions, the 80% or 90% guarantee of AVHGA will be involved.

Széchenyi Card MAX Scheme

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 under 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 backing is reinforced by a guarantee from Garantiqa Hitelgarancia Zrt.

1. Széchenyi Overdraft MAX

The objective of the loan is bridging temporary liquidity problems of the applicant/debtor company. With various restrictions, loan conversion 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 help with the transitional liquidity problems of the requesting enterprises/debtors. Refinancing is also possible through the product under various restrictions. At our Bank, it is only available for micro and small enterprises.

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 listed 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 products production, agricultural post-harvest services provision, and activities related to forestry, game and fish farming, 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 temporary support title. For all loan transactions, the 80% or 90% guarantee of AVHGA will be involved. Max. HUF 400 million loan can be requested for a duration of max. 10 years, with a fixed interest rate of 1.5%, with state interest subsidy.

Agricultural Enterprises Loan Guarantee Foundation (AVHGA) Crisis Program

The Hungarian Government decided about the introduction of the AVHGA 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 and SMEs with 90% guarantee labelled as a 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 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 revenue of 2019 or the double of 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.

Agricultural Enterprises Loan Guarantee Foundation (AVHGA) Crisis Program II.

The European Committee approved the credit guarantee scheme on 17th 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 programme but makes the AVGHA's guarantee with decreased fee more widely, this way increasing the financing opportunities. The new title replaced the title introduced for the aid related to the Covid-19 and is eligible until the end of 2022 in the frame of Crisis Program II., this way helping the food business, which is in a difficult situation due to the Russian-Ukrainian conflict. The foundation's guarantee can be maximum 90% (by 85% state suretyship), the fee equals 0,25% p.a. and can be taken to maximum maturity of 6-year loans. The amount to be guaranteed cannot exceed 15% of the enterprise's average yearly revenue resulted from its last 3 closed business year, or 50% of the energy costs for the last 12 month before applying for the guarantee, but in some adequately reasoned cases it can reach to 12-month liquidity needed.

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 on 31 December 2021. The Scheme consisted of 3 pillars:

1. EXIM Compensation Loan Program
The aim of the program is to provide working capital finance (maximum for 3 years), investment loans (maximum for 6 years) and lease finance (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 the receive a 100% state subsidized suretyship to their existing loans. An 80% of suretyship is granted to SME's and small mid-cap companies (maximum of 499 employees) and a 50% suretyship is granted for companies larger than these (but by individual cases the Credit Committee of Exim can approve 90%, too) for working capital finance loans with a maximum maturity of 3 years and for investment loans with a maximum maturity of 6 years. The approval process for guarantees below of HUF 300 million are processed in accelerated proceed.

3. EXIM Compensation Credit Insurance Program
The program helps exporters with 95% insurance of deferred trade receivables. 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 deterioration of the business environment due to the Covid-19 pandemic by providing interest-subsidized loans to finance the development projects necessary for this purpose for SME size exporters, suppliers, and businesses preparing to export. The aim of the program is to provide investment loan (maximum 10 year) for SME size enterprises, who get into difficult situation after 1 February 2020 with fixed, by EXIM determined interest.

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

Retail products

The government extended the deadline until the end of 2024 the application for baby loans and the opportunity VAT return for new homes. Furthermore, the subsidized real estate loans, CSOK, which can be used as own contribution when purchasing residents are still available. However, the subsidized home renovation loan, and the non-repayable grants were terminated, and the repayment moratoria was terminated as well 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 assets

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

Changes to the portfolio

In 2022, exposures towards credit institutions decreased significantly (HUF 1,261 billion, 2021: HUF 1,421 billion).

In 2022, besides the increase of the portfolio in the corporate segment (2022: HUF 1,309 billion; 2021: HUF 1,048 billion), the balance of non-performing corporate loans increased too. (2022: HUF 35 billion, 2021: HUF 33,7 billion)

The approximately HUF 1.3 billion increase in the non-performing portfolio was caused by three opposite impacts: return on about HUF 6.6 billion workout operation decreasing effect, the Bank detected about HUF 4.9 billion non-performing balance during its standard assessment processes, which was further boosted by a revaluation difference of around HUF 3 billion on the total non-performing portfolio due to the weakening of the forint. The volume of the new non-performing portfolio is determined by two cash-flow producing project loans (total HUF 4.5 billion), where the Bank decided to opt for non-performing status due to uncertainties about future cash flows. This is a distinct event, no signs of systematic portfolio deterioration nor its signs can be seen.

The proportion of non-performing loans in the corporate segment is decreased to 2.4% from 2.8% compared to 2021.

As for the corporate portfolio, the impact of forward-looking macroeconomic variables on PD was revised during the year, resulting in an increase in the stage 2 portfolio due to the associated PD deterioration.

In the retail and micro-enterprises portfolios, an increase in the exposure occurred in 2022 (2022: HUF 571 billion, 2021: HUF 524 billion). In the retail segment, the portfolio increased both in the mortgage loan and in the uncollateralized product portfolio, and in the uncollateralized portfolio due to the childbirth incentive loan program measured at FVTPL Besides, the non-performing exposure decreased in 2022 (2022: HUF 21.4 billion, 2021: HUF 30.3 billion). The non-rated (uncategorized) exposure increased (2022: HUF 129 billion, 2021: HUF 85 billion) in the retail segment, mainly related to 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 *(4.11.5) Impairment of financial assets*.

The determination of the exposure necessary for credit risk management is a complex exercise and requires the application of models as exposure changes depend on market conditions, expected cash flows and the passage of time. The assessment of credit risk of the portfolio contains further estimations regarding the probability of default, the loss given default and the correlations between different clients' non-performance. Bank 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 a deal-level by the experts and the 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 modelling the probability of monthly marginal default and repayments. In case of negative account balances the Bank records impairment for the total receivable, therefore both the PD and LGD is 100%.

Following this, statistical methods are used to determine how certain characteristics (amongst others rating, days past due) evolve from initial recognition over the entire lifetime of the loan portfolio. The typical risk profile is based on historical data and parameters.

The Bank 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 PD's. When determining the average PD's, the Bank did not take into consideration the effect of the portfolio level management overlay:

31.12.2022	**Average PD**	
	Non-retail	**Retail**
Minimal risk	0.01%	0.23%
Excellent credit standing	0.04%	0.26%
Very good credit standing	0.16%	0.54%
Good credit standing	0.36%	0.89%
Average credit standing	1.45%	2.35%
Acceptable credit standing	2.93%	4.44%
Weak credit standing	7.14%	7.93%
Very weak credit standing	13.19%	13.80%
Doubtful / high default risk	23.24%	34.91%
Unrated	1.72%	2.44%

Loss given default (LGD)

The loss given default is the Bank'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 Bank uses its own LGD estimations taking loss rate experience into account;
- loss given default for sovereign debts is estimated using market information sources;
- in case of investment funds, given the lack of loss experience, expert estimations for uncollateralised LGD, which is 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 center database by the entities. Thereafter, the central modelling calculates the LGD based on the data received and country-specific information so, that it matches the lending information of the various entities.

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

Exposure at default (EAD)

Exposure at default is measured considering all amounts regarded by the Bank as receivable at an expected date of default within the next 12 months or over the entire lifetime of the instrument. 12 months and lifetime EAD is determined taking the expected repayment characteristics into account, which varies across product types. For amortising products and bullet-type loans, EAD is based on contractual repayment obligations over the next 12 months or the lifetime of the instrument. Where relevant, assumptions about prepayments and refinancing are considered while calculating EAD.

In case of non-retail segments, the Bank makes own estimations in order to quantify exposures at default of off-balance sheet items for Corporate and SMB portfolios, the ones having so-called high probabilities of default. The credit conversion factors applied are quantified using different methodologies for revolving and non-revolving exposures. Related modelling is performed by RBI. This process is the same as the process described at the modelling of LGD parameters, i.e. various entities send data to the central database, afterwards the central modelling calculates the EAD using those and other country-specific information so that it matches the lending information of the various 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 = used facility * (1+CCF). The expected lifetime of revolving transactions is estimated using statistical methods, which allows us to calculate lifetime expected credit losses also for such product types.

Forward-looking information

Assessment of whether credit risk has increased significantly since initial recognition and the measurement of expected credit losses are estimations incorporating also forward-looking information. The Bank 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 2022.

Gross domestic product	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	2.38%	4.27%	4.27%
	Base	1.00%	3.50%	3.50%
	Pessimistic	-1.54%	2.09%	2.09%
Unemployment rate	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	3.37%	3.60%	3.10%
	Base	4.80%	4.40%	3.90%
	Pessimistic	6.22%	5.19%	4.69%
Long-term (10 years) government bond yields	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	6.69%	6.90%	6.73%
	Base	7.76%	7.49%	7.33%

	Pessimistic	10.90%	9.24%	9.07%
Inflation rate	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	17.95%	7.05%	5.85%
	Base	15.70%	5.80%	4.60%
	Pessimistic	13.07%	4.34%	3.14%
Reference interest rate	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	11.21%	6.17%	4.80%
	Base	11.71%	6.45%	5.08%
	Pessimistic	13.67%	7.54%	6.17%
Housing price index	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	7.52%	11.07%	16.07%
	Base	2.00%	8.00%	13.00%
	Pessimistic	-3.32%	5.05%	10.05%
Commercial property price index	**Scenario**	**2023**	**2024**	**2025**
	Optimistic	8.80%	6.50%	6.50%
	Base	2.50%	3.00%	3.00%
	Pessimistic	-4.64%	-0.97%	-0.97%

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 Banks'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 Bank.

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:

31.12.2022 (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	47,657	42,300	46,668	54,993

31.12.2021 (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	28,375	25,961	27,117	30,971

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:

31.12.2022 (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	47,657	39,764	-7,894

31.12.2021 (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	28,375	20,110	-8,265

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:

31.12.2022 (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	47,657	63,650	15,992

31.12.2021 (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	28,375	40,686	12,311

Current year development of expected credit losses

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

(HUF million)	Opening balance 01.01.2022	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	3,327	5,122	-1,916	5,665	-1,225	8	152	11,133	26
Investment in debt securities	242	109	-62	264	0	0	1	554	0
of which: collectively assessed allowances	3,575	5,248	-1,985	5,960	-1,225	8	154	11,735	26
Stage 1 total	**3,575**	**5,248**	**-1,985**	**5,960**	**-1,225**	**8**	**154**	**11,735**	**26**
Placements with banks	2	11	0	8	0	0	0	21	0
Loans and advances to clients	22,688	3,327	-3,468	2,772	5,241	-2	535	31,093	0
Investment in debt securities	70	1	-203	359	0	0	0	227	0
of which: collectively assessed allowances	22,760	3,339	-3,671	3,139	5,241	-2	535	31,341	0
of which: non-performing	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Stage 2 total	**22,760**	**3,339**	**-3,671**	**3,139**	**5,241**	**-2**	**535**	**31,341**	**0**
Loans and advances to clients	29,345	3,490	-8,251	2,466	-3,905	-114	765	23,796	0
Investment in debt securities	0	0	0	345	0	0	0	345	0
of which: collectively assessed impairment	*17,967*	*828*	*-3,961*	*696*	*-3,905*	*-110*	*-27*	*11,488*	*0*
of which: individually assessed impairment	*11,378*	*2,662*	*-4,291*	*2,114*	*0*	*-4*	*794*	*12,653*	*0*
Stage 3 total	**29,345**	**3,490**	**-8,251**	**2,811**	**-3,905**	**-114**	**765**	**24,141**	**0**
Loans and advances to clients	3,164	0	-1,908	1,133	-65	-3	37	2,358	0
of which: collectively assessed allowances	*3,164*	*0*	*-1,908*	*1,133*	*-65*	*-3*	*37*	*2,358*	*0*
POCI total	**3,164**	**0**	**-1,908**	**1,133**	**-65**	**-3**	**37**	**2,358**	**0**
Total allowance for debt instruments	**58,844**	**12,077**	**-15,815**	**13,043**	**46**	**-111**	**1,491**	**69,575**	**26**
Commitments and financial guarantees given									
Stage 1	736	1,599	-1,272	706	-39	0	9	1,739	0
Stage 2	998	295	-449	1,267	272	0	22	2,405	0
Stage 3	3,927	36	-436	-136	-37	0	143	3,497	0
Total provisions on commitments and financial guarantees given	**5,661**	**1,930**	**-2,157**	**1,837**	**196**	**0**	**174**	**7,641**	**0**

(HUF million)	Opening balance 01.01.2021	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 31.12.20121	Recoveries of previously written-off amounts recorded directly to the statement of profit or loss*

Debt instruments									
Placements with banks	2	9	-5	-1	0	0	1	6	0
Loans and advances to clients	1,564	1,162	-856	2,150	-693	-9	9	3,327	16
Investment in debt securities	47	93	-29	116	0	0	15	242	0
of which: collectively assessed allowances	*1,613*	*1,264*	*-890*	*2,265*	*-693*	*-9*	*25*	*3,575*	*16*
Stage 1 Total	**1,613**	**1,264**	**-890**	**2,265**	**-693**	**-9**	**25**	**3,575**	**16**
Placements with banks	0	0	0	2	0	0	0	2	0
Loans and advances to clients	19,289	4,325	-5,012	4,638	-564	-2	14	22,688	0
Investment in debt securities	278	0	0	-194	0	0	-14	70	0
of which: collectively assessed allowances	*19,567*	*4,325*	*-5,012*	*4,446*	*-564*	*-2*	*0*	*22,760*	*0*
of which: non-performing	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Stage 2 Total	**19,567**	**4,325**	**-5,012**	**4,446**	**-564**	**-2**	**0**	**22,760**	**0**
Loans and advances to clients	24,118	5,832	-12,887	12,323	-4	-347	310	29,345	0
of which: collectively assessed impairment	*13,214*	*395*	*-4,531*	*8,978*	*-4*	*-102*	*17*	*17,967*	*0*
of which: individually assessed impairment	*10,904*	*5,437*	*-8,355*	*3,344*	*0*	*-246*	*294*	*11,378*	*0*
Stage 3 Total	**24,118**	**5,832**	**-12,887**	**12,323**	**-4**	**-347**	**310**	**29,345**	**0**
Loans and advances to clients	3,670	0	-3,484	2,972	0	-8	15	3,164	0
of which: collectively assessed allowances	*3,670*	*0*	*-3,484*	*2,972*	*0*	*-8*	*15*	*3,164*	*0*
POCI Total	**3,670**	**0**	**-3,484**	**2,972**	**0**	**-8**	**15**	**3,164**	**0**
Total loss allowance for debt instruments	**48,968**	**11,421**	**-22,274**	**22,006**	**-1,261**	**-366**	**350**	**58,844**	**16**
Loan commitments and financial guarantees given									
Stage 1	256	196	-144	442	-16	0	2	736	0
Stage 2	1,183	934	-902	-203	-18	0	4	998	0
Stage 3	6,378	282	-2,232	-455	0	0	-46	3,927	0
Total provisions on loan commitments and financial guarantees given	**7,817**	**1,412**	**-3,278**	**-216**	**-34**	**0**	**-40**	**5,661**	**0**

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

In 2022 and in 2021, the effect of some changes in retail estimation methodology on the expected credit loss is shown in the column 'Changes due to update in the methodology for estimation (net)'. For the details about the changes in the methodology please see the Note 'Effect of the COVID-19 on the credit risk management'.

The total of this year's movements in expected credit losses include – within changes due to change in credit risk – the adjustments to the net exposure of credit-impaired (Stage 3) exposures arising from the net interest calculation, which is presented in *'Impairment losses'* but affects interest (2022: HUF 6,108 million, 2021: HUF 7,139 million). Besides the above, the profit or loss item *'Impairment losses'* includes amounts from de-recognising sold and written-off exposures (2022: HUF 3,567 million, 2021: HUF 6,261 million) including individually large corporate exposures and retail packages, as well as recoveries from purchased or originated credit-impaired financial instruments (2022: HUF 1,682 million, 2021: HUF 1,252 million).

The Bank performs further collection procedures in relation to certain financial assets which were written off in the current year. The contractual receivables relating to such financial assets amount to HUF 2,840 million (2021: HUF 3,495 million).

Contract modifications and expected credit losses

There were contract modifications which did not lead to derecognition of the financial assets in 2022, too. The amortised costs of financial assets so modified and for which lifetime expected credit losses were recognised amounted to HUF 129,825 million (2021: HUF 203,977 million) before the modifications and the related net modification loss amounted to HUF 6,324 million (2021: HUF 1,554 million), the biggest part of this was related to net modification loss (2022: HUF 294 million, 2021: HUF 726 million) arising from the changes in the present value of the cash flows related to the cash flows from clients participating in moratorium, furthermore from the changes in the present value of the clash flows related to the products affected by the interest rate stop (2022: HUF 6,623 million, 2021: HUF 962 million).

The table below present the balances related to the repayment moratoria:

12.31.2022	Performing			Non-performing			
(HUF million)	Total performing	hereof: Stage 2	hereof: restructured	Total non-performing	hereof: unlikely to pay that are not past-due or past-due <= 90 days	hereof: restructured	Total performing and non-performing
Households	9,531	8,980	1,409	5,922	5,343	5,887	**15,453**
hereof: collateralised by residential immovable property	*6,218*	*6,218*	*861*	*4,371*	*3,851*	*4,366*	**10,589**
Non-financial corporations	1,974	1,387	1,237	23,712	23,712	23,664	**25,686**
hereof: small and medium-sized enterprises	*1,971*	*1,384*	*1,237*	*1,528*	*1,496*	*1,492*	**3,499**
hereof: collateralised by commercial immovable property	*0*	*0*	*0*	*19,286*	*19,286*	*19,271*	**19,286**
Other	0	0	0	0	0	0	**0**
Gross carrying amount	**11,505**	**10,367**	**2,646**	**29,634**	**29,055**	**29,551**	**41,139**
Impairment	-2,232	-2,228	-387	-10,907	-10,504	-10,867	**-13,139**
Net carrying amount	**9,273**	**8,139**	**2,259**	**18,727**	**18,551**	**18,684**	**28,000**

12.31.2021 (HUF million)	Performing: Total performing	Performing: hereof: Stage 2	Performing: hereof: restructured	Non-performing: Total non-performing	Non-performing: hereof: unlikely to pay that are not past-due or past-due <= 90 days	Non-performing: hereof: restructured	Total performing and non-performing
Households	14,661	14,658	1,090	8,341	7,342	8,265	**23,002**
hereof: collateralised by residential immovable property	*10,084*	*10,080*	*836*	*6,479*	*5,600*	*6,465*	**16,563**
Non-financial corporations	1,308	1,280	877	21,732	21,681	21,717	**23,040**
hereof: small and medium-sized enterprises	*859*	*831*	*428*	*1,817*	*1,766*	*1,802*	**2,676**
hereof: collateralised by commercial immovable property	*71*	*71*	*20*	*17,375*	*17,372*	*17,374*	**17,446**
Other	0	0	0	0	0	0	**0**
Gross carrying amount	**15,969**	**15,938**	**1,967**	**30,073**	**29,023**	**29,982**	**46,042**
Impairment	-2,666	-2,666	-247	-11,801	-10,987	-11,733	**-14,467**
Net carrying amount	**13,303**	**13,272**	**1,720**	**18,272**	**18,036**	**18,249**	**31,575**

Out of the total gross carrying amount, the unpaid amount related to the payment moratoria in 2022 was HUF 21,086 million (2021: HUF 36,468 million).

The table below shows the gross carrying amounts related to the payment moratoria by sectors:

(million HUF)	31.12.2022	31.12.2021
Real estate	245	268
Domestic trade	706	761
Other, mainly service industries	19,477	17,999
Public administration	54	56
Manufacturing	3,032	3,260
Agriculture	1,886	52
Transportation, communication	168	473
Construction	118	171
Households	15,453	23,002
Total	**41,139**	**46,042**

The below table presents the loss from changed cash flows due to the payment moratoria:

(million HUF)	31.12.2022	31.12.2021
Households	**-172**	**-674**
hereof: collateralised by residential immovable property	*-44*	*-464*
Non-financial corporations	**-122**	**-48**
hereof: small and medium-sized enterprises	*-15*	*-45*
hereof: collateralised by commercial immovable property	*-105*	*-23*
Other	**0**	**-4**
Modification gains or (-) losses, net total	**-294**	**-726**

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 Bank 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 Bank 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 Bank 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 Bank 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 has already carried out a risk monitoring assessment for it during the start of moratorium 2.

Customers participating in moratorium 2 in 2021 or in the agricultural moratorium in 2022 are already classified as Stage 2 or Stage 3 and are automatically marked as restructured. Considering that the transactions that were included in moratorium 1 (2020) with a final expiration date in 2020 were automatically included in moratorium 2 (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 Bank carried out a risk monitoring assessment and on the basis of this assessment, the Bank reclassified the client as a restructured client in case of financial distress.

During Moratorium 3 in 2021 and Moratorium 4 in 2022, the Bank identified all transactions as restructured and classified them as Stage 2 or higher. At the start of moratorium 4 in 2022, the outstanding transactions - which were then classified as Stage 2 and identified as restructured- were repaid. The remaining participating counterparties were classified as Stage 3 and designated as non-performing restructured.

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 Bank;
- government programs.

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

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

A contract can be regarded as forborne – regardless of the modified conditions or actual past due status – if in course of the contract modification the Bank 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.

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

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

31.12.2022 (HUF million)	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value change due to change in credit risk and provisions			Collaterals and financial guarantees received
	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	81,678	44,011	125,689	-6,410	-18,940	-25,350	72,473
Total financial assets at amortised cost	**81,678**	**44,011**	**125,689**	**-6,410**	**-18,940**	**-25,350**	**72,473**
Loans and advances to clients	137	114	251	0	0	0	245
Total financial assets at fair value through profit and loss	**137**	**114**	**251**	**0**	**0**	**0**	**245**
Commitments and financial guarantees given (Stage 3)	8,219	1,594	9,813	-87	-268	-355	4,548
Total	**90,034**	**45,719**	**135,753**	**-6,497**	**-19,208**	**-25,705**	**77,266**

31.12.2021 (HUF million)	Gross carrying amount/nominal value of restructured assets			Accumulated impairment, total amount of negative fair value change due to change in credit risk and provisions			Collaterals and financial guarantees received
	Performing assets	Non-performing assets	Total	Performing assets	Non-performing assets	Total	
Loans and advances to clients	85.116	49.875	134.991	-7.862	-23.374	-31.236	73.554
Total financial assets at amortised cost	**85.116**	**49.875**	**134.991**	**-7.862**	**-23.374**	**-31.236**	**73.554**
Loans and advances to clients	11	217	228	0	0	0	161
Total financial assets at fair value through profit and loss	**11**	**217**	**228**	**0**	**0**	**0**	**161**
Commitments and financial guarantees given (Stage 3)	6.666	3.664	10.330	-140	-1.280	-1.420	2.734
Total	**91.793**	**53.756**	**145.549**	**-8.002**	**-24.654**	**-32.656**	**76.449**

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 Bank, 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 considers collateral which is defined in the Raiffeisen International Group Directive for Collateral Evaluation and Management (Catalogue) and complies with all of the following requirements:

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

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

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

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

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

31.12.2022 (HUF million)	Loans and advances to clients	Investments in securities	Loan commitments and financial guaran-tees 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	**550,799**	**0**	**46,462**	**0**	**597,261**
Residential real estate	318,627	0	2,317	0	320,944
Commercial real estate	188,853	0	35,272	0	224,125
Other	43,319	0	8,873	0	52,192
Guarantees from	**507,050**	**641**	**43,228**	**0**	**550,919**
Government	361,244	93	2,005	0	363,342
Banks	145,806	548	41,223	0	187,577
Other collateral	**104,141**	**0**	**60,376**	**0**	**164,517**
Total collateral	**1,244,235**	**641**	**179,122**	**5,622**	**1,429,620**

31.12.2021 (HUF million)	Loans and advances to clients	Investments in securities	Loan commitments and financial guaran-tees given	Derivative assets	Total collateral
Cash deposits	**13,196**	**0**	**14,926**	**4,480**	**32,602**
Debt securities issued by	**45,699**	**0**	**288**	**0**	**45,987**
Government	7,308	0	0	0	7,308
Companies	29,888	0	60	0	29,948
Others	8,503	0	228	0	8,731
Shares	**13,078**	**0**	**54**	**1,313**	**14,445**
Mortgage on	**471,422**	**0**	**29,516**	**0**	**500,938**
Residential real estate	267,090	0	2,112	0	269,202
Commercial real estate	167,534	0	19,868	0	187,402
Other	36,798	0	7,536	0	44,334
Guarantees from	**302,068**	**158**	**47,536**	**0**	**349,762**
Government	181,111	94	1,179	0	182,384
Banks	120,957	64	46,357	0	167,378
Other collateral	**80,189**	**0**	**40,328**	**0**	**120,517**
Total collateral	**925,652**	**158**	**132,648**	**5,793**	**1,064,251**

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

31.12.2022.	**Financial assets at amortised cost**				**Financial assets at fair value through other comprehensive income**			**Financial instru-ments at FVTPL***	
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**		**Total**
Loans and advances to clients	738,506	364,341	17,621	2,736	0	0	0	121,031	1,244,235
Investment in debt securities	568	63	0	0	0	0	0	0	641
Loan commitments and financial guarantees given	118,556	59,190	1,376	0	0	0	10		179,122
Derivative assets								5,622	5,622
Total	**857,630**	**423,594**	**18,997**	**2,736**	**0**	**0**	**10**	**126,653**	**1,429,620**

31.12.2021.	**Financial assets at amortised cost**				**Financial assets at fair value through other comprehensive income**			**Financial instru-ments at FVTPL***	
(HUF million)	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**		**Total**
Loans and advances to clients	592,661	215,792	20,329	2,710	0	0	0	94,160	925,652
Investment in debt securities	64	0	0	0	94	0	0	0	158
Loan commitments and financial guarantees given	112,943	17,693	2,012	0	0	0	0	0	132,648
Derivative assets								5,793	5,793
Total	**705,668**	**233,485**	**22,341**	**2,710**	**94**	**0**	**0**	**99,953**	**1,064,251**

*FVTPL: Financial assets at fair value through profit and loss

Assets obtained by taking possession of collateral

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

(HUF million)	**31.12.2022**	**31.12.2021**
Property and equipment	846	817
Other	4	4
Total assets obtained	**850**	**821**

Concentrations

The Bank 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:

31.12.2022 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	193,403	3,113	2,508	43,992
Domestic trade	0	177,538	3,514	194	161,349
Other, mainly service industries	0	295,416	9,890	457	98,726
Finance	318,599	191,686	242,615	103,930	99,266
Central Bank	942,735	0	0	26,951	27
Public administration	0	7,077	433,210	0	1,217
Mining	0	13,153	0	0	178,787
Manufacturing	0	355,701	53,233	27,564	7,669
Agriculture	0	36,339	22,085	76	44,465
Transportation, communication	0	56,418	0	33	160,724
Construction	0	22,124	637	580	3,903
Energy	0	2,739	1,429	0	3,714
Infrastructure	0	2,458	0	0	20,737
Private households	0	538,415	0	47	0
Total	**1,261,334**	**1,892,467**	**769,726**	**162,340**	**824,576**

31.12.2021 (HUF million)	Placements with banks	Loans and advances to clients	Debt securities	Derivative assets	Loan commitments and financial guarantees given
Real estate	0	167,237	168	2,934	23,385
Domestic trade	0	158,994	3,626	477	117,789
Other, mainly service industries	0	175,329	12,292	1,052	81,813
Finance	205,671	149,440	224,385	35,764	83,657
Central Bank	1,230,196	0	35,047	15,195	0
Public administration	0	7,692	271,886	0	643
Mining	0	3,780	0	2	835
Manufacturing	0	310,726	69,193	9,123	135,258
Agriculture	0	28,299	2,439	0	4,370
Transportation, communication	0	67,699	0	159	31,512
Construction	0	20,895	829	814	134,692
Energy	0	1,770	2,026	0	1,328
Infrastructure	0	2,515	0	0	2,340
Private households	0	493,063	0	8	20,537
Total	**1,435,867**	**1,587,439**	**621,891**	**65,528**	**638,159**

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.

31.12.2022 (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	2035.03.31	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 Bank's foreign currency open position. Additionally, credit spread risk between bonds and money market products is indicated as an individual risk factor in the reports as well.

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

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

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

Trading portfolio includes positions arising from market-making, proprietary position-taking and other positions so designated by the Bank 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 Bank's retail and commercial banking assets and liabilities. The Bank'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 Bank level, strict Basis

Point Value limits and Value-at-risk (VaR) limits are defined, which are monitored on a daily basis.

The Bank'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)	31.12.2022	31.12.2021.
Financial assets	1,924,395	2,329,238
Financial liabilities	776,351	462,238
Total	**1,148,044**	**1,867,000**

Financial instruments with variable interest rates

	31.12.2022		31.12.2021	
(HUF million)	Financial assets	Financial liabilities	Financial assets	Financial liabilities
HUF	1,199,669	1,607,183	780,959	1,948,315
CHF	569	20,630	472	14,173
EUR	652,497	979,100	424,969	760,818
USD	31,664	182,607	33,590	134,167
Other currencies	5,475	25,345	3,402	26,496
Total	**1,889,874**	**2,814,865**	**1,243,392**	**2,883,969**

Changes can be broken down as follows:

- the fixed-rate assets decreased in 2022 by HUF 405 billion (NBH placements decreased by HUF 429 billion, loans to customers increased by HUF 34 billion, while the securities with fixed interest rate decreased by HUF 11 billion),
- the fixed-rate liabilities increased in 2022 by HUF 314 billion (issuing MREL debts resulted in an increase of HUF 195 billion, loans from NBH decreased by HUF 22 billion, inter-bank deposits increase by HUF 41 billion, customer deposits increased by HUF 126 billion),
- variable-rate assets increased by HUF 646 billion (from which the increase of HUF securities portfolio was HUF 168 billion, the nostro accounts with NBH increased by HUF 141 billion, the receivables from credit institution increased by HUF 98 billion and EUR loans to clients increased by HUF 228 billion),
- variable-rate liabilities decreased by HUF 69 billion (the largest decrease was related to the customer deposits: deposits in HUF decreased by HUF 332 billion, deposits in EUR decreased by HUF 213 billion and deposits in USD increased by HUF 49 billion).

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

The Bank 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 Bank also has contracts to manage its exposure to interest rate risk which are not designated in qualifying hedge relationships. The Bank presents interests on derivative financial instruments – regardless of whether they are used for trading or for risk management purposes – in *'Net interest income'*. The Bank 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 Bank uses cross currency interest rate swaps involved in portfolio cash flow hedge accounting, where the hedged portfolio is a Bank 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.*

Interest rate benchmark reform

The table below presents the outstanding 'non-reformed' alternative clause containing financial assets, liabilities and derivatives at 31 December 2022.

31.12.2022 (HUF million)	EURIBOR	EONIA	USD LIBOR	GBP LIBOR	CHF LIBOR	JPY LIBOR
Non-derivative assets						
Loans and advances	619,331	0	23,371	0	0	0
Non-derivative assets total	**619,331**	**0**	**23,371**	**0**	**0**	**0**
Non-derivative liabilities						
Deposits	129,828	0	177	0	0	0
Non-derivative liabilities total	**129,828**	**0**	**177**	**0**	**0**	**0**
Derivatives						
Derivatives	345,999	0	0	0	0	0
Derivatives in Hedge Accounting	599,329	0	9,542	0	0	0
Derivatives total	**945,328**	**0**	**9,542**	**0**	**0**	**0**

31.12.2021 (HUF million)	EURIBOR	EONIA	USD LIBOR	GBP LIBOR	CHF LIBOR	JPY LIBOR
Non-derivative assets						
Loans and advances	27,725	775	3	0	4	0
Non-derivative assets total	**27,725**	**775**	**3**	**0**	**4**	**0**
Non-derivative liabilities						
Deposits	443,748	2,396	1,298	5,061	5,327	456
Non-derivative liabilities total	**443,748**	**2,396**	**1,298**	**5,061**	**5,327**	**456**
Derivatives						
Derivatives	320,207	0	0	0	0	0
Derivatives in Hedge Accounting	635,350	0	24,070	0	0	0
Derivatives total	**955,557**	**0**	**24,070**	**0**	**0**	**0**

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 Bank takes the entire open position into account.

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

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	125,450	0	0	388	0	125,838
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	1,572,513	100	1,035,001	59,020	3,316	2,669,950
Financial assets except for derivatives	**2,626,751**	**2,077**	**1,168,594**	**78,868**	**31,032**	**3,907,322**
Financial liabilities held for trading except for derivatives	1,951	0	0	0	0	1,951
Financial liabilities measured at amortised cost	2,084,086	21,264	1,326,411	255,652	27,393	3,714,806
Financial liabilities except for derivatives	**2,086,037**	**21,264**	**1,326,411**	**255,652**	**27,393**	**3,716,757**
Net open position on balance sheet	**540,714**	**-19,187**	**-157,817**	**-176,784**	**3,639**	**190,565**
Net derivative and spot instruments (-/+: short / long position)	**-349,585**	**19,687**	**112,256**	**176,218**	**-3,395**	**-44,819**
Total open foreign currency position (net)	**191,129**	**500**	**-45,561**	**-566**	**244**	**145,746**

31.12.2021 **(HUF million)**	**HUF**	**CHF**	**EUR**	**USD**	**Other**	**Total**
Cash, cash balances at central banks and other demand deposits	429,068	991	39,528	7,453	5,449	482,489
Financial assets held for trading except for derivatives	49,293	0	36	85	0	49,414
Non-trading financial assets mandatorily at fair value through profit or loss	97,771	0	0	627	0	98,398
Financial assets designated at fair value through profit or loss	195	0	0	0	0	195
Financial assets at fair value through other comprehensive income	221,375	0	91,053	21,174	18,353	351,955
Financial assets at amortised cost	1,878,000	364	731,939	53,615	275	2,664,193
Financial assets except for derivatives	**2,675,702**	**1,355**	**862,556**	**82,954**	**24,077**	**3,646,644**
Financial liabilities held for trading except for derivatives	6,429	0	0	0	0	6,429
Financial liabilities measured at amortised cost	2,289,356	14,677	937,142	175,622	29,152	3,445,949
Financial liabilities except for derivatives	**2,295,785**	**14,677**	**937,142**	**175,622**	**29,152**	**3,452,378**
Net open position on balance sheet	**379,917**	**-13,322**	**-74,586**	**-92,668**	**-5,075**	**194,266**
Net derivative and spot instruments (-/+: short / long position)	**36,156**	**13,851**	**73,986**	**92,348**	**4,448**	**220,789**
Total open foreign currency position (net)	**416,073**	**529**	**-600**	**-320**	**-627**	**415,055**

Fair valuation result calculated on hedged items designated in fair value hedges is part of the net open foreign currency position, while in the line item 'Net derivative and spot instruments' only the nominal of the derivatives is presented. In 2022, HUF 38 billion valuation result was calculated in the hedged bonds' book value denominated in EUR.

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

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

Exposure to other price risk – trading book

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

The Bank's exposure to other price risk only arises from exposures to exchange traded equity instruments. The Bank 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 Bank'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 Bank 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 Bank applies Monte Carlo VaR calculation. Considering the trading book products, they can be divided into three basic risk factors – foreign currency, interest rate and price – and risks are Banked according to this categorization.

VaR is not the sum of every single component (foreign currency risk, interest rate risk and price risk) as there is a correlation between the components (diversification effect). Diversification effect results in a reduction of the overall risk of a portfolio when its individual component risks do not move together. Foreign currency risk, price risk and interest rate risk do not correlate with each other perfectly, thus diversification effect exists. The VaR figure is calculated on a daily basis on fundamentals separately and on their entire Bank as well. Diversification effect is not taken into consideration by the Bank in case of Economic Capital calculations.

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

(HUF million)	31.12.2022				31.12.2021			
Trading book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	2	7	1	78	4	92	2	395
Interest rate risk	136	137	24	519	94	429	47	1,063
Share and commodity price risk	0	0	0	0	0	9	0	51
Total risk	274	300	40	928	119	321	103	569
Banking book	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**	**VaR at year end**	**Average VaR**	**Minimum VaR**	**Maximum VaR**
Foreign currency risk	0	0	0	0	0	0	0	0
Interest rate risk	14,640	9,506	2,983	21,167	1,404	892	281	3,144
Total risk	14,640	9,506	2,983	21,167	1,404	892	281	3,144

The reason of the increase of the banking book's VaR position is that the Bank 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 interest rate curve. BPV limits which were approved by RBI are assigned for the repricing categories by currency.

BPV reports are presented in the below table:

(HUF thousand)	31.12.2022				31.12.2021			
Trading book	**HUF**	**EUR**	**CHF**	**USD**	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	246	-813	-2	328	240	-597	-2	211
3 months to 6 months	-16	-337	-1	443	230	-564	0	493

6 months to 1 year	-75	-199	-1	156	-63	-862	-1	765
1 year to 2 years	-817	-5	0	-1	-55	-72	0	-8
2 years to 3 years	-574	-11	0	0	-53	2	0	0
3 years to 5 years	-343	-4	0	0	-903	-13	0	0
5 years to 7 years	501	0	0	0	561	-3	0	0
7 years to 10 years	-278	0	0	0	590	0	0	0
10 years to 15 years	-24	0	0	0	74	0	0	0
15 years to 20 years	0	0	0	0	659	0	0	0
Over 20 years	0	0	0	0	-1.613	0	0	0
Banking book	**HUF**	**EUR**	**CHF**	**USD**	**HUF**	**EUR**	**CHF**	**USD**
Less than 3 months	-1.917	-1.022	-18	225	6.578	-35	93	727
3 months to 6 months	-345	-4.820	0	254	-1.018	-3.627	-1	111
6 months to 1 year	3.849	2.221	-1	184	1.743	1.500	21	256
1 year to 2 years	600	1.756	0	-405	3.417	59	0	475
2 years to 3 years	3.002	-3.451	0	1.187	175	468	-16	945
3 years to 5 years	5.754	748	0	144	-2.403	-5.207	-9	1.654
5 years to 7 years	4.116	92	0	1	5.722	226	0	-32
7 years to 10 years	3.969	2.043	0	10	4.426	3.699	0	2
10 years to 15 years	77	-542	0	0	-2.214	-709	0	0
15 years to 20 years	353	-41	0	0	-242	-113	0	0
Over 20 years	6	144	0	0	-9	0	0	0

(6.4) *Liquidity risk*

Liquidity risk is the risk that the Bank 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 Bank to meet its liabilities when due at all times, under both normal and stressed conditions.

Liquidity risk management is a key priority in RBI Group as well as in Raiffeisen Bank Hungary, thereby the Bank has a comprehensive set of group-standards of the Group 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 of the Bank.

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 Bank on a daily basis in order to monitor group wide liquidity risk.

The Bank's liquidity policy which includes the liquidity contingency plan is reviewed annually. The Bank's liquidity position is stable, its liquidity risk exposure is low. The Bank 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 Bank'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 Bank'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.

31.12.2022 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows: 3 months or less	3-12 months	1-5 years	more than 5 years
Assets							
Cash	(6, 19)	52,780	**52,780**	52,780	0	0	0
Placements with banks	(6, 19)	732,133	**732,144**	732,144	0	0	0
Loans and advances	(6, 20, 21, 42)	2,353,219	**2,831,543**	726,030	477,443	994,858	633,212
Investment in debt securities	(6, 20, 21, 22, 23, 42)	768,599	**884,580**	21,476	36,547	329,825	496,732
Total assets		**3,906,731**	**4,501,047**	**1,532,430**	**513,990**	**1,324,683**	**1,129,944**
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 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows: 3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	3,486,084	**3,612,269**	2,938,804	146,858	383,263	143,344
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)	34,622	**38,110**	7,508	3,079	13,016	14,507
Financial guarantees given		197,799	**197,800**	197,800	0	0	0
Loan commitments		421,647	**421,648**	421,648	0	0	0
Total liabilities		**4,336,203**	**4,506,936**	**3,567,263**	**167,261**	**617,573**	**154,839**
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**

31.12.2021 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows 3 months or less	3-12 months	1-5 years	more than 5 years
Assets							
Cash	(6, 19)	54,091	**54,091**	54,091	0	0	0
Placements with banks	(6, 19)	428,397	**428,445**	428,445	0	0	0
Loans and advances	(6, 20, 21, 42)	2,536,377	**2,789,577**	1,133,495	328,307	877,968	449,807
Investment in debt securities	(6, 20, 21, 22, 23, 42)	621,579	**683,112**	43,127	41,925	353,599	244,461
Total assets		**3,640,444**	**3,955,225**	**1,659,158**	**370,232**	**1,231,567**	**694,268**
Derivative instruments							
Derivative instruments - Trading	**(20, 42)**		**56,653**	**5,713**	**6,605**	**20,184**	**24,151**
Outflow			**-146,946**	-3,549	-45,726	-65,055	-32,616
Inflow			**203,599**	9,262	52,331	85,239	56,767
Derivative instruments - Hedge accounting	**(10, 42)**		**53,673**	**-1,801**	**2,822**	**26,532**	**26,120**
Outflow			**-4,219**	-4,219	0	0	0
Inflow			**57,892**	2,418	2,822	26,532	26,120
Total derivative instruments			**110,326**	**3,912**	**9,427**	**46,716**	**50,271**

31.12.2021 (HUF million)	Notes	Carrying amount	Contractual cash flows	Timing of contractual cash flows 3 months or less	3-12 months	1-5 years	more than 5 years
Liabilities							
Deposits	(6, 25, 28, 29, 31, 42)	3,414,707	**3,452,461**	2,887,498	101,631	356,187	107,145
Short positions	(6, 27, 28, 42)	6,428	**6,428**	6,428	0	0	0
Debt securities issued	(6, 28, 30)	689	**769**	0	0	769	0
Other financial liabilities	(5, 32)	30,553	**34,055**	5,914	2,272	11,421	14,448
Financial guarantees given		147,733	**151,863**	151,863	0	0	0
Loan commitments		315,309	**314,826**	314,826	0	0	0
Total liabilities		**3,915,419**	**3,960,402**	**3,366,529**	**103,903**	**368,377**	**121,593**
Derivative instruments							
Derivative instruments - Trading	**(27, 42)**		**-42,669**	**-3,721**	**-4,741**	**-11,548**	**-22,659**
Outflow			**-110,484**	-7,997	-29,854	-46,717	-25,916
Inflow			**67,815**	4,276	25,113	35,169	3,257
Derivative instruments - Hedge accounting	**(10, 42)**		**-76,728**	**3,428**	**-5,018**	**-35,757**	**-39,381**
Outflow			**-116,180**	-3,087	-15,074	-39,223	-58,796
Inflow			**39,452**	6,515	10,056	3,466	19,415
Total derivative instruments			**-119,397**	**-293**	**-9,759**	**-47,305**	**-62,040**

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.

31.12.2022 **(HUF million)**	**Carrying amount**	**Within 12 months**	**More than 12 months**
Assets			
Financial assets held for trading	183,111	28,035	155,076
Non-trading financial assets mandatorily at fair value through profit or loss	125,838	391	125,447
Financial assets designated at fair value through profit or loss	0	0	0
Financial assets at fair value through other comprehensive income	305,850	65	305,785
Financial assets at amortised cost	2,669,950	701,604	1,968,346
Derivatives – Hedge accounting	191,077	1,025	190,052
Deferred tax assets	5,099	0	5,099
Other assets	7,687	7,687	0
Total assets	**3,488,612**	**738,807**	**2,749,805**
Liabilities			
Financial liabilities held for trading	145,730	37,691	108,039
Financial liabilities measured at amortised cost	3,714,806	2,957,981	756,825
Derivatives – Hedge accounting	242,488	70	242,418
Provisions	12,928	12,928	0
Deferred tax liabilities	0	0	0
Other liabilities	11,721	11,721	0
Total liabilities	**4,127,673**	**3,020,391**	**1,107,282**

31.12.2021 **(HUF million)**	**Carrying amount**	**Within 12 months**	**More than 12 months**
Assets			
Financial assets held for trading	114,942	64,741	50,201
Non-trading financial assets mandatorily at fair value through profit or loss	98,398	4,093	94,305
Financial assets designated at fair value through profit or loss	195	0	195
Financial assets at fair value through other comprehensive income	351,955	56,384	295,571
Financial assets at amortised cost	2,664,193	1,433,802	1,230,391
Derivatives – Hedge accounting	53,286	1,695	51,591
Deferred tax assets	3,463	0	3,463
Other assets	7,377	7,377	0
Total assets	**3,293,809**	**1,568,092**	**1,725,717**
Liabilities			
Financial liabilities held for trading	58,503	22,266	36,237
Financial liabilities measured at amortised cost	3,445,949	3,007,310	438,639
Derivatives – Hedge accounting	76,099	2,208	73,891
Provisions	10,146	10,146	0
Deferred tax liabilities	0	0	0
Other liabilities	7,163	7,163	0
Total liabilities	**3,597,860**	**3,049,093**	**548,767**

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

2022		2021	
Date	HUF million	Date	HUF million
31.01.2022	274	31.01.2021	243
28.02.2022	64	28.02.2021	148
31.03.2022	216	31.03.2021	173
29.04.2022	312	30.04.2021	183
31.05.2022	175	31.05.2021	99
30.06.2022	406	30.06.2021	161
29.07.2022	839	31.07.2021	184
31.08.2022	636	31.08.2021	78
30.09.2022	0	30.09.2021	118
28.10.2022	0	31.10.2021	59
30.11.2022	0	30.11.2021	147
30.12.2022	0	31.12.2021	228

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 because they are regularly – on a monthly basis - repurchased by the Government Debt Management Agency (GDMA) and for this short period they are measured prudently at the repurchase price listed by GDMA (AKK), therefore no additional liquidity risk arises and there is no need to set illiquidity capital requirement aside 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 Bank'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 Bank's business and internal supporting activities.

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

The Bank 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 Deputy Chief Financial 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, social and governance risk*

Our planet is impacted by a wide and interlinked range of environmental factors, which affect all living things. The activities of finance sector have a meaningful impact on the environment and society. However, this is a two-way relationship, the finance sector itself is also affected by environmental and social factors, especially by climate change and biodiversity loss[2].

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

Governance

The Bank has established its governance framework and the respective responsibilities related to sustainability (ESG), including a dedicated Sustainability Council with focus of the Bank's executive body. The Bank gives special attention to the knowledge building inside and outside of the organisation, providing up to date information on the legal and environmental background of ESG factors. In addition to the above data, governance is strongly emphasized in line with the increasing data need of ESG analysis.

Strategy

The strategy and mission of the Bank is embedded in the strategy of Raiffeisen Group and is backed by the technical expertise and knowledge hub of Raiffeisen Bank International. Raiffeisen Bank International is a ratifier of the Principles for Responsible Banking with strong commitment towards stakeholders and transparency. Raiffeisen Group has been publishing its Sustainability Report every year since 2017, which is built on science-based international standards[2].

Sustainability is a fundamental principle for the Bank and a measure of corporate success. The Bank considers ESG factors both on the level of own operation and financing activities within its business strategy. The Bank provides several sustainable financial and investment products, while daily operations are executed with the approach of energy efficiency and climate consciousness. Raiffeisen Group has initiated three types of portfolio strategies (exclusive, transformative, supportive) in its lending activities in order to support the real economy on the way to climate transition.

The Bank has taken steps to integrate the transitional and physical risk aspects into its sectoral and risk management policies. The Bank is aware of the risks arising from climate change and biodiversity loss and initiated the screening of its portfolio within the framework of risk management processes.

Engagement

The Bank has a strong position in green lending and ESG investments, which is acknowledged by the Hungarian National Bank awarding the Bank and its fund management company with 'Green Bank of the Year 2022' and 'Green Asset Management Fund of 2022'. Total assets managed by the ESG funds of Raiffeisen Fund Management Hungary had exceeded EUR 68 million by the end of 2022, which is considered to be more than 7 percentage of the total managed assets. The portfolio of the ESG funds consist of companies, which are leaders in, among others, (a) decreasing environmental load, (b) using renewable energy sources, (c) decreasing CO_2 emission, (d) using low level of water and energy, (e) recycling and state of the art waste management, (f) elimination of discrimination, (g) supporting and developing health care and education, (h) complying with human and labour laws, (i) prohibition of child labour, (j) under transparent, corruption free enterprise management.

The Bank defines its stakeholders as people or groups of people that have a legitimate interest in the company through their direct or indirect business activities. The Bank is a fair business and dialog partner to all stakeholders. In this role, the Bank interacts in an open and respectful manner with employees, customers, business partners and other stakeholders. However, the Bank also considers environmental and climate protection to be part of its social responsibility and considers itself as fair partner to the environment. The Bank also stands for fair competition and responsible marketing. In addition to the above, the Bank is an active stakeholder by promoting sustainable conscious activities and knowledge building on the level of society.

(6.7) *Capital management*

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

With effect from 1 January 2008, the Bank 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 Bank as a member of Raiffeisen Bank International Bank 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;

[2] For further information concerning Raiffeisen Group sustainability strategy please see our Sustainability Reports under: Sustainability Report (rbinternational.com)

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

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

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

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

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

Besides the above capital requirements, the Bank'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 Bank 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 Bank has complied with all regulatory capital requirements throughout the year of 2022. The capital position of the Bank remained at an adequate level aligned with its' risk appetite.

The dividend limit issued in 2020 by the National Bank Hungary for the banking sector was terminated on 1 January 2022. On 23.12.2022, the solely shareholder of the Bank decided about a HUF 20,132 million interim dividend, which was paid before year-end.

Regulatory capital requirement

The Bank's policy is to maintain the capital adequacy continuously above the required level and take any necessary actions on time. The Bank applies regulatory capital (Basel III Pillar 1) as well as economic capital (Basel III Pillar 2, ICAAP) for calculating capital adequacy. The Bank 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 Bank needs to keep additional capital for the following capital buffers: systemic risk buffer, capital conservation buffer, systemically important institution buffer.

Capital buffer for systemically important institutions

Also in 2022, the National Bank of Hungary (NBH) reassessed the importance of the domestic credit institutions based on their 2021 financial data, and just like in the previous year seven banking groups have been identified as Other Systemically Important Institutions (O-SII) according to the assessment, including the Raiffeisen Group.

Already from 2022, the NBH has expected a gradual rebuilding of the buffers required for systemically important institutions until 2024, lifted due to the economical difficulties caused by the corona virus. The capital positions of the systemically important institutions are still adequate for the NBH to determine the buffers in line with the previously allocated increasing degree from 2023. Accordingly, also in 2023 the temporary buffer rates will be increased by a quarter of the final planned amount, which will reach the planned goal seek from 2024.

O-SII buffer rates provided for Raiffeisen Bank

Actual			Provided	Foreseen
2020	**from 01.07.2020**	**2022**	**2023**	**2024**
0,50 %	0%	0,125%	0,25%	0,5%

Anti-cyclical capital buffer

On 30 June 2022, the NBH communicated the activation of the anti-cyclical capital buffer, in order to mitigate the risks in the lending and real estate market. The NBH had been measuring a significant overpricing in the real estate market for 2 quarters before June 2022, which was paired with an increase in the banking sector's risks related to lending activities. These risks had not lessened with the uncertainties in the prior months related to the war situation, thus the resistance of the banks with regulatory actions was justified. Therefore, the NBH Monetary Council decided to lift the capital buffer ratios for banks and from 1 July 2023 - for the first time since its introduction – increased the ratio of the anti-cyclical capital buffer to 0.5%.

Capital adequacy

(HUF million)	**31.12.2022***	**31.12.2021**
Share capital	50,000	50,000
Capital reserve	113,445	113,445
Retained earnings	125,896	64,429
Accumulated other comprehensive income	12,258	5,433
Funds for general banking risk	22,215	14,992
Adjustments to CET1 due to prudential filters	-15,672	-3,067
(-) Intangible assets	-13,885	-10,989
(-) Additional capital requirement according to IRB	0	-1,073
(-) Deductions due to deferred tax	-4,762	-3,162
(-) Deductions due to securitization positions	-1,336	0
(–) Additional capital requirement of non-performing exposures	-9,123	-943
Common Equity Tier 1 Capital	**279,036**	**229,065**
Capital instruments eligible as AT1 Capital	31,445	31,445
Additional Tier 1 Capital (AT1)	**31,445**	**31,445**
IRB Excess of loss allowances and provisions over expected losses	5,657	0
Equity instruments classified as subordinated loans	62,039	57,195
Tier 2 Capital	**67,696**	**57,195**
Total regulatory capital	**378,177**	**317,705**
Capital requirement	**120,421**	**110,798**
Solvency ratio (%)	**25,12%**	**22,94%**

* The solvency capital for 2022 does not include the deduction of the dividend payment paid in December

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 Bank.

In order to quantify the risks, the Bank 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 Bank's Management. An additional tool for optimal capital allocation is the application of risk and equity cost-based pricing.

The Bank'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)	2022	2021
Interest income calculated with the effective interest method	**210,307**	**69,668**
Other interest income	**139,549**	**14,788**
Financial assets held for trading	**92,372**	**12,364**
Debt securities	1,608	464
Derivatives – Held for trading	58,702	8,949
Derivatives – Held for risk management (not in hedge accounting)	32,062	2,951
Financial assets designated at fair value through profit or loss	**1**	**624**
Debt securities	1	624
Non-trading financial assets mandatorily at fair value through profit or loss	**6,109**	**3,565**
Loans and advances	6,109	3,565
Derivatives – Hedge accounting, interest rate risk	**31,108**	**-2,068**
Other	**9,959**	**303**
Interest income total	**349,856**	**84,456**
Interest expense calculated with the effective interest method	**-71,463**	**-7,184**
Other interest expenses	**-140,337**	**-10,272**
Financial liabilities held for trading	**-94,920**	**-11,723**
Derivatives – Held for trading	-60,841	-8,614
Derivatives – Held for risk management (not in hedge accounting)	-34,079	-3,109
Derivatives – Hedge accounting, interest rate risk	**-45,224**	**1,523**
Other	**-193**	**-72**
Interest expense total	**-211,800**	**-17,456**
Net interest income	**138,056**	**67,000**

Net interest income of the Bank increased by HUF 71,056 million compared to the previous year. However, the increase of the interest expenses is outstanding compared to the previous year and the increase of the interest income is even higher.

The interest income calculated with the effective interest method increased significantly (HUF 140,639 million increase) due to the high interest rate environment of 2022, mainly due to the increase in interest income from customer loans and interbank exposures, especially to NBH.

The interest expense calculated with the effective interest method increased by HUF 64,279 million, due to the higher interest paid after the customer and inter-bank deposits.

The interest income from securities measured through other comprehensive income (mainly the interest of the mortgage bonds and government securities) and the amortization of discounts and premiums related to these securities caused further increase in interest income (HUF 10,302 million).

The net interest income was decreased by the interest income from derivatives (HUF 4,333 million decrease in trading interest income), this decrease in the income was offset by the interest income on debt securities designated at fair value through profit or loss, as well (HUF 521 million increase in interest).

At the same time, there was a HUF 2,544 million increase in interest from loans mandatorily measured at fair value through profit or loss, due to disbursements of baby loans.

The net interest income from derivatives in cash flow and fair value hedges decreased (HUF 13,571 million interest decrease).

(HUF million)	2022	2021
Interest income calculated with the effective interest method	**210,307**	**69,668**
Financial assets at fair value through other comprehensive income	**18,222**	**7,920**
Debt securities	18,222	7,920
Financial assets at amortised cost	**192,085**	**61,748**
Debt securities	19,411	3,700
Loans and advances	172,612	57,980
Other assets	62	68
Interest expense calculated with the effective interest method	**-71,463**	**-7,184**
Financial liabilities at amortised cost	**-71,463**	**-7,184**
Deposits	-65,089	-4,847
Subordinated liabilities	-2,044	-1,690
Debt securities issued	-3,664	-40
Leasing liabilities	-666	-607
Net interest income calculated with the effective interest method	**138,844**	**62,484**

(8) Net fee and commission income

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

(million HUF)	2022	2021
Fee and commission income		
IFRS15 revenues		
Payment services	45,053	36,725
Fees included in foreign exchange conversions and other transactions	22,916	15,605
Outsourced currency exchange activity	17,606	9,772
Security issuance fees and transfer commissions	7,285	6,586
Services as an agent	1,056	1,044
Custody	908	859
Corporate finance	286	399
Asset management	16	109
Clearing and settlement	26	0
Other	1,941	1,748
Total IFRS15 revenues	**97,093**	**72,847**
IFRS9 revenues		
Loan servicing activities	225	111
Loan commitments given	4	4
Financial guarantees given	4,136	2,956
Loans granted	363	528
Total IFRS9 revenues	**4,728**	**3,599**
Total fee and commission income	**101,821**	**76,446**
Fee and commission expense		
Payment services	-5,978	-4,821
Fees included in foreign exchange conversions and other transactions	-209	-137
Outsourced currency exchange activity	-17,091	-9,409
Security issuance fees and transfer commissions	-731	-641
Services of agents	-102	-54
Custody	-920	-725
Clearing and settlement	-86	-63
Loan servicing activities	-197	-256
Loan commitments received	0	-12
Financial guarantees received	-2,480	-1,508
Other	-2,578	-2,290
Total fee and commission expense	**-30,372**	**-19,916**
Net income from commissions and fees	**71,449**	**56,530**

The Bank's net commission income increased by HUF 14,919 million compared to previous year which is mainly due to the increase of fees in payment services and in foreign exchange conversions and other transactions.

Within payment services fees, the fees related to transfer and other payment transactions and credit cards increased significantly.

The Bank's transaction fees related to the foreign exchange transactions and other securities increased by HUF 7,239 million. Within this, the Bank also realized extraordinary result on individually priced fixings, spot transactions, along with card and Direktnet transactions which were also significant. Commission income was increased further by the transaction fee result built into transactions on securities.

The Bank transferred its trading activities related to non-retail Hungarian government securities and FX spot transactions to its parent bank for optimization purposes. As a result, the securities distribution fee income directly from customers decreased, but this was significantly compensated by the fee received from the parent bank for portfolio transfer. In addition, the Bank distributes investment units and it continued to record significant commission income in 2022 through the securities transactions concluded on the stock exchange.

(9) Net trading income and fair value result

Gains and losses from financial assets and liabilities held for trading

(HUF million)	2022	2021
Derivative instruments	**49,457**	**11,040**
Derivatives held for trading	9,319	2,248
Derivatives held for risk management purposes, without hedge accounting	40,138	8,792
Equity instruments	26	0
Debt securities	-118	-306
Other financial liabilities	-9,676	671
Gains or (-) losses on financial assets and liabilities held for trading, net	**39,689**	**11,405**

Gains or losses on derivatives held for trading increased by HUF 7,072 million. The reason of this increase was the realized and unrealized gains/losses on FX swap, forward and futures transactions.

The amount of line 'Derivatives held for risk management purposes, without hedge accounting' (derivatives for hedging purposes) increased by HUF 31,346 million, which is partly due to increase in gains on FX swap, forward and futures transactions (HUF +26,164 million) and increase in gains on single currency and cross-currency interest rate swaps (FRA, IRS, CCIRS, OSP) transactions (HUF +5,180 million).

The amount of line 'Debt securities' increased by HUF 188 million compared to last year, that caused a 45% decrease of the realized exchange gain and loss, in detail: other bonds modified the result by HUF -163 million, treasury bills by HUF -161 million, while government bonds by HUF +1 349 million.

Change in '*Other financial liabilities'* was caused by on the one hand the HUF -4,809 million decrease in the foreign exchange conversion margin and on the other hand by the HUF -5,538 million increase in gains on spot transactions.

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

(HUF million)	2022	2021
Debt securities	66	35
Loans and advances	-8,913	-6,363
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**-8,847**	**-6,328**

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

In 2022, the revaluation result of childbirth incentive loan decreased the gains or losses on non-trading financial assets mandatorily measured at fair value through profit or loss by HUF 9,237 million.

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

(HUF million)	2022	2021
Debt securities	-6	-614
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net	**-6**	**-614**

In 2022, the total amount of line *'Debt securities'* includes gains or losses recognized on government bonds. Losses recognized on government bonds decreased by HUF 607 million compared to last year.

(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)	2022	2021
Fair value changes of the hedging instrument (including effects of discontinuation) in fair value hedges	-36,203	-18,407
Fair value changes of the hedged item attributable to the hedged risk in fair value hedges	34,476	19,717
Ineffectiveness in profit or loss from cash flow hedges	-53	-641
hereof: existing hedges	777	*-424*
hereof: discontinued hedges	-830	*-217*
Gains and losses from hedge accounting, net	**-1,780**	**669**

Net gain arising from fair valuation of interest rate swaps and cross-currency interest rate swaps hedging purchased bonds amounted to HUF 70,312 million in 2022 (in 2021 HUF 31,448 million). Loss from fair valuation of interest rate swaps hedging received deposits amounted to HUF 6,381 million in 2022 (in 2021 HUF 5,971 million loss). On interest rate swaps, hedging received deposit portfolios, a fair valuation loss of HUF 120,439 million was recognised in 2022 (in 2021 HUF 59,470 million loss). 2022 net fair valuation gain on interest rate swaps, hedging loans advanced, amounted to HUF 13,598 (in 2021 HUF 3,315 million gain). In 2022, loss on fair valuation of interest rate swaps, hedging issued bonds involved in hedge accounting, amounted to HUF 4,794 million (in 2021 HUF 86 million loss), out of which HUF 4,728 million loss relates to MREL bond issue in 2022. In relation to interest rate swaps, hedging loan portfolio, in 2022 a loss of HUF 11,501 million (in 2021 a gain of 12,357 million) was recognised in gains and losses from hedge accounting.

In 2022, a fair valuation result of HUF -70,723 million (in 2021 HUF -29,887 million) was recognised on purchased bond, HUF 6,366 million (in 2021 HUF 5,952 million) on hedged received deposits, HUF -13,398 million (in 2021 HUF -3,348 million) on hedged loans, HUF 68 million (in 2021 HUF 78 million) on hedged bonds issued before 2022 and HUF 4,700 million on MREL bonds issued in 2022. On hedged received deposit portfolio a fair valuation result of HUF 118,848 million (in 2021 HUF 59,272 million), in relation to hedged loan portfolio HUF -11,383 million (in 2021 HUF -12,350 million) was recognised.

Given that most of the Bank's hedge relationships are denominated in HUF, the profit or loss effect arising from the ineffective-ness of hedging relationships was even more exaggerated by the significant increase in yields experienced also in 2022. Whereas 3-months BUBOR was in the range of 0.75% — 4.21% in 2021, it was in the range of 4.21 — 16.18% in 2022. Swap rates of 5 years HUF interest rate swaps fluctuated in the same periods within the range of 1.05% — 4.72% (2021) and 4.72% — 11.73% (2022).

Cash flow hedges

The Bank 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 Bank applies cash flow hedge accounting:

31.12.2022	**Maturity**			
(HUF million)	**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

31.12.2021	**Maturity**			
(HUF million)	**0-3 months**	**3-12 months**	**1-5 years**	**over 5 years**
Interest rate risk				
Interest rate swaps (IRS)				
Nominal	10,584	116,700	74,313	44,065
Average fixed interest rate	0.39%	1.22%	1.63%	2.14%
Interest rate risk / Currency risk				
HUF/EUR Cross currency interest rate swaps (CCIRS)				
Nominal	0	8,994	17,476	0
Average HUF/EUR exchange rate	-	363,50	367,98	-

In case of CCIRS contracts, the Bank 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:

32.12.2022		Carrying amount					
(HUF million)	Notional amount	Assets	Liabilities	Changes in fair value in 2022 used for calculating hedge ineffec-tiveness	Change in the value of the hedging instrument recognised in other comprehen-sive income	Hedge ineffec-tiveness recognised in profit or loss	Amount re-classified from the cash flow hedge re-serve to profit or loss
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**

31.12.2021		Carrying amount					
(HUF million)	Notional amount	Assets	Liabilities	Changes in fair value in 2021 used for calculating hedge ineffec-tiveness	Change in the value of the hedging instrument recognised in other comprehen-sive income	Hedge ineffec-tiveness recognised in profit or loss	Amount re-classified from the cash flow hedge re-serve to profit or loss
Portfolio cash flow hedges							
Interest rate risk							
Interest rate swaps (IRS)	245,662	6,575	6,095	-98	305	-375	189
Interest rate risk hedge total	**245,662**	**6,575**	**6,095**	**-98**	**305**	**-375**	**189**
Interest rate risk / Currency risk HUF/EUR Cross currency interest rate swaps (CCIRS)	26,470	178	181	-240	289	-49	30
Interest rate risk / Currency risk hedge total	**26,470**	**178**	**181**	**-240**	**289**	**-49**	**30**
Portfolio cash flow hedges total	**272,132**	**6,753**	**6,276**	**-338**	**594**	**-424**	**219**

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 2022	Cash-flow hedge reserve existing hedges 31.12.2022	Cash-flow hedge reserve 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**

(HUF million)	Changes in fair value used for calculating hedge ineffectiveness in 2021	Cash-flow hedge reserve existing hedges 31.12.2021	Cash-flow hedge reserve discontinued hedges* 31.12.2021
Interest rate risk			
Loans	-6,292	-5,337	0
Deposits	6,630	5,716	-5
Interest rate risk hedge total	**338**	**379**	**-5**
Interest rate risk/Currency risk			
Loans	234	214	0
Deposits	55	-50	7
Interest rate risk/Currency risk hedge total	**289**	**164**	**7**
Hedged items in cash flow hedges total	**627**	**543**	**2**

*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 Bank reclassifies the entire amount from equity to profit or loss).

The Bank 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 2022, HUF 11,219 million gain (in 2021 HUF 813 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 31.12.2021 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 2022 or 2021. In 2022, HUF 830 million loss (in 2021 HUF 217 million loss) was reclassified to profit or loss relating to discontinued cash flow hedging relationships and the Bank presented these amounts within Net gains/losses from hedge accounting. During 2022, HUF 777 million gain (in 2021 HUF 424 million loss) was recognised in the same line relating to the ineffectiveness of hedging instruments designated in cash flow hedging relationships existing at 30.12.2022.

Fair value hedges

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

31.12.2022	Maturity			
(HUF million)	0-3 months	3-12 months	1-5 years	over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased bonds (HTCS)				
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 bonds (HTC)				
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 purchased bonds (HTCS)				
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	-

31.12.2021 (HUF million)	Maturity 0-3 months	 3-12 months	 1-5 years	 over 5 years
Interest rate risk				
Interest rate swaps (IRS) hedging purchased bonds (HTCS)				
Nominal	6,000	22,750	146,592	98,207
Average fixed interest rate	1.06%	0.56%	1.13%	0.95%
Interest rate swaps (IRS) hedging purchased bonds (HTC)				
Nominal	0	0	37,735	101,375
Average fixed interest rate	-	-	0.37%	1.63%
Interest rate swaps (IRS) hedging loans				
Nominal	2,540	6,663	90,053	33,928
Average fixed interest rate	0.51%	0.33%	0.49%	1.16%
Interest rate swaps (IRS) hedging deposits				
Nominal	0	0	46,088	0
Average fixed interest rate	-	-	1.46%	-
Interest rate swaps (IRS) hedging issued bonds				
Nominal	0	0	658	0
Average fixed interest rate	-	-	6.19%	-
Interest rate swaps (IRS) hedging deposit portfolios				
Nominal	90,485	64,815	603,756	367,311
Average fixed interest rate	0.43%	0.62%	0.72%	1.91%
Interest rate swaps (IRS) hedging loan portfolios				
Nominal	498	7,530	41,085	49,865
Average fixed interest rate	0.37%	0.91%	1.12%	1.49%
Interest rate risk / Currency risk				
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds (HTCS)				
Nominal	0	0	0	18,543
Average CZK/EUR exchange rate	-	-	-	25,37

In case of CZK/EUR cross currency interest rate of CCIRS, the Bank 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 Bank 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:

31.12.2022		Carrying amount		Changes in fair value in 2022 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss
(HUF million)	Nominal	Assets	Liabilities		
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased bonds (HTCS)	232,332	48,912	1,703	30,344	-214
Interest rate swaps (IRS) hedging purchased bonds (HTC)	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 bonds (HTCS)	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**

31.12.2021 (HUF million)	Nominal	Carrying amount Assets	Liabilities	Changes in fair value in 2021 used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss
Micro fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging purchased bonds (HTCS)	273,549	19,387	1,563	24,583	1,608
Interest rate swaps (IRS) hedging purchased bonds (HTC)	139,110	5,548	155	6,910	-38
Interest rate swaps (IRS) hedging loans	133,184	2,483	95	3,316	-32
Interest rate swaps (IRS) hedging deposits	46,088	0	5,667	-5,972	-19
Interest rate swaps (IRS) hedging issued bonds	658	21	0	-86	-8
Interest rate risk hedge total	**592,589**	**27,439**	**7,480**	**28,751**	**1,511**
Interest rate risk / Currency risk					
CZK/EUR Cross currency interest rate swaps (CCIRS) hedging purchased bonds (HTCS)	18,543	0	494	-44	-9
Interest rate risk / Currency risk hedge total	**18,543**	**0**	**494**	**-44**	**-9**
Micro fair value hedges total	**611,132**	**27,439**	**7,974**	**28,707**	**1,502**
Portfolio fair value hedges					
Interest rate risk					
Interest rate swaps (IRS) hedging deposit portfolios	1,126,367	6,936	60,999	-59,478	-206
Interest rate swaps (IRS) hedging loan portfolios	98,978	12,158	850	12,358	8
Interest rate risk hedge total	**1,225,345**	**19,094**	**61,849**	**-47,120**	**-198**
Portfolio fair value hedges total	**1,225,345**	**19,094**	**61,849**	**-47,120**	**-198**
Hedging instruments in fair value hedges total	**1,836,477**	**46,533**	**69,823**	**-18,413**	**1,304**

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:

31.12.2022	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		
(HUF million)	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**

31.12.2021	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 2021 used for calculating hedge ineffectiveness
			Assets		Liabilities		
(HUF million)	Assets	Liabilities	existing hedges	discontinued hedges	existing hedges	discontinued hedges	
Purchased HTCS bonds	254,355	0	-17,955	0	0	0	-22,939
Purchased HTC bonds	127,534	0	-6,472	0	0	0	-6,948
Loans	122,863	0	-2,445	100	0	0	-3,348
Deposits	0	40,354	0	0	-5,752	0	5,952
Issued bonds	0	689	0	0	5	0	78
Deposit portfolio	0	743,110	0	0	-57,868	0	59,272
Loan portfolio	65,867	0	-12,917	0	0	0	-12,350
Hedged items in fair value hedges total	**570,619**	**784,153**	**-39,789**	**100**	**-63,615**	**0**	**19,717**

*The Bank 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 2022, gain from fair value changes of hedged items in designated fair value hedging relationships attributable to the hedged risk amounted to HUF 34,476 million gain (in 2021 HUF 19,717 million gain) which is presented by the Bank in the statement of comprehensive income line item *'Net gains/losses from hedge accounting'*.

The Bank recognised a loss of HUF 36,203 million in 2022 in relation to derivatives designated as hedging instruments in fair value hedges (in 2021 a loss of HUF 18,407 million), presented in the statement of comprehensive income line item 'Net gains/losses from hedge accounting'.

(11) Net gains/losses on financial instruments

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

(HUF million)	Note	2022	2021
Financial instruments held for trading		**37,214**	**12,120**
Net interest income	(7)	-2,548	643
Realised and unrealised gains and losses	(9)	39,689	11,405
Dividend income		73	72
Net gains and losses from hedge accounting		**-15,896**	**123**
Net interest income	(7)	-14,116	-546
Realised and unrealised gains and losses	(10)	-1,780	669
Non-trading financial instruments mandatorily at fair value through profit or loss		**-2,735**	**-2,763**
Net interest income	(7)	6,109	3,562
Realised and unrealised gains and losses	(9)	-8,847	-6,328
Dividend income		3	3
Financial instruments designated at fair value through profit or loss		**-5**	**10**
Net interest income	(7)	1	624
Realised and unrealised gains and losses	(9)	-6	-614
Financial instruments at fair value through other comprehensive income		**17,894**	**9,114**
Net interest income	(7)	18,222	7,920
Impairment	(6)	-578	196
Realised and unrealised gains and losses		250	998
Dividend income		0	0
Financial instruments at amortised cost		**109,175**	**45,224**
Net interest income	(7)	120,464	54,499
Impairment loss	(6)	-4,980	-7,716
Realised and unrealised gains and losses		-6,309	-1,559
Net gains or losses on financial instruments		**145,647**	**63,828**

(12) Other operating income and expenses

(HUF million)	2022	2021
Gain on disposal of property and equipment	7	-4
Gain on disposal of inventory	41	252
Income related to damages	7	16
Rental income from investment property	52	52
Income from professional fees	108	135
Income from accounting services	64	77
Income from other non-banking activities	129	176
Other income	274	1,092
Other operating income total	**682**	**1,796**
Transaction fee and other taxes	-23,517	-18,240
Expenses related to damages	-172	-66
Other provisions	148	-175
Expenses from other non-banking activities	-34	-95
Other expenses	-321	-159
Other operating expenses total	**-23,896**	**-18,735**

Other operating income decreased by HUF 1,115 million, mainly due to the decrease in other income. Other operating expenses increased by HUF 5,161 million due to increase in transaction fee by HUF 5,277 million.

The Bank recognized HUF 347 million in 2022 (2021: HUF 362 million) in other operating income related to IFRS 15.

(13) Impairment of non-financial assets

Development of impairment of non-financial assets:

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

(HUF million)	Opening 01.01.2021	Additions	Reversals	Closing 31.12.2021
Other non-financial assets	-62	-34	59	-37
Impairment on non-financial assets total	**-62**	**-34**	**59**	**-37**

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

(14) Other result

(HUF million)	2022	2021
Modification gains or losses, net	-6,324	-1,554
Impairment on non-financial assets	-2	-34
Other result	**-6,326**	**-1,588**

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 -294 million loss (2021: HUF -725 million) was recognised due to the amendment of payment moratoria. In 2022, HUF 6,623 million (in 2021 HUF 962 million) loss was determined due to the Interest Stop.

Losses arising from cash flow changes due to payment moratoria is presented above under section *Contract modifications and expected credit losses* of Note *(6.2) Credit risk.*

(15) Staff expenses

(HUF million)	2022	2021
Salaries	-25,283	-21,493
Social security contributions	-3,860	-3,892
Other employee benefits	-1,238	-1,182
Total	**-30,381**	**-26,567**

	2022		2021	
(HUF million)	Headcount (person)	Salaries	Headcount (person)	Salaries
Full time	2,213	-24,113	2,152	-20,177
Part time	221	-1,048	207	-1,222
Pensioners	22	-122	15	-94
Total	**2,456**	**-25,283**	**2,374**	**-21,493**

(16) Other administrative expenses

(HUF million)	2022	2021
Office space expenses rental, maintenance, other	-3,532	-2,529
IT cost	-4,905	-4,722
Expert fee	-7,439	-6,172
Advertising, PR and promotional expenses	-3,395	-2,741
Deposit insurance fees	-3,810	-1,325
Communication expenses	-1,662	-1,497
Office supplies	-227	-176
Car expenses	-337	-235
Security expenses	-283	-158
Travelling expenses	-80	-41
Training expenses for staff	-268	-260
Expenses for leases	-203	-318
Other	84	-578
Total	**-26,057**	**-20,752**

Other administrative expenses increased by HUF 5,305 million. The expenses of office space increased mainly due to the utility fees and common costs. The increase of deposit insurance expenses was caused by the mandatory extraordinary payment made to the OBA due to Sberbank.

(17) Bank tax and other special levies

(HUF million)	2022	2021
Surtax of financial institutions	-23,485	-4,751
Resolution Funds	-1,429	-1,978
Bank tax and other special levies	**-24,914**	**-6,729**

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% (2021: 0.15%) for the portion of tax base not exceeding HUF 50 billion and 0.20% (2021: 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 surtax amounted to HUF 6,002 million in 2022 (in 2021 HUF 4,752 million).

The Bank pays extra-profit surtax based on the net sales revenue after 2022 and 2023. The tax base of this tax liability is based on the net sales revenue of the preceding tax year of the tax year in question. The extra-profit tax rate is 10% in 2022 and 8% in 2023. The surtax is payable in two equal instalments in 2022 (10 October 2022, 10 December 2022) and three equal instalments in 2023 (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 was HUF 17,485 million in 2022.

In accordance with the Act on Resolution, the Bank 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 Bank 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 single liability, and it was paid in 2020, so this liability is not presented in the financial statement. 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 advanced payment for the normal surtax of credit institutions.

(18) Income tax

Income tax expense recognised to profit or loss

(HUF million)	2022	2021
Current tax expense	**10,604**	**5,520**
Corporate income tax	3,314	1,507
Local business tax	6,337	3,488
Innovation contribution	953	525
Deferred tax expense/-income	**-2,276**	**-1,826**
Origination and reversal of temporary differences	51	133
Changes in the tax effect of tax losses	-2,327	-1,959
Income tax expense	**8,328**	**3,694**

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 2022 and 2021. The tax base of corporate income tax differs from the tax base of local business tax and innovation contribution.

Reconciliation of effective tax rate

	2022		2021	
	(%)	(HUF million)	(%)	(HUF million)
Profit before tax		80,557		40,261
Expected tax rate calculated with Bank's applicable tax rate	9.00%	7,250	9.00%	3,623
Tax effect of tax base adjusting items	**-7.71%**	**-6,212**	**-9.79%**	**-3,942**
Tax effects related to tax losses:				
- usage of previously not recognised tax losses	-4.01%	-3,231	-3.68%	-1,483
- change in previously unrecognised tax losses	-2.89%	-2,326	-4.87%	-1,959
Other	-0.81%	-655	-1.24%	-500
Other income taxes – local business tax, innovation contribution	9.05%	7,290	9.97%	4,013
Total	**10.34%**	**8,328**	**9.18%**	**3,694**

Income taxes recognised in other comprehensive income

	2022			2021		
(HUF million)	Before tax	Tax expense/ benefit	After tax	Before tax	Tax expense/ benefit	After tax
Items that will not be reclassified to profit or loss						
Changes in fair value reserve (equity instruments)	8	-1	7	-43	65	22
Items that will not be reclassified to profit or loss – total	**8**	**-1**	**7**	**-43**	**65**	**22**
Items that the Bank reclassified or will reclassify to profit or loss						
Changes in hedge reserve						
Effective portion of fair value changes	10,388	-935	9,453	594	-53	541
Net amount reclassified to profit or loss	831	-75	756	219	-20	199
Change in fair value reserve (debt instruments)						
Changes in fair value	-3,842	346	-3,496	-1,556	140	-1,416
Net amount reclassified to profit or loss	-282	25	-257	87	-8	79
Items that the Bank reclassified or will reclassify to profit or loss – total	**7,095**	**-639**	**6,456**	**-656**	**59**	**-597**
Total	**7,103**	**-640**	**6,463**	**-699**	**124**	**-575**

Movements in deferred tax balances

	Net balance 01.01.2022	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31.12.2022 Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	3	-17	0	-14	0	-14
Investment securities – at fair value through other comprehensive income	-182	0	370	188	188	0
Derivatives*	-54	0	-1,010	-1,064	0	-1,064
Impairment to expected credit losses	253	-33	0	220	220	0
Tax loss carry-forward	3,443	2,326	0	5,769	5,769	0
Impairment to trade receivables	0	0	0	0	0	0
Net deferred tax asset/liability before offsetting				**5,099**	**6,177**	**-1,078**
Offsetting					-1,078	1,078
Tax assets/Tax liabilities	**3,463**	**2,276**	**-640**	**5,099**	**5,099**	**0**

*Derivatives are presented net

	Net balance 01.01.2021	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31.12.2021 Net	Deferred tax assets	Deferred tax liabilities
Property and equipment; intangible assets	37	-34	0	3	3	0
Investment securities – at fair value through other comprehensive income	-379	0	197	-182	0	-182
Derivatives*	19	0	-73	-54	0	-54
Impairment to expected credit losses	352	-99	0	253	253	0
Tax loss carry-forward	1,484	1,959	0	3,443	3,443	0
Impairment to trade receivables	0	0	0	0	0	0
Net deferred tax asset/liability before offsetting				**3,463**	**3,699**	**-236**
Offsetting					-236	236
Tax assets/Tax liabilities	**1,513**	**1,826**	**124**	**3,463**	**3,463**	**0**

*Derivatives are presented net

In 2022, HUF 5,099 million (2021: HUF 3,463 million) deferred tax asset was recognised which comprises of the following items:

- HUF 408 million (2021: HUF 256 million) was recognised due to temporary differences which modify the tax base and are expected to reverse in the future;
- HUF 5,769 million (2021: HUF 3,443 million) was recognised for the balances of tax losses carried forward from previous years which are expected to be utilised by the Bank;
- HUF -1,078 million (2021: HUF -236 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.

Neither in 2022 nor in 2021 deferred tax liability was recognised, as the deferred tax assets and liabilities related to corporate income tax are settled in net.

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

Maturity	2022	2021
31.12.2030	22,990	93,411
Total	**22,990**	**93,411**

The Bank has HUF 22,990 million (2021: HUF 93,411 million) carry forwards of unused tax losses on 31 December 2022 that are not expected to be utilised in the future, which can 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 Bank currently prepares business plans for 3 years, based on which HUF 5,099 million deferred tax asset is recognised in respect of 2023 and 2024.

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

	31.12.2022			31.12.2021		
(HUF million)	**HUF**	**Foreign currency**	**Total**	**HUF**	**Foreign currency**	**Total**
Cash and cheques	39,959	12,822	52,781	25,382	28,710	54,092
National Bank of Hungary	669,554	19,214	688,768	399,910	0	399,910
Other banks	4,909	38,455	43,364	3,776	24,711	28,487
Total	**714,422**	**70,491**	**784,913**	**429,068**	**53,421**	**482,489**

Current account with National Bank of Hungary (NBH) contains the minimum reserves. The average balance of the minimum reserve was HUF 84,667 million (2021: HUF 25,362 million). The amount of minimum reserve is the amount of reserve-bearing instruments multiplied by the minimum reserve rate.

From 1 October 2022 onward, the modified regulation contains both daily and monthly compliance. The minimum reserve ratio is 5% with daily compliance requirements. Above the 5% minimum rate, an additional optional percentage rate of up to 5% has been introduced. For the optional reserve requirement level, the regulation requires compliance on a monthly average basis. The Bank has chosen a rate of 8%.

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 and liabilities arising from repurchase (placement) transactions entered into with the NBH.

The Bank can use its minimum reserve during its daily operation as long as the daily, respectively monthly average of the reserve exceeds the legislative limit. Based on this reasoning, the minimum reserve is presented as cash in the cash-flow statement.

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

Financial assets held for trading

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		800
Bank bonds		47
Financial instruments held for trading total	**1,605,060**	**183,111**

31.12.2021 (HUF million)	Nominal value of derivatives	Carrying amount
Derivative instruments	**1,522,473**	**65,527**
Hereof: economic hedge	*393,409*	*29,622*
Interest rate	552,641	43,412
Equity	0	92
Currency	969,832	22,023
Equity instruments		**6,141**
Debt securities		**43,274**
Government bonds and treasury bills		42,219
Corporate and other bonds		976
Bank bonds		79
Financial instruments held for trading total	**1,522,473**	**114,942**

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 MIRS's 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 Bank utilised the amount allocated. The application of the vehicle made it possible for the Bank 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 Bank recognised the difference between the fair value and the transaction price in profit or loss.

During 2018, the Bank concluded MIRS interest rate swaps in a nominal amount of HUF 95,136 million, there were no new deals ever since. As at 31.12.2022, the carrying amount of these swaps was HUF 26,127 million asset (HUF 11,946 million asset as at 31.12.2021). Fair valuation result recognised in relation to MIRS's amounted to HUF 12,070 million gain in 2022 (HUF 13,618 million loss in 2021) and was presented in the statement of comprehensive income line item *'Net trading income and fair value result'*.

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

31.12.2022 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Negative fair value changes due to changes in credit risk – non-performing exposures
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	**140,282**	**235**	**-14,679**	**125,838**	**-376**

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Negative fair value changes due to changes in credit risk – non-performing exposures
Debt securities	**1,091**	**0**	**-464**	**627**	**0**
Bank bonds	1,091	0	-464	627	0
Loans and advances	**102,495**	**183**	**-4,907**	**97,771**	**-370**
Non-trading financial assets mandatorily at fair value through profit or loss total	**103,586**	**183**	**-5,371**	**98,398**	**-370**

The Bank 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, the amount of childbirth incentive loans measured mandatorily at fair value through profit or loss had reached HUF 96 billion by year-end (2021: HUF 79 billion).

Financial assets designated at fair value through profit or loss

31.12.2022 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Accumulated negative fair value change from change in credit risk (non-performing assets)
Debt securities	**0**	**0**	**0**	**0**	**0**
Government bonds and treasury bills	0	0	0	0	0
Financial assets designated at fair value through profit or loss	**0**	**0**	**0**	**0**	**0**

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Carrying amount	Accumulated negative fair value change from change in credit risk (non-performing assets)
Debt securities	**202**	**1**	**-8**	**195**	**0**
Government bonds and treasury bills	202	1	-8	195	0
Financial assets designated at fair value through profit or loss	**202**	**1**	**-8**	**195**	**0**

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

(21) Placements with banks

	31.12.2022					31.12.2021				
	Less than 1 year		Over 1 year			Less than 1 year		Over 1 year		
(HUF million)	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
National Bank of Hungary	253,874	0	0	0	253,874	830,183	0	0	0	830,183
Other Banks	758	51,537	0	7,726	60,021	1,952	41,966	0	12,773	56,691
Impairment losses	-3	0	0	-2	-5	0	-1	0	-1	-2
Placements with banks total	**254,629**	**51,537**	**0**	**7,724**	**313,890**	**832,135**	**41,965**	**0**	**12,772**	**886,872**

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

Receivables due from the National Bank of Hungary contain mostly short-term placements with a balance of HUF 253,874 million (2021: HUF 830,144 million). Other placements with banks increased by HUF 3,327 million during 2022 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 442 billion 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 306 billion from them is included in the statement of financial position line item '*Financial assets at fair value through other comprehensive income'*.

The Bank pledged securities amounting to HUF 159 billion as collateral for its liabilities in 2022 (2021: HUF 152 billion).

In 2022, the Bank recognised HUF 3,834 million loss in other comprehensive income in relation to securities measured at fair value through other comprehensive income (2021: HUF 1,599 million expense) and reclassified HUF 282 million loss from other comprehensive income to profit or loss (2021: HUF 87 million loss).

National Bank Hungary (NBH) launched the NKP (Bond Funding for Growth Scheme) 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 could purchase securities in the amount of HUF 1,550 billion. The program ended in December 2021. FGS bonds were purchased by the Bank in 2022 and 2021 as well.

Investment securities measured at amortised cost

31.12.2022 **(HUF million)**	**Cost**	**Accrued interest**	**Unrealised gains/losses***	**Discount/ Premium**	**Loss allowance**	**Carrying amount**
Debt securities						
Government bonds and treasury bills	321,158	5,739	-15,529	-1,393	-137	309,838
Corporate and other bonds	87,994	1,102	-26,443	1,007	-271	63,389
Bank bonds	72,903	807	-4,887	147	-16	68,954
Investments in securities at amortised cost total	**482,055**	**7,648**	**-46,859**	**-239**	**-424**	**442,181**

31.12.2021 **(HUF million)**	**Cost**	**Accrued interest**	**Unrealised gains/losses***	**Discount/ Premium**	**Loss allowance**	**Carrying amount**
Debt securities						
Government bonds and treasury bills	125,060	1,069	-1,055	-2,343	-8	122,723
Corporate and other bonds	76,327	581	-5,178	201	-175	71,756
Bank bonds	31,291	60	-239	-1	-3	31,108
Investments in securities at amortised cost total	**232,678**	**1,710**	**-6,472**	**-2,143**	**-186**	**225,587**

*The amounts indicated in this table come from hedge accounting

Investment securities measured at fair value through other comprehensive income

31.12.2022 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments total	**35**	**0**	**30**	**0**	**0**	**65**
Shares in limited liability companies	17	0	33	0	0	50
Shares in companies limited by shares	18	0	-3	0	0	15
Debt securities total	**351,253**	**2,929**	**-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	231	-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**	**2,929**	**-46,837**	**-826**	**-704**	**305,850**

31.12.2021 (HUF million)	Cost	Accrued interest	Unrealised gains/losses	Discount/ Premium	Loss allowance	Carrying amount
Equity instruments total	**34**	**0**	**24**	**0**	**0**	**58**
Shares in limited liability companies	15	0	23	0	0	38
Shares in companies limited by shares	19	0	1	0	0	20
Debt securities total	**367,486**	**2,026**	**-15,958**	**-1,532**	**-125**	**351,897**
Government bonds and treasury bills	145,005	1,159	-2,496	-1,728	-10	141,930
Corporate and other bonds	36,753	867	-6,478	196	-115	31,223
Bank bonds	185,728	0	-6,984	0	0	178,744
Financial assets at fair value through other comprehensive income total	**367,520**	**2,026**	**-15,934**	**-1,532**	**-125**	**351,955**

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

(23) Investments in unlisted securities

(HUF million)	Ownership interest % 31.12.2022	Ownership interest % 31.12.2021	Carrying amount 31.12.2022	Carrying amount 31.12.2021
RC Gazdasági és Adótanácsadó Zrt.	20,00%	20,00%	1	5
Garantiqa Hitelgarancia Zrt.	0,16%	0,16%	15	15
SWIFT	0,01%	0,01%	49	38
Investments in unlisted securities total			**65**	**58**

Unlisted investment securities are included in the statement of financial position line item *'Financial assets at fair value through other comprehensive income'*. The Bank did not settle dividend related to the above equity instruments.

(24) Property and equipment, intangible assets and goodwill

	Gross carrying amount					Accumulated depreciation/amortization					Carrying amount
(HUF million)	01.01.2022	Additions	Disposals	Reclassifica-tion	31.12.2022	01.01.2022	Additions	Disposals	Reclassifica-tion	31.12.2022	31.12.2022
Property, plant and equipment											
Property	41,263	5,473	-1,408	-70	45,258	-15,454	-3,711	1,408	7	-17,750	27,508
Plant and equipment	20,159	3,804	-2,942	66	21,087	-12,685	-2,123	1,194	-7	-13,621	7,466
Property, plant and equipment total	**61,422**	**9,277**	**-4,350**	**-4**	**66,345**	**-28,139**	**-5,834**	**2,602**	**0**	**-31,371**	**34,974**
Intangible assets											
Software	63,140	6,539	-30	4	69,653	-43,426	-4,906	30	0	-48,302	21,351
Other intangible assets	547	0	-9	0	538	-517	-12	10	0	-519	19
Intangible assets in total	**63,687**	**6,539**	**-39**	**4**	**70,191**	**-43,943**	**-4,918**	**40**	**0**	**-48,821**	**21,370**

	Gross carrying amount					Accumulated depreciation/amortization					Carrying amount
(HUF million)	01.01.2021	Additions	Disposals	Reclassifica-tion	31.12.2021	01.01.2021	Additions	Disposals	Reclassifica-tion	31.12.2022	31.12.2021
Property, plant and equipment											
Property	39,224	2,519	-483	3	41,263	-12,666	-3,270	482	0	-15,454	25,809
Plant and equipment	18,892	2,183	-909	-7	20,159	-11,918	-1,656	889	0	-12,685	7,474
Property, plant and equipment total	**58,116**	**4,702**	**-1,392**	**-4**	**61,422**	**-24,584**	**-4,926**	**1,371**	**0**	**-28,139**	**33,283**
Intangible assets											
softwires	58,167	6,060	-1,091	4	63,140	-39,871	-4,646	1,091	0	-43,426	19,714
Other intangible assets	546	1	0	0	547	-502	-15	0	0	-517	30
Intangible assets in total	**58,713**	**6,061**	**-1,091**	**4**	**63,687**	**-40,373**	**-4,661**	**1,091**	**0**	**-43,943**	**19,744**

As of 31 December 2022, property includes HUF 22,718 million (2021: HUF 22,235 million) and “Plant and equipment “includes HUF 68 million (2021: HUF 129 million) right-of-use assets. The Bank recognised expenses amounting to HUF 1,977 million in the carrying amount of intangible assets, in course of developing intangible assets (2021: HUF 1,722 million).

(25) Leases

The Bank acting as a lessee (IFRS 16)

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

The Bank moved into a new head office in 2020, therefore the existing head office rental contracts were terminated with effect from 31 December 2019. The Bank classified the previous head office lease as short-term lease applying the practical expedient allowed by the standard on transition, thus no right-of-use asset and lease liability were recognised on transition in connection to that lease contract. The contract for new head office has been recorded in June 2020 with an original term of 10 years extended with a 5-year 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, extension options were not recorded in the contracts.

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

The Bank has no sale and leaseback arrangements.

Right-of-use assets

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

	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount
(HUF million)	**01.01.2022**	**Additions**	**Disposals**	**31.12.2022**	**01.01.2022**	**Additions**	**Disposals**	**31.12.2022**	**31.12.2022**
Right-of-use asset									
Property	28,612	3,508	0	32,120	-6,377	-3,025	0	-9,402	22,718
Vehicles	350	8	-40	318	-221	-58	29	-250	68
Right-of-use asset total	**28,962**	**3,516**	**-40**	**32,438**	**-6,598**	**-3,083**	**29**	**-9,652**	**22,786**

	Gross carrying amount				Accumulated depreciation/amortization				Carrying amount
(HUF million)	**01.01.2021**	**Additions**	**Disposals**	**31.12.2021**	**01.01.2021**	**Additions**	**Disposals**	**31.12.2021**	**31.12.2021**
Right-of-use asset									
Property	26,656	1,972	-16	28,612	-3,613	-2,779	15	-6,377	22,235
Vehicles	434	-17	-67	350	-208	-67	54	-221	129
Right-of-use asset total	**27,090**	**1,955**	**-83**	**28,962**	**-3,821**	**-2,846**	**69**	**-6,598**	**22,364**

Lease liabilities

The Bank presents lease liabilities within 'Financial liabilities measured at amortised cost'. The maturity analysis for lease liabilities on 31 December 2022 and 31 December 2021 is as follows:

(HUF million)	31.12.2022	31.12.2021
Less than 1 year	4,110	2,983
Between 1 and 5 years	15,558	11,421
More than 5 years	11,965	14,448
Total	**31,633**	**28,852**

Amounts presented in the Statement of cash flows

In 2022 the total cash outflows related to lease contracts amounted to HUF 3,409 million (2021: HUF 2,850 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)	31.12.2022	31.12.2011
Interest expense on lease liabilities	666	607
Expenses relating to short-term leases	182	213
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	21	35
Total	**869**	**855**

In 2022, the Bank recognised expenses related to leases within the administrative expenses with the amount of HUF 869 million (2021: HUF 855 million).

(26) Other assets

(HUF million)	31.12.2022	31.12.2021
Prepayments and accrued income	3,955	2,882
Materials and inventories	232	173
Repossessed assets	849	821
Tax receivables	2,590	3,453
Other assets	61	48
Other assets total	**7,687**	**7,377**
thereof: loss allowance	-22	*-37*

In 2022, the balance of other assets increased by HUF 310 million, this change was mainly due to the decrease of the tax receivables and to the increase of prepayments and accrued income.

The HUF 996 million increase in accrued expenses was partly compensated by the decrease in accrued income.

In 2020, due to the pandemic situation, the government introduced a special tax on credit institutions, which was paid in three equal instalments in that time. However, this amount, shown as a receivable, can be used to reduce the amount of the 'normal' special tax payable by the credit institution under the special tax law, in the form of tax withholding over the next five years. Mainly this causes a reduction in the tax receivable in 2022.

Furthermore, the decrease in advances to suppliers (HUF -337 million) was offset by an increase in accrued (unrealised) foreign exchange gains on spot and FRA transactions (HUF 537 million).

The Bank includes in its balance sheet accrued assets of HUF 4,559 million (2021: HUF 3,874 million) from its IFRS15 income.

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

31.12.2022 (HUF million)	Nominal value of derivatives	Book value
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**

31.12.2021 (HUF million)	Nominal value of derivatives	Book value
Derivative instruments held for trading	**1,257,638**	**52,075**
Hereof: economic hedge	*272,781*	*17,082*
Interest rate	471,569	33,345
Equity	1	103
FX	786,068	18,627
Total derivative instruments	**1,257,638**	**52,075**
Short positions		6,428
Total short positions		**6,428**
Total financial liabilities at fair value through profit/loss	**1,257,638**	**58,503**

The Bank 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 Bank 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:

31.12.2022 (HUF million)	Financial liabilities held for trading	Financial liabilities at amortised cost	Total
Deposits from banks	0	514,060	**514,060**
Deposits from customers	0	2,909,737	**2,909,737**
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	34,622	**34,622**
Total	**145,730**	**3,714,806**	**3,860,536**

31.12.2021 (HUF million)	Financial liabilities held for trading	Financial liabilities at amortised cost	Total
Deposits from banks	0	489,336	**489,336**
Deposits from customers	0	2,868,039	**2,868,039**
Subordinated liabilities	0	57,333	**57,333**
Debt securities issued	0	689	**689**
Derivative liabilities	52,075	0	**52,075**
Short positions	6,428	0	**6,428**
Other financial liabilities	0	30,552	**30,552**
Total	**58,503**	**3,445,949**	**3,504,452**

(29) Deposits from banks and deposits from customers

Deposits from banks

(HUF million)	31.12.2022					31.12.2021				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	63,299	32,260	249,773	150,476	495,808	30,621	16,730	285,875	136,205	469,431
Non resident	14,256	3,996	0	0	18,252	19,705	128	0	72	19,905
Deposits from banks total	**77,555**	**36,256**	**249,773**	**150,476**	**514,060**	**50,326**	**16,858**	**285,875**	**136,277**	**489,336**

Deposits from customers

(HUF million)	31.12.2022					31.12.2021				
	Within 1 year		Over 1 year			Within 1 year		Over 1 year		
	HUF	Foreign currency	HUF	Foreign currency	Total	HUF	Foreign currency	HUF	Foreign currency	Total
Resident	1,635,261	1,130,355	5,547	875	2,772,038	1,891,043	868,858	5,366	830	2,766,097
Non resident	70,935	66,757	0	7	137,699	54,736	45,579	0	1,627	101,942
Deposits from customers total	**1,706,196**	**1,197,112**	**5,547**	**882**	**2,909,737**	**1,945,779**	**914,437**	**5,366**	**2,457**	**2,868,039**

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

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

Deposits insured by National Deposit Insurance Fund (indemnified amount) was HUF 1,094 billion at the end of 2022 (2022: HUF 1,035 billion).

(30) Debt securities issued

(HUF million)	31.12.2022 Par value	31.12.2022 Carrying amount	31.12.20121 Par value	31.12.2021 Carrying amount
Measured at amortised cost	**195,849**	**194,100**	**627**	**689**
fix	195,849	194,100	627	689
Total debt securities issued	**195,849**	**194,100**	**627**	**689**

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 a nominal value of HUF 195 billion. The purpose of issuing MREL (Minimum Requirement for Own Funds and Eligible Liabilities) bonds is to enable the Group to keep sufficient funding of adequate quality in accordance with the European Union's bank resolution and recovery directive. The bonds are callable, and at the interest is fix at the beginning and later it will be changed to variable.

Debt securities insured by National Deposit Insurance Fund (indemnified amount) was HUF 724 million at the end of 2022 (2021: HUF 684 million).

(31) Subordinated liabilities

31.12.2022 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
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	31.03.2032	6,006
Subordinated liabilities total		**155**				**62,287**

31.12.2021 Lender	Borrowed on	Amount in original currency (CCY million)	Currency	Interest rate %	Maturity	Carrying amount (HUF million)
Raiffeisen Bank International AG	29.12.2017	40	EUR	3.13	27.02.2032	14,802
Raiffeisen Bank International AG	29.12.2017	50	EUR	3.00	28.02.2031	18,499
Raiffeisen Bank International AG	29.12.2017	50	EUR	2.88	28.02.2030	18,497
Raiffeisen Bank International AG	29.12.2017	15	EUR	3.13	31.03.2032	5,535
Subordinated liabilities total		**155**				**57,333**

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 Bank which are subordinated to liabilities due to other depositors or lenders of the Bank.

(32) Other liabilities

(HUF million)	31.12.2022	31.12.2021
Deferred income and accrued expenses	6,812	4,073
Tax liabilities	4,798	3,089
Sundry liabilities	111	2
Other liabilities total	**11,721**	**7,164**

Within other liabilities, the main increase is related to accruals, including accrued fees (HUF 1,639 million). This significant increase is due to the accrual of fees related to transfer of the trading activities of non-retail securities and spot transactions on behalf of the parent bank. There was also an increase in the accrued foreign exchange losses on spot and FRA transactions (HUF 628 million).

Within accruals, the amount of income accrued under IFRS15 is HUF 1,460 million (2021: HUF 50 million).

Under 'Tax liabilities', liabilities not arising from income taxes are recognised. The amount increased by HUF 1,709 million compared to 2021, due to higher VAT payment obligation.

(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 01.01.2022	**120**	**1,028**	**3,337**	**4,485**
Additions, including increases in existing provisions	0	250	4,151	4,401
(-) Amounts used	0	0	-2,498	-2,498
(-) Unused amounts reversed during the period	0	-616	-410	-1,026
Other movements	0	0	-75	-75
Closing balance 31.12.2022	**120**	**662**	**4,505**	**5,287**

(HUF million)	Restructuring	Pending legal issues and tax litigation	Other provisions	Total provisions
Opening balance 01.01.2021	**128**	**1,238**	**2,232**	**3,598**
Additions, including increases in existing provisions	72	510	4,634	5,216
(-) Amounts used	-80	0	-3,489	-3,569
(-) Unused amounts reversed during the period	0	-720	-40	-760
Closing balance 31.12.2021	**120**	**1,028**	**3,337**	**4,485**

The provision for litigations decreased by HUF 366 million, of which reversals amounted in HUF 616 million and training in HUF 250 million.

A significant part of the growth in other provisions is due to an increase in bonus accruals, that amounted in HUF 1,168 million.

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

Assets and liabilities held for sale

The Bank had no assets and liabilities held for sale as of as at 31 December 2022 and 31 December 2021.

Profit or loss from discontinued operations

Discontinued operation is a part of the Bank either sold or classified as held for sale. The Bank did not have discontinued operation in 2022.

(35) Share capital

Shareholder structure of the Bank was as follows as at 31.12.2022 and 31.12.2021:

		31.12.2022		
Shareholder	**Type of share**	**Number of shares**	**Par value**	**Total (HUF million)**
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Total		**5,000,009**	**0**	**50,000**

		31.12.2021		
Shareholder	**Type of share**	**Number of shares**	**Par value**	**Total (HUF million)**
Raiffeisen-RBHU Holding GmbH	Ordinary share	5,000,009	10,000	50,000
Total		**5,000,009**		**50,000**

The authorised, issued and paid share capital of the Bank 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 Bank had no treasury shares as at 31 December 2022 and 31 December 2021.

On 21 December 2022, the Bank's sole shareholder decided to pay a dividend in advance of HUF 20,132 million, which the Bank paid on 28 December 2022. The Bank did not pay dividends from its 2021 earnings.

(36) Share premium

Amounts contributed to the Bank 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

31.12.2022						
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 Tier1 loan total						**31,445**

31.12.2021						
Lender	**Borrowed on**	**Amount in original currency (million)**	**Original currency**	**Interest rate**	**Maturity**	**Carrying amount (HUF million)**
Raiffeisen Bank International AG	13.03.2019	100	EUR	9.00%	Without maturity	31,445
Additional Tier1 loan total						**31,445**

The Management Board of the Bank decided on 4 March 2019 to privately issue bonds qualifying for subordinated additional tier 1 capital instrument (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-months EURIBOR plus 9%. The interest shall be paid in the currency of the bond on 30 May each year. Considering that the issued bond is perpetual and the bondholder is not entitled to redeem it, and the fact that any payments to be effected under the terms and conditions of the bonds, including any interests and any payments arising from any redemption or recall events specified in the contract are at the sole discretion of the Bank i.e. the Bank has no contractual obligation to effect those payments, the amount received from the issue is considered as equity and the interest paid on it is considered as dividend. The equity item is recognised in HUF in the books. The Bank is entitled to recall or repay in the events specified in the terms and conditions. In 2022 the Bank paid HUF 3,527 million (2021: HUF 3,127 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 realised in equity, in line item *'Retained earnings'* (a reclassification between accumulated other comprehensive income and retained earnings).

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

(39) *Other reserves*

The general reserve is included under *'Other reserves'*, in accordance with Act CCXXVII of 2013, chapter 38 section 83. According to these prescriptions, a credit institution shall transfer 10% of its net profit for the period to general reserve. As a re-appropriation within equity the Bank set up general reserve amounting to HUF 7,223 million in 2022 (2021: HUF 3,656 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 Bank has commitments to grant loans as it provides current account facilities and other loan facilities for its client.

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

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

31.12.2022	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
(HUF million)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loan commitments	341,588	77,927	2,132	1,376	1,718	468
Financial guarantees given	138,681	49,237	9,881	239	441	1,759
Other guarantees and commitments	127,105	74,963	3,062	124	246	1,270
Total	**607,374**	**202,127**	**15,075**	**1,739**	**2,405**	**3,497**

31.12.2021	Off-balance sheet commitments and financial guarantees under IFRS 9 impairment model					
	Nominal			Provision*		
(HUF million)	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Loan commitments	227,264	84,412	3,632	509	895	1,430
Financial guarantees given	119,938	18,817	8,978	98	59	1,534
Other guarantees and commitments	149,469	22,722	2,927	129	44	963
Total	**496,671**	**125,951**	**15,537**	**736**	**998**	**3,927**

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

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

(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 Bank's accounting policies

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

Valuation of financial instruments, fair value hierarchy

The Bank's accounting policy on fair value measurements is discussed in Note (*4.8) Determination of fair value.*

The Bank 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 confirmed by the observable inputs.

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

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

Fair value hierarchy: financial instruments measured at fair value

31.12.2022	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
(HUF million)	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value								
Financial assets held for trading total	**19,970**	**163,141**	**0**	**80,362**	**0**	**142**	**146,403**	**0**
Derivative instruments	0	162,342	0	80,563	0	0	146,714	0
Equity instruments	525	-1	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	**0**	**388**	**125,450**	**-407**	**-8,899**	**0**	**-871**	**-13,819**
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	**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	**254,139**	**51,646**	**65**	**-10,147**	**7**	**-27,481**	**-19,387**	**30**
Equity instruments	0	0	65	0	7	0	0	30
Debt securities	254,139	51,646	0	-10,147	0	-27,481	-19,387	0
Hedging derivative instruments	**0**	**191,077**	**0**	**125,720**	**0**	**0**	**180,923**	**0**
Financial assets at fair value total	**274,109**	**406,252**	**125,515**	**195,528**	**-8,892**	**-27,339**	**307,068**	**-13,789**
Financial liabilities at fair value								
Financial liabilities held for trading total	**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	**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**

31.12.2021	Fair value hierarchy			Fair value change during the period		Accumulated fair value change before tax		
(HUF million)	Level 1	Level 2	Level 3	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value								
Financial assets held for trading total	**48,627**	**66,315**	**0**	**24,985**	**0**	**96**	**66,040**	**0**
Derivative instruments	0	65,528	0	25,091	0	0	66,150	0
Equity instruments	6,141	-1	0	0	0	24	0	0
Debt securities	42,486	788	0	-106	0	72	-110	0
Non-trading financial assets mandatorily at fair value through profit or loss total	**0**	**627**	**97,771**	**-9**	**-6,365**	**0**	**-464**	**-4,921**
Debt securities	0	627	0	-9	0	0	-464	0
Loans and advances	0	0	97,771	0	-6,365	0	0	-4,921
Financial assets designated at fair value through profit or loss total	**195**	**0**	**0**	**0**	**0**	**-8**	**0**	**0**
Debt securities	195	0	0	0	0	-8	0	0
Financial assets at fair value through other comprehensive income total	**295,452**	**56,445**	**58**	**-9,362**	**3**	**-6,718**	**-9,239**	**23**
Equity instruments	0	0	58	-77	3	0	0	23
Debt securities	295,452	56,445	0	-9,285	0	-6,718	-9,239	0
Hedging derivative instruments	**0**	**53,286**	**0**	**49,741**	**0**	**0**	**55,203**	**0**
Financial assets at fair value total	**344,274**	**176,673**	**97,829**	**65,355**	**-6,362**	**-6,630**	**111,540**	**-4,898**
Financial liabilities at fair value								
Financial liabilities held for trading total	**0**	**58,503**	**0**	**14,335**	**0**	**0**	**52,593**	**0**
Derivatives	0	52,075	0	14,335	0	0	52,593	0
Short positions	0	6,428	0	0	0	0	0	0
Hedging derivative instruments	**0**	**76,099**	**0**	**68,453**	**0**	**0**	**79,771**	**0**
Financial liabilities at fair value total	**0**	**134,602**	**0**	**82,788**	**0**	**0**	**132,364**	**0**

Fair value hierarchy: financial instruments measured at amortised cost

31.12.2022			Fair value hierarchy		
(HUF million)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	442,181	438,863	379,769	59,067	0
Loans and advances	2,227,769	2,091,538	0	0	2,091,538
Financial assets at amortised cost total	**2,669,950**	**2,530,401**	**379,769**	**59,067**	**2,091,538**
Financial liabilities at amortised cost					
Deposits	3,486,084	3,451,009	0	0	3,451,009
Debt securities issued	194,100	200,579	0	200,579	0
Other financial liabilities	6,477	6,477	0	0	6,477
Financial liabilities at amortised cost total	**3,686,661**	**3,658,065**	**0**	**200,579**	**3,457,486**

31.12.2021			Fair value hierarchy		
(HUF million)	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets at amortised cost					
Debt securities	225,587	223,678	223,678	0	0
Loans and advances	2,438,606	2,465,824	0	0	2,465,824
Financial assets at amortised cost total	**2,664,193**	**2,689,502**	**223,678**	**0**	**2,465,824**
Financial liabilities at amortised cost					
Deposits	3,414,707	3,426,946	0	0	3,426,946
Debt securities issued	689	710	0	710	0
Other financial liabilities	5,201	5,201	0	0	5,201
Financial liabilities at amortised cost total	**3,420,597**	**3,432,857**	**0**	**710**	**3,432,147**

Assumptions made in estimating the fair value of financial instruments

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

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

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

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

Quoted market prices are used for exchange-traded securities and listed debt instruments. The fair values of Hungarian government bonds and corporate bonds classified as held for trading, designated at fair value through profit and measured at fair value through other comprehensive income are measured based on market prices available in the Bloomberg Front-End System. The fair value of the securities is the market price quoted on the stock exchange (if such price exists). If no quoted price exists, price available from OTC markets is used; otherwise, the fair value is the present value of the discounted contractual cash flows at the valuation date.

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

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

These instruments are not quoted on markets. Besides market information, the Bank 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 Bank applies the market rates applicable for the remaining maturity of the financial instruments.

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

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

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

The aim of calculating CVA/DVA (Credit Value Adjustment/Debit Value Adjustment) according to IFRS 13 is to quantify the risk of possible losses arising from counterparty defaults in case of the Bank'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 Bank takes its own credit risk into account as follows: the Bank 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 Bank using quoted market prices at the balance sheet date if available, or by reference to quoted market prices for similar instruments. Fair value of subordinated liabilities is calculated by discounting the future cash flows.

According to IFRS 13 standard, own credit risk is quantified as follows: depending on the currency, the cash flows of the bond are discounted using a HUF, EUR or USD zero-coupon IRS curve with liquidity premiums shifted by the amount of the liquidity premium.

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

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

Fair value – Level 3 disclosures

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

(HUF million)	Opening balance 01.01.2022	Exchange differences	Payments	Settlements	Gains/losses in profit or loss	Hereof: unrealised gains/losses	Gains/losses in other comprehensive income	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	-7,040	-8,848	-6,365	0	125,450
Non-trading financial assets mandatorily at fair value through profit or loss total	**97,771**	**0**	**43,567**	**-7,040**	**-8,848**	**-6,365**	**0**	**125,450**
Financial assets at fair value through other comprehensive income								
Equity instruments	58	0	0	0	0	*0*	7	65
Financial assets at fair value through other comprehensive income total	**58**	**0**	**0**	**0**	**0**	***0***	**7**	**65**

(HUF million)	Opening balance 01.01.2021	Exchange differences	Payments	Settlements	Gains/losses in profit or loss	Hereof: unrealised gains/losses	Gains/losses in other comprehensive income	Closing balance 31.12.2021
Non-trading financial assets mandatorily at fair value through profit or loss								
Loans and advances	66,671	0	40,694	-3,314	-6,280	*-6,365*	0	97,771
Non-trading financial assets mandatorily at fair value through profit or loss total	**66,671**	**0**	**40,694**	**-3,314**	**-6,280**	***-6,365***	**0**	**97,771**
Financial assets at fair value through other comprehensive income								
Equity instruments	55	0	0	0	0	*0*	3	58
Financial assets at fair value through other comprehensive income total	**55**	**2**	**0**	**0**	**0**	***0***	**3**	**58**

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

31.12.2022	**Non-trading financial assets mandatorily at fair value through profit or loss**			**Financial assets at fair value through other comprehensive income**		
(HUF million)	**Equity instruments**	**Debt securities**	**Loans and advances**	**Equity instruments**	**Debt securities**	**Loans and advances**
Total gains or losses in profit or loss:	**0**	**0**	**-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**	**7**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**-255**	**0**	**0**	**0**
Net trading income and fair value result	0	0	-6,365	0	0	0
Other interest income	0	0	6,110	0	0	0

31.12.2021	**Non-trading financial assets mandatorily at fair value through profit or loss**			**Financial assets at fair value through other comprehensive income**		
(HUF million)	**Equity instruments**	**Debt securities**	**Loans and advances**	**Equity instruments**	**Debt securities**	**Loans and advances**
Total gains or losses in profit or loss:	**0**	**0**	**-2,800**	**0**	**0**	**0**
Net trading income and fair value result	0	0	-6,364	0	0	0
Other comprehensive income - net fair value change of financial assets at fair value through other comprehensive income	**0**	**0**	**0**	**3**	**0**	**0**
Profit or loss - unrealised gain or loss from assets and liabilities held at the end of the year	**0**	**0**	**-2,801**	**0**	**0**	**0**
Net trading income and fair value result	0	0	-6,365	0	0	0
Other interest income	0	0	3,563	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 Bank at amortised cost but for which fair values are disclosed:

Financial instruments measured at fair value:

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**				

31.12.2021 (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	97,771	a)	b)	c2)	d)
Non-trading financial assets mandatorily at fair value through profit or loss total	**97,771**				
Financial assets at fair value through other comprehensive income					
Equity instruments	58	e)	f)	g)	h)
Financial assets at fair value through other comprehensive income total	**58**				

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 NPLs: Discounted Cash Flows
b)	Performing: Retail: estimated cash flows in case of 'babyloan' product Non-retail: funding curves (for liquidity costs) NPL: Retail: distressed CF (based on customer specific BEEL) estimated by workout/retail risk Non-retail: recovery estimated by workout
c1)	Performing: Retail: estimated average monthly instalment for baby loans between HUF 2001-783742 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 NPL: Retail: stressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100 %
c2)	Performing: Retail: risk-free yield curve: 7.55% - 14.19% Non-retail: risk-free yield curve: 8.62% - 16.17% 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 credit spread range (CDS curve): +216.78 - +965.9 for CDS at valuation; +0% - +44.46 for CDS at issuance NPL: Retail: distressed CF (based on customer-specific BEEL) estimated by workout/retail risk: 10% - 100% Non-retail: recovery estimated by workout: 10% - 100 %
d)	If the 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.
e)	Dividend discounting model (DDM)
f)	Length of period with high growth rate Growth rate in terminal period Beta* in terminal period
g)	Length of period with high growth rate: 1-15 years Growth rate in terminal period: 0-5% Beta* in terminal period: 0.8-1.2
h)	As length of period with high growth rate increases fair value decreases With the increase of growth rate fair value increases Fair value increases with the decrease of the beta,

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

Financial instruments at amortised cost:

31.12.2022 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**
Financial assets at amortised cost			
Loans and advances	2,091,538	discounted CF	discount curve
Financial assets at amortised cost total	**2,091,538**		
Financial liabilities at amortised cost			
Deposits	3,451,009	discounted CF	discount curve
Other financial liabilities	6,477	no valuation	not applicable
Financial liabilities at amortised cost total	**3,457,486**		

31.12.2021 **(HUF million)**	**Fair value at reporting date**	**Valuation technique**	**Significant unobservable inputs**
Financial assets at amortised cost			
Loans and advances	2,465,824	discounted CF	discount curve
Financial assets at amortised cost total	**2,465,824**		
Financial liabilities at amortised cost			
Deposits	3,426,946	discounted CF	discount curve
Other financial liabilities	5,201	no valuation	not applicable
Financial liabilities at amortised cost total	**3,432,147**		

(43) Related parties

The Bank determines in accordance with IAS 24 whether a party qualifies as a party related to the Bank.
The Bank'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 Bank:

Assets and liabilities against related parties

31.12.2022 (HUF million)	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
Financial assets					
Loans and advances	77,108	55,806	0	35	0
hereof: non-performing	*0*	*0*	*0*	*0*	*0*
Financial assets total	**77,108**	**55,806**	**0**	**35**	**0**
Financial liabilities					
Deposits	64,720	2,241	0	843	0
Financial liabilities total	**64,720**	**2,241**	**0**	**843**	**0**
Other					
Nominal value of loan commitments, financial guarantees given and other contingencies given	2,926	39,994	0	7	0
hereof: non-performing	*0*	*0*	*0*	*0*	*0*
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

31.12.2021 (HUF million)	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
Financial assets					
Loans and advances	45,989	57,083	0	11	0
hereof: non-performing	*0*	*0*	*0*	*0*	*0*
Financial assets total	**45,989**	**57,083**	**0**	**11**	**0**
Financial liabilities					
Deposits	62,859	4,139	0	1,018	0
Financial liabilities total	**62,859**	**4,139**	**0**	**1,018**	**0**
Other					
Nominal value of loan commitments, financial guarantees given and other contingencies given	3,460	16,511	0	6	0
hereof: non-performing	*0*	*0*	*0*	*0*	*0*
Loan commitments, financial guarantees and other contingencies received	3,184	0	0	0	0
Nominal value of derivatives	4,019,887	0	0	0	0

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 an increase in interbank deposits (+ HUF 16,521 million), a decrease in the balance of active repo agreements (- HUF 5,382 million) and the result of the booked dividend advance (HUF 19,980 million).
- The change in the line 'Deposits' was largely affected by a decrease of HUF 2,908 million in loro accounts and an increase in subordinated debt (HUF 4,954 million).
- In 2022, the balance in the line 'Nominal value of loan commitments, financial guarantees given and other contingencies given' has decreased by HUF 534 million. This change is related to guarantees issued with other coverage.
- Loan commitments, financial guarantees and other contingencies received have decreased by HUF 520 million in relation to the parent company.

- In the line of *'Nominal value of derivatives'* the nominal value of derivatives pay leg.
- The value of deposits against subsidiaries decreased by HUF 1,898 million. Mainly due to the merge/cessation of the subsidiaries. Regarding the remaining companies, the decrease on deposits of Raiffeisen Corporate Lízing Zrt. (HUF -302 million), Raiffeisen Befektetési Alapkezelő Zrt. (HUF -344 million) and RB Szolgáltató Központ Zrt. (HUF -110 million) was outstanding compared to last year.
- *'Nominal value of loan commitments, financial guarantees given and other contingencies given'* increased by HUF 23,483 million from 2021 to 2022, mainly due to the change in the amount of issued guarantees and unused credit lines against Raiffeisen Corporate Lízing Zrt (HUF 21,398 million).

Income and expenses from transactions with related parties

2022 (HUF million)	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
Interest income	88,409	1,892	0	0	0
Interest expense	-110,393	-65	0	-24	0
Dividend income	0	889	0	0	0
Fee and commission income	1,428	2,559	0	5	0
Fee and commission expense	-540	-87	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**	**5,188**	**0**	**-19**	**0**

2021 (HUF million)	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
Interest income	6,090	547	0	0	0
Interest expense	-5,465	-2	0	0	0
Dividend income	0	2,325	0	0	0
Fee and commission income	471	1,352	0	4	0
Fee and commission expense	-415	-102	0	0	0
Net gains/losses from derecognition of financial assets not measured at fair value through profit and loss	-62	0	0	0	0
Total	**619**	**4,120**	**0**	**4**	**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.

In 2022, the amount of dividends received from Raiffeisen Biztosításközvetítő Kft. (HUF 307 million) and Raiffeisen Befektetési Alapkezelő Zrt. (HUF 582 million) are included in the *'Dividend income'* line.

The remuneration of key management personnel amounted to HUF 1,360 million in 2022 (HUF 906million in 2021) 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 31.12.2022.	Ownership interest 31.12.2021.	Residence of the Company	Brief description of activities
Raiffeisen Corporate Lízing Zrt.	100%	100,00%	1133 Budapest, Váci út 116-118.	Finance leasing
Raiffeisen Biztosításközvetítő Kft.	100%	100,00%	1133 Budapest, Váci út 116-118.	Activities of insurance agents and brokers
SCT Kárász utca Ingatlankezelő Kft.	100%	100,00%	1133 Budapest, Váci út 116-118.	Management of real estate on a fee or contract basis
Raiffeisen Befektetési Alapkezelő Zrt.	100%	100,00%	1133 Budapest, Váci út 116-118.	Fund management activities
RB Szolgáltató Központ Kft.	100%	100,00%	4400 Nyíregyháza, Sóstói út 31/b	Other financial auxiliary activities

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

(HUF million)	Cost 01.01.2022	Increase	Decrease	Cost 31.12.2022	Fair value correction 01.01.2022	Increase	Decrease	Fair value correction 31.12.2022	Carrying amount 31.12.2022
Raiffeisen Biztosításközvetítő Kft.	5	0	0	5	0	0	0	0	5
SCT Kárász utca Ingatlankezelő Kft.	774	0	0	774	-388	0	0	-388	386
Raiffeisen Befektetési Alapkezelő Zrt.	1,458	0	0	1,458	0	0	0	0	1,458
RB Szolgáltató Központ Kft.	1	0	0	1	0	0	0	0	1
Total	**2,238**	**0**	**0**	**2,238**	**-388**	**0**	**0**	**-388**	**1850**

((HUF million)	Cost 01.01.2021	Increase	Decrease	Cost 31.12.2021	Fair value correction 01.01.2021	Increase	Decrease	Fair value correction 31.12.2021	Carrying amount 31.12.2021
Raiffeisen Biztosításközvetítő Kft.	5	0	0	5	0	0	0	0	5
SCT Kárász utca Ingatlankezelő Kft.	674	100	0	774	-388	0	0	-388	386
Raiffeisen Befektetési Alapkezelő Zrt.	1,458	0	0	1,458	0	0	0	0	1,458
RB Szolgáltató Központ Kft.	1	0	0	1	0	0	0	0	1
Raiffeisen Energiaszolgáltató Kft.	100	0	-100	0	0	0	0	0	0
Total	**2,238**	**100**	**-100**	**2,238**	**-388**	**0**	**0**	**-388**	**1,850**

In October 2021, Raiffeisen Energiaszolgáltató Kft. merged into SCT Kárász utca Ingatlankezelő Kft., overall, this did not cause any change in the valuation of the holdings. In addition, there were no economic events neither in 2021 nor in 2022 that would have affected the fair value of the subsidiaries.

(45) Changes in the financing activities

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

		Liabilities			Equity						
	Note	Debt securities issued	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	Total
Restated balance on 1 January 2022		**689**	**57,333**	**25,352**	**50,000**	**113,445**	**31,445**	**64,429**	**17,381**	**0**	**360,074**
Changes from financing cash flows											
Issue and repayments of debt securities	(30)	199,118	0	0	0	0	0	0	0	0	**199,118**
Debt securities expired	(30)	0	0	0	0	0	0	0	0	0	**0**
Payment of lease liability	(25)	0	0	-3,409	0	0	0	0	0	0	**-3,409**
Paid dividends	(35)	0	0	0	0	0	0	-3,527	0	0	**-3,527**
Total changes from financing cash flows		**199,118**	**0**	**-3,409**	**0**	**0**	**0**	**-3,527**	**0**	**0**	**192,182**
The effect of changes in foreign exchange rates		**-3,897**	**4,954**	**3,543**	**0**	**0**	**0**	**0**	**0**	**0**	**4,600**
Changes in fair value		**-4,703**	**0**	**0**	**0**	**0**	**0**	**0**	**7,103**	**0**	**2,400**
Other changes		**-695**	**-80**	**1,327**	**0**	**0**	**0**	**0**	**-640**	**0**	**-88**
Liability-related											
Interest expense	(7)	3,588	2,044	666	0	0	0	0	0	0	**6,298**
Interest paid	(7)	0	-1,964	666	0	0	0	0	0	0	**-1,298**
Total liability-related other changes		**3,588**	**80**	**1,332**	**0**	**0**	**0**	**0**	**0**	**0**	**5,000**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**0**	**64,994**	**7,223**	**0**	**72,217**
Balance on 31 December 2022		**194,100**	**62,287**	**28,145**	**50,000**	**113,445**	**31,445**	**125,896**	**31,067**	**0**	**636,385**

	Note	Liabilities			Equity						
		Debt securities issued	Subordinated liabilities	Lease liabilities	Ordinary shares	Share premium	Other equity instruments	Retained earnings	Reserves	NCI	Total
Restated balance on 1 January 2021		**727**	**56,732**	**25,438**	**50,000**	**113,445**	**31,445**	**34,510**	**14,300**	**0**	**326,597**
Changes from financing cash flows											
Issue and repayments of debt securities	(30)	0	0	0	0	0	0	0	0	0	**0**
Debt securities expired	(30)	0	0	0	0	0	0	0	0	0	**0**
Payment of lease liability	(25)	0	0	-2,243	0	0	0	0	0	0	**-2,243**
Paid dividends	(35)	0	0	0	0	0	0	-3,127	0	0	**-3,127**
Total changes from financing cash flows		**0**	**0**	**-2,243**	**0**	**0**	**0**	**-3,127**	**0**	**0**	**-5,370**
The effect of changes in foreign exchange rates		**0**	**601**	**402**	**0**	**0**	**0**	**0**	**0**	**0**	**1,003**
Changes in fair value		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-699**	**0**	**-699**
Other changes		**-52**	**-7**	**1,755**	**0**	**0**	**0**	**0**	**123**	**0**	**1,819**
Liability-related											
Interest expense	(7)	14	1,690	607	0	0	0	0	0	0	**2,311**
Interest paid	(7)	0	-1,683	-607	0	0	0	0	0	0	**-2,290**
Total liability-related other changes		**14**	**7**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**21**
Total equity-related other changes		**0**	**0**	**0**	**0**	**0**	**0**	**33,046**	**3,657**	**0**	**36,703**
Balance on 31 December 2021		**689**	**57,333**	**25,352**	**50,000**	**113,445**	**31,445**	**64,429**	**17,381**	**0**	**360,074**

*In 2022, the Bank paid HUF 3,527 million (2021: HUF 3,127 million) dividends on additional AT1 capital from retained earnings.

(46) Disclosures according to the Hungarian Accounting Law

i. 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.).

ii. György István Zolnai, Director of Finance (availability: 1133 Budapest, Váci Street 116-118.) and Tibor Gáspár, Head of Accounting are obliged to sign these consolidated financial statements.

iii. The Bank, 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 Gábor Molnár (registration number: 007239). The audited consolidated annual financial statements of the Bank are published by the Court of registration and also available at the website of the Bank at www. raiffeisen.hu.

Audit fees

The following net amounts of services were charged by Deloitte Könyvvizsgáló és Tanácsadó Kft. and Deloitte Üzletviteli és Vezetési Tanácsadó Zrt. in 2022 and 2021:

(HUF million)	**2022**	**2021**
Audit fees	145	92
Other assurance services	93	12
Fees for non-audit services	6	5
Total	**244**	**109**

iv. Equity Correlation Table in accordance with section 114/B of Act C of 2000 on Accounting:

31.12.2022	**Elements of Correlation Table in accordance with section 114/B of Act C of 2000 on Accounting**							
(HUF million)	**Share capital under EU IFRS**	**Share capital unpaid (-)**	**Capital reserve**	**Retained earnings**	**After-tax profit**	**Valuation reserve**	**Tied-up reserves***	**Total**
Equity under EU IFRS allocated to the elements based on the correlation table in accordance with section 114/B of Act C 2000 on Accounting								
Share capital	50,000	0	0	0	0	0	0	**50,000**
Capital reserves	0	0	113,445	0	0	0	0	**113,445**
Equity instruments issued, other than share capital	0	0	31,445	0	0	0	0	**31,445**
Accumulated other comprehensive income	0	0	0	0	0	8,852	0	**8,852**
Retained earnings	0	0	0	53,667	0	0	0	**53,667**
Additional reserves*	0	0	0	0	0	0	22,215	**22,215**
(-) Own shares	0	0	0	0	0	0	0	**0**
Profit or loss	0	0	0	0	72,229	0	0	**72,229**
Total	**50,000**	**0**	**144,890**	**53,667**	**72,229**	**8,852**	**22,215**	**351,853**

31.12.2021	**Elements of Correlation Table in accordance with section 114/B of Act C of 2000 on Accounting**							
(HUF million)	**Share capital under EU IFRS**	**Share capital unpaid (-)**	**Capital reserve**	**Retained earnings**	**After-tax profit**	**Valuation reserve**	**Tied-up reserves***	**Total**
Equity under EU IFRS allocated to the elements based on the correlation table in accordance with section 114/B of Act C 2000 on Accounting								
Subscribed capital	50,000	0	0	0	0	0	0	**50,000**
Capital reserves	0	0	113,445	0	0	0	0	**113,445**
Equity instruments issued, other than share capital	0	0	31,445	0	0	0	0	**31,445**
Accumulated other comprehensive income	0	0	0	0	0	2,389	0	**2,389**
Retained earnings	0	0	0	27,862	0	0	0	**27,862**
Additional reserves*	0	0	0	0	0	0	14,992	**14,992**
(-) Own shares	0	0	0	0	0	0	0	**0**
Profit or loss	0	0	0	0	36,567	0	0	**36,567**
Total	**50.000**	**0**	**144.890**	**27.862**	**36.567**	**2.389**	**14.992**	**276.700**

*The amount reclassified as Tied-up reserves from line of Additional reserves is the balance of the general reserve as of 31.12.2021. The reclassification is mandatory based on paragraph 83, section 7 of Act CCXXXVII of 2013 (Credit Institutions and Financial Enterprises).

There were no elements of equity under IFRS other than described in section 114/B of Act C on Accounting, there was no cross-referencing elements neither in 2022 nor in 2021.

v. The proposal for the approval of the dividend submitted by the management contains a dividend of 20,132 million HUF.

(HUF million)	**31.12.2022**	**31.12.2021**
Retained earnings + Profit and loss after tax	125,896	67,420
Sources available for dividend payment	**125,896**	**67,420**

There were no received dividends (neither in 2022, nor in 2021) recognised 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, are eligible to increase the sources available for dividend payment. (2021: HUF 0 million)

(47) 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 Bank'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 Bank's business segments. The business segments defined by the Bank 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 Bank's segments included in this report:

Retail, private and SME: the Bank 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 Bank 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 Bank offers a wide range of financial products and services to banks, as well as lending and deposit-taking. For this segment, the Bank 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).

31.12.2022 (million HUF)	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	122,709	0	5	125,838
Financial assets at fair value through profit or loss	0	0	0	0	0
Financial assets at fair value through other comprehensive income	24,294	91,812	189,744	0	305,850
Financial assets measured at amortised cost	1,253,062	487,590	928,445	853	2,669,950
Derivatives designated as hedging items	0	0	191,077	0	191,077
Change in fair value of items hedged in portfolio hedges of interest rate risk	0	0	-24,300	0	-24,300
Investments in subsidiaries, joint ventures and associates	1,850	0	0	0	1,850
Property and equipment	0	0	0	34,974	34,974
Intangible assets	0	0	0	21,370	21,370
Deferred tax assets	0	0	0	5,099	5,099
Other assets	0	0	0	7,687	7,687
Assets in total	**1,282,331**	**702,111**	**2,206,993**	**115,984**	**4,307,419**
Liabilities					
Financial liabilities held for trading	0	0	145,730	0	145,730
Financial liabilities measured at amortised cost	1,158,509	1,666,835	629,356	260,106	3,714,806
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	5,546	5,546
Liabilities included in disposal group classified as held for sale	0	0	0	0	0
Provisions	0	0	0	12,928	12,928
Other liabilities	0	0	0	11,721	11,721
Total liabilities	**1,158,509**	**1,666,835**	**839,921**	**290,301**	**3,955,566**
Equity	**0**	**0**	**0**	**351,853**	**351,853**
Equity capital and liabilities in total	**1,158,509**	**1,666,835**	**839,921**	**642,154**	**4,307,419**

31.12.2021 (million HUF)	Corpo-rate/Subsidi-aries	Retail/ Pri-vate/ SME	Bank/ Treas-ury	Other	Total
Assets					
Cash, accounts receivable from central banks and other demand deposits	147,060	0	289,514	45,915	482,489
Financial assets held for trading	0	0	114,943	-1	114,942
Non-trading financial assets at fair value through profit or loss	1,261	97,139	0	-2	98,398
Financial assets at fair value through profit or loss	0	0	194	1	195
Financial assets at fair value through other comprehensive income	30,726	80,187	241,043	-1	351,955
Financial assets measured at amortised cost	1,027,190	454,894	1,175,362	6,747	2,664,193
Derivatives designated as hedging items	0	0	53,286	0	53,286
Change in fair value of items hedged in portfolio hedges of interest rate risk	0	0	-12,917	0	-12,917
Investments in subsidiaries, joint ventures and associates	1,850	0	0	0	1,850
Property and equipment	0	0	0	33,283	33,283
Intangible assets	0	0	0	19,744	19,744
Deferred tax assets	0	0	0	3,463	3,463
Other assets	0	0	0	7,377	7,377
Assets in total	**1,208,087**	**632,220**	**1,861,425**	**116,526**	**3,818,258**
Liabilities					
Financial liabilities held for trading	0	0	58,503	0	58,503
Financial liabilities measured at amortised cost	1,200,915	1,579,746	583,035	82,253	3,445,949
Derivatives designated as hedges	0	0	76,099	0	76,099
Changes in fair value of items hedged in portfolio hedges of interest rate risk	0	0	-57,868	0	-57,868
Current tax liabilities	0	0	0	1,565	1,565
Liabilities included in disposal group classified as held for sale	0	0	0	0	0
Provisions	0	0	0	10,146	10,146
Other liabilities	0	0	0	7,164	7,164
Total liabilities	**1,200,915**	**1,579,746**	**659,769**	**101,128**	**3,541,558**
Equity	**0**	**0**	**0**	**276,700**	**276,700**
Equity capital and liabilities in total	**1,200,915**	**1,579,746**	**659,769**	**377,828**	**3,818,258**

31.12.2022 (million HUF)	Corpo-rate/Sub-sidiaries	Retail/ Pri-vate/ SME	Bank/ Treasury	Other	Total
Net interest income	47,484	58,753	16,136	15,683	**138,056**
Dividend income	3	889	0	73	**965**
Net fee and commission income	23,000	44,762	5,059	-1,372	**71,449**
Net result from trading and fair value changes	75	-23	3,677	-3,253	**476**
Net gains/losses on hedge accounting	-14	0	-1,702	-64	**-1,780**
Total income	**70,548**	**104,381**	**23,170**	**11,067**	**209,166**
Impairment	-1,864	-5,023	-368	26	**-7,229**
Net gains/losses on derecognition of financial assets not at fair value through profit or loss	526	-25	-246	9	**264**
Other operating result, Operating expenses	-22,576	-61,252	-3,285	-3,291	**-90,404**
Other income	-1,054	-5,276	0	4	**-6,326**
Bank taxes and other specific charges	-9,659	-12,072	-3,183	0	**-24,914**
Profit/loss from continuing operations before tax	**35,921**	**20,733**	**16,088**	**7,815**	**80,557**
Tax expense or income relating to the result from continuing operations	0	0	0	-8,328	-8,328
Profit/loss from continuing operations after tax	**35,921**	**20,733**	**16,088**	**-513**	**72,229**
Profit/loss for the year	**35,921**	**20,733**	**16,088**	**-513**	**72,229**

31.12.2021 (million HUF)	Corpo-rate/Sub-sidiaries	Retail/ Pri-vate/ SME	Bank/ Treasury	Other	Total
Net interest income	24,120	30,405	9,503	2,972	**67,000**
Dividend income	1,503	825	0	72	**2,400**
Net fee and commission income	18,422	35,431	3,894	-1,217	**56,530**
Net result from trading and fair value changes	39	0	2,077	-1,901	**215**
Net gains/losses on hedge accounting	411	0	263	-3	**671**
Total income	**44,495**	**66,661**	**15,737**	**-77**	**126,816**
Impairment	-598	-4,782	18	-24	**-5,386**
Net gains/losses on derecognition of financial assets not at fair value through profit or loss	787	-4	210	0	**993**
Other operating result, Operating expenses	-19,137	-50,195	-2,842	-1,671	**-73,845**
Other income	130	-1,683	0	-35	**-1,588**
Bank taxes and other specific charges	-3,465	-2,604	-495	-165	**-6,729**
Profit/loss from continuing operations before tax	**22,212**	**7,393**	**12,628**	**-1,972**	**40,261**
Tax expense or income relating to the result from continuing operations	0	0	0	-3,694	-3,694
Profit/loss from continuing operations after tax	**22,212**	**7,393**	**12,628**	**-5,666**	**36,567**
Profit/loss for the year	**22,212**	**7,393**	**12,628**	**-5,666**	**36,567**

(48) Events after the reporting date

The Bank's sole shareholder decided on 21 December 2022 to pay an advance dividend of HUF 20,132 million that was paid on 28 December 2022 by the Bank. On 09 February 2023, the NBH authorized the Bank to settle the positive profit generated between the 01 January and 31 December 2022 into primary equity on individual and consolidated level. The board of directors of the Bank proposed a dividend equal to the advance dividend of HUF 20,132 million from the profit of business year 2022, which is going to be approved by the owner on 30 March 2023. The final capital adequacy ratio considering the settlement and dividend was 23,79%.

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 with non-maturity.

(49) Abbreviations and terms used in the financial statements

AAC: At Amortised Cost

ALCO: Asset and Liability Committee

BEEL: Best Estimate of Expected Loss

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

BMT: Benchmark Test

BPV: Basis Point Values

CCIRS: Cross Currency Interest Rate Swap

CF: Cash flow

CIRS: Cross Currency Interest Rate Swap

COVID-PWO: clients, that either are already showing, or based on the Bank'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: Credit Value Adjustment

Default: non-performing

EAD: Exposure at Default

EBA: European Banking Authority

€STR: Euro Short Term Rate

EURIBOR: Euro Interbank Offered Rate

DVA: Debit Value Adjustment

FGS: Funding for Growth Scheme

Forborne: renegotiated

FRA: Forward Rate Agreement

FV: Fair Value

FVOCI: at Fair Value through Other Comprehensive Income

FVTPL: at Fair Value Through Profit and Loss

Gap: the difference between assets and liabilities in the same repricing category

GDMA: Government Debt Management Agency

GVH: Hungarian Competition Authority

HAL: Hungarian Accounting Law

Hold-and-sell: the model's objective is both collecting contractual cash flows and selling financial assets in the portfolio

Hold-to-collect: the model's objective is to hold financial assets to collect contractual cash flows

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

Interest stop: retail loan's interest fixing based on the Gov. Decree nr. 782/2021. (XII. 24.) on the application of the Act CLXII/2009 on the loans to customers in the crisis, which was further extended to the real estate leases by Gov. Decree nr.

49/2022. (II. 18.)

IRB: Internal Rating Based Approach

IRD: Integrated Risk Assessment Department

IRS: Interest Rate Swap

LIBOR: London Interbank Offered Rate

LGD: Loss Given Default

L&R: Loans and Receivables

Management overlay: portfolio-level management correction used in the loss allowance calculation (post model adjustment)

MIRS: Monetary policy Interest Rate Swap

NBH: National Bank of Hungary

OCI: Other Comprehensive Income

PD: Probability of Default

PL: Profit and Loss

POCI: Purchased or Originated Credit Impaired

Post model adjustment: portfolio-level management correction used in the loss allowance calculation (management overlay)

PRIBOR: Prague Interbank Offered Rate

PWO: Pre-workout

Repayment Moratorium 1: The first 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 pandemical 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.). The repayment moratorium provided since 19. March 2020 expired on 31 December 2020.

Repayment Moratorium II: The second 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.

Repayment Moratorium 2: section from 01.01.2021 to 31.10.2021 of Moratorium II

Repayment Moratorium 3: section from 01.11.2021 to 31.07.2022 of Moratorium II

Repayment Moratorium 4: section from 01.08.2022 to 31.12.2022 of Moratorium II

RRM: Retail Risk Management Department

SARON: Swiss Average Rate Overnight

SOFR: Secured Overnight Financing Rate

SONIA: Sterling Overnight Index Average

SME: Small and medium enterprises

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

Trading: primary objective is to realise short-term profits

VaR: Value at Risk

WCV: Weighted Collateral Value

STATEMENT OF THE ISSUER

We, the undersigned representing Raiffeisen Bank Zrt. (address: HU-1133 Budapest, Váci út 116-118., hereinafter referred to as: „Bank") hereby declare that the annual report of 2022 stipulated in Section 54. § of Act CXX of 2001 on the Capital Market was prepared in accordance with the provisions of Act C of 2000 on Accounting and International Financial Reporting Standards and to our best knowledge.

The financial statements give a true and fair view of the assets, liabilities, financial status and profit of the Bank, furthermore the business report gives a true and fair view of the status, improvement and performance of the Bank including the main risks and uncertianty factors.

Budapest, 30 March 2023

György István Zolnai
Chief Executive Officer

Tibor Gáspár
Head of Accounting Department